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BEST AVAILABLE

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Apologia

The Mission wishes to acknowledge that the CDSS exceeds the sixty-page target normally established for strategy statements. We found this unavoidable for several reasons. First, the accumulated guidance has added more and more topics to be covered since the page limit was established in 1978. Adequate analysis of important economic, policy and private sector issues could not be compromised for the sake of arbitrary brevity. Second, Zimbabwe is a new country with a large and somewhat different AID program. It is frequently the subject of controversial news items where many questions are asked about policies, progress and development prospects. This year's CDSS is an irresistible opportunity to put some new light on those issues. Lastly, Zimbabwe and her economy and social structure are complex. Simple observations are insufficient.

We request the indulgence of those who find the document lengthy. It is hoped that the content will reward those with the staying power and curiosity to know more about this rather interesting, new, developing country.

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I. INTRODUCTION

Zimbabwe's colonial past is unique. Unlike anywhere else in Africa the settler minority was not only sizable and influential but, since 1923, possessed of de facto self-government. The unilateral declaration of independence in 1965 (UDI) represented an unsuccessful attempt by the minority to win de jure sovereignty. However, control of the instruments of government for fifty seven years did allow the settlers to structure the economy to their own advantage by means of broad state intervention.

Government policies in the colonial period were protective of white economic interests. The Land Apportionment Act of 1930 and Land Tenure Act of 1969, for example, divided the country roughly in half, despite the fact that blacks outnumbered whites in a ratio of at least 25:1. The prime farm areas and all major industrial and infrastructure installations were in the white half. Whites controlled 77% of the best farming land while 75% of the lands reserved for blacks were in the worst regions. Thus the African population was crowded into largely fragile and infertile lands.

Government legislation was also introduced to boost the productivity of white farmers to the competitive detriment of their African counterparts. The Maize Control Act of 1934 and various other regulations for the grading of crops and livestock, effectively limited access to market for the small peasant farmer. Agricultural credit, extension services and transport and storage systems were structured to serve commercial farmers.

The period of economic sanctions and war (1965 - 1979) saw the most extensive state intervention to date. The government introduced import and exchange regulations to control manufacturing and established quotas for agricultural production. Subsidies were extended to white commercial farmers to encourage diversification away from tobacco, to provide drought relief, and to finance security installations on farms. At the same time the agricultural productivity of the TTLs was further cut by the movement of peasant

populations into "protected villages", the loss of cattle to disease and the destruction of crops and village infrastructure during the war. In sum, economic sanctions and war tended to reinforce the structure of the economy by boosting state supports for commercial activities and further reducing the capacity of subsistence cultivators to support themselves. All of this history has borne a highly differentiated and strangely symbiotic economic structure. Thus, a high productivity wage sector and low productivity subsistence sector stand side by side, linked together in an unequal interdependence.

The inherited economic structure is the foundation from which the Zimbabwean government must begin when formulating a development strategy. As Bratton notes so aptly in his recent essay on Zimbabwe,

> "... policy makers are able to make history, but they do not do so under conditions chosen by themselves. The actual outcome of strategies for development depend on the interplay between policy preferences and prevailing conditions. In Zimbabwe the structure of the settler economy and the mode of decolonization combine to transmit from the past a set of constraints and opportunities that frame current possibilities for action. The fact that forces of change and forces of resistance continue to interact, however, means that it is premature to arrive at conclusions about outcome, confident or pessimistic. The Government is still searching for the political and economic consensus that will provide both growth and equity and both stability and change. The emergence of a development strategy is a process not an event." 1/

The CDSS that follows will attempt to analyze the prevailing

1/ Bratton, Michael "Development in Zimbabwe: Strategy and Tactics" The Journal of Modern African Studies, 1981, p 473

conditions, policy preferences and options and the elements of a strategy USAID should follow to contribute to growth and equity, stability and change.

II. ANALYSIS

A. The Legacy of Economic Dualism

Dualism is the dominant feature of most less developed countries, but in few countries are the differences between the modern and traditional economies as marked as in Zimbabwe. One striking indicator of the level of development of the two sectors is the information base available in the two sectors. An analyst wishing to study the modern sector in Zimbabwe will find data of great depth, breadth and complexity. With the end of sanctions and the coming of independence, data on finance, trade, national income, industrial and agricultural production, employment and wages, prices, and government accounts were more available and more reliable than in probably any other country in black Africa. On the other hand, data on income, population, production, employment, credit, etc. in the traditional economy were less available than in probably any other country in Africa. There are no recent farm budget studies. The last census was in 1969, and estimates of population growth vary from 3.6% to 4.2%.

While the modern economy produces 95% of GDP, probably 98% of domestic savings, approximately 95% or more of tax revenues, and 97% of export earnings, the traditional economy provides the main source of livelihood for over 60% of the population. While the modern economy is highly diversified, with important agricultural, mining, manufacturing and service sectors, the traditional economy is largely concentrated in agriculture, although informal sector activities in manufacturing and services are important. While the modern sector is characterized by specialization of labor, and the use of modern technology (obsolescent in some areas because of a

continuing inability to import new capital equipment), the traditional sector is characterized by vulnerable self-subsistence, limited specialization of labor and rudimentary technologies. The two economic areas are as different as the tractor and the hoe. Consequently, income per capita is 28 times as high in the modern economy as it is in the traditional one.

The situation is not quite as stark as depicted above. For there are flows of income, of inputs, of goods and services, and of information between the two economies which mitigate, to some extent, the differences. The most important flows are those of labor from the traditional to the modern economies (for wage income), and government services from the modern to the traditional. In addition, the traditional economy does market some 20% of its output, and purchases a substantial portion of goods and services, both for consumption and investment, from the modern economy.

Given this sharp dualism it is not surprising to discover that income in Zimbabwe has, in the past, been maldistributed. In 1974 it was estimated that the 5% of the population which was European and Asian, earned 63% of the income. Of the 37% of income earned by Africans, some 69% of it was earned by one million wage earners. Thus the bottom 60% of the population, those not employed in the modern sector, were earning some 9% of total income. The proportion of income for this group has declined further since 1974.

Despite the lack of detailed information, we can make some effort at understanding the causes of this income inequality by examining the 1974 data more closely. Let us divide the economically active population into four groups: Europeans and Asians, Africans with high wages, low-wage Africans and Africans in the traditional economy. By dividing income both by who receives it and by the source of the income, we can get some idea of the policy choices available to a government which is opposed to the existing inequity. (These data are presented in Table I).

TABLE I

ZIMBABWE : DISTRIBUTION OF PERSONAL DISPOSABLE INCOME, 1974

(Percentages)

	POPULATION GROUP				
	NON-AFRICANS	AFRICANS			TOTAL
		High-Wage	Low-Wage	Traditional	
Share of Income Earners	6.3	19.3	14.2	60.2	100.0
Wage Income	35.4	19.3	8.2	0.0	62.9
Capital Income	19.2	1.3	0.6	0.3	21.4
Commercial Farm Profits	7.3	0.0	0.0	0.0	7.3
Value Added Traditional Economy	0.0	0.0	0.0	9.0	9.0
Total	61.9	20.6	8.8	9.3	100.6

Source: Derived, with substantial licence and question guestimation from D. G. Clarke, The Distribution of Income and Wealth in Rhodesia (Mambo Press, Salisbury, 1977).

From the table a number of facts arise:

(1) Despite the high productivity of commercial agriculture even the total redistribution of commercial land and capital to traditional farmers, would leave average incomes of those farmers 50% below the income of low wage earners.

(2) A redistribution of all capital and land income to the African population in the low-wages and traditional economies would increase incomes received by a factor of 2.5, but would still leave the ratio of non-African incomes to African incomes at 8:1.

(3) The major opportunities for redistributing income lie in moving people from low income employment to high income employment. For example, moving a traditional farmer to low-wage employment will increase his income by four times. Moving a low-wage employee to a high wage employee will increase his income by 70%. Moving a high wage earner into a job held by a non-African will increase his income by 5½ times.

In a market economy, income is directly linked to the value of the services provided by productive inputs -- land, capital, skills, and labor. When certain of the factors are abundant relative to other factors, their remuneration will be relatively low. Thus, in most LDC's, where unskilled labor is abundant, wages will tend to be very low relative to the price of capital, and there will be very large wage differentials between skilled and unskilled workers. While the rates of remuneration to a factor are determined by the market, the given distribution of ownership of the factors of production has non-economic roots -- historical, legal and political.

A government wishing to make its distribution of income more

equitable has the following tools at its disposal:

1. Redistribute assets (land and capital)
2. Use the tax system and government expenditures to redistribute income.
3. Change, by law, the rates of remuneration of a factor of production.
4. Invest public capital disproportionately in geographical areas inhabited by lower income groups.

Each of these policies will have an effect on both growth and equity. For example, a redistribution of assets can have a positive effect on growth if the new owners use the assets more productively than the old owners. Since a substantial amount of land owned by commercial farmers is underutilized, careful redistribution of that land to communal farmers could increase output. Similarly, increasing the share of public sector investment going into the communal areas could also increase output, since given the relative scarcity of public infrastructure it is likely to be more productive than if the investment were undertaken in the commercial areas where capital is relatively abundant.

On the other hand, high tax rates are likely to discourage investment and increased skilled labor inputs and thus reduce output. Policies which move rates of factor remuneration away from market prices will tend to give false signals to input users and create substantial inefficiencies and underemployment of resources.

It is not necessary, then, to characterize the options open to the Zimbabwe government as a set of choices which will further growth or equity. This is a false dichotomy. There are policy choices which will increase growth and increase equity. There are also choices that will do neither. The real decisions facing the GOZ is the degree to which policies which have a short-run political appeal will be chosen over policies which promote long-run growth

and equity objectives.

B. The Modern Economy

The most dominant feature of the modern economy of Zimbabwe is its diversity, despite its modest size. The Census of Production 1979-80 lists 200 mining units, and 1,342 manufacturing units, some of which are branches of parent firms. There are, in addition, some 6,702 commercial farms. The primary and secondary sectors of the economy contain 8,246 production units with an average net output of $212,000 each. Despite the relatively small scale, the range of products produced is impressive. The range of outputs includes over twelve main agricultural crops, ten minerals, and 6,200 distinct manufactured goods.1/ Table II provides some idea of the variety of products produced.

Table III presents information on the sectoral distribution of output in Zimbabwe. The only new trend has been the expansion of public administration, health and education services from 11.0% of GDP in 1974 to 16.0% in GDP in 1980.

Although the primary sectors, agriculture and mining together only produce about 21% of GDP, they provide about 57% of Zimbabwe's export earnings. On the other hand, while manufacturing accounts for the remaining 43% of merchandise exports, the sector as a whole is a net user of foreign exchange because of the very large inputs of capital equipment and industrial raw materials.

The major agricultural crops are tobacco, cotton, maize, sugar, wheat, beef and dairy products, groundnuts, tea and coffee. The mining industry produces a number of products including gold, asbestos, nickel, copper, and chrome. The main manufacturing industries are iron, steel, and metal fabrication (26%), chemicals and petro-chemicals (14%), food processing (14%), beverages and tobacco (11%), and textiles (19%).

1/ Report of the Commission of Inquiry into Incomes, Prices and Conditions of Service (Salisbury, 1981) p. 196.

Table II

The Modern Economy of Zimbabwe
Production in the Primary and Secondary Sectors 1979

(Percentage Distribution of Gross Output)

Agriculture [a]		Mining		Manufacturing	
Maize	8.3	Asbestos	20.9	Foodstuffs	23.5
Groundnuts	0.9	Gold	25.7	Drink & Tobacco	7.5
Soya beans	3.2	Chrome	5.1	Textiles	11.2
Coffee	2.8	Coal	8.2	Clothing	6.1
Wheat	4.9	Copper	11.2	Wood & Furniture	3.1
Cotton	14.7	Nickel	14.3	Paper, Printing	4.7
Flue-Cured Tobacco	24.7	Iron	2.3	Chemical & Petroleum	13.3
Burley Tobacco	0.6	Silver	2.3	Non-Metallic Minerals	2.6
Sugar	9.0	Cobalt	1.7	Metals & Metal Products	24.1
Beef	23.2	Tin	3.2	Transport Equipment	2.7
Other Meat	1.6	Other [b]	5.1	Other Manufacturing	1.2
Dairy	5.8				
Other	0.3				
	100.0		-00.0		100.0

Source: Monthly Digest of Statistics, March, 1982 (Central Statistics Office: Harare, Zimbabwe), 1982

a/ Officially marketed produce only.

b/ Includes precious stones, phosphate tarntalite, magnesite, limestone, and lithium

TABLE III

ZIMBABWE : SECTORAL DISTRIBUTION OF GDP

(Percentage)

	1974	1975	1976	1977	1978	1979	1980	10-Year Real Growth 1971 - 1980
Agriculture	17.6	16.9	16.9	16.0	13.6	11.9	14.2	+6.6
Mining	7.6	6.8	7.3	7.1	7.1	7.1	8.0	+66.7
Manufacturing	23.5	23.3	23.1	22.0	23.0	25.6	24.0	+44.2
Elect. and Water	2.3	2.6	2.7	2.7	2.9	2.7	2.6	+16.3
Construction	4.6	4.9	4.2	4.0	3.0	2.8	2.9	-24.7
Finance	6.6	6.8	6.7	7.1	6.9	7.6	6.2	+22.0
Trade	14.4	13.5	12.6	11.6	13.2	13.8	14.1	+23.9
Public Administration	6.1	6.8	7.8	9.8	10.8	10.0	8.7	+83.8
Education & Health	4.9	5.4	5.6	6.0	6.3	6.0	7.3	+69.3
Other Services	4.7	4.7	4.8	4.9	4.7	4.6	4.1	-2.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Primary	25.2	23.7	24.2	23.1	20.7	19.0	22.2	
Secondary	30.4	30.8	30.0	28.7	28.9	31.1	29.5	
Tertiary (Of which Pub. Admin. and Health and Education	44.4 11.0	45.5 12.2	45.8 13.4	48.2 15.8	50.4 17.1	49.9 16.0	48.3 16.0	

Gross output of the manufacturing sector equalled $375 per capita in 1979, on a par with such middle income countries as Peru, Philippines, and Ivory Coast. Equally important, the distribution of manufacturing among industries, with large chemical and metals industries, demonstrates the high degree of development of the sector, with only the capital goods industries lagging. The economy is well endowed with infrastructure -- a rail system connecting all major economic centers as well as four links to ports in South Africa and Mozambique, 10,000 kilometers of road, and a widespread telecommunications system. With the completion, in 1985, of a major thermal electric complex at Hwange (formerly Wankie) the country will be self-sufficient in electricity generation. Similarly, Zimbabwe has a much more sophisticated financial structure than is typically the case in an economy of this size, due in part to the restrictions sanctions placed on access to international capital markets.

Gross Domestic Income in 1980 amounted to Z$3.3 billion which was roughly shared between wage and salary earners and investors on a 2:1 basis. Thus, corporations, unincorporated enterprises which are mostly private farms, and parastatals had gross operating profits of approximately 1.1 billion Zimbabwe dollars. However, investment expenditures in the private sector were very low, about Z$250 million in 1980 and 8% of GDP. Consumption expenditures have averaged approximately 60% of GDP over the latter half of the 1970's, while government non-capital expendutres have increased throughout the period, reaching 23% in 1980.

1. Recent Economic Trends

Between 1969 and 1974, the Zimbabwean economy experienced a rate of growth of GDP of 7.4% per annum, and a rate of growth of per capita income of approximately 4% per year. From the end of 1974, however, the economy experienced a significant downturn which lasted until the middle of 1978. Since independence the economy

has shown progressive signs of recovery. Between 1975 and 1978, GDP, in real terms, fell by 12.1% and in per capita terms the decline was over 20%, which indicates the severity of the recession. Indeed, by the end of 1979, real per capita income was only three Zimbabwe dollars greater than per capita income in 1964. In real terms private consumption fell by 12.4% and gross fixed capital formation by 34.3%.

The decline was caused by a number of factors. In the first instance the impact on the economy of the international recession following the 1975 oil crisis was severe. The decline in Zimbabwe's terms of trade, coupled with the closing of ports to Rhodesian trade in Mozambique following Mozambique's independence, caused a severe deterioration in the balance of payments. In order to restore equilibrium there was a substantial cut-back in non-petroleum product imports. The volume of total imports by the end of 1979 was only 67% of 1964 levels. Restrictions in the importation of raw materials slowed manufacturing output which declined by 14%. Agricultural output, due to weather conditions, and the increased violence in the countryside declined 28.5%. The declines in output in the goods sector (17.6%) led to equivalent declines in the services industries -- particularly construction and distribution. Finally, the recession was caused by lack of confidence in the business community due to the instable political situation. This uncertainty is evidenced by the profound decline in investment expenditures to 11.2% of GDP (See Table IV).

However, with the Lancaster House Settlement, the ending of sanctions, and the reopening of the economy, there was a substantial recovery on almost every economic front in 1980 and 1981. Real GNP rose by around 21% for the two years, per capita income by a very respectable 13%, while inflation accelerated to 12.5% per year. The recovery was fueled by an increase in demand in all sectors, particularly investment, a substantial increase in the terms of trade, and a bumper agricultural crop. Consequently, import volumes increased by 72% between 1979 and 1981. The flood of imports enabled the economy to respond to rapidly expanding demand pressures.

TABLE IV

HISTORICAL TRENDS IN THE ZIMBABWE ECONOMY

(1965 Z$ Million)

	Gross Domestic Product (Constant Prices)	Gross Fixed Capital Formation (% of GDP)	GDP per Capita (Constant Prices)	Gross Fixed Capital Formation	Annual Real Growth Rate (GDP per capita)	Inflation Rate
1965	737	13.2	164	97	-	-
1966	749	10.9	162	82	-1.2	-2.0
1967	810	12.0	169	97	4.3	1.0
1968	826	16.6	167	137	-1.2	4.0
1969	944	13.8	184	130	10.2	2.9
1970	980	15.3	185	150	0.5	3.8
1971	1,098	16.3	200	178	8.1	2.7
1972	1,204	16.1	211	194	5.5	4.4
1973	1,241	19.2	211	238	0	5.9
1974	1,357	20.0	223	272	5.7	9.6
1975	1,345	19.9	213	267	-4.5	9.5
1976	1,325	15.5	203	205	-4.7	9.3
1977	1,229	13.7	182	168	-10.3	10.4
1978	1,188	11.2	171	133	-4.9	8.8
1979	1,192	11.9	167	155	-2.3	10.7
1980	1,353	12.9	185	176	9.5	9.7
1981*	1,468	n.a.	194	n.a.	5.0	15.0

Source: Central Statistical Office, National Accounts of Zimbabwe Rhodesia, 1978.

* Estimated

The 1980/81 recovery was eased by the substantial excess capacity in the economy. Future growth is likely to be supply-constrained, and it will be some time before the economy replicates the economic performance of the past two years. Some observers doubt that 1982 will see any real gains in per capita incomes although total GDP should grow by about 4%, as the world recession, coupled with the effect of the recent drought on agricultural output, make themselves felt.

There are three major constraints to future growth:

(1) Import scarcities caused by balance of payments problems;
(2) Skilled labor constraints;
(3) Savings constraints due to government fiscal and monetary policy.

2. Foreign Exchange and the Balance of Payments

The major factor constraining expansion of the modern economy is a shortage of foreign exchange. Zimbabwe's economy is highly dependant on imports of raw materials and capital equipment. As can be seen in Table V, intermediate imports as a percentage of GDP ranged from 11.5% when the economy was expanding to 7.5% when it was contracting. Clearly, import scarcity led to some substitution of local production for foreign production. However, the scope for continued import substitution is clearly limited.

Over the UDI period imports averaged 89% of the 1964 level, while GDP was, on average, 59% above the 1964 level. This meant that the ratio of import volume to GDP during UDI was 50% of what it was immediately prior to sanctions and the partial closing of the economy. This reduction in import use was accomplished through substantial import substitution for both consumer goods and intermediate goods. However, the local capital goods industry involved little more than assembly activities, and the import share of input costs remains high. Consequently, import scarcity bit most severely into the capital goods imports, and there remains

TABLE V

ZIMBABWE: INTERMEDIATE GOOD IMPORTS AS A PERCENTAGE OF GDP, 1966, 1975-1980

Year	Intermediate Good Imports (millions of Z Dollars) (1)	GDP (2)	(1) as a percentage of (2)
1966	84	733	11.5
1975	187	2 014	9.3
1976	166	2 169	7.6
1977	176	2 213	8.0
1978	175	2 337	7.5
1979	262	2 825	9.3
1980	380	3 480	10.9

Source: Monthly Digest of Statistics, March, 1982:

Statement of External Trade by Commodities, 1966, 1975-1978 (Central Statistics Office, Harare, Zimbabwe).

a substantial backlog of demand for new equipment and machinery.

In the first two years of independence imports increased by 47.4% and 27.0% respectively in value terms. As the price of imports increased by only 7.2% in 1980, and probably declined in 1981, the volume of imports increased by 37.5% in 1979, and around 30% in 1981. It was this dramatic increase in imports, caused by the end of sanctions and an improvement in the terms of trade, that led to the excellent performance of the economy in 1980 and 1981.

However, future prospects are not so bright. Foreign exchange remains tight, and the needs are well beyond the capacity of the economy to provide. Import allocations for the first two quarters of 1982 were 86% of 1981 levels. If foreign exchange remains scarce there will be a dramatic decline in the high rate of real growth the modern economy achieved in the first two post-independence years.

3. Sources of Foreign Exchange Earnings

Major categories in the balance of payments are shown in Table VI. Both imports and exports had substantially reduced rates of growth in 1981 over 1980. Despite the first trickle of aid ($128 million in grants) the rest of the current account for 1981 was sharply negative. This was offset in part, by borrowing by the government and parastatals, and by a modest flow of private capital. There are four sources of foreign exchange whose expansion or stagnation will substantially affect the growth of imports and, thus, of the modern economy and employment. These are exports, private direct investment, foreign assistance, and official borrowing.

a) Exports. The Zimbabwe export economy which expanded so dramatically in 1980, stagnated in 1981. Partly this was due to a decline in the prices of certain key mineral products (particularly gold, copper and tin). Partly it was due to bottle-

TABLE VI

Zimbabwe Balance of Payments Accounts

(U.S. $ Million)

	Actual					Preliminary		Projected		
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
CURRENT ACCOUNT										
Goods	76	248	223	270	206	100	-105	-63	-165	-352
Imports	-791	-672	-651	-657	-882	-1373	-1433	-1484	-2282	-2624
Exports	868	920	874	927	1089	1473	1338	1421	2117	2272
Services (Net)	-85	-100	-119	-142	-160	-219	-215	-415	-465	-572
Factor Payments (Net)	-49	-69	-47	-73	-102	-73	-115			
Private Transfers	-37	-54	-60	-16	-56	-123	-150	-120	-91	-85
Official Transfers	0	0	0	0	0	59	128	231	137	225
Balance in Current Accounts	-114	25	-2	39	-112	-256	-447	-367	-586	-784
Net Capital Transactions										
Government	-6	-7	-9	180	175	-34	48	198	459	500
Public Authorities	-4	5	-3	-6	-10	-5	156			
Other	102	-4	-5	-140	91	159	99	100	125	150
Total capital and current Balance equals (-) net Change in Reserves	+22	-14	+19	-73	-144	+136	-144	+69	+2	+134

Source: Ministry of Finance, Government of Zimbabwe

*Includes net errors and omissions

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necks in the transport network, which seem to have been largely removed by the early part of 1982. The slowdown in export growth has also been due to the failure of the mining industry to expand production. (Table VII and VIII). Despite a substantial increase in the price of most minerals between 1975 and 1980 the output of the mining sector stagnated, largely because costs have risen faster than prices, the wage bill tripling between 1975 and 1981, while prices increased by two and a half times, and mining tonnage actually declined. The softening of world mineral prices in 1981 and the industry's inability to expand output led to a reduction in mineral and metallic product exports of $77.5 million, not including a decline in gold sales of an additional $71.8 million. In part, this failure in the mining sector was offset by the excellent export performance of agriculture, particularly tobacco, which increased by $142 million. Nevertheless, the small increase in total export earnings in 1981 was due mostly to price changes. Export volumes actually declined.

In part, the future course of Zimbabwe's export earnings are hostage to world economic conditions. While import prices are likely to exhibit a consistent upward trend, the prices of the primary products which Zimbabwe exports have tended to fluctuate rather severely (See Table IX), although the diversity of Zimbabwe's exports tends to reduce price fluctuations for the portfolio of export commodities.

In the medium to long term, metal prices (especially gold) should show some strength. In fact, if and when the OECD countries move out of their current recession, one can expect a strengthening of most primary product prices. There is little doubt that Zimbabwe's agricultural sector is responsive to incentives, and that agricultural growth, given reasonable weather and moderation in land resettlement, can be expected to continue.

TABLE VII
Zimbabwe: Export Shares by Commodity
1979-1981
(Percentages)

	1979	1980	1981
Agriculture	24.8	27.8	41.7
Maize	2.5	0.9	3.9
Sugar	3.0	5.6	6.1
Tobacco	12.5	14.5	25.0
Cotton Lint	6.8	6.8	6.7
Mining	32.0	31.8	23.7
Gold	10.0	12.2	7.1
Asbestos	10.4	9.4	8.5
Copper	4.6	2.9	2.0
Nickel	5.6	6.2	5.2
Tin	1.4	1.1	0.9
Manufacturing	42.2	40.5	32.4
Ferro-Alloys	6.8	10.4	8.9
Iron and Steel	10.9	11.0	7.4
Other Crude Materials	14.9	10.9	9.1
Other Manufacturing	9.6	8.2	9.0
TOTAL	100.0	100.0	100.0

Source: Monthly Digest of Statistics, March, 1982
(Central Statistics Office, Harare)

TABLE VIII
Zimbabwe: Index of Mining Output 1970-1981

(1964-100)

	Asbesto	Gold	Chrome	Coal	Copper	Iron	Silver	Tin	Total
1970	135	76	113	116	182	99	219	210	159
1971	148	70	150	111	208	99	263	215	170
1972	148	61	169	96	282	88	282	190	175
1973	188	59	177	116	315	89	281	219	192
1974	188	58	157	102	288	87	250	209	187
1975	188	62	196	109	288	151	252	192	189
1976	202	67	193	118	250	164	208	176	206
1977	196	70	151	100	211	143	216	177	196
1978	178	70	107	101	205	136	1155	182	186
1979	187	67	121	105	179	146	1018	186	185
1980	180	64	124	103	164	197	989	180	181
1981	178	65	120	94	149	133	893	222	172

Mining Industry-Income Statements
(Millions Z$)

	1975	1976	1977	1978	1979	1980	1981
Value of Gross Output	224	276	283	289	341	415	394
less: Intermediate Inports	97	127	138	144	157	151	154
Net Output	127	149	145	145	185	264	240
Wages	53	65	69	70	81	116	158
Profits	73	84	76	75	104	148	82
Profits-In Constant 1975$	73	77	63	57	70	90	42
Memo Items							
Employment (000's)	62.6	63.8	61.6	58.1	59.5	66.2	68.5
Prices (1964=100)	175.9	209.3	226.1	253.2	314.2	428.9	427.1
Wage Ratio (US$)	1460	1664	1789	1852	2128	2786	3217
Investment/Profits	.55	.60	.70	.67	.60	.64	

TABLE IX

Zimbabwe: Recent Export Prices

Key Commodities

	1978	1979	1980	1981
Meat (US$/ton	867	1 063	1 625	2 362
Maize (US$/ton)	74	116	187	204
Tea "	1 554	1 306	1 578	1 287
Coffee "	3 433	3 834	3 662	2 620
Sugar "	105	115	500	449
Tobacco "	1 886	1 972	2 016	2 359
Cotton Lint	1 275	1 394	1 686	1 571
Asbestos	340	367	463	532
Copper Metal	1 093	1 741	1 717	1 423
Nickel Metal	3 273	4 042	5 790	5 583
Tin Metal	12 441	14 583	15 325	12 162
Ferro-Alloys	461	402	543	508
Gold (US$0oz)	193	311	626	441
Index of Export Prices 1978=100	100	115	152	167

The industrial sectors of the economy, plagued by rising costs, obsolete plant, and shortages of foreign exchange and skills may be less responsive. It is important that the allocation of foreign exchange be concentrated increasingly in those industries with export potential (both in order to increase the total foreign exchange available, and to ensure efficiency, since those industries are likely to make better use of scarce resources, given the need to compete).

b) Devaluation. There is some feeling that the Zimbabwe dollar is overvalued by about 30%. While many of the current balance of payments problems are short-term, and related to the need to replace worn-out capital equipment, it is also true that recent high rates of inflation in Zimbabwe are increasingly pushing prices out of line with world prices.

Devaluation would have some limited effect on imports. It would also filter out some of the less efficient demands for foreign exchange. A 30% devaluation would cause a one-time increase in the price level of about 7% - 10%. By increasing the price of imports to realistic levels, at least some of the prospective importers would find themselves priced out of the market; thus, imports would go increasingly to those who could utilize them most efficiently. Secondly, given the substantial backlog of demand, it is highly unlikely that the increase in price would lower demand below the quantitative import control level, thus there would be no reduction in capital goods imports. Finally, by raising the price of capital, production will tend to be skewed to a greater degree, to labor-intensive industries, thus having a more beneficial effect on employment.

Devaluation's major impact would be on exports where a rise in the Zimbabwe dollar price of mining products, tobacco, and manufactured exports would likely increase production of exports somewhat. However, it must be noted that the economy of Zimbabwe has stood

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relatively still for eighteen years. Real GDP per capita stood at $193 in 1965 prices, only 18% higher than the 1975 level. Similarly, export volume in 1981 stood only 1% higher than the volume of exports in 1964. Only in agriculture, (particularly in maize, coffee, cotton, and soya beans) did 1981 production exceed any other year in Zimbabwean history. Tobacco in the 1980-81 crop year was 25,000 tons below its 1964-65 peak. In mining, asbestos, nickel and silver production have exhibited a strong growth trend. All other minerals have essentially stagnated. Even manufacturing, the strongest sector of the economy (outside government) has grown only 44% in total value added over the decade of the seventies.

Thus, while an increase in export prices should lead to an increase in output and thus export receipts, the economy has not manifested elastic price responsive behaviour in the past, and we should not be too optimistic about the possibilities. Nevertheless, a devaluation of 25-30% should not be disruptive, and should move both export and import-using industries into more market-determined decision-making.

It is quite likely that devaluation, when it comes, will be couched in a technical adjustment of the basket of currencies to which the Zimbabwe dollar is pegged, thus causing a defacto depreciation of the currency without a formal devaluation exercise. The results are indistinquishable.

c) Private Direct Investment. Despite continuing interest in Zimbabwe as a center for foreign investment in the Southern Africa region, little investment has been forthcoming so far. A number of factors have been cited for this reluctance including:

(i) the absence of an investment code;
(ii) the lack of a track record;
(iii) the existing policy framework which does not offer a high enough return on capital, and restricts remittability;

(iv) pronouncements by some Government Ministers implying that private enterprise is living on borrowed time;

(v) the purchase of a controlling interest in some foreign-owned companies and the establishment of the Minerals Marketing Corporation; and

(vi) Government opposition to new investment on the basis of majority foreign ownership.

Concerns over lack of profitability and remittability at a time of world recession and high interest rates have not encouraged foreign investment. Although profits were high in the boom year of 1980, increases in minimum wages, price contrcls and weak world commodity prices have squeezed corporate earnings. While only 19 percent of profits were taxed in that year, new laws on depreciation and depletion allowances should have the effect of raising the effective tax rate. The standard tax rate on corporate profits is just over 50 percent. Remittances by foreign investors are limited to half of after tax earnings less a 20 percent withholding tax on dividends. No tax breaks, exemptions on exchange controls on remittances or other incentives are offered to attract new investment capital from abroad.

An important cause for the meagre flow of foreign investment is probably a continuing uncertainty as to the intentions of government and the future prospects of the economy and the policy. Signals remain mixed. Officials frequently speak to one audience, but the other eavesdrops. Certain actions are reassuring to investors, while others are dismaying. Most importantly the political and economic situation remains in a state of flux. Two years are not enough time to determine the future course of a new nation, especially given the centrifugal forces pulling on it. Major decisions on investment priorities, government budgetary policy, and the restructuring of the economy remain to be made and implemented. Consequently, it may be several years before the situation becomes

sufficiently clear for foreign companies to feel comfortable enough to make a commitment to invest in Zimbabwe.

U.S. investment has been especially constrained by the failure of the Zimbabwe Government to come to an agreement with OPIC. There is some evidence that OPIC-like guarantees would be sufficient to bring forth some foreign flows.

d) Foreign Assistance. Despite the $1.8 billion in pledged assistance at ZIMCORD, real aid flows have been slow in coming. According to government figures, aid flows in 1980 were only $60 million and were expected to reach $190 million in 1981. Only the U.S., the U.K., and the World Bank, among major donors, have provided the substantial amounts of quick-disbursing non-project assistanced needed to relieve the balance of payment difficulties. According to GOZ figures, aid flows for the next few years are expected to continue to increase slowly.

e) Borrowing. Up to 1979, Zimbabwe was substantially underborrowed. However, by the end of 1981, this picture had changed dramatically. Public debt increased from US$154 million in 1977 to US$699 million in 1980 and debt service increased from $6.1 million to $44.1 million. Since much of the borrowing was short-term, by 1981, debt-service had increased to $116 million or 8.0% of exports of goods and services. During 1981, the GOZ borrowed heavily ($210 million in Central Government borrowing, $119 million by parastatals, and $245 million by the National Railways at extremely concessional rates). This 45% increase in the total debt is likely to bring the debt-service ratio to a level close to 14%, a level considered to be the maximum sustainable by many experts. Given the current debt structure, this ratio could decrease to about 10% by 1984 if borrowing is restrained. Therefore, foreign borrowing, particularly on a short-term, non-concessional basis, is not a likely avenue for expanding foreign exchange availabilities over the next two to three years.

TABLE X

Zimbabwe: External Debt and Reserve Position

	Foreign Assets (Million US$)	Imports (Million US$)	Months of Import Coverage of Reserves	External Debt	External Debt GDP
1975	116.6	791.4	1.8	118.5	.037
1976	121.2	672.0	2.2	126.0	.036
1977	107.5	651.1	2.0	137.4	.040
1978	185.2	656.6	3.4	331.9	.096
1979	267.6	882.4	3.6	523.6	.144
1980	329.2	1 314.1	3.6	657.8	.147
1981	289.8	1 433.0	2.5	983.3	.172

Conclusion

The critical nature of the foreign exchange constraint in Zimbabwe points to serious short-term problems. While longer-term prospects are reasonably bright for all major sources of foreign exchange inflow (exports, private investment, foreign aid, and borrowing) short-term prospects (1982-1984) are gloomy.

4. Skilled Labor

As the economy diversified during the period of UDI, its requirements for skilled labor were largely met through the immigration of whites. During this period the government placed little emphasis on the development of indigenous training capacity. For example, by 1980, enrollments in the agricultural colleges, technical colleges, and teacher training colleges were not much higher than they had been in 1971. On the other hand, the University's enrollment doubled over this same period.

	1971	1980	1982
Agricultural Colleges	165	173	332
Teachers Colleges	2,492	2,824	7,910
Technical Colleges	3,228	3,169	6,048*
University of Zimbabwe	993	1,873	3,091

*June 1981 figure

Table 5.2 p. 5 Monthly Digest of Statistics, March 1982. Harare Central Statistics Office, Government of Zimbabwe, 1982

Except for the years when the Federation of Southern Rhodesia, Northern Rhodesia, and Nyasaland broke up and the government of Rhodesia made its Unilateral Declaration of Independence (UDI), the post-World War II period was characterized by a positive migration of whites into the country. Most of the immigrants in this period were from South Africa. This positive flow continued up through 1976. The deepening recession and growing intensification of the war reversed this trend.

The Government of Rhodesia offered attractive conditions to new settlers to encourage them to migrate. This included, during the war

years, a grace period of a couple of years before they would be called up for military service, attractive holiday allowances, and high wages.

The extent to which whites dominated the skilled labor force is seen in the number of black journeymen at Independence. Out of 14,000 journeymen in the aircraft, building, electrical, mechanical engineering, automative and printing industries, only 500 were black.

Since the mid-1970's the number of journeymen has been declining due primarily to two factors. The first is the emigration of whites. The second is the slow pace with which blacks have been provided training opportunities to advance to journeymen status. Between 1976 and 1979, 4,023 journeymen emigrated. The loss by skill category was 38 in aircraft, 710 in building, 632 in electrical, 1,620 in mechanical, 757 in motor trades, and 266 in printing. During this same period 2,612 apprentices, again mostly whites, qualified as journeymen for an overall loss of 2,025 journeymen.

The drain of skilled manpower continues despite some levelling off in the rate of emigration of whites. For example, between January and December 1981, there were a total of 2,771 economically active immigrants into Zimbabwe compared with 7,480 economically active emigrants. Net loss of manpower through emigration was 4,709. Of the immigrants who joined the labor force, 78 percent were male. The proportion of males among emigrants was 71 percent.

From the 1981 figures, the greatest loss in skilled manpower appears to be occurring among mid-level production/technical, administrative/managerial, and clerical occupations. For example out of the net loss of 4,709 workers, 516 or 11 percent were among higher professional and technical occupations. However, among these highly skilled workers the majority were engineers. The next

major category of loss was nurses. Thus, although a fairly small portion of the total drain of manpower, the loss of these skills can have a major constraining effect on the economy and efforts of the government to expand and maintain the quality of health care.

The total loss of production/technical workers was 924 individuals. Three occupations accounted for 77 percent of those workers. They are mechanical engineers, electricians, and motor mechanics.

By far the largest category in which there was a net emigration flow was among clerical workers. The net emigration figure for 1981 was 1,433 of which 71 percent were women. The replacement of these workers is less likely to cause more than a short run dislocation in the economy, since blacks can readily be trained through intensive courses to assume these jobs.

The government of Zimbabwe has moved quickly to expand training capacity within the country since Independence. Enrollments in agricultural colleges, technical colleges, and the university nearly doubled from 1980 to 1982. However, if the economy continues to lose skilled workers at the current rate, the expansion in local training capacity will only be able to reverse the negative decline in skilled manpower after three or four years. Although the negative trend will have been stopped, there will exist a considerable backlog of vacancies in the mid-level technical, administration, and production levels. It is critically important that this expansion in training capacity not be inhibited by inadequate training and instructional staff at these various institutions.

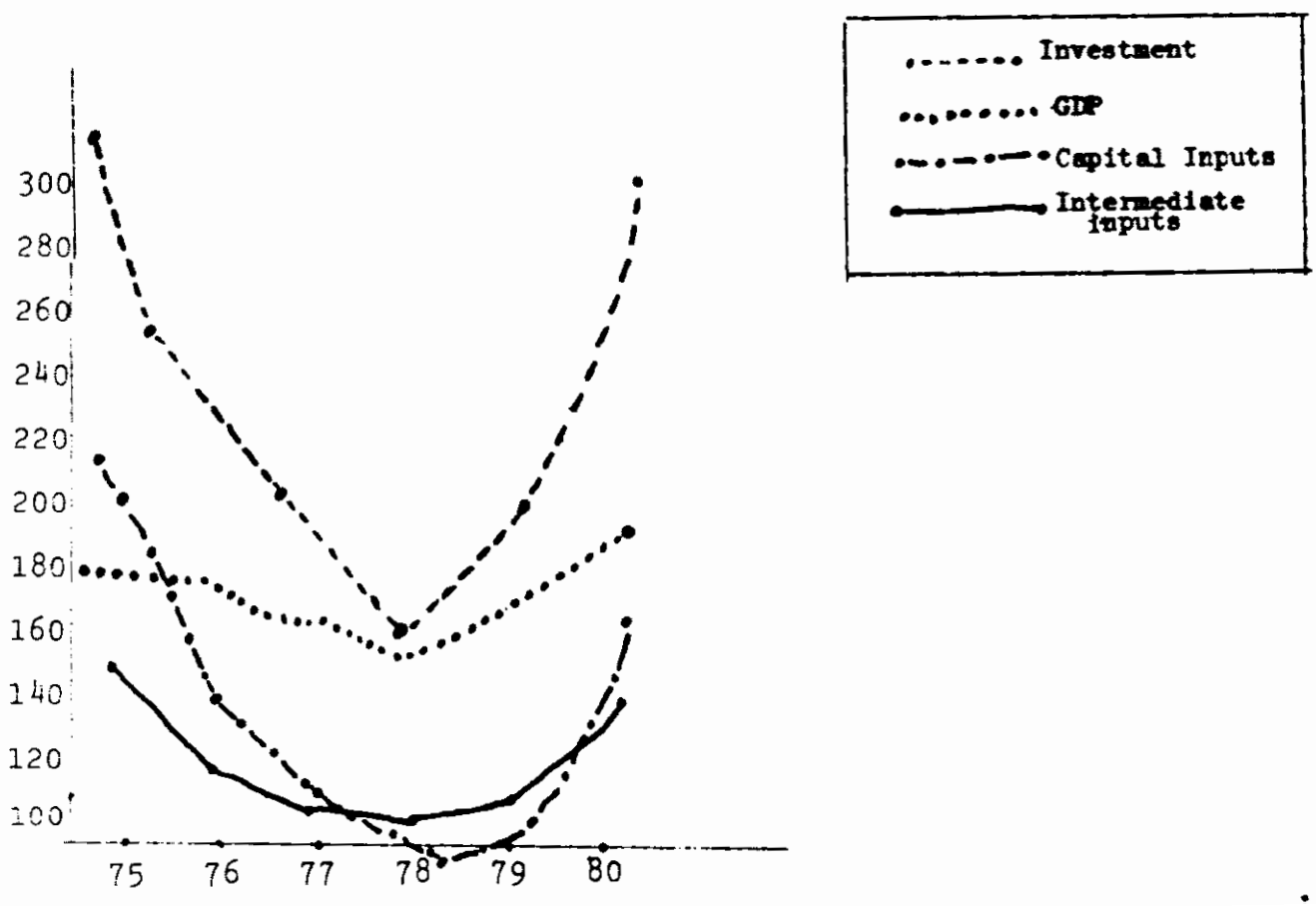
5. Capital and Investment.

Between 1965 and 1980, gross fixed capital formation in Zimbabwe averaged 16% of national income. This investment, since 1971,

FOREIGN EXCHANGE AND INVESTMENT

1966=100

Year	Index of Intermediate Import Inputs	Index Capital Inputs	Index Investment	Index GDP
1966	100	100	100	100
1975	144	216	326	179
1976	115	138	250	176
1977	110	102	205	163
1978	101	85	162	158
1970	111	95	202	170
1980	142	161	299	190



has been divided roughly in the proportions of 12% for residential building, 19% for non-residential building, 20% for civil engineering work, 11% for transport equipment, and 30% for machinery. Since per capita growth rates of 4-5% require investment levels between 25 and 30 percent of GDP, this is very disappointing. There are a number of factors which have reduced investment demand but lack of savings, until recently, clearly has not been one of them. Gross operating profits of the private economy have averaged 40% of GDP since 1971, over 2½ times the level of total investment, and probably four times the level of private sector investment. The real factors constraining investment have been declining investor confidence and shortage of foreign exchange. During the latter half of the 1970's, the proportion of investment in non-residential building, to investment in machinery and equipment, consistently increased from 35% to 56%. Since the former has much lower import content than the latter, it is reasonable to assume that foreign exchange problems have constrained private investment.

While the public sector's proportion of total investment grew during the 1970's, given the relatively high rates of saving and liquidity, there was little "crowding out" of the private sector. Interest rates remained low and the economy was awash with cash making it relatively easy for the government to borrow. With the increase in bank lending rates and expansion of government expenditures this situation has changed, and there is now the possibility that lack of saving will deter future investment.

a) Government Budget and Fiscal Policy. Data on the Government budget are presented in Table XI.

Independent Zimbabwe inherited a difficult budget situation from the UDI Government, largely because of substantial military expenditures (28% of recurrent expenditures 1978/79). Despite rapidly expanding education and health expenditures (up 180% between 1978-79 and 1981-82), rising subsidies, and an inability

TABLE XI

ZIMBABWE: CENTRAL GOVERNMENT BUDGET ACCOUNT EXPENDITURES

(Z$ Million)

	1978-79	1979-80 Actual	1980-81	1981-82 Estimated	July-Dec. 1981-82 Actual	July-Dec as % of Estimated
REVENUE						
Income on Profit Tax	261	316	437	612	322	52.6
Sales Tax	148	171	180	288	126	43.8
Customs Duties	22	22	59	141	68	48.2
Other taxes	44	53	101	150	70	46.7
Revenue from Investment	44	48	62	54	13	24.1
Other Revenue	61	66	110	102	36	35.5
TOTAL REVENUE	580	676	949	1347	635	47.1
EXPENDITURE						
Recurrent Expenditure	482	614	606	762	376	49.4
Defence and Police	(240)	(358)	(308)	(362)	(192)	53.0
Education	(90)	(119)	(208)	(272)	(121)	44.4
Health	(46)	(53)	(77)	(108)	(47)	43.5
Capital Expenditure	54	55	65	142	37	26.1
Transfers	324	538	532	756	320	42.3
Subsidies	(123)	(91)	(106)	(161)	(91)	36.5
TOTAL EXPENDITURE	860	1026[1/]	1203	1659[1/]	733	44.2
DEFICIT(-) SURPLUS (+)	-280	-350	-254	-312	-98	31.5
Repayments and other Cash Outflows	-85	-135	-259	-348	-121	34.8
TOTAL	-365	-485	-513	-660	-219	33.2
Financed by Loan Recoveries	13	13	10	12	5	41.7
International Aid	0	0	8	124	2	1.6
Domestic Borrowing	211	357	310	295	154	52.2
Foreign Borrowing	129	96	40	308	115	37.3
Other	12	19	145	-79	-57	72.2
TOTAL OUTLAYS AS % OF GDP	38.2	32.8	31.2	35.5	15.7	44.1
DEFICIT AS % OF GDP	12.4	11.2	6.6	6.7	2.1	31.3

1/ Total is under/overstated by Z$1 million due to rounding.

to reduce defence expenditures, the budget is in much better shape today than it was in 1978/79.

While total outlays as a percentage of GDP have not appreciably increased, the government has been able to increase revenues 27% faster than the increase in GDP. This is partly due to an increase in taxation, and partly due to the natural bouyancy of the tax structure and the consequent rapid expansion of the tax base as monetary GDP increased. Therefore, by 1980/81, the budget account deficit (exclusive of debt servicing) fell from 12% of GDP to 6.6%. Preliminary figures on this first half of the 1981/82 fiscal year, indicate a further decline in the deficit to perhaps 4% of GDP. Although nominal tax rates are very high (corporate tax rates exceed 50%) the effective tax rate is much lower (about 25% for corporations) and should not seriously affect investment incentives.

While the Government seems dedicated to continued fiscal austerity, including a reduction of subsidies, several problems remain. In the first place, government capital formation has remained virtually constant for the last four years, and despite the projected increase in 1981/82, actual capital expenditure is likely to remain at the level of Z$80 million. Consequently, government continues to be a net dissaver, taking savings from the private sector to pay for current expenditures. (It should be noted that some of these current expenditures, particularly education and health, are actually investments). It is estimated that government dissaving (deficit, less capital formation) will equal 4.4% of GDP in 1981/82.

Secondly, government has been forced to resort increasingly to foreign borrowing to pay for its deficits, as domestic borrowing in 1980/81 touched off a rapid expansion of the money supply and an upsurge in inflation. As foreign borrowing begins to reach levels of concern, and as domestic borrowing is constrained by tight monetary policy, few financing options are open to the government. Only one financing source seems available for rapid

expansion and that is aid flows, which have been minimal so far. Consequently, budget austerity must remain the watchword for the next several years.

b) Monetary Policy. The money supply increased dramatically (34%) in 1980, fueled almost entirely by government borrowing (See Table XII). Nevertheless, inflation remained at the 10% level. In 1981, the monetary authorities acted to restrict the growth of money supply and interest rates rose precipitously. Since government obtained much of its financing from abroad, the change in money supply was largely due to increases in private borrowing, particularly by its Agricultural Marketing Boards to finance purchases of the bumper crop of maize. Current monetary policy, which is mildly restrictive, is sensible and prudent in a time of continued high demand and supply constraints.

Conclusion

Zimbabwe's short-term growth prospects are not very bright. Foreign exchange and skilled manpower constraints are likely to seriously reduce the rate of growth in the modern economy in the near term. Over the medium term, the situation is much more optimistic. Prudent management of a rich resource base, both human and natural, coupled with a more bouyant international economy could lead to sustained and rapid growth over the next decade. The key problem facing the Government of Zimbabwe is not only to insure that such growth takes place, but to direct that growth so that its benefits are spread in a substantial way to those at the bottom of the economic system.

TABLE XII

ZIMBABWE: MONEY SUPPLY AGGREGATES

	($Z Million) M_1	M_2	M_2/GDP	% M_2 Change	Interest Rates Discount Rates	% Change In Prices (GDP Deflation)
1975	324	441	.223	-	4.25	10.3%
1976	352	518	.243	17.5	4.00	9.4
1977	375	552	.253	6.6	3.75	10.6
1978	415	626	.271	13.4	3.60	9.3
1979	463	710	.254	13.4	3.60	12.5
1980	633	952	.275	34.1	4.00	10.6
1981	679	1035	.243	8.7	9.50	10.0%

*Estimated

Source: Quarterly Economic And Statistical Review, March, 1982
Reserve Bank Of Zimbabwe

THE TRADITIONAL ECONOMY

C. (1) Profile of the Poor

Who are Zimbabwe's poor? How poor are they? Why are they poor? What are some of the most important consequences of their poverty? For the most part these questions can only be answered in broad terms. Very limited income data is available outside the sphere of formal employment. The systematic recording of key social indicators is only now beginning, and some of the basic social and economic processes generating and maintaining poverty and dualism in Zimbabwean society still require more adequate investigation. The long-awaited population census which is due in August 1982 - the first since 1969 - should provide information on some of the most important demographic, economic and social parameters. But we are still awaiting a representative rural incomes survey and data which would permit reliable quality-of-life assessments.

Where chronic deprivation in terms of basic necessities seriously threatens life and well-being, poverty is absolute. Nevertheless, poverty is inevitably a relative concept as well. Where life is still impaired in significant respects for some, while others enjoy a standard far in excess of the essential level of human welfare, there is poverty. In other words, it is relative to the extent and particular nature of inequality in society. This fact is of special importance in Zimbabwe where the leadership's commitment to socialism against a historical backdrop of gross racial inequities, is no doubt interpreted by the majority as a promise to achieve a greater measure of equality.

Inequality in Zimbabwe has its principal roots in the legacy of racial disparities, in rural-urban contrasts, and in the neglect of the peripheral regions of the country. At the end of 1981, Zimbabwe has an estimated total population of 7,730,000, of whom non-blacks constituted 3.1 percent - 200,000 Whites, 27,000 Coloureds (people of mixed descent) and 11,500 Asians (derived from CSO, 1982, and 1981). Until shortly before independence,

institutionalised racial discrimination, even if not legally entrenched in every aspect, was pervasive. Whites, and to a lesser extent Asians (who were also discriminated against, notably in jobs and housing), enjoyed a preeminent position in every respect. Coloureds occupied an intermediate position between Whites and Blacks. One consequence was that when racially discrete income figures were last published (for 1977) the average earnings of black and non-black employees stoood in a ratio of Z$49 to Z$513 per month, or 1:10.5 [calculated from CSO, 1979]. By any criterion, there must be very few poor among the non-blacks, with the limited exception of the Coloureds, among whom a significant number, especially of single-parent families, are in receipt of some form of another of welfare assistance. When figures were last published for 1973, 13.5 percent of the total Coloured population were in receipt of such help (Secretary for Labour and Social Welfare, 1974: para. 80).

The emergence of a substantial black middle class had under the former regimes been inhibited by the force of discrimination. But since the period of the 'transitional' and Muzorewa governments prior to independence, Blacks have been moving into former 'White' jobs, pay scales, residential areas and the like in increasing numbers. Certainly independence has made inequalities among black Zimbabweans more evident, due to the rapid increase of those in the middle and upper income brackets who live according to the life styles previously enjoyed only by Whites and, perhaps, Asians. The consequences of the former discriminatory order are still there for anybody to see in the new Zimbabwe. The point to make, however, is that the keen awareness among black Zimbabweans of having been unjustly treated and wronged in the past, and the expectation excited by the advent of majority rule, coupled with the visibility of the high living standards available to the few, is likely to make many more <u>feel</u> poor (that is, relatively deprived), even among those whose basic needs are being reasonably adequately met. The consequent pressures to increase wages, keep food prices down (a possible food subsidy bill

in excess of Z$170 million for the 1981/82 financial year has been mentioned - The Herald, 10 April and 12 June, 1981 - which amounts to nearly 13 percent of total estimated revenue) and improve urban services, are politically difficult to resist. By generating inflation (running at 15% in 1981) and biases in government expenditure and pricing policies favourable towards urban wage-earning groups, it makes it correspondingly more difficult to create the conditions which would facilitate an improvement in the position of the poorest sections of the population, and especially of the peasantry, despite the government's strong emphasis on rural development (see for example, GOZ, 1981a).

(a) Urban Incomes, Employment, and the Urban Poor

Racial discrimination and urban bias have been closely linked in the past. Estimates for mid-1981 put the population of the fourteen major urban areas (effectively those with a population of 15,000 or more) at just over 20 percent of the national total (CSO, 1982). Earlier independent surveys conducted in Harare suggest that these estimates are probably on the low side, but even if one included some smaller centres, it is unlikely that more than a quarter of Zimbabwe's population can be said to be urbanized, which is low even by many Third World standards. Yet the major urban areas accomodated 82.5 percent of the non-black population in 1978. Harare and Bulawayo alone accounted for 71.4 per cent of the people in the main towns and no less than 72.4 per cent of all Asians, 71.2 of the Coloureds, and 67 per cent of all Whites in the country, as against only 11.6 per cent of the black population (CSO, 1979). Virtually all of the major towns lie on or near the line of rail on the high plateau, where most of the mines and large commercial farms (Excepting some of the extensive cattle ranches) are also situated forming a natural extension of the urban-industrial sphere. It is this reality of a relatively highly developed and technologically sophisticated urban sector dominated by Whites, coexisting with a massive undeveloped black rural subsistence sector which has given Zimbabwe its marked 'dual' socio-economic character. These two sectors nonetheless remain inextricably linked in a relationship of unequal interdependence.

Gazetted minimum wages, effective as from the beginning of 1982, amount to Z$50 per month for domestic and agricultural workers, Z$85 for mine workers, and Z$105 for commercial and industrial workers. These are high by comparison with other African countries, and certainly far in excess of any estimates of average incomes for rural households (see below). Yet, how adequate are they with respect to the needs of urban-industrial households?

Leaving aside agricultural labour, which is discussed later, all of these minimum wage levels are still well below the povery-datum-line (PDL) estimates for all but the smallest families. Taking into account the cost-of-living increase for lower income urban families during 1981, the PDL for an average sized family of six in the major towns would range from Z$156, based on the calculations of the Riddell Commission (GOZ, 1981c:81, and CSO, 1982).

Mine workers no longer commonly receive free accomodation and electricity as in the past so that their PDL would not be much lower than that of urban workers. The Riddell Commission's recommendation, which appears to have been broadly accepted by the government, is that minimum wages be gradually increased to reach the target of the December 1980 level of Z$128 by 1984. Profitability constraints in the mining industry are currently such (due largely to depressed world mineral prices) that it seems highly unlikely that this target would be met for workers in this sector. Living, health and sometimes working conditions on the mines are not good. Labourers on small workings (about 15% of the total), typically live in self-constructed pole and mud huts without the benefits of clinic, school, or even basic sanitation facilities. These, as well as better quality housing and sometimes recreational facilities are generally provided by the bigger mines, but the Riddell

Commission still reported a severe shortage of married accommodation with gross over-crowding, and other health hazards. (GOZ, 1981c:22-23). Recent surveys indicate rates of undernourishment among mine children of around 50 per cent according to height and weight for age measurements.

(b) Shelter

Conditions for urban workers are highly variable but these are still fundamentally affected by the dominant assumption of earlier years, namely that they were temporary migrants whose families remain in the rural areas, and to which they themselves would eventually return. Wages, accommodation and social provisions were therefore geared chiefly toward the single, temporary worker. Even when the need for a more stable workforce was recognised and family housing became available, most families were not allowed to own their homes and only those who were employed were entitled to rented, or any other kind of housing. A significant proportion of workers - nearly 15,000 in old Harare township alone - still live in single quarters of two to four persons per room, or lodge with a family. The housing shortage is so severe that it is not uncommon to find a whole family occupying a single room. Although, again, not as common as elsewhere in Africa, smaller squatter settlements are found in or near some of the major centres, especially Harare city. Most public housing schemes have now been converted to full ownership and the government is trying hard to catch up with the urban housing backlog, the extent of which is difficult to estimate with any reliability, but is said to be in excess of 50,000 lower cost units for the main urban areas (GOZ, 1981c:21).

In its study, "Finance for Low Income Housing" prepared 1979 Whitsun Foundation found supply of urban housing had been largely provided by public sector with almost all such housing being financed from central and local government capital budgets. It also found involvement of private sector and building societies in low cost housing field was limited to granting block loans to government or financing houses above $6,000 level. Lower income housing has been provided primarily

by public sector. Although public sector partially met this need in past, rapid population increase in urban areas and critical shortage of low income housing are placing considerable strain on already limited public funds. In addition, growing demand for home ownership among all income groups is limited by type and extent of existing finance provided by other institutions. In this respect Building Societies set minimum building standards below which they will not provide credit. These standards are beyond means of majority of the population and there is, therefore, a large sector of population with no access to finance with which to build their own houses. In fact, less than three percent of Zimbabwe's working population has access to credit for housing construction or purchase through private financial institutions.

Attention needs to be drawn to foreign labour migrants, who originate mainly in Malawi, followed by those from Mozambique and Zambia. They may still constitute close to a fifth of the unskilled labour force (Clarke, 1978:22-3). At the time of the 1969 census about 7.5 percent of the black population had been born outside the country, and about an equal number spoke a dialect from one of the neighbouring countries at home(CSO, 1976). Generally less well educated than local work seekers, they have typically entered the labour market at the bottom, taking the lowest paid and often most disagreeable jobs, especially in agriculture, mining and domestic service. As aliens, they have remained at the bottom of waiting lists for housing and been looked down upon by Zimbabweans, fostering a noticeable spirit of solidarity and mutual reliance among them. Many have married and are ostensibly permanently settled in Zimbabwe. While urban residents are generally better served in terms of health, educational and other services, a very large proportion of them have to share part of their earnings, such as they are, with rural (and other) relatives in greater need, placing a further strain on their limited resources. A study done a few years ago in Old Harare revealed that 'single' hostel dwellers remitted on average

about a quarter of their earnings on a regular basis to dependants or relatives in the country (Clarke, 1977a:45). This is considered a normal part of kinship obligations, but can also be viewed as a form of insurance since many urban dwellers still look to their rural kin to provide longer-term security in the case of old age, unemployment or other misfortune, or for the custody of children who for some reason or another cannot adequately be cared for in town. The vicissitudes of urban life and the virtual total absence of formal security provisions in the past have necessitated that these bonds be kept in good repair and also that urban workers maintain any land holdings or rights that they might have in the communal lands. One survey indicated that 82.4 percent of the black population have homes in the rural area as well (GOZ, 1981b:40). Today some workman's compensation is available in the event of injury on the job, but no unemployment benefits at all, excepting very limited public assistance (usually food rations) for the totally destitute. In 1973, for example, a total of only 2,148 Blacks received such assistance (Clarke, 1977b:54-55). Pension schemes are being extended but are as yet by no means universal, so that many workers can only expect a small anuity on retirement after many years of service. This continued reliance of urban workers on rural links provides the ground for the oft-repeated observation that the communal areas have been subsidising cheap labour (and hence industrial profits) by making it possible to pay low wages and avoid expenditures on essential social and other security provisions.

What about the unemployed? No reasonable estimate of their numbers is possible. What <u>can</u> be said is that population increase has been out-stripping the growth of employment opportunities since the late fifties. In 1958 employment represented some 19.2 percent of the total black population (CSO, 1973). For 1979 this figure dropped to a low of 12.7 percent (CSO, 1981a). In itself this is not a very meaningful statistic, since with a 'young' population the proportion of the population under 15 years

51.8 percent in 1980 (CSO, 1981b) - is growing; but it does indicate that the number of people wholly or partly dependent on each wage-earner are increasing. The Riddell Commission estimates that if due allowance is made for those who might be economically inactive or more or less fully engaged in small-scale agriculture, more than a third of the total labour force is still 'either self-employed, largely in the informal sector; partly employed or unemployed'. According to highly optimistic official estimates (based on a real average growth rate of 8 percent per annum) there would still be an annual shortfall of more than 50,000 jobs in the wage economy (GOZ, 1981c:80). Such figures can be little more than notional, but they do provide rough orders of magnitude and point to the great importance of self-employment and income generating activities in the so-called informal sector (Davies, 1978).

It appears then, that a considerable proportion of the urban employed could still be viewed as poor insofar as their income falls below the PDL, although a representative incomes survey would be needed to tell more or less how many. Urban workers are, however, on the whole in a comparatively favourable position to press for improvements in their position through various avenues of collective action and political influence.

How does the rural situation, nonetheless, compare with the one outlined above?

(c) Farm Workers, Peasants, and the Border Peoples

In 1979, black agricultural employees (including a small number in forestry) numbered 324,800, or 37.5 percent of all the Blacks in employment (CSO, 1981a). They remain the largest single block in employment by far and in the past have always been the most poorly paid. Despite the fact that their minimum wage has been increased to Z$50 per month, they are still not much better off than many peasant cultivators. In 1974 the PDL for a farm family of six was put at between Z$45 and Z$48, excluding the value of rations, accommodation and the like (Loewenson, 1981:1).

Few of them now receive any food or payment in kind. Most housing in this sector is still of the self-built 'traditional' type, but on a more confined and, therefore, crowded scale, with inadequate or no sanitation provisions. As yet, only some of the larger estates have formally recognised schools, while some other farmers engage their own, usually untrained, teachers. Very few have regular clinics, and the quality of health care, if available, depends very much on the distance to the nearest facility and the willingness of the employer to provide transport when needed.

It is not surprising, then, that a survey done on five commercial farms in the Bindura district in 1981 revealed that only 40.1 percent of the children of school-going age were actually attending school, and 75 percent of the families had never attended a hospital or clinic. Weight for age measurements (the best for indicating chronic stunting of both height and weight) indicated that 50.2 per cent of the children were severely undernourished (Loewenson, 1981). Subsequent studies on several farms in Mashonaland and Matabeleland have indicated rates of severe undernourishment ranging from 28 to 49 percent by the same measure (unpublished information from R. Loewenson).

What is the position of the peasants in the communal areas? At the time of the 1969 census, 60.1 percent of the black population were living in these areas, known as the Tribal Trust Lands under the former Land Tenure Act (CSO, 1976). More recent estimates put the percentages between 57.8 and 61.0 (GOZ, 1981c:57:; Gilmurray, et al, 1979:14), representing more than 800,000 family units. Overpopulation was recognised in some of these areas decades ago, and Whitlow (1980:178) has recently concluded that only 32.7 percent of them are not significantly overpopulated, while the 'safe' carrying capacity of the remaining 67.3 percent was exceeded by from two to five times (24.6 percent under 'extreme' or 'desperate' pressure). From here on one can start piling on the statistics. By 1979 there were thought to be more than

2.5 million too many people in the communal lands, amounting to some 455,000 families (1980 figure). Half of the grazing land was either bare or heavily overgrazed and seventeen times too much land was being cultivated due to grazing land being used for arable purposes (GOZ, 1981c: 57-8, 147). Suffice it to say that the pressure on, and consequent ecological degradation of most of these areas is readily visible, whether from satellite photographs or to the bare eye when travelling through them. The origin of the problem lies, of course, in earlier policies and legislation which confined Blacks to less than half of the country's land and forced these more poorly endowed areas to absorb most of the population increase. The greater part of the communal areas (72.6 percent) fall in the poorer agricultural Regions IV and V (according to an official classification of agro-ecological or natural potential) which are more subject to drought and suitable only for semi-extensive or extensive livestock production. By contrast, 57.5 percent of the commercial farmland falls in the better endowed Regions I, II and III which are suitable for intensive or semi-intensive crop production, or for mixed farming (Stoneman, 1981: 132-3). Most of the communal lands therefore have a limited potential due to poor sandy soils, low and/or erratic rainfall, and erosion hazards (due, for example, to slopes). The worst affected areas run in a wide area beginning south and southwest of Mutare, through the south of Nyanda (Victoria) province, to the region south and southeast of Bulawayo. Ecological constraints in some locations are such and degradation has already reached a point where the prospects for rehabilitation are limited in the medium term.

Noting the average communal landholding, which is usually in the range of 2-4 hectares, with access to common grazing land, is not very meaningful due to variations in conditions and the size of plots. There was growing evidence of landlessness from the time of the implementation of the land Husbandry Act (1958-1961). During the war many headmen were less inclined to refuse cultivation rights even in situations of severe land scarcity. Often individuals simply helped themselves, effectively squatting on communal

land without authorisation or popular support. Recent evidence suggests extreme fragmentation and overuse rather than landlessness, although this persists. A village study by Brand (1981a:9) in one Region IV area showed that nearly a quarter of the households had less than 1 hectare and/or two head of cattle.

No satisfactory estimate of the incomes of communal households is available. The Riddell Commission(GOZ, 1981c:59) ventures Z$250, or a little over Z$20 per month (for 1980), on the basis of earlier calculations. What we do know is that only a relatively small proportion, perhaps a quarter on average, of production is marketed, providing only something like 15.3 percent of the value of the gross marketed agricultural output nationally (Stoneman, 1981: 136). The larger part of communal production is therefore directly consumed. It is clear that a substantial proportion of peasant households would not be able to meet their basic cash or other physical needs without the remittances from employed household members or relatives. Half to three-quarters of the families have members working elsewhere, and annually derive an amount equal to, or greater than that realised from the sales of agricultural production, from cash remittances, apart from additional gifts in kind (GOZ, 1981c:61; Clarke, 1977a:44). These contributions are so important to the rural economy that a World Bank team currently visiting Zimbabwe are talking about the possibilities of 'remittance-led development'.

Compared to the total population, there is a larger proportion of children, women and old people in the communal areas. These groups are generally more susceptible to the ill-effects of poverty. Due to the demand for male labour in the wage economy, more women appear to have basic primary education than men (GOZ, 1981c: 43), but beyond that level men have a substantial advantage due to discrimination against girls with respect to secondary or higher education. With the absence of such a large number of men from rural areas, not only do child-rearing and house-

hold tasks fall to the lot of women, but most of the responsibility and labour concerning farm production as well. At the same time they are often denied the status commensurate with the importance of their role. Women are similarly neglected in extension advice. Out of a total national extension staff of 1384 at the end of 1981, only 14 were women, 12 of whom were on the bottom rung as demonstrators (Ministry of Community Development and Women's Affairs, 1982: 24,40).

With respect to the peasant sector there is still a further economic periphery in the country, in the form of the language minorities which occupy some of the border regions (Brand 1981b: 38-9). These include the Tonga along the shores of Lake Kariba in the Zambezi valley, the Shangaan (Hlengwe) in the southeast toward Mozambique, the Venda around Beitbridge, and Barwe and Chikunda fragments in the far northeast. Most of their ethnic counterparts live across the borders in neighbouring countries. Together with the Korekore of the Zambezi Valley they include the least developed and poorest people of Zimbabwe. Due to their remoteness, they have had the benefit of very few schools, health facilities and administrative services. Had it not been for some missionary societies which had reached into these areas, they would have been totally neglected. One of the very few short-term benefits which the war can be said to have bestowed on them, is the extension of gravel roads into some border regions they inhabit. Many areas however are now littered with land mines.

Two indicators of neglect are high rate of illiteracy and poor nutritional status. The Provincial Medical Officer of Health in Bulawayo has reported rates of undernourishment of up to 80 per cent among Tonga children in the Binga area and in parts of Matabeleland South. More recent arm circumference measures among children - which sometimes understate the extent of undernourishment - in Insiza, Matopo, Binga and Nuanetsi (all on, or toward the periphery), revealed rates varying between 69 and 74 percent (Ministry of Health, 1982:2.9). Since the end of the war the

plight of these peoples has attracted the attention of international non-governmental agencies such as Oxfam and Christian Care, who have launched small relief or aid projects in some of the most affected communities. There have also been much publicized visits of government ministers to several of these areas, especially in the north, leading to promises of more government activity and investment to stimulate development. Already the cash proceeds of wild-life culling exercises have been turned over to local councils for their use.

There is a danger that the whole of Matabeleland could also resemble a peripheral region. Virtually all of the two associated provinces falls within Regions IV and V; with poor soils. Many of its communal areas are badly overpopulated; and subject to severe periodic droughts, such as the one which is currently being experienced. For sometime now there has been warnings that the south might turn into a 'dust bowl' due to overgrazing, especially by small stock like goats. There is evidence of a high incidence of undernourishment amongst children in the south and extreme north of Matabeleland. On the other hand some limited corporative agro-economic surveys done by R. Theisen during 1976-78, showed that Matshetshe communal land in Gwanda district Matabeleland was better off both in terms of overall household income (including remittances) and nutritional indices (due to a higher protein intake) than four other areas in diverse parts of the country (for some of this information, see GOZ, 1981c:61; further details derived from unpublished material in the Department of Sociology, UZ).

Within Matabeleland there is feeling that the region has been neglected in the government's post-war reconstruction and other development programmes. Suspicion and non-cooperation on the part of peasants has made it difficult to assess the extent of landlessness. It is true that the government was comparatively late in announcing and launching resettlement schemes in Matabeleland and that their scope has been very limited to date: with only 4.1 percent of the families relocated under the intensive resettlement schemes

by April 1982, and 13.7 percent of those under the accelerated schemes by March (Kinsey, 1982:). Otherwise it is difficult to substantiate the claims of neglect in the absence of published data on other development programmes. For the moment, however, people's perception of the situation is important. If regional disparities emerge or are aggravated, the existing political division within the country will no doubt be compounded.

The disruption and direct damage of the war in the communal areas set them back seriously (Brand 1981b:49, and GOZ, 1981c:35). Thanks to a vigorous programme of reconstruction and substantial foreign assistance, physical (infrastructual) and economic recovery appears to have been relatively rapid, although not necessarily for individual families who have lost stock or property due to the war. The question, however, remains regarding the potential impact of the whole resettlement exercise which aims to relocate more than 160,000 families by 1985 (Kinsey, 1982:14).

(d) Health and Education

Reference has already been made to nutritional status at several points. The most severely affected in terms of malnourishment, are children between the age of six months (the post-weaning phase) and four or five years, since it is very difficult to get a sufficient intake of either calories or proteins for a small child through a high-bulk diet like the staple maize-meal porridge.

Overall the country is estimated to have an infant mortality rate in the region of 100 to 120 per 1,000, a crude death rate of 15 per 1,000, and a life expectancy at bith of 49 to 52 years (CSO, 1981b). In some rural areas infant mortality is, however, estimated to be in excess of 200 per 1,000 (Gilmurray et al, 1979:22-3). Soon after independence free medical services were introduced for those earning less than Z$150 per month. The major centres are relatively well served with curative services through central and

and general hospitals, special institutions, private hospitals and municipal or industrial clinics. Smaller towns are served by district hospitals. This pattern created a natural bias in health care toward the towns during the colonial period. Even if one accepts that central hospitals serve as major referral centres, it seems excessive that in 1978-79 the Harare Group of Hospitals alone were consuming nearly 30 percent of the total health budget (Gilmurray et al, 1979:35).

The government has pledged to reorientate the health service more toward preventive services and rural needs. The rural areas are served chiefly through some 51 rural hospitals, 90 medical missions and a network of council clinics (CSO, 1981b). Many of these are, however, understaffed and have suffered from shortages of drugs during the past two years. Virtually no new facilities have been built since independence because of the need to reopen or rebuild clinics (about half of the total) closed or damaged during the war. At the same time an important new category of Village Health Worker is being introduced at the lowest level.

Turning to education, expansion since independence has been dramatic, even if one makes allowance for the fact that many schools were closed down toward the end of the war, curtailing enrolments. Between 1979 and 1982 total school enrollments have increased from 885,801 to 2,122,347. Secondary school enrollments in particular, have more than tripled from 66,215 to 218,430. The number of primary school teachers have jumped from 18,483 to 48,217 and secondary school teachers from 3,534 to 8,350. Since a high proportion of the primary school teachers are still untrained - 34.2 percent in 1980 (CSO, 1981b) - an integrated, largely in-service, crash training programme (ZINTEC) has been launched at four centres across the country. All other categories of public educational institutions also show a sharp increase in their enrollments. This growth is reflected in the education budget

which has increased from about Z$90 million in 1978-79 to over Z$272 million for the 1981-82 financial year (CSO, 1982:56). At present it is estimated that 85 percent of the boys and 82 percent of the girls of school-going age are actually receiving primary education which is now formally free, even though 'uniforms' and a 'general purpose fee' charged by the school itself are normally required. All of this must compare very favourably with the past when about a quarter of the black children never got any schooling and only 7 percent of the age group (or 19 percent of those who finished primary school) entered secondary school at all (Kadhani and Riddell, 1981:61). It is doubtful though, whether the present rate of expansion can be maintained, if for no other reason than the cost. Questions must also be asked about quality and inequality in the changing educational system, and how appropriate it is to the needs of a developing country like Zimbabwe.

Zimbabwe inherited highly unequal education provisions for Whites and Blacks, which were organised in two separate education departments. White education was virtually free, in contrast with that for Blacks, and was of a much better quality. In 1979, Z$530 of public money was being spent for each white child at school, compared to Z$46 for each black child (Caute, 1982:14). Very few white children were not able to complete O-Level while nearly a quarter studied for A-Level (University entrance). Schools are now effectively integrated, but a big gap remains between most Grade A (former white) and Grade B (black) schools, in terms of facilities, the adequacy of staffing, and the pressure of numbers. Most Grade A and the better Grade B schools are, of course, in towns creating a contrast between urban and rural education, and that available to the middle class as compared to the rest. At the secondary level the contrast is greatest where former primary schools have begun to take-in secondary classes, often without additional classrooms, qualified secondary teachers,

or even desks and books at the start. It is difficult to see how most of these schools can reach the level of the others in the foreseeable future or avoid a 'second class' quality of education and reputation.

Unless there is considerable expansion of investment in the modern economy and wage restraint, the majority of children, at least from Grade B schools, are unlikely to find a place in wage employment. The question remains therefore how well education is preparing them for making an independent livelihood in agriculture or the informal sector. The government has pledged itself to emphasize 'education with production', but while the content of academic syllabi are being reworked, at present, there has been no major reorientation toward more 'practical' aspects of education. Furthermore, what about the 45 percent or more functionally illiterate adults. (Kadhani and Riddell, 1981:64), or those who in the past have missed out altogether on schooling? The ministries of Education and Culture, Manpower Planning and Development, Community Development and Women's Affairs, and Youth, have all declared their intention to establish rural training centres or programmes of one kind or another, but as yet no coordinated strategy for non-formal education has emerged. The Adult Literacy Organization of Zimbabwe (ALOZ) is the major organization carrying on Adult Literacy. A private entity, reaching mostly women, has received an AID grant which should enable 250,000 adults to achieve functional literacy.

(e) From Worse to Bad: A Hierarchy of Poverty

Zimbabwean society, then, is a highly unequal and complexly stratified one, even among the poor themselves. In responding to the needs and demands of the poor, it is difficult to quarrel with the moral principle of 'worst first'. It is rather a question of what is the most appropriate response to each category of need in terms of the welfare of the people concerned themselves, and their productive capabilities

within the exigencies and constraints of the larger/national economy. It is a political imperative in Zimbabwe today that the poorest have to be accorded priority in public investment and allocation of resources. In this regard a summary of the inverted hierarchy of poverty in Zimbabwe, arranged from worse (or worst) to bad is as follows:

- At the bottom there are the peripheral minorities. They do not constitute a large percentage of the national population (probably less than 5 percent, including the Valley Korekore). Their areas are not overpopulated as such, but virtually all of these fall in Region V; they are remote, and they have very few resources or services available to them.
- Then there are the landless, those with totally inadequate land, and the rural unemployed generally, in the communal areas. Worst off among these are the elderly and widows or single women with dependents. Resettlement or increased educational opportunities per se will not eliminate this category. They will continue to depend almost totally on remittances from extended family members working in the modern sector.
- They are followed by the more or less permanently unemployed with little educational or other prospects in the towns. Through migration back to rural areas they might intermingle with the previous category, and vice versa. In the towns this group has better services available to them than in the rural areas and more opportunities to engage in informal sector activities, but it is unlikely that they will be able to make a start without some government assistance.
- One is inclined to place workers on commercial farms below the 'middle mass' of the peasantry. Quantitively, at least in terms of cash income, they appear to be better off, but qualitatively their lives are probably

worse - with respect to autonomy, health, nutrition, social support and education. And public programmes are less likely to reach them. With wage increases and the socialist statements of government many commercial farmers may reduce support feeling that this is now the states' responsibility.

- The bulk of the communal farmers are still in substantial poverty. With the high birth rates and population pressure and the fact that Zimbabwe is basically short of good agricultural land, this is where direct need and potential is most urgent. Most observers agree that many communal lands can be made more productive and protected from further degradation. As a category this is Zimbabwe's true majority. Particularly vexing is the question of what can be done with respect to the ecologically most denuded lands. In these regions a large part of the answer must lie in reduced population growth rates and non-agricultural development, that is of off-farm employment.
- Although comparatively better off than the peasantry, the lower paid workers in the urban industrial sector are still living in poverty, unless other income supplementing activities of family members lift them above that level. Shelter is particularly bad with construction of low cost housing lagging far behind demand. With urban migration rates likely to escalate housing becomes an urgent need along with effective urban planning.

C. (2) Traditional Agriculture

Although Zimbabwe remains a food surplus country, recent gains in agricultural productivity have been insufficient to keep up with population growth. As Table XIII suggests, real productivity gains in the large scale farming sub-sector have been more than offset by the agricultural productivity decline in the small-scale production areas. In these small-scale areas the low productivity is reflected in average crop yields which are estimated to be but 10-20 percent of those achieved on large-scale farms, i.e., maize yields of 600-700 kilos per acre, cotton yields of less than 600 kilos per acre and groundnut yields of 400 kilos per acre. The low yields, in turn, mean only one-fifth to one-quarter of traditional sector output is marketed (about 40 million dollars worth in 1980), with these marketings amounting to less than 10 percent of total agricultural marketings.

In the following we shall review the most important of the reasons for this poor performance by traditional agriculture.

(a) Physical Causes

Communal and small-scale farming areas occupy nearly 18 million hectares (46 percent of the total area of Zimbabwe) providing about 4.4 hectares per rural resident. But less than 1.6 million hectares of this area is of high agricultural potential receiving over 35 inches of rainfall annually. More than 70 percent of the smallholder area is considered marginal or unsuited for cropping in the absence of irrigation.

The relatively limited quantities of land, and particularly good land, has led to the cultivation of steep slopes, streambanks and marginal areas. An estimated 17 percent of the land receiving less than 18 inches of rain is cultivated. It also means an accelerating pace of vegetative destruction as trees are cut for fuel. Cattle numbers in excess of carrying capacity are grazed in communal areas and non-productive plant species encroach on overused land. Combined with the sandy nature of most soils in Zimbabwe, the result is a serious and growing soil erosion problem. Erosion in excess of 50 tons per hectare per year are common with renewal rates

TABLE XIII

INDICES OF ZIMBABWE AGRICULTURAL PRODUCTION - 1980

(1969-71 = 100)

Total Agricultural Production	Total Food Production	Per Capita Agricultural Production	Per Capita Food Production
115	101	87	72

Source: World Indices of Agricultural and Food Production (1981) USDA-ERS

of less than 1 ton per hectare per year. Over 50 percent of the communal lands may have suffered some degree of irreversible erosion damage.

The erosion problem extends well beyond the communal areas as water run off increases and siltation of major dams takes place. In certain rivers siltation has reduced dam capacities by one-half in less than 15 years. A vicious cycle of over intensive land use leading to reduced productivity requiring ever more intensive use of land has been established. Thus, there is a strong rationale for resettlement on environmental grcund alone, if farming systems can be altered.

A further cause of low productivity is the lack of equipment and capital items to utilize in raising production. Only very small numbers of smallholders own carts or wheelbarrows with which to transport inputs, crops, etc. Planters, shellers, harrows and cultivators are also limited. In some areas only 30 percent of the smallholders own draft animals. The result is that many smallholders are unable to carry out the required production or marketing tasks in an effective manner, with resulting reductions in output.

The effect on small farmer productivity of the limited and declining natural resource base and low level of capitalization is accentuated by the relatively poor infrastructure serving most of these areas. Over 60 percent of the communal farms are more than 80 kilometers from rail access. The road network is fairly extensive but many roads are of poor quality, are reaching the end of their planned life and provide only limited all-weather access (there are 27,000 kilometers of "earth tracks"). Many producers are more than 100 kilometers from an established market. Of the Grain Marketing Board's 50 or so depots, less than 25 percent are in communal areas. Problems are further compounded by an inadequate transportation fleet deteriorating in size and quality due to the long period of sanctions and post-independence foreign exchange limitations. Smallholders in remote areas thus do not have good access to needed services and must pay considerably more when the services are obtained.

The greatest volume of evidence received from farmers by the 1981 Commission of Inquiry into the Agricultural Industry related to infrastructure problems - distance from markets, poor roads, poor transport services, insufficient marketing depots, difficulties in obtaining inputs, etc.

The net results of these physical factors are lower returns to communal farmers and less incentives for production and productivity increases.

(b) Human and Social Causes

(i) Literacy and Skills Deficiencies

Nationwide, only some 40 percent of adult Zimbabweans are literate with a higher percentage of men than women in this category. Although no precise breakdown is available, illiteracy is reportedly much higher in rural than in urban areas. Combining the indicated pattern with the significant number of smallholder agricultural families headed on a daily basis by women (an estimated 30-40 percent), with the males in urban areas as migrant labor, leads to a situation of only 20-30 percent of rural adults being literate. The ability of non-literate households to secure and use information regarding productivity improving agricultural methods is obviously restricted as the number of information channels is very limited and decision-making affected by the volume of acquired knowledge. The results in Zimbabwe are likely to be the same as in Guatemala where a study concluded that "education is relevant in explaining differences in agricultural productivity..This is particularly evident among semi-subsistence farmers, for whom a 9 percent increase in farm production is associated with an additional year of schooling." 1/

The effect of illiteracy on productivity is worsened because non-formal education services providing agricultural information, agricultural extension largely, have only been marginally effective, being concentrated on small numbers of relatively well off farmers. Also, the agents have tended to be men while women

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1/ Balderstein, Judith B., Alan B. Wilson, Maria E. Freire and Mari S. Simonen. Malnourished Children of the Poor. Auburn House Publishing Company. Boston. 1981 p. 130

are the largest group of agriculturalists. Only 14 of some 1384 agricultural field workers are women. Finally, the current ratio of one agricultural agent to each 800 farmers provides little hope of reaching most farmers on an individual basis.

The net outcome of the above situation is a sizable group of agricultural producers with only very limited ability and opportunity to learn of new technologies. Yet there is a great desire on the part of smallholders to improve educational levels and techniques in use. A recent study by the Ministry of Community Development and Women's Affairs indicated adult education was the top priority for rural women, then followed by agricultural needs. On the latter, 48 percent of the women wanted to know more about crop rotation and 38 percent about better planning methods. Similar data on the priorities of men agriculturalists are not available. The response would not likely differ. At least in the minds of rural Zimbabweans there is a clear correlation between literacy and skills training and the probable impact on agricultural productivity.

(ii) Health Status

Unfortunately, there is almost no current, empirical information on the actual health status of the rural population in post-war Zimbabwe. Although hard data is lacking in Zimbabwe, the link has been established in other countries between health (or the ability to work), the amount of work that can be done, and productivity. Professional observers here believe that rural residents experience much the same morbidity and mortality patterns as in very poor countries with the most common health problems related to nutrition, infectious and parasitic diseases and common illnesses and injuries. Malaria, gastroenteritis, diarrhea and bilharzia are probably the most seriously debilitating, if not fatal, diseases for adults. The impact on productivity of poor rural health status cannot now be quantified. Labor is still a scarce input and despite a high population growth rate, there is no labor surplus in rural Zimbabwe. Farm production systems dependent on family labor tend to encourage larger families partially to compensate

for high mortality and low labor production due to poor health. There is no doubt that disease takes a heavy toll of workdays, meaning critical agricultural tasks at peak season are done in a less timely and complete manner than might otherwise be the case.

(iii) Excessive Population Growth

The available land is already quite limited on a per capita basis. Based on 1976 data, as shown in Table XIV, it is estimated that some 67 percent of the traditional areas with 83 percent of the population had population densities in excess of long-run sustainable levels. Another estimate suggested that the existing communal areas can only accommodate 325,000 families at a low but adequate income level. At present there are nearly 800,000 families.[1/]

TABLE XIV

Population Pressure on Communal Land

Pressure Class	Proportion of Communal Lands
Balanced or Non	32,7%
2 Times - Some	29.8%
3 Times - Great	12.9%
4 Times - Extreme	11.7%
5 Times - Desperate	12.9%

Source: Whitlow, J.R. "Environmental Constraints and Population Pressures for the Tribal Areas of Zimbabwe." Zimbabwe Agricultural Journal. 77.4: 173-181, 1980.

1/ GOZ Report of the Commission of Inquiry into Incomes, Prices and Conditions of Service, June, 1981.

The problem is being exacerbated by the rate of population growth, now estimated at 4.0 percent. At this rate, the rural population will double in the next 17 years. Some 7 million people will be living in the traditional farming areas by the year 2000 compared to roughly 4 million today. A decline in land per capita seems inevitable no matter what pace or form land resettlement takes. A decline of roughly 30 percent per capita in land availability is expected, by 1995. Existing farming systems will simply not be sustainable with the projected population densities.

The population pyramid resulting from the rapid growth rate also means a growing dependent population. Available labor will not grow at the same rate. In addition, the increases in school populations mean additional work for rural women as they must herd cattle, fetch water and perform other tasks previously done by children. Without additional skills and resources the 4.0 percent population growth rate will accentuate the declining trends in rural productivity. As suggested below, new farming systems, additional inputs and better management are a must to reverse the trend.

If the modern sector were growing rapidly enough to absorb the growth in population the situation might be less worrisome. Substantially greater job creation is required in the rural sector, both on and off farm employment.

(c) Institutional and Policy Causes

Additional contributory causes for the low productivity of traditional agriculture are the deficiencies in supporting institutions and programs being carried out. Research facilities tend to be located, and the research has been largely conducted in, higher rainfall areas while most smallholders are resident in lower rainfall zones. Little investigation has been carried out on smallholder production constraints and practices in areas such as soils, power, labor shortages, and mixed cropping. Surprisingly little research has been undertaken on traditional smallholder crops such as millets, cowpeas and

bambara groundnuts or on the economics of smallholder operations. Extension programs suffer from shortages of staff, (the current ratio of staff per farm family of 1:800 is worse than it was in the early 1960's) very little transportation and field housing, and a historical orientation towards attempting to reach only a very limited number of farmers. The effects are worsened by recent reductions in operating budgets as part of overall government economy moves. Another factor is that although women are responsible for much of the agricultural work and are defacto heads of family while husbands are away in wage employment, only 14 out of over 1300 agricultural extension staff are women. Extension has tended to be provided by men for men.

For credit the problems are limited financial resources, an organizational structure geared to handling a small number of large loans to large scale commercial farmers and very few facilities in smallholder areas. Although lending to smallholders has risen rapidly from $1.1 million for 1,800 farmers in 1977/78 to $21,0 million for 37,00 clients in 1980/81, the amounts and numbers are still miniscule relative to estimated needs and numbers of smallholders. Even plans to lend $54 million to 65,000 smallholders means less than 8 percent of smallholders will have access to credit. Women although they head more than half the small farms do not generally have access to credit. Credit has also tended to be only seasonal so that no financing is available for longer term capital inputs.

Smallholder input use has been restricted by the shortage of credit facilities, along with the poor access noted earlier.

Improved seed has not been a serious problem as the quantities are small and the seed cooperative companies have been able to supply adequate quantities in packages of various sizes. Over one-half of all hybrid seem maize now goes to smallholders.

For fertilizer, the main input, the situation is quite different. The fertilizer companies sell bulk quantities at the factory gate and do not operate outside depots. Through a system of early delivery rebates, farmers are encouraged to buy fertilizer early and assume storage responsibility. This system works against communal farmers who demand smaller quantities, than recommended by the seed companies, cannot arrange necessary transport and lack necessary capital given the limited credit available. In spite of these difficulties it is estimated communal farmers use 20 percent of all fertilizer. Overall, purchased inputs comprise less than 10 percent of gross output value for smallholders compared to about 50 percent for commercial farmers. It also appears that the fertilizer being produced in Zimbabwe is technologically 20 years old. The nutritive content is much lower than U.S. concentrates, more voluminous and costly to transport.

Cooperatives have been identified as an appropriate mechanism to help solve the input supply and marketing outlet problems. Development of these privately generated organizations will be a large task. Current membership is less than 50,000 or about 6 percent of the farmers in traditional areas. Expansion will require additional cooperative staff, additional cooperative training capacity and funding sources to meet capital needs.

A final cause of low productivity alluded to in the discussions on research and extension is the scarcity of cost effective technologies especially suited for traditional agriculture. It is argued that most available technology is size neutral i.e. small farmers can do the same things that large farmers do. With the same resource base and input access that is perhaps true. But the situations confronting small and large farmers in Zimbabwe are very different. Plowing early, a key variable in productivity here, is probably not an option to the sizable proportion of the rural population who lack tractors and other traction. Timely spraying may not be possible without

ownership of a sprayer. Fertilizer use may not be appropriate in certain low rainfall areas given current varieties. As indicated, virtually no research and no technology has been developed specifically for the small farmer. A limited quantity of farming systems research [redacted]

efforts may still be some time away. In the meantime, small holders will continue with "modern technology" ill adapted to their needs.

D. Growth with Equity: Linkages Between the Traditional and Modern Economies

Growth of the modern sector alone provides no assurance that the degree of poverty can be reduced. Unless that growth is so skewed as to provide tangible benefits to the traditional economy, existing inequities will be exacerbated. There are two major linkages by which modern sector growth can be channelled so as to reduce poverty. These are through employment and greater public and private investment in the traditional economy.

1. Employment

We have already examined the skilled labor constraint in Section II B.4 Data on employment in the modern economy is presented in Table XVI. The modern economy expansion of 1980 and 1981 saw a 21.1% increase in employment in the high-wage sectors of the economy, an increase of 112,000 jobs. However, employment in the low-wage sector (agriculture and domestic service) saw a 12 % decline, a reduction of 65,000 jobs. Thus the net job creation over a three-year period was only 47,000. This decline of employment in the low-wage sector is partly explained by the substantial increase in minimum wages since Independence.

Some simple arithmetic will demonstrate how inadequate the employment response is, given the requirements of the economy.

The present population of Zimbabwe is around 7.5 million people, of whom probably one-half are either too young or too old to work. There are thus 3.75 million people in the income-earning categories. There are no good data on the number of people who are working or looking for work, but a conservative estimate would be three million. These can be divided into three groups - those in high-wage occupation (650,000 or 22% of the total); those in low-wage jobs (392,000 or 13% of the total); and those in the traditional economy (1,958,000 or 65% of the total).

TABLE XVI

ZIMBABWE: WAGE EMPLOYMENT BY SECTOR

(Thousand)

	1964	1966	1968	1970	1972	1974	1976	1978	1980	1981
Agriculture	299.5	278.4	288.6	297.8	342.2	365.6	356.1	341.4	327.0	287.0 (Estimate
Mining	44.4	48.5	51.7	57.2	58.4	62.0	63.8	58.1	65.8	68.4
Manufacturing	76.7	80.5	95.8	114.7	130.7	151.3	153.6	139.3	159.2	174.1
Electricity, Water	4.9	5.1	5.5	5.6	6.1	6.9	6.7	6.5	6.7	6.5
Construction	26.9	27.8	34.2	42.4	49.5	64.3	51.6	40.9	42.1	47.2
Finance, Insurance, Real Estate	7.6	7.9	8.2	9.0	10.4	11.6	12.1	12.0	12.5	13.8
Distribution	61.5	56.1	61.8	65.6	72.1	76.2	74.7	69.1	70.3	75.4
Transportation	33.3	35.8	36.2	36.5	41.0	43.8	45.7	44.0	45.5	48.9
Public Administration	26.7	31.8	35.5	39.0	40.1	43.4	53.8	68.3	70.8	83.4
Education	27.8	30.2	30.2	31.0	31.9	34.7	36.9	34.9	41.6	59.1
Health	8.8	9.4	10.2	10.7	12.1	13.0	13.5	14.7	15.3	16.3
Private Domestic	93.7	95.7	102.0	109.3	119.4	124.4	122.8	115.9	105.1	104.7
Other Service	24.5	27.8	30.1	34.5	38.9	42.7	42.1	41.1	43.9	47.3
Total	736.0	735.0	790.0	853.0	953.0	1040.0	1033.0	986.0	1005.8	1032.1

Government of Zimbabwe, Central Statistical Office, Supplement to the Monthly Digest of Statistics, April, 1981, March, 1982.

Each year the labor force is growing by at least 100,000 people, or 3.3%. This implies that if the proportions of people in each category are to remain unchanged, employment in the modern economy must also grow by 3.3% per year (21,500 high-wage jobs and 13,000 low-wage jobs). Thus, the modern sector must produce 34,500 jobs annually if the proportion of workers in each sector is to remain constant. Ten years of this modest employment growth, and the traditional economy would be forced to support 2,766,487 economically active people, a 38% increase in population on an already overcrowded land area. Land productivity in the traditional economy would have to increase by 3.3% per year for income to keep from falling.

Moreover, resettlement even at the most optimistic pace and level of productivity does not change anything. Moving 160,000 families into commercial land would not only displace some of the existing agricultural work force, but within eight to nine years, the remaining population in the communal areas would grow to the level which it was at before settlement took place. Consequently, it is necessary for modern sector employment to grow faster than the rate of growth of the labor force. How fast? The following table outlines several scenarios when overall labor force growth is, as we estimate, 3.3%:

Growth of Modern Sector Employment	4%	5%	6%	8%	10%
Number of Years before Traditional Employment peaks	102	43	27	15	11
Ratio of Traditional Labor Force at that time to current Traditional Labor Force	24	4	2.5	1.6	1.3
Size of Traditional Labor Force (millions)	24	8	5	3.2	2.6

Clearly, small differences have large impacts. The difference between a 4% rate of growth of employment and a 5% rate of growth

is enormous, and a 5% rate of growth is the minimal level acceptable, without a substantial increase of population in the traditional (rural) economy. At the present time then, the modern economy needs to produce 50,000 jobs a year.

2. Investment in the Traditional Economy

No matter what the pace of resettlement, no matter how fast the growth of modern sector employment, there will remain a large number of people (and for many years a majority) whose primary source of income will be the traditional economy, and particularly traditional agriculture. Since the land area is fixed, and the work force is growing, increases in income must depend on increased land and labor productivity coming from improved technology and increased capital stock (both physical and human).

In essence, the fact that the modern economy is twentyeight times as productive as the traditional economy implies that the level of capital intensity in the modern economy must be at least 10 times (and probably more) that of the traditional economy. Consequently, the rechanneling of savings from the modern economy into investment (roads, marketing depots, education and training, health centers, water supplies, research, irrigation) into the traditional economy will have the most substantial impact on incomes in that sector. Moreover, given that the foreign exchange component of much of this investment is substantially lover than that of the modern economy, there is not a one-for-one tradeoff between investment in the two sectors. That is, a one-dollar increase in foreign exchange associated with a dollar of domestic saving could lead to two dollars of investment (70¢ of foreign exchange plus 30¢ of domestic saving in the modern economy plus 30¢ of foreign exchange and 70¢ of domestic saving in the traditional economy).

Thus, a carefully worked out strategy of allocating foreign exchange and domestic savings can lead to growth of both the modern

and traditional economies. The danger is, however, that shortages of important skills can reduce the capacity of both the traditional and the modern economy to absorb the available investment.

E. The Policy Framework

1. The Role of the Public and Private Sectors.

The declaration of UDI in 1965, the intensification of the liberation struggle and the imposition of sanctions during this same period, led to a dramatic transformation of the economy characterized by a substantial increase in the public sector's role. This new role takes two forms -- the direct production of goods and services and the imposition of controls and regulations, which constrain private decision-making.

a) Public Production. There are a number of ways of measuring the extent of the government's involvement in the economy. From the supply side, one can calculate the proportion of net output produced by government and public corporations. This measure, presented in Table XVII, indicates that government's share of output grew from 23.4% in 1965 to 29.7% in 1978, fueled largely by an increase in the public sector wage bill. Another perspective is to look at end use, and measure the share of output that goes to the production of public goods. In 1971, this share was 11.5%, but by 1980, it had risen to 19.2% (Table XVII). Finally, one can examine government expenditure, including transfer payments. By this measure, government activity increased dramatically from 18.5% in 1974 to 32.2% in 1980.

By almost every measure, Zimbabwe in 1981 was a much more public sector-oriented economy than it was in 1965. Nevertheless, it is important to understand that this shift occurred for the most part during the UDI period, under the pressure of economic sanctions and increased military activity. Indeed, there is fragmentary evidence that, despite the substantial increase in educational and

TABLE XVII

Zimbabwe Measures of Public Sector Activity in the Zimbabwe Economy

A. Share of Output at Factor Cost Produced by Public Sector Entities

	1965	1974	1975	1976	1977	1978
			(percent)			
Government wages and salaries	9.0	10.4	11.5	12.8	15.3	16.4
Parastatal Wages	6.5	5.7	6.1	6.3	6.7	6.6
Parastatal Profits	5.8	5.0	4.5	5.1	4.2	5.8
Other	2.1	0.8	0.9	0.9	1.0	0.9
TOTAL	23.4	21.9	23.0	25.1	27.2	29.7

B. Share of Tax and Government Consumption Expenditure as a Percent of GDP.

	1974	1975	1976	1977	1978	1979	1980
				(percent)			
Tax Resources	16.2	19.6	21.2	23.4	21.9	18.5	19.4
Government Recurrent Expenditures	11.5	12.7	15.0	17.4	19.6	18.3	19.2
Total Government Expenditure (including transfers)	18.5	18.8	22.6	26.4	30.9	33.7	32.2
Government Surplus (Deficit)	2.6	4.5	2.2	0.8	-5.3	-11.3	-8.7
Government Debt	47.8	45.2	47.3	50.4	60.8	63.0	62.8

Source: National Accounts Statistics of Zimbabwe, 1978
Monthly Digest of Statistics, March, 1982
(Central Statistics Office, Harare).

health services undertaken by the Mugabe Government, the rate of growth of the public sector is being slowed, and the pattern of the 1970's is being reversed. However, it is too soon as yet to ascertain whether this reversal will continue or not.

At present, the GOZ owns partial or full control over the following enterprises: Zimbabwe Iron and Steel Corporation, Kamativi Tin Mines, Ltd., Zimbabwe German Graphite Mines, Willowvale Motor Industries, National Railways of Zimbabwe, Post and Telecommunications Corporation, Central African Power and Light, Electricity Supply Commission, Air Zimbabwe, the Dairy Marketing Board, Agricultural Marketing Authority, Grain Marketing Board, Cold Storage Commission, Cotton Marketing Board, Tobacco Research Board, Agricultural Finance Corporation, Zimbank, the Bank of Credit and Commerce, Central African Pharmaceutical Corporation, and the Zimbabwe Newspapers. Only the last four of these enterprises have been acquired since Independence; the others were established or purchased prior to 1979, by the colonial and UDI governments.

b) Government Regulation and Control. The government in Zimbabwe has long been a pervasive force in the economy. It was government regulations that divided the agricultural land into communal and commercial areas. Government marketing of agricultural products, coupled with the setting of fixed prices, has a long history in the British colonies in Africa, as does government intervention in consumer price setting.

However, it was during the UDI period, or because of the shortage of foreign exchange, that the government substantially tightened its grip on the economy. The system of import licences, exchange controls, and project approval requirements reduced the degree of autonomy in the private sector considerably. Because this period was characterized by substantial import substitution in the manufacturing sector, a large degree of monopoly and oligopoly became commonplace. Just over 50% of manufacturing production is

produced with one firm dominating the market, while a further 30% is produced in conditions dominated by two to three firms. (See Annex B.)

This monopoly power led to government intervention to control prices of industrial products, followed by legislation which granted the government some control over wages and income. Consequently, when the Mugabe Government tock power it found government apparatus which:

1. Controlled the availability and prices of foreign exchange, and allocated that foreign exchange on the basis of a rationing scheme.
2. Controlled new investment via the project approval machinery.
3. Set prices for essential consumer goods, and fixed markups for locally manufactured products.
4. Controlled wages and salaries.

In addition, the government found a vibrant and vital private economy, but one with substantial inequities, one largely controlled by overseas investors (approximately 70% of capital stock was owned by foreigners and a large portion of that by South Africans), and one in which inefficient firms were protected by import restrictions.

The advent of socialism in Zimbabwe has not seen a major change in government policy. Import allocations, foreign exchange controls, price regulations, mimimum wage laws, and investment review all remain major fixtures on the scene. There has not been a substantial move toward nationalization; the size of the public sector as a proportion of GDP is smaller than it was in the last years of the Smith regime. Private enterprise remains alive and well in Zimbabwe, but it is growing in a hothouse environment of government control and regulations, as it always has.

2. Major Policy Issues

The government of Robert Mugabe inherited two fundamental conditions from the pre-Independence Government -- the sharply dualistic economy marked by severe distortion in income and asset distribution, and an economy marked by substantial intervention and control by the government. To this inheritance it added an evolving socialist idealogy and political commitment to redress years of exploitation. Two necessities determine the Government's policy stance - (i) it must act in such a way as to bring to the black population tangible and immediate evidence that their economic situation is being improved; (ii) it must act in such a way as to sustain the productivity of the modern economy, which means refraining from taking actions that would cause mass emigration of white skills, increased inefficiency in resource allocation, and decreases in investor confidence.

These goals often tend to be in conflict. Policies which increase black incomes (i.e., land distribution, nationalization, wage increases, and expansion of public services) tend to lower white income. More important, they tend to increase the degree of uncertainty felt by the white population. To add tc the anxiety, Government has added a rhetoric, meant for its black constituency, which points to a distant ultimately socialist future, and decries the exploitation of the underclass by the capitalist system.

Despite this rhetoric, the policy framevork has so far been marked by continuity rather than radical change, by pragmation, rather than by ideological posturing. Nevertheless, it would be a serious mistake to expect this pragmatism to lead to the establishment of a laisse-faire market economy. The present government seems serious about creating some form of sccialism, although there has yet to be a clear statement of the way in which

that state would be organized. This, government contends, will not occur for sometime, and only over a transition period of decades. Many in government, at the highest policy levels, are acutely aware of socialist failures elsewhere, yet the constituency demands a leveling of income and privileges. Yet the government does not wish to kill the capitalist goose. Accordingly, we should expect policy in the next few years to appear ambiguous and to vacillate between long run and short run objectives, between economic rationality and political expediency.

It is not useful for the U.S. at this time to question the objectives established by the proud, young Government of Zimbabwe. Rather, we should attempt to engage the GOZ in a dialogue on policy choices and paths which will enable it to achieve those objectives more effectively. For example, a paper commissioned by USAID on food subsidies points out that many of these subsidies are not only inefficient but assist high income rather than low income groups. There are a number of policy initiatives which USAID believes are possible. Initially government may resist change. But over time and shown the implications of certain policies, they are likely to moderate them. These include: land policy, wage policy, public investment and subsidies.

a) Land Policy. Prior to Independence, the commercial farming area controlled about 47% of the land area in Zimbabwe, but 77% of the land most suitable to intensive farming and 64% of the arable land (of which only 20% is cropped). The commercial farming sector produced 65% of total agricultural output in 1974, divided roughly into two parts: 40% as return to labor, and 60% as return to land and capital. Thus agricultural income was divided into three parts - wages earned on commercial farms (26%), net output in communal areas (35%) and return to capital and land in commercial areas (39%). Excluding quality difference, the ratio of the returns to land and labor in the commercial sector as

compared to the traditional sector are 5.7 and 7.9 respectively. That is, land is six times more productive in the commercial areas while labor is eight times as productive.

Access to land was the major political issue in the war. With 5,000 commercial farmers owning 50% of the land, while the rest, of lower quality, was apportioned to 750,000 communal families, it was inevitable that land redistribution was to be a major component of government policy. To a large extent land redistribution policy to date has been very conservative. Land is being purchased on a willing buyer - willing seller basis. Settlement is, for the most part, only in areas contiguous to the communal areas, and in areas currently unutilized. Substantial planning and investments are being made to insure the success of those who move into settlement areas with Z$400 per capita as the settlement income target.

Given quality differentials in land, as well as the contemplated investments for settlers, it is possible that resettlement could lead to an increase in total output in the agricultural sector, rather than a decrease, particularly if the commercial areas are allowed to divest themselves of underutilized land. Much depends on how extensively settlement efforts are undertaken. If the government is serious in settling 162,000 families in the next three years, using the existing model means transferring some 60-70% of commercial land to African farmers. This would undoubtedly mean a substantial decline in agricultural output and incomes. (cf. Kinsey's paper).

The key policy question is how the settlement program will be implemented and with what impact on overall farm production and employment. Existing communal land averages twenty hectares per farm, with considerable variation depending on ecological region. Present settlement plans provide on average 70 hectares per farm. Consequently, while large amounts of land are being redistributed the number of communal farmers aided is relatively small. As

noted earlier but worth repeating, if 162,000 families (an estimated 20% of total peasant families) are resettled, with the very high population growth and slow growth of modern sector employment, the land/labor ratio in the communal areas will return to its present level in 8-9 years.

More importantly, the equity and redistribution effects of such a resettlement policy are not as straightforward as might be expected. There are five groups concerned here: the settlers, the commercial farmers, the agricultural workers, the tax payers, and farmers who will remain in the communal areas. Clear beneficiaries are the settlers who will be provided with a substantial increase in assets, both land and infrastructure In the first round, traditional farmers also benefit because of the expansion of land area available per farm in the communal areas. Commercial farmers are largely unaffected to the extent that they are adequately compensated for their land. Tax payers, largely high income earners, are hurt as they are paying for a large portion of the resettlement program. Agricultural workers on commercial farms may find that the demand for their services is drastically reduced, perhaps by as much as 40%. A reduction of agricultural employment of this magnitude could mitigate, to a large extent, the increases in land availability in traditional areas. Moreover, if the government diverts substantial investment funds into the settlement areas it may starve the communal areas of needed investments. Another result will be to create a new class of farmers, as special public clients, with little benefit for the communal farmers left behind. (For additional analysis of land policy implications see Kinsey, William: An unpublished analysis of the Resettlement Program. A paper done for USAID/Zimbabwe).

Preliminary figures on the capital budget for the 1982/85 plan

period show the following allocation of investment funds in agriculture:

	(Thousand Z$)	(Percent)
General Institutional Development	28,115	3.1
Investment in Communal Areas	21,686	2.5
Investment in Settlement Areas	558,280	63.5
Investment in Commercial Areas	168,242	19.1
Unallocated	103,375	11.8
TOTAL	879,698	100.0

These figures do not include investments in transport or social services. Nevertheless it is clear that 160,000 settlement families would receive twenty-five times as much investment as the 600,000 communal families left behind.

b) Incomes, Price, and Wage Policies. Following the Report of the Riddell Commission of Inquiry into Incomes, Prices and Conditions of Service, the Government has:

- Substantially raised minimum wages (by 66% for agricultural and domestic workers in January 1982)
- Put a cap on wages at the top of the salary scale.
- Frozen prices on some commodities and strengthened the fixed mark-up system on others.

As was noted at the beginning of the CDSS, wage income is the major source of inequality in income in Zimbabve. Raising minimum wages has had a substantial redistribution effect, and led to increased consumer demand for many products. Nevertheless, the ultimate effect of such expansive wage policy (and there are substantial indications that future increases will be just as dramatic) will be to decrease the rate of growth of modern sector employment, a factor that is crucial for the achievement of long-term growth and equity objectives of the GOZ. Those people already in the labor force will benefit, but at the expense of those left behind on the communal farms and the next generation of job seekers.

c) Public Investment Policies. The current expectation is that the GOZ three-year transitional plan will call for public investment of substantial proportions. If that investment is concentrated in developing rural infrastructure, training of necessary skills, and development of research and human capital institutions, it can have a profound impact on the eradication of poverty. If on the contrary, it is concentrated in settlement areas, excessive and unsustainable public services and the development of a few large-ticket items in the modern economy, the likely results will be neither growth nor equity.

d) Subsidies. According to a study by economist Doris Jansen for the Mission, subsidies in the Zimbabwe economy are of two types - consumer subsidies, and transport subsidies. Consumer subsidies exist primarily in maize, milk, meat and wheat. These subsidies do not provide discrimination to farmers, as in almost every case (except groundnuts) farmers are receiving prices substantially equivalent to border parity prices. The subsidies, however, do have two effects. First, they tend to increase the consumption of certain goods (particularly milk and meat) beyond the level that is economically efficient. More importantly they could involve a continuous and growing drain on the fiscal resources of the government. Transport subsidies also lead to inefficiencies and cost the GOZ some $60 million per year. With the largest subsidies on food, the overall cost if unchecked will be $150 - $170 million in 1982/83.

The GOZ has committed itself to removing subsidies, and recently (May 1982) reassessed the subsidy for edible oils and reduced the subsidy on meat. This is the policy area where we can expect substantial improvement in the next year.

III. ELEMENTS OF AN ASSISTANCE STRATEGY

In the prevailing conditions and fluid policy environment an effective assistance strategy for Zimbabwe must fulfill two requirements:

- It must be directed toward marshalling foreign and domestic resources, particularly foreign exchange and private investment, into the most competitive growth sectors, thus providing a firm basis for sustainable poverty alleviation and development growth.
- It must be directed toward raising living standards, expanding agricultural output, rural incomes, and increasing employment opportunities while narrowing the stark dualism in the economy.

Moving to greater specificity of strategy content, the USAID program in Zimbabwe during the next 3-5 years will be framed by eight strategy themes as follows: (See Annex C for a matrix summary)

1. To expand the productive capacity of the modern sector (manufacturing industry, mining and commercial agriculture) by provision of foreign exchange channelled largely through the private sector.

2. To enlarge agriculture productivity particularly in smallholder areas.

3. To generally improve human capital in Zimbabwe through skills development, improving education qualitatively, enlarging it quantitatively and making it more cost effective. To also strengthen local institutions designed to expand human productivity.

4. To expand employment both in the modern and rural sectors, while strengthening linkages between training, employment and business. Special emphasis will be placed on assisting the emerging Zimbabwe private sector and small entrepreneurs.

5. To moderate population growth rates, thereby relieving, over time, pressure on land, energy resources, job creation and social services.

6. To provide capital resources to open up access to home ownership for low income families, and to involve the private sector as a major source of lending for low income housing.

7. To engage the Government of Zimbabwe in policy dialogue which will maintain an environment conducive to growth, private investment and export-led development.

8. To work more closely with other donors in policy dialogue and in building more coherent approaches to Zimbabwe's major development problems.

A. <u>To Expand the Productive Capacity of the Modern Sector by the Provision of Foreign Exchange, Channelled largely through the Private Sector</u>.

Our analysis in Section II B points to foreign exchange as the primary constraint to increased investment, improved growth, more employment and better export performance. A recent survey conducted by the Confederation of Zimbabwe Industries, at the request of the World Bank, showed that raw material and capital equipment imports of Z$77 million could result in increased exports of Z$334.8 million, with an estimated 8,600 new jobs created. The ability to expand production in the near term clearly depends on foreign exchange availability. 36% of the manufacturing industry is now operating at less than 70% capacity with foreign exchange availability the primary factor, followed by skilled manpower. After 15 years of sanctions and war much of the industrial and capital plant is worn out. There is an enormous backlog of import demands.

The Commodity Import Program (CIP), started in 1982, will remain the

primary vehicle for this portion of our strategy. After considerable negotiation the government has agreed to the importance of channelling significant ZIMCORD funds to the private sector, particularly foreign exchange.

CIPs in FY 1983 and 1984 will be similar, directed at import gaps for capital goods, spare parts and raw materials particularly in industry, export manufacturing and areas where employment generation is most likely. The mission will work closely with the World Bank which is conducting a study of industrial competitiveness to see if certain industries, which grew up during sanctions, might be less competitive in the more open regional economy now emerging. Future years balance of payment assistance may thus be targeted to more competitive industries, encouraging more labor intensive production, and emerging businesses.

B. Enlarging Agricultural Productivity

One portion of the agricultural sector in Zimbabwe is very productive, but the existing system is being challenged to better address the requirements of the smallholders, while also maintaining the productivity of the large-scale commercial sector.

Certain of the constraints on smallholder production are not very susceptible to change in a major way. More and better land is one example. Other constraints can be altered.

Largely through one sector program AID resources will be directed toward strengthening agricultural research, extension, credit, input supply, marketing, land and water use and agriculture training institutions. Over the strategy period, we will plan to develop:

* A redirected agricultural research capacity with emphasis on special technological package needs of smallholders.
* An extension program to improve the effectiveness of the services and its ability to take the technological package to the farmers.

* A more effective credit program, an enlarged capability of the credit institutions to service large numbers of smallholders. This would include special credit programs which improve farmers longer-term productive capacity, i.e. water development and medium-term loans.
* Much improved input supply and marketing, evolving around a strengthened private cooperative system. This should make less costly inputs available when and where needed and assist the smallholder in marketing his crops.
* More effective land and water use. The focus will be on improving the planning and execution of small-scale irrigation and soil conservation programs.
* Finally, in training the objective will be to assist in expanding the quantity and quality of personnel available for work in the sector. We will assist in improving the capacity of the agriculture training institutions in the country, from certificate to graduate level.

Without assistance in these specific areas and an increase in investment, Zimbabwe will not meet the 5 percent growth target for agriculture. With such interventions, a significant number of smallholders should become active participants in the market economy. Unless land resettlement is pushed too fast and in irrational directions, Zimbabwe's commercial producers should be able to maintain the country's enviable position of being a surplus food producer and exporter of agricultural exports until smallholder productivity can begin to grow.

The strategy does not call for any direct assistance in land resettlement per se. While we believe that efforts to improve the utilization of un- or under-utilized land resources are fully justified, we prefer to support these efforts in primarily an indirect manner through research, technology transfer, planning assistance and institution building.

our specific five year targets are:

* A 200 percent increase in marketed production from smallholder areas.[1/]
* A well functioning extension system emphasizing group extension with an average agent:farmer ratio of 1:600.
* A more than doubling of output from agricultural colleges and institutes to 280 certificate and 120 diploma holders annually.
* A doubling of student intake into the Faculty of Agriculture at the University of Zimbabwe from 50 to 100.
* A major research emphasis on topics and areas of relevance to smallholders with specific programs in farming systems, marginal lands, and smallholder crops.
* Agricultural credit available for at least 25 percent of smallholder families and tripling of medium- and long-term credit for capital items.
* A cooperative network of at least 40 main warehouses and 400 distribution/collection points serving a minimum of 100,000 members. Volume of cooperative turnover should increase by 400 percent to Z$60,000,000.

C. <u>To Improve Human Productivity, Skills Development, Expanding Education Qualitatively and Quantitatively</u>.

The GOZ has placed considerable emphasis on broadening access to education and training among blacks. Between 1980 and 1982,

- Primary education increased from 819,100 to 1,925,300 or 235 percent;
- Secondary education from 74,800 to 216,600 or 290 percent;
- University from 1,873 to 3,091 or 165 percent;
- Agricultural colleges from 173 to 332 or 192 percent;

1/ Assumes an 8 percent annual growth rate in smallholder production with the majority of the additional output marketed.

- Technical colleges from 3,469 to 6,128 (June 1981 figures) or 177 percent; and
- Teacher training colleges from 2,824 to 4,310 or 153 percent.

This expansion was carried out by adding staff and facilities while maintaining the extremely favorable (and costly) students/teacher ratios. For example, the number of students per teacher at primary and secondary levels remains 39:1 and 23:1 respectively. At the post-secondary level, the number of students per instructor are quite low, 6:1 at the University and Agricultural Colleges; 10:1 at the technical colleges, and 9:1 at the teacher training colleges.

The emphasis on quantity is reflected in the dramatic escalation of the education and training budget since 1979. In 1979/80 the budget was Z$118 million. Education and training comprised 13.3 percent of government expenditures and 4.6 percent of GNP. By 1981/82, education and training expenditures had jumped to Z$304.7 million (a 258 percent increase) or 20.1 percent of government expenditures and nearly 9 percent of GNP.

The present danger is that this rapid expansion has built into the education system a forward momentum which will rapidly drive up the expenditures on primary and secondary education, and in the process dry up resources which could be used to improve the system. For example, 43 percent of all the children in primary schools are concentrated in the first two grades. Similarly at the secondary level, 77 percent are in the first two years. If nothing is done soon to begin to improve the efficiency and cost effectiveness of Zimbabwe's educational and training system, pressures to fund primary and secondary education will begin to drain resources from post-secondary education and training as well as from other development priorities.

USAID's strategy in the human resources sector is to assist Zimbabwe to maintain its program to provide broader access to educational and training opportunities and to create a strong institutional foundation to meet its domestic human resource needs. The strategy focuses on the development of a more efficient educational and training system. While the success of this strategy depends on addressing inefficiencies at all levels within the system, the very size of the share of resources going into primary and secondary education (95 percent of all education and training expenditures) requires that primary and secondary education be a major area of program concentration.

The following summarizes the objectives to be achieved by the end of FY 1987.

1. Leveling off of educational and training expenditures at 26 percent of the national budget and/or 10 percent of GNP.

2. Significant reduction in the per student cost of education at all levels, with largest reduction occurring in secondary, diploma/certificate, and university education.

3. Improved teaching techniques, learning materials, and testing procedures which will permit the cost reductions envisaged in 2 above without a decrease in quality.

4. A stronger educational and training institutional infrastructure with the capacity to meet Zimbabwe's own human resources needs in the future.

D. To Expand Employment Both in the Modern and Rural Sectors While Strengthening Linkages between Training, Employment and the Private Sector.

If the bulk of the youth entering the labor market each year are to find gainful employment, the employment absorptive capacity of the Zimbabwean economy must be enlarged. An analysis of the relationship between real growth in GNP and employment reveals an economy which is generally employment inelastic. As a consequence the number of individuals who are unable to obtain jobs each year has expanded as increasing numbers of young people enter the labor force.

With the steady decline of employment in traditional wage occupations, (agricultural workers on commercial farms and domestic workers) combined with the limited capacity for any net increases in agricultural employment in communal areas, most new labor force entrants will seek employment in the public, manufacturing, construction, mining and distribution sectors of the economy. Even if the ambitious economic growth rates envisaged in the Three-Year Transitional Plan are achieved, less than half of the new entrants into the labor force will be able to secure work, unless structural changes occur within the economy to increase its labor absorptive capacity.

There are signs that the labor market is becoming tighter. Two factors have caused this to occur. The first, and most important, is the slower rate of economic growth. The second is the rapid increases in industrial minimum wages combined with fears of further increases on the part of employers. In discussions with business representatives from Rio Tinto, Anglo American, TA Holdings, and Sun Hotels, they indicate that turnover rates among black workers, which were as high as 30 percent a year ago, are now at 10 percent. All confirmed that they are hiring fewer workers today than a year ago.

The ability to increase the demand for labor will depend on:

- Lowering the cost per job created from that which currently prevails in large-scale industry;
- Decreasing the capital/labor ratio by greater use of capital saving technology, particularly technology which reduces the need for imported machinery; and
- encouraging production of consumer goods and services which cater to the low income population and have fairly high income elasticities.

To ensure an adequate labor supply will depend on the creation of a skills training infrastructure to serve both the needs of small-scale, and labor-intensive, enterprises as well as the larger employers.

If employers are to be motivated to invest in labor-using technologies, several constraints which adversely affect movement in this direction will have to be overcome. First, there will be a need to limit future increases in minimum wages until these increases can be justified by real growth in the economy. Second, there will have to be an increase in the efficiency of lower skilled workers through improved training and incentive systems to promote porductivity. Thirdly, the impact of an overvalued currency on domestic employment needs to be analyzed.

AID's strategy for assisting in the expansion of the economy's employment absorptive capacity includes the following. First, the strategy will promote the development of small-scale enterprises by:

- Setting aside local currency from the CIP to assist the GCZ in the establishment of the Small Enterprise Development Corporation (SEDCC) including the setting up of a credit/loan facility for small entrepreneurs;

- Sponsoring research into types of products and services which can competitively be produced by small-scale enterprises both for domestic and external markets;
- Sponsoring research into technology most appropriate for small enterprise development which takes into account factor price relationships and the need to compete with larger industrial units;
- Establishing a National Community Development Trust Fund which will encourage communities to undertake small projects and productive activities. This will be administered by the Ministry of Community Development and Women's Affairs. The emphasis will be on cooperative based rural production projects.

Second, the strategy will assist the efforts of larger industrial, manufacturing, and mining firms to improve their employment absorptive capacity through:

- Establishment of an industrial learning and research resource center at either one of the technical colleges or the University which will assist industries to improve their on-the-job training capacity and to undertake research into factors affecting labor efficiency;
- Utilization of CIP foreign exchange to import training equipment;
- Expansion of technical training colleges under the Human Resource Sector Grant (613-0208) and Zimbabwe Manpower Development Project (613-0215).
- Utilization of equity capital under proposed AID/PRE activities to encourage greater U.S. private investment and assistance to intermediate credit institutions such as SEDCO or the National Development Bank.

- Policy dialogue with GOZ officials concerning minimum wages, closer cooperation between public and private sectors in training, and creation of a political/ economic climate which fosters private investment, and the signing of the OPIC Agreement.

E. Moderating Population Growth Rates

The 1969 Census estimated a 3.6 percent rate of growth in Zimbabwe's population. However, a recent analytical reassessment of the 1969 data indicated that the natural growth rate was closer to 4 percent. Precise figures will have to await the results of the August 1982 National Census.

The current rate of population growth is high by comparison with other developing countries. Numerous social, cultural and economic forces encourage large families in Zimbabwe. These are especially evident in rural areas where the cost of raising children is still low and their labor input essential for food production.

Zimbabwe was one of the first sub-Saharan African countries to have an active family planning program through the work of a private association. This association was actively supported financially by the Ministry of Health. However, because of previous political associations, the present government is ambivalent.

While there has been no clear government policy concerning population growth, two major social service policy changes introduced by the Government shortly after Independence, free medical care for the majority of the population and free primary education, will further encourage large families.

The Ministry of Health has indicated that it supports an integrated approach to family planning. For example, child-spacing will be an integral part of the primary health care program. The MOH will give financial support to the Child Spacing and Fertility Association (CSFA), which is a new organization created from the

old FPA. However, the services offered through the network of health facilities in the rural areas are focused on curative care and health manpower is scarce. It would be unrealistic to expect the MOH to expand its child-spacing services any faster than the increased emphasis being given to primary health care. Integrating primary health and family planning services will require time to both define and coordinate at the field level.

The CSFA has a much better developed delivery system of facilities and trained staff than is found in any other sub-Saharan country. However, during the past year the Association underwent a major restructuring. The decision to discontinue the use of Depo-Provera was made suddenly and without the appropriate planning to allow 100,000 users to switch to other methods in an orderly fashion. At the same time, the Director of the Association left, and his replacement has had other commitments which have prevented his giving full-time attention to the Association. There has been a major turnover in the supervisory staff, and new staff have not yet gained sufficient experience to be melded into a smoothly functioning organization. The transport fleet owned by the Association is antiquated and breakdowns are now causing major delays in service delivery. The community-based educators/distributors are somewhat demoralized and will require retraining in new roles and functions when these are finalized.

If the system is to be restored and expanded, actions must be taken soon. Government support at the highest political levels is crucial if the gravity of the consequences of a continued high population growth rate is to be tackled successfully. This will be slow in coming. Clearer government policies are likely only after the results of the August census are analyzed.

USAID strategy will have to evolve as Zimbabweans recognize they

have the primary responsibility for resolving their own population growth issues. USAID has been working with senior government officials on sectoral studies to show the relationships between population and development. This work and associated staff training is expected to continue. USAID has also been providing assistance in various areas of the planning and implementation of the upcoming census. The Director and newly appointed Administrator of the CSFA are attending a one-month course on administration and management of family planning activities in the U.S. in June, 1982.

The private Whitsum Foundation has been asked by MEPD to complete a population policy analysis. AID may provide some consultancy assistance for the Whitsun study. Thus, MEPD appears to be developing the informational base for detailed discussions within government on the population issue.

AID has indicated its willingness to provide assistance to the CSFA and the MOH in their child-spacing activities if officially requested by the GOZ. The general areas of support are likely to include: training of field educator/distributors with assistance for their supervision; further expansion and strengthening of the CSFA administration; and establishment of a small unit with the CSFA to conduct applied research on social, medical, economic and management aspects of child-spacing. This assistance could be instrumental in both restoring the CSFA to a high level of performance and assisting the MOH in those components of the MCH system which complement child-spacing, such as service delivery and health education.

The Ministry of Community Development and Women's Affairs may be involved in the implementation of some child-spacing activities. Since the extent of their involvment is unknown, AID must maintain flexibility until a decision is reached. Thus, future programs may involve working with both ministries.

Other AID sponsored programs in adult literacy, formal education, and agriculture, will work indirectly to reduce the current incentives for large families. For instance, most of the adult literacy work is focused on women. This, combined with new agricultural technologies which make food production less dependent on family labor, should eventually contribute to reduced family size.

F. To Provide Capital Resources to Open up Access to Home Ownership for Low Income Families and to Involve the Private Sector as a Major Source of Lending for Low Income Housing.

During the coming decade, Zimbabwe faces the problem of accommodating over one million additional people in urban areas. This number equals the number of people presently living in urban communities. The majority of these people will fall into the lower income categories. Their presence will place considerable strain on already limited housing units and health and educational services.

Growing demand for home ownership particularly among low income families is inhibited by the lack of capital resources and an established institutional framework which has worked against the provision of credit to the poor. For example, building societies set minimum building standards below which they will not provide credit. These standards are beyond the payment means of the majority of the urban population. As a consequence, less than 3 percent of Zimbabwe's economically active population has access to credit for housing construction or purchase of homes through financial institutions.

In order to assist in meeting the critical need for low cost shelter, AID approved a $50 million Housing Guaranty (HG) program in 1980. The initial loan of $25 million was taken by the GOZ in FY 1982 and the balance of $25 million is planned for authorization in either FY 1982 or FY 1983. This program has two main objectives. The first is to help create a policy and institutional framework which is supportive of the development of low income housing. The second is to promote the expansion of the private sector in the financing of low income housing.

In addition, U.N. HABITAT and USAID, using local currency from the Commodity Import Program, will develop over the next year a deomonstration project activity in Kwekwe and Gutu which may pave the way for future HG's. In conjunction with the implementation of this project, the private Beverley Building Society will open up offices in these two smaller urban communities and will make loans under the project to low income families to build their own homes. The Beverley Building Society believes that shifting into low cost housing can be profitable and is politically imperative.

Under the present $50 million HG program, an AID grant of $750,000 will be used to strengthen the institutional and human resources capacity of Zimbabwe to conduct a major program of low income housing. This grant will provide technical assistance and training in planning and design of low income shelter programs which place an emphasis on self-help, involvement of small-scale businesses in housing construction, and financing through private sector financial institutions.

A new HG program of $50 million will be developed in FY 1984. Within this program, $25 million is planned for authorization in FY 1984 and the balance of $25 million in FY 1985. It is planned that this program will be administered largely through the private sector building societies along the lines of the USAID/HABITAT pilot project in Kwekwe and Gutu.

G. To Engage the Government of Zimbabwe in Policy Dialogue that will Maintain an Environment Conducive to Growth, Private Investment and Export Led Development: An Agenda

Zimbabwe's policy environment to date has not acted to impede growth. Domestic investment has increased since independence even though foreign investor confidence is generally lacking. Increased minimum wages adding to production costs, the freeze on wholesale and retail prices and skilled labor difficulties have added to the foreign investor "wait and see" attitudes.

On the whole, economic policy in the modern sector has been prudent and effective. Monetary policy has been conservative, and the government has controlled the budget. While borrowing has increased, it has been kept within manageable levels. Foreign exchange controls and imports restrictions, while not ideal, have been managed fairly and with an eye to economic needs. Corruption is minimal or non-existant.

Other policies are important to note. Nationalization of property in the main, has been rejected. For government purchased assets, compensation has been rapid and usually just. Reconciliation is real. Transportation difficulties, a real problem a year ago, have been managed well. The renegotiation of the Preferential Trade Agreement with South Africa should be viewed as a very positive policy step.

This is not to say that the policy environment is optimal. There is widespread government intervention in the economy and this intervention can cause serious inefficiencies. More importantly, it provides the government with tools that could lead to serious misallocation in the future. Given Zimbabwe's heritage of state capitalism and its new convergence with an ill defined socialist ideology, it is unlikely that the government intervention appartus will be dismantled. What is required, and the task that USAID sets for itself, is to help the GOZ understand the

full ramifications of various policy stances, and to see the benefit of adjustment.

Many of these policy reforms require major departures from current thinking. This will, of necessity, be a gradual process and one, given the youth and pride of this government, which cannot be pressed too strongly. Nevertheless, reform of some of these policies is absolutely vital if long-run development is to take place. USAID hopes to help the GOZ understand the implications of its policies, and to make choices consonant with its own goals. Our policy dialogue will not be productive if the method chosen involves attempts at direct leverage. Subtlety, patience and an informed educative process are in order.

In particular we would like to see:

A. Macro Economic Policy Adjustments

1. A gradual movement away from import controls assuming improvement of the foreign exchange situation.
   (i) In the interim the development of improved procedures for allocating import licences.
   (ii) Adjustment of the "currency basket" to achieve an effective devaluation of 25-30 percent.
2. A movement away from price controls.
3. A wage policy that will link future increases to increases in productivity.
4. Continued tight control over government expenditures. In particular to make education and health services more cost efficient, to reduce consumer and transport subsidies and defence outlays.
5. Continuation of Zimbabwe's conservative monetary policy including careful attention to keeping foreign borrowing within prudent limits.
6. Greater encouragement of foreign investment, including the signing of an OPIC Agreement.

B. Policy Adjustments in Agriculture

In general the policy environment facing Zimbabwean agricultural producers is favorable. Prices provide production incentives and are adjusted regularly. Agriculture prices generally reflect opportunity costs for both inputs and outputs. Inputs are widely available and credit in sizable quantities at market rates is supplied.

In this situation the AID strategy will be to assist the implementation of policy adjustments which tend to improve the relative incentive support provided to smallholders. At the same time, maximum effort will be made through the provision of information and the conduct of relative studies to point out the pitfalls of policies which unduly favor smallholders, e.g. subsidized interest rates, uniform produce pricing not reflecting transport cost differences and provision of costly services at less than economic rates (irrigation water, cattle dipping, etc.)

Some specific areas where we expect to place attention are:

1. Reducing the costs of essential inputs by substituting lower cost forms and more efficient methods of use.

2. Developing and adopting measures to increase cooperation and linkage between research, extension and University education.

3. Seeking government commitment to support rural savings clubs as a mechanism for mobilizing rural savings for small farm credit and for channelling loan funds at lower cost through groups to small scale farms.

4. Employing innovative measures to extend technical information on production and marketing to small scale farmers to serve a large number of farmers with whatever number of extension workers are available.

5. Extending price stimuli applied to major commercial crops to some present and new small farm crops.

6. Securing government support for major increases in research on crops and integrated crop/livestock systems directed specifically to communal farm conditions.

7. Applying commercial rates of interest in lending to small farmers.

8. Reduction and eventual elimination of consumer subsidies resulting from fixed producer and consumer prices. A recent USAID-funded analysis examining subsidies concluded that, with the exception of beef, where the picture is unclear, agricultural producers were not being subsidized with domestic prices roughly in line with border prices. Only on groundnuts were producers being taxed. The GCZ has stated that existing consumer subsidies will be phased out within the next three years. An AID prepared paper has already been forwarded to relevant Ministries. If requested, we would also be prepared to assist in the development of alternative programs which target the subsidies to the appropriate segments of society rather than spreading them across all income groups.

9. Modifying land resettlement policy. The magnitude and pace of resettlement requires rethinking and replanning. AID will use the vehicle of the Agriculture Sector Program to discuss these issues. The AID prepared study by Dr. Kinsey has been sent to the government for review.

C. Education and Training Policies.

Through the use of local currency, AID has emerged as the largest single donor to primary and secondary education. This has included rebuilding of war damaged schools, the development of a

new secondary teacher training college with a strong bias toward technical and scientific training, and the growth of an innovative approach to primary teacher training (ZINTEC).

Because of our flexibility and responsiveness USAID has made considerable progress in a policy dialogue with several of the key ministries with major responsibilities for education and training. We have voiced our concern about the long run implications of too rapid an increase in school enrollments. This concern was couched in terms of the capacity of the GOZ to financially sustain what it has started and the ability of the labor market to absorb a significant expansion in secondary school graduates over the next five to ten years.

In the beginning, the Ministry was unwilling to discuss these problems with us. The situation has now changed. Jointly, with the MOE, USAID financed a pilot survey of schools, teachers, and parents carried out by the Ministry with technical assistance from the International Institute of Educational Planning in Paris. The Minister of Education and Culture plans to use this document to argue in Cabinet for support to establish an indepenent Education Commission which will analyze Zimbabwe's educational policies, objectives, etc. and to make recommendations to the government concerning improvements. We are likely to play an important behind-the-scene role through the provision of short-term technical assistance and training opportunities through the Human Resources Sector Program (613-0208).

a. Education Costs and Alternatives.

Progress is being made in promoting and fostering consideration of ways to improve education qualitatively while simultaneously containing the rate of growth in the education budget. These include examination of potential uses of distance education techniques combined with programmed learning materials and study groups as an alternative to conventional secondary education.

The most difficult period of our policy dialogue with the Ministry of Education and Culture still lies ahead. These discussions will make a clear distinction between educational policy goals and objectives and the mechanisms and cost implications of attaining them. AID's role is to assist in evaluating and altering the mechanisms, not to argue with the underlying objectives and goals. This separation is critical to the success of our policy dialogue.

b. Training, Government and the Private Sector.

USAID has indicated to the Ministry of Manpower its willingness to consider local currency support for the new technical college in Mutare (Umtali). This college is important in the Ministry's overall plan to lessen the dependency on the journeymen-apprenticeship system to train skilled workers and to reduce the time required to train semi-skilled workers, skilled workers, and craftsmen. The feasibility study was conducted in close collaboration and consultation with the private sector in Mutare. The private sector has expressed to USAID its enthusiastic support for the development of this college and its willingness to assist by providing private staff to handle the workshops at the college.

Using the above projects, USAID hopes to encourage the Ministry of Manpower to view the private sector as an important resource and partner in the GOZ's efforts to broaden access to training opportunities among black workers in Zimbabwe. Historically, there has existed a close relationship between public and private sectors in technical training. To build on this historical linkage is important for a number of reasons. It spreads the cost of training resulting in a closer correspondence between the incidence of both costs and benefits. It reduces the likelihood that redundancy will be created between public and private training capacity. Furthermore, it increases the complementarity

between public and private training programs.

The building of a closer working relationship between the public and private sectors in training will take time and patience. There are strong doubts and suspicions about the intentions of the private sector vis-as-vis the government's own program to open up access of black workers to higher paying and status jobs. These doubts are based in large measure on the association of the private sector with the previous government's discriminatory practices in training and job mobility.

TABLE XVIII

ESTIMATED COMMITMENTS TO DATE

(Millions of US Dollars)

Donor	Amount (US $ Million)	Period	Resettlement Reconstruction Grant/Loan	Program Assistance Grant/Loan	Development Projects 1/ Grant/Loan
U.K.	242[1]	(1980-83)	81/-	-/18	63.54/14.8
Sweden	29.8	(1980-82)	17.5/-	4.2?/-	8.1/-
Germany	86[2]	(1980-82)	-/33.9	-/8.26	7.98/16.12
Canada	46.3	(1981-86)	3.2/-	3.21/19.44	20.1/-
Denmark	13.5	(1981-82)	8.1/-	-/5.4	
Australia	22	(1980-84)	3.15/-	5.5/-	13.45/-
Belgium	10.8	(1980-83)		-/2.7	8.1/-
EEC	129.7	(1980-84)	52.2/-	-/37.8	29.8/9.95
UNDP	12	(1982-84)			12/-
France	40	(1980-82) (1983-84) not finalized		-/40 -/40	
Norway	42.18	(1981-84)	16.9/-	5.06/-	20.25/-
World Bank	229	(1981-83)		-/229	
TOTAL	943.28		182.05/33.9	17.99/400.6	183.32/40.25

1/ Includes institution building, technical assistance, and training projects, disbursed on a cash advance or reimbursement basis.

2/ The usual mode of disbursing assistance is through advances and/or reimbursements tied to discreet project activities or requests for goods/services. Development of projects, hence disbursements, have proceeded relatively slowly owing to unfamiliatiry of GOZ officials with various donor documentation requirements and limited staff capacity to devote sufficient time to the process. It is impossible to estimate the exact drawdown on development aid using ZIMCORD pledges as the measure.

H. Collaboration with Other Donors

Two years after independence and one year after ZIMCORD, other donor assistance in Zimbabwe is still focused, predominantly, on reconstruction and rehabilitation. This is due partially to continuing requirements in that area and partially to the often lengthy project planning preparation process of donors and of the GOZ.

Whereas, initially, donors in their attempt to respond immediately to post-war needs in Zimbabwe provided assistance with the barest of documentation and accountancy requirements, much less flexibility is emerging. For many donors commitments have been slow because of their insistence on project assistance. A few other donor programs contain some balance of payments aid in the form of tied commodity assistance, mainly on a soft or commercial loan basis. Other common components are Human Resources Development through the provision of scholarships, in-country training and personnel (teachers, trainers, short-term consultancies); and Institutional Development through technical assistance, equipment, services and studies.

For the period 1980-84, a gross amount of over $900 million has been earmarked by other donors for Zimbabwe. The leading other donors are the U.K. ($242 million 1980-83), EEC, ($129 million 1980-84), World Bank ($229 million 1981-83), Germany (FDR) ($65 million 1980-82), France ($40 million 1980-82) and Sweden ($30 million 1980-82).

- British assistance includes $54 million for land resettlement, $40 million debt cancellation, $18 million loan for commodity imports, $16 million railway loan, $37 million for scholarships and $27 million for training and technical assistance.
- EEC assistance allocates $40 million for agriculture and rural development, human resources, infrastructure

improvement, (including a coal utilization study and alternative energy projects) and trade promotion and tourism; $38 million is estimated for European Investment Bank participation in Wankie II following the coal utilization study. Under consideration is a line of credit to assist small to medium scale industries and mining.

- World Bank assistance has been targeted thus far for a Manufacturing Rehabilitation Imports Program ($65 million), Transport Rehabilitation ($42 million), Small Farm Agriculture Credit ($32 million), and participation in Wankie II at a level of up to $90 million. Bank studies are underway in the areas of health, forestry, telecommunications, highways, irrigation and engineering.
- German assistance to date is 99% loan and focuses on rural reconstruction ($25 million), commodity imports ($8 million), railway electrification, irrigation and small farmer loans ($15 million). The small grant portion of German assistance provides scholarships and technical assistance.
- French assistance of about $40 million per year consists of commercial credits (60%), and soft loans (40%) for equipment and technical assistance in areas of civil aviation, roads, broadcasting, electricity generation, electrification of locomotives and rehabilitation of diesel locomotives. Another 250 million franc protocol has just been signed with more emphasis on rural development activities i.e. irrigation, village hydro-electricity, etc. One problem is that all French assistance is mixed credits and costly for these kinds of activities.
- Swedish assistance includes development projects in health and education ($11.7 million) and reconstruction ($17 million).

The AID program of providing sector grants in the areas of agriculture and education and foreign exchange and balance of payments support through commodity imports is wholly compatible

and in many respects complementary with other donor programs in Zimbabwe. Early recognition of the need for rapid injections of highly liquid transfers guided initial inputs by donors. Program assistance is still part of these programs but as many donors try to target assistance to specific projects they are experiencing delays in both commitment and disbursement.

The World Bank, the U.K., France, Canada, and Germany have the only significant forms of program aid, with the bilaterals tied to donor procurement. World Bank emphasis has been on the manufacturing sector for imports of new capital equipment and spare parts. The Bank is now developing terms of reference for a project that would increase capacity utilization in the export sector. The focus of the British program has been railway system rehabilitation. The German commodity aid in 1981 procured road construction equipment while the Canadians provided road graders.

Other donors are participating actively in the agriculture/rural development sector particularly the British, who have allocated over $70 million for land resettlement. The EEC provides funds for development of resettlement areas. They and other donors have provided facilities, equipment, planners, and training to institutions that service the sector. The World Bank has appraised a project that would provide small farmer agriculture credit through the Agriculture Finance Corporation. Other donors are assisting with rural credit schemes (Germans), bulk milk collection (Norwegians), fisheries and bee-keeping (FAO), forestry (Swedish), livestock (Australians), water development (Norway) and alternative energy (EEC).

Manpower Development and Institution Building through training and technical assistance have attracted large amounts of donor aid. The British have allocated $63 million, primarily to support students already studying in Britain. UNDP allocated $8 million to fund the GOZ's National Manpower Development Survey and to provide development planning expertise. An additional $12 million is proposed for

1981-84. The Germans are providing 100 scholarships per year for technical training of engineers, journalists, broadcasters, food technologists, etc.

Other donor assistance in Zimbabwe has the public sector as its principal focus although recognition of the importance of private sector vitality to Zimbabwe's economic growth is strong. Given the serious balance of payment situation currently plaguing the GOZ, a multiplicity of foreign exchange inputs are reinforcing. When tied to commodity imports a dual purpose is served although care must be exercised by the GOZ to avoid the pitfall of incompatible equipment and machinery from various sources. Because ZIMCORD served to frame GOZ priority areas, donors were able to target their resources from the beginning in complementary ways. Other donors' activities in education and agriculture, particularly those that provide technicians in key areas, serve to increase the potential for success of the U.S. program.

Now that programs are started and GOZ policy directions are beginning to emerge, important areas for future donor collaboration are in joint financing of larger projects and reinforcing each other in policy dialogue. Informal get togethers of western donors have started and the local CDA group can work together closely if instructions from donor capitals are improved. AID will increasingly discuss policy issues with other donors although they do not necessarily share all the same policy concerns. Nevertheless, the prospects for policy education and adjustment will be enhanced if at least the major donors can begin to emphasize the same worrisome themes.

IV. MANAGEMENT MODE, FUNDING AND STAFFING

The Mission proposes to implement its program with a very small staff, U.S. and local. Both the Mission and the Embassy believe that it is in our foreign policy interest to carry out assistance programs in Zimbabwe with small staff, larger units of management, fewer projects and a different style.

The need for a large direct hire American staff is significantly reduced by the program/management approach proposed by the Mission. This will be as follows:

- Maximum use of flexible AID program and project procedures such as substantial program and sector grants. Tactically, we propose taking a non-project approach because an acceptable positive gap still exists between the planning and execution capacity of the country's governmental, parastatal and other institutions and the limited resources available to carry out programs. Zimbabwe's implementation capacity remains good although this should be evaluated annually.
- Limiting functions performed by USAID staff to program and sector project design, monitoring and evaluation.
- Utilization of REDSO staff and selected experts from the U.S. on regular TDY basis to supplement Mission expertise and to assist USAID during peak workload periods.
- Reliance on Zimbabwean institutions, private consultants, and organizations, to the extent feasible, to perform background studies and analyses for AID's program.
- Establishment of a Joint Administrative Organization (JAO) with the Embassy for the performance of most support functions.

- Making any contractors responsible for their own support services. This is easily possible in Zimbabwe with readily available housing, and functioning public services in urban areas.

The mission believes that this approach to management will allow the limited mission staff to spend more time in substantive policy dialogue with the government, with more attentive monitoring of the programs and local currency financed projects.

Mission staff is currently seven U.S. direct-hire, and eight local-hire employees. The U.S. direct-hire is:

- Mission Director
- Controller
- Human Resources Development Officer
- Agricultural/Rural Development Officer
- Supply Management Officer
- Administrative Secretary
- Regional Development Officer (RDO)

Each officer is handling a range of activities beyond their own speciality, and doing so with skill. For instance the Human Resources Officer is managing PVO activities, small entrepreneural development and the housing guarantee program as well as handling all participants. The Agriculture Officer is managing a large sector program, as well as PL 480, while evaluating a diverse group of local currency funded projects. The Controller is working with the GOZ on their reporting, record keeping and financial management. In addition, the build up of mission contacts with the local private sector and the potential for a set of PRE financed private sector initiatives in Zimbabwe suggest that the work next year will overload the circuit of the small staff. While we are determined to keep U.S. staff levels to the absolute minimum, it is prudent at this point to propose one additional U.S. position, that of an Assistant Director for Program.

Local Staff

At present Mission local staffing consists of 2 secretaries, 1 receptionist/typist, 1 driver/reproduction assistant, 1 records clerk, 1 accountant, and 1 education assistant. Only 5 of the total local staff are FNDH, the remainder are personal service contracts. In the coming year the Mission intends to recruit two more clerical staff and possibly three professional local staff, also as PSCs. This would bring the total local staff to 12.

Proposed Assistance Planning Levels. (Millions of US Dollars)

	FY83	FY84	FY85	FY86	FY87
1. Commodity Import Program	35	35	25	25	25
2. Agriculture Sector Program	15	15	-	-	-
3. Human Resources Sector Grant	15	15	15	-	-
4. Zimbabwe Manpower Development Project	5	4	-	-	-
5. National Child Spacing & Fertility Assocaition	3	3	-	-	-
6. HIG	25	25	25	25	-
7. PVO Grant	2	3	-	-	-
8. PRE financed Initiatives with the Private Sector	5	10	10	10	10
TOTAL HIG	25	25	25	25	25
ESF	75	75	40	25	25
PRE	5	10	10	10	10

Assumptions Regarding Proposed Funding

Since the inception of the Zimbabwe program it has been assumed that after an initial 4-5 year high level of concessional resources, and a successful reconstruction period, the country would be able to maintain an acceptable level of growth through

international borrowing, foreign private investment and domestic saving. While the policy set is not yet optimum, we are still assuming that new obligational authority for concessional resources could be reduced after Fiscal Year 1984. This reduction, however, should not be the sharp drop reflected in the Indicative Planning Figures (State 128268). The very important three-year Human Resources Sector Program will only begin in FY 1983.

If ESF funding is reduced in FY 1985, this should be done on the assumption that the private sector CIP will be continued, that PRE funds might be available for equity participation or intermediate credit institutions, that a HIG will be maintained and that implementation of the Agricultural and Human Resources Sector Programs would continue through FY 86-87. There would, therefore, be no reduction in staff before 1987.

Regarding PVO activities, the situation is still unclear. There is no government policy regarding either U.S. PVOs or indigenous non-governmental organizations. There is some reluctance to encourage activity from foreign PVOs since there is such a large number of effective non-governmental entities already functioning in Zimbabwe. Many of these could be even further enhanced if there were a vehicle for technical and managerial relationships with U.S. PVOs. In this regard, the Mission will be looking into the possibility of some form of PVO Grant, beginning in FY 1983, which would enable selected U.S. PVOs to work with related private organizations in Zimbabwe to improve their technical and institutional capabilities.

Annexes

The attached annexes were initially developed as background papers for the Mission and the CDSS process. Their content may be redundant in places to the Economic Analysis contained in Sections II and III of the CDSS. However, because they were prepared by an extremely knowledgeable Zimbabwean economist, they provide some uniquely perceptive information on the country's macro policy environment and on the prospects for private sector initiatives. The annexes thus reveal considerably more detail on critical growth and policy relationships. It was, therefore, decided to include them in the CDSS as Annexes A and B.

ANNEX A

Zimbabwe's Evolving Macro Economic Policy

Introduction

(This Annex has been developed to address the important questions in STATE 316566).

In the pre-independence years, economic policy in Zimbabwe was designed to foster the primary sectors of the economy. Tax incentives, subsidised producer prices for some farm products, subsidised transportation charges for the movement and export of minerals, coal and fertilizer were some of the tools used to stimulate primary production, especially for export. Successive Governments were reluctant to pursue protectionist policies for secondary industry for fear that this would result in a loss of comparative advantage in the primary sector due to the high cost inputs used by the export sectors.

Manufacturing industry benefitted from three major political events. The first was the establishment of the Federation of Rhodesia and Nyasaland in 1953 which created a free trade area embracing Zimbabwe, Zambia and Malawi. Because Southern Rhodesia (Zimbabwe) was the most advanced of the three territories with the best industrial base, manufacturing industry developed in this country on the basis of the three markets.

With the collapse of the Federation at the end of 1963, policy switched to greater protectionism for some industries in an effort to protect them against the anticipated loss of former Federation markets (Zambia and Malawi). In any event, this did not happen and exports to the two actually increased in 1964/65.

The second political event was the signing of the preferential trade agreement with South Africa in November 1964 which was heavily in favor of the Zimbabwean manufacturing sector. It provided the cushion to counterbalance the increasing loss of

the Zambian market and subsequently the Malawian market after that country's independence in 1965.

The third political event was UDI itself. This act, with the imposition of blanket import controls, created a totally-protected industrial sector. As a result, industrial output grew at an average annual rate of 8% a year for the decade 1964/74 just before the onset of the post-oil-crisis recession.

TABLE I

Relative Importance of Sectors in the Zimbabwe Economy.

Sector	Year	% Share of GDP	% Share of Exports	% Share of Employment.
Manufacturing	1965	19,5	25	11
	1980	24,0	18	17
Mining	1965	7,0	32	6,7
	1980	8,0	35	7
Agriculture	1965	18,5	43	44
	1980	14,0	47	28

Protection and Quantitative Restrictions

At the time of independence, the new Government of Zimbabwe inherited an economy that relied substantially on agriculture and mining for export income (82% to total exports are primary products) and for employment, (the two sectors accounted for 35% of the total labor force employed in the money economy, to which must be added the agricultural workforce in the communal lands).

The import control system imposed at the time of UDI in 1965 was - and is - still in operation. This meant that tariff rates of protection had little meaning. The primary source of protection for Zimbabwean industry is in the form of quantitative controls. For the rest the tariff system discriminates - via low rates of effective protection - in favor of imports of raw materials, and capital equipment needed by the productive sectors. In 1979/80, customs duties brought in a total of $22.2 million (equivalent to just over 3,25% of the value of total imports). In 1980/81

this ratio doubled to 6,5%.

Tariff protection therefore plays only a minimal role in protecting domestic output. Since independence, the tariff has been used for revenue purposes (e.g. the imposition of a 5% surchage on most imports in the 1981 budget).

Quantitative Restrictions

Quantitative restrictions were imposed as a balance of payments measure and not as a means of protecting domestic production.

Since the mid- 1970s, commercial imports have been considered under a five-priority grading scheme; top priority being awarded to essential items such as fuel, medical supplies, food etc. The second priority covers items essential for production such as spare parts. Priority three deals with new machinery and equipment (although such items as whisky are also included for hotels and tourism) while priority four covers consumer goods needed to maintain reasonable standards and morale. This element is usually accorded only a very small foreign exchange allocation. The lowest priority covers non essential consumer items and only minimal allocations have been made under this heading.

Industrial imports are broken down into three categories - those for export markets (which get a high priority), those for local production and those for non-recurring items. There would appear to be little scope for significant reductions in imports without adverse repercussions on employment and output levels. This is underscored by the fact that in 1981 when real GDP was 1:6% higher than in 1965, import volumes had risen only 7%.

Current policy - enunciated in February 1981 Growth with Equity economic policy document, favors the maintenance of quantitative restrictions until the balance of payments position permits otherwise. In the "medium to longer term", the policy paper says, emphasis will switch to tariff protection though there may be

special instances which justify the maintenance of some import controls "even in the long term".

The experience since independence suggests that unless there is a major policy change, import controls will be maintained for a minimum of another 5 to 8 years. Government recently commissioned a report by British consultants (Cooper Lybrand) assisted by the Department of Economics at the University of Zimbabwe on restructuring the present system of import controls. The two groups of consultants are reported to have disagreed on their recommendations with the University favoring a maintenance of administrative controls but Coopers coming down in favor of a 50% devaluation of the Zimbabwe dollar and then relying on the sharply higher price of imports to choke off excess import demand.

While Government is most unlikely to adopt massive devaluation as a means of rationalizing the import control system, some modest administrative reform is likely, primarily designed to break the link with 1965 allocations, on the one hand, which remain the basis of the system and also to "open up" the access to imports to new businesses.

Although at the Business International conference in March, Government spokesmen reaffirmed opposition to devaluation of the Zimbabwe dollar, there is little doubt that the currency is overvalued - by at least 30% - and that devaluation to a position of parity with the US dollar (the current rate is 0,745 US cents to the Zimbabwe dollar) would be a sensible policy to adopt. Central Bank officials believe that if a decision is made to devalue the currency it will be done by way of gradual depreciation - i.e. by allowing the Zimbabwe dollar to fall against its "basket" value. The basket itself may be restructured to take account of changing patterns of trade.

The Anti-Export Bias: A Case for Devaluation:

The case for devaluation is two-pronged:

(i) As a means of sweeping away import controls, using the exchange rate to ration out scarce foreign currency earnings.

(ii) To enhance the viability of domestic export sectors whose profitability has been severely curtailed in the past year, in particular by:

(a) The depressed prices in world markets for raw materials - gold, grains, sugar, etc.

(b) Escalating domestic costs - especially those of labor.

(c) Declining efficiency and productivity partially related to the expectations of the labor force and government regulations banning overtime and curbing the power of employers in respect of dismissals.

(d) In the case of the manufacturing industry, to counter-balance the effects of the steep depreciation in the South African rand since early 1981. The Rand has depreciated 17% against the Zimbabwe dollar since April 1981, thereby curtailing Zimbabwe exports of manufactures to South Africa.

(e) Rapid inflation in 1981/82.

This analysis suggests that overvaluation of the Zimbabwe dollar is partly the result of depressed world markets, partly the consequence of domestic labor and wage policies and partly of a weak South African rand. Thus, the extent of anti-export bias is both recent and linked to external considerations - outside Zimbabwe's control - as well as domestic labor and monetary policies. There is no question of exchange rate policy having been used deliberately to foster import-substitution activities. The pervasive import control system automatically provides the shield for such activity.

The recent nature of Zimbabwe's exchange rate overvaluation is also important. Until only recently the country's exports have been price competitive in world markets.

The Case against Devaluation

The case against dollar devaluation is threefold:

(i) Research by Richard Cooper, Richard N. Cooper: Currency Devaluation in Developing Countries (Princeton Essays in International Finance, 1971) emphasises the political unpopularity of devaluation in developing countries - the frequent result being a change of Government (often as a result of a military coup). This follows from the fact that devaluation is unlikely to succeed unless accompanied by appropriate - and unpopular - expenditure-reducing policies.

(ii) Devaluation is inherently inflationary. In Zimbabwe where imports of goods and services represent some 27% of GDP, a 50% devaluation would lead to an immediate primary price increase as wages and costs react to steep rises in costs. The grave danger is that substantial devaluation would quickly be offset by sharply higher costs and prices.

(iii) Devaluation would only marginally improve Zimbabwe's external payments position. The bulk of the country's exports are sold in international markets at prices quoted in terms of the US dollar and sterling. A massive devaluation of the Zimbabwe dollar would increase the profitability and viability of domestic industry selling in US dollars and sterling. The two cases where exports might benefit are tobacco - though this is increasingly being constrained by labor problems - and exports of manufactured goods to South Africa.

On the import side, the view that massive devaluation would price imports out of domestic usage is unrealistic because the bulk of Zimbabwe's imports represents producer and capital goods, intermediate items, raw materials and fuels. Sharply higher domestic

prices for these imports would have far-reaching inflationary effects.

Devaluation Conclusion

While accepting that the Zimbabwe dollar is overvalued, it is difficult to conclude that a substantial devaluation is desirable. Devaluation might be sensible, if such a move were to be accompnaied by:

(a) Sweeping removal of quantitative restrictions and a restructured tariff designed to protect those manufacturing industries that are substantial employers and/or exporters, and strategically important industries. In addition, tariffs should be restructured to discourage imports of certain types of capital equipment that are "competitive" with labor in a labor-surplus economy.

(b) The rigorous pursuit of tough anti-inflationary policies, including reductions in state spending, prices and income curbs and restrictive fiscal and monetary policies.

Then, it is argued that devaluation might be a sensible policy. However, the Zimbabwe Government's past record suggests a reluctance to pursue deflationary policies (especially in the context of wages and employment) and therefore, there is the grave danger that devaluation will be resorted to as a mechanism for allowing domestic wages, costs and prices to outrun those prevailing in trading-partner countries. A possible outcome is a "worst-of-both-worlds" policy whereby gradual Zimbabwe dollar depreciation is relied upon to offset escalating wages and costs at home.

Structural Adjustment

It is contended, therefore, that inappropriate exchange rate policies and protectionism are not at the root of the country's external payments difficulties. Indeed, there is a strong likelihood that exchange rate depreciation would accord only a temporary

respite, being rapidly overtaken by escalating costs.

The data in Table II shows that only 10% of total inputs (by value) in 1979 represented consumer goods underlining the point that currency depreciation would not succeed in substantially reducing import demand. It would be beneficial if devaluation was effective in stimulating import substitution in the fields of intermediate and capital goods though the extent to which this might occur is impossible to predict.

TABLE II

Composition of Imports (1979)

		% of Total Value
Consumer goods		10
Intermediate goods		72
of which fuel/electricity	30	
other	42	
Capital goods		18

Pricing Policy

The key facets of prices policy in Zimbabwe are:

(i) Strict price controls on a wide range of items. Retail prices of basic essentials - bread, milk, beef, maize meal, sugar, vegetable oils and fats, some local fish, chemical fertilizer, cement, petroleum and motor vehicles - are controlled by specific order and prices can only be raised with the approval of Government. Factory-gate (and wholesale) prices are also controlled for a wide range of consumer items, packaging materials etc. (beer, mineral waters, spirits, cigarettes, agricultural seeds, dressed poultry, tyres, newspapers, matches, packaging materials, plastic bags and glass containers.)

(ii) A prices code which governs the formula by which prices are set for a huge range of consumer and intermediate goods. The code specifies maximum "mark-up" at retail and wholesale levels.

(iii) The establishment of producer prices, some

of which contain an incentive element, for agricultural produce. This is done annually in respect of most agricultural produce, but excludes tea, sugar and tobacco, the prices of which are determined in international markets.

The motive underlying agricultural pricing policy has been the desire to maintain self-sufficiency in food production and fulfill Zimbabwe's commitment to the Southern African Development Coordination Conference (SADCC) whereby Zimbabwe is to provide a food surplus for export to neighbouring territories.

A class - and successful - example of the producer price policy can be gleaned from the data on maize production (Table III).

Growing Season	Maize Price Z$ per ton	Area Planted under Maize 000 Hectares	Maize Deliveries 000 tonnes
1971/2	30	300	1420
1972/3	46	277	550
1973/4	40	273	1337
1974/5	40	242	1007
1975/6	54	222	958
1976/7	52	230	941
1977/8	52	202	877
1978/9	60	186	511
1979/80	88	218	819
1980/81	120	288	2100
1981/2	120	270*	927*

*estimated

The table shows the steep fall in area planted out to maize from the peak of 300 000 hectares in the 1971/2 growing season to a low point of 186 000 hectares in 1978/79. The 46% increase in the maize price in the 1979/80 growing season stimulated a significant improvement in the area under maize (up 17%) while the further 36% price increase in 1980 for the 1980/81 and 1981/2 growing seasons stimulated a 32% rise in the area planted out to

maize. The Table shows that the significant increases in the maize price in the 1979/80 and 1980/81 growing season had a strong impact on production levels.

The chief drawback of agricultural pricing policies has been the official reluctance to pass on higher producer prices to the final consumer. In the 1981/2 fiscal year food subsidies of Z$122,050,000 were voted as under:

Bakers Flour	$8,500,000	Edible Oils	$6,200,000 (withdrawn in April 1982)
Maize Meal	$64,800,000	Opaque Beer	$400,000
Beef	$25,730	Dairy Produce	$10,354,000
Maize	$5,110,000	Soya Beans	$856,000

The policy of incentive prices has been continued in 1982 with substantially higher prices announced for 1982/3 for milk, cotton nd beef and smaller increases for groundnuts, soya-beans, and wheat.

The policy has been bedevilled by three differing sets of problems:

(i) Products not produced by small-scale black farmers (notably wheat and soya beans) have not obtained the same favored treatment as other crops that have been "underpriced" in recent years (e.g. maize and cotton).

(ii) The stated aim of Government policy has been to foster rural development by shifting the internal terms of trade in favor of the farm sector. Unfortunately, to date, the policy has failed to achieve this target to the extent that rapid increases in minimum wages, in all sectors of the economy, have increased the rural sector's costs (fertilizer, labor, transport, inputs). In the medium term the discrepancy between wage levels in the commercial-industrial sector and in agriculture is likely to stimulate high levels of rural-urban migration and conceivably, in the long term to the point where farm output will suffer. It must be stressed that at this stage this is a remote prospect and the chief drawback of such wage policies is that they encourage

urban migration at a time when job opportunities in the modern sector are growing slowly.

(iii) The reluctance of the authorities to pass on higher producer prices to the consumer thereby imposing a heavy burden on the budget. Steps to phase out food subsidies over a 3-year period are in progress though reportedly these are encountering strong opposition from the so-called "social ministries" in Government. Subsidies on meat have already been removed.

A devaluation accompanied by effective expenditure-reducing policies would probably have the effect of improving the rural sector's terms of trade - at least temporarily - but on the assumption that costs would rise rapidly in the wake of devaluation, the benefit might be relatively shortlived.

Conclusion

We believe that policies towards agriculture - incentive prices, heavy investment in rural development and rural infrastructure, slow and rational land redistribution schemes - are inherently sound. The Achilles' heel has been "too many give aways, too fast". Minimum wage increases, food and transport subsidies - both have imposed a burden on other sectors, and eroded to some extent the benefits of higher farm produce prices.

Pricing Inefficiency

Aspects of inefficient pricing by the state include energy and transport prices. The National Railways of Zimbabwe is required to subsidize certain traffics (mainly exports and high-bulk, low value traffics like fertilizer, coal, maize, iron and chrome ore etc.) The NRZ has incurred an operating deficit (i.e. excluding financing overheads such as interest payments) averaging Z$33 million a year in the past four years.

In the energy sector, petroleum prices are above import parity

levels - oil duty being used as a revenue measure - while the internal price of coal has been subsidized (by deficit-tariff rates on the transport system) to a limited degree.

By contrast, there is substantial underpricing of electricity. This is because electric power prices are based on the cost of production of the Kariba hydro electric power station where capital costs are calculated on an historical cost basis rather than current valuation. The net effect is that in early 1981 the World Bank estimated that electricity in Zimbabwe was being sold at a price 45% below that in the US. Since then, there has been an upward adjustment in electric power prices and significant further price increases are anticipated in the next few years partly so that the Electricity Supply Commission (state-owned) can generate internal finance for expansion purposes and partly to pay for higher cost thermal electricity from the new Hwange thermal power plant.

The price control system itself - administered by a prices board composed of both private and public sector representatives - is unlikely to be efficient. It will not be effectively monitored in smaller centers and in rural areas where low income groups will be the victims of illegally-high prices and its rigid application will squeeze profitability and internal cash flows since there are bound to be prolonged bureaucratic delays in obtaining price rises. This will deter new investment. More seriously, perhaps, a system of administered prices will prevent market forces from signalling where new resources are required. While the desire to curb inflation is understandable, the appropriate way to go about it would be by increasing competition - by imports if necessary - rather than by imposing bureaucratic controls.

The Public Sector in Agriculture

Public sector activity in agriculture is largely confined to

(a) The setting of producer prices for most products (the main exceptions being tea, sugar and tobacco, whose prices

are determined by market forces).

(b) The provision, via the parastatal Agricultural Marketing Authority and its member boards (Grain Marketing Board, Cold Storage Commission, Dairy Marketing Board), as the purchaser of "controlled" products, at officially set prices.

(c) The provision of basic infrastructural services - notably extension, agricultural research, finance etc.

In the past, the public sector's performance in agriculture has been extremely efficient. Since independence two main problems have emerged:

(i) The loss of some skilled personnel from the Ministry of Agriculture, the parastatals and the specialist extension and research services.

(ii) Labor disputes in the para-statal marketing boards.

The marketing of agricultural inputs is in the hands of the private sector and the main difficulties here have been caused by the shortage of foreign currency (lack of tractors, farm machinery, spares etc.) Short-term farm credit is largely in the hands of the private sector:

TABLE 4

Short-Term credit extended to farmers (December 1981)

Source	Amount	Percentage
	Z$ millions.	
Commercial Banks	54.0	30.1%
Cooperatives and Companies	63.3	35.3%
Agricultural Finance Corp. (Public Sector)	61.9	34.6%

In addition, the private sector - notably the commercial banks - are the prime source of short-term funding for the state-owned Agricultural Marketing Authority.

In short, "public sector failure" in the marketing of agricultural outputs and inputs has not been a material factor. The public sector control of marketing has, to date, ensured an efficient marketing system and at the same time established producer confidence, through the guaranteed producer-price system. A free marketing system - such as that in flue-cured tobacco - might possibly result in somewhat lower marketing costs (though this is not a foregone conclusion) but would - as has been the case with tobacco - lead to volatile prices and considerable grower uncertainty. Indeed, the tobacco sector imposes production quotas (not officially enforced by Government) in an effort to stabilize prices and grower incomes.

Public Sector Support Activities

As noted above, the public sector's role in agriculture has focussed on infrastructural services - marketing depots, extension and research services and the provision of long and short term credit. Transport is in the hands of the private sector (rail transport is state-owned, but road transport operators moving crops are largely private sector contractors hired by the state-owned marketing boards) and two thirds of farm credit is provided by the private sector.

The state's extension services in the past tended to focus on helping large-scale commercial farmers and the change of Government has led to a shift in emphasis towards helping peasant producers. Research activities are funded and controlled by the state though there are some private sector inputs in respect of both research and extension provided by fertilizer companies and the Commercial Farmers Union, which represents the large-scale commercial producers.

The state-owned marketing board system has a long and successful history - with the boards established many years before the advent of a socialist administration - and it is doubtful whether new private sector operators could provide as comprehensive a service,

or achieve the same degree of producer confidence in guaranteed prices.

Public Sector Organizations

The Zimbabwe Government is committed to further extension of the public sector. Since taking office two years ago, one new public sector organization - the Minerals Marketing Board - has been established and a second (a Mining Development Corporation) is due to be launched in mid-year. There are plans to establish a parastatal organization to foster and finance small businesses (this is an obvious area for state participation even in capitalist economies) and to widen the scope of the existing Industrial Development Corporation. The Government is also committed to the establishment of a Zimbabwe Development Bank, a National Tourism Corporation, a National Vocational and Technical Training Center, National Science and Technology Foundation and state trading organizations. An Institute of Development Studies, staffed by public servants, is in the process of being established.

The commitment to an enhanced public sector is ideological though. The difficulties in funding and staffing such organizations may well lead to a significantly less ambitious program than currently envisaged.

Economic Performance

Growth performance has been above-average given the country's difficult political and military inheritance, the depressed international economic climate and the rundown in the infrastructure that occurred during the 1970's. These problems were accentuated by the exodus of more than 38,000 people in the first two years of independence. Despite this real growth of 11.75% was achieved in 1980 and an estimated 8% to 9% in 1981. There will be a marked slowdown in economic growth in 1982 which is unlikely to exceed 4% in real terms, due to:

(i) The world recession which is having a particularly

adverse impact on mineral prices and thus exports.

(ii) The 1981/2 drought which is estimated to have led to a fall of more than 20% in the volume of farm output (especially maize and cotton).

(iii) The strained external payments position, partly resulting from (i) above which necessitated lower import allocations to industry in the final quarter of 1981 and the first half of 1982. Even with optimum aid flows, there is little likelihood of any improvement in import allocations for the remainder of 1982. Since manufacturing industry is heavily dependent on imported inputs (every $4 of output necessitates an estimated $1 of imports), there will be a significant slowdown in the growth rate of industrial production in 1982 from 10% in 1981 to 5% to 6% (at best) in the current year. Agriculture, manufacturing and mining are, between them, responsible for nearly 50% of Gross Domestic Product. With mining output likely to show a further small decline in production in 1982 (after a 5% fall in 1981), output volumes in these three major sectors can be expected to fall by some 6%. This will be offset by increased volumes in the distribution sector and by imputed higher output in the services sectors. The net effect is likely to be very marginal real output growth, which seems liable to fall short of the estimated 4% p.a. population growth rate.

Inflation

	1980	1981
Consumer Prices (Higher incomes)	9.2%	14.6%
Consumer Prices (Lower incomes)	5.4%	13.1%
Consumer Prices (average)	7.3%	13.85%
Import Prices	7.2%	-0.7%
Export Prices	32.5%	9.7%
GDP Deflator	10.5%	15.0%

The inflation rate increased sharply during 1981 and, on the consumer price index for higher income families, the inflation rate was 19.5% (computed on a yearly basis) during the first two months of 1982. This, despite the four month prices freeze which has now been extended.

The sharply higher inflation rate in 1981 was attributable to the money supply explosion in 1980 (when M2 rose 34%), higher indirect taxes and rising production costs, especially wages.

Wages

The average wage in the Zimbabwe economy (excluding agriculture for which 1981 data is not yet available) rose 21% (current prices) in 1980 and a further 15% in 1981 to make a total increase in the past two years of 39%. After adjustment for inflation - using the average consumer price index, real wages rose 11% in 1980 but less than 1% in 1981. Minimum wages were increased sharply again in January 1982.

Employment	1979	1980	1981
Total	985,000	1,010,000	1,036,000*
Excluding Agriculture	650,000	683,000	745,000

* estimated.

Employment growth has been both inadequate and disappointing. The net number of job-seekers coming onto the labor market is estimated at a minimum of 100,000 a year, yet in the two years since independence total employment is estimated (final figures for 1981 are not yet available) to have increased by only 51,000 jobs, - about 25% of the required rate of employment growth. All of this growth has occurred outside agriculture where employment is estimated to have declined from 350,000 in 1978 to 327,000 in 1980 and an estimated 290,000 in 1981.

Farmers cite two main deterrents to employment expansion in agriculture. The first is escalating labor costs - the minimum cash wage in agriculture has risen from $20 a month in 1979 to $50 a month in 1982 - and the second is industrial disputes in agriculture which have deteriorated significantly since independence with the result that employers are trying to cut back labor forces and costs.

The new Government inherited an extremely unhealthy public finance situation when it took office. Growth of the budget deficit is reflected in Table 5.

Table 5

Year	Revenue Z$ million	Expenditure Z$ million	Deficit Z$ million	Deficit as ratio of GNP
1975/5	400	415	- 15	0,8
1975/6	462	456	+ 6	n.a.
1976/7	531	591	- 60	2,8%
1977/8	610	745	- 135	6,2%
1978/9	580	860	- 280	12,1%
1979/80	674	1 027	- 353	12,65
1980/81	949	1 203	- 254	7,3%
1981/82 *	1 347	1 659	- 312	7,0%

* = estimated

The rapid growth of the deficit in the mid-1970s reflects the growth of military expenditure. The authorities have reduced the deficit - in both absolute and relative terms - in the two years since independence, primarily by substantial tax increases on the one hand and as a result of the buoyancy of the revenue base on the other. The deficit is however too large and a reduction, particularly though the reduction of subsidies can be expected.

Table 6

Year	Growth of the Public Sector Borrowing Requirement Borrowing requirement Z$ million	As % of G N P
1974/5	117	6,4%
1975/6	115	5,8%
1976/7	224	10,5
1977/8	238	10,9
1978/9	365	15,8
1979/80	485	17,3
1980/81	513	14,8
1981/82 *	660	14,6

*estimated

(i) The Central Government budget deficit
(ii) Contributions to sinking funds
(iii) Repayment of maturing debt
(iv) Loans, investments and short term borrowings of the Central Government.

Since independence, the authorities have successfully arrested the growth of public sector borrowing and achieved some reduction in its relative size (as a ratio of GNP). It is admitted that it is still too high. Much short-term commercial borrowing has resulted from the IMFs failure to come to terms with Zimbabwe on a three year stand-by arrangement. The IMF has reportedly offered only one year.

The Budgetary Outlook 1982/3

Latest figures suggest that the Government will underspend in the 1981/2 fiscal year (ending June 30, 1982). The actual budget deficit for the first half of the fiscal year (to Dec 31, 1981) is below Z$100 million compared with an estimated deficit for the full year of $312 million. Total expenditure in the 6 months at $734 million is 44% of budget. As a result government borrowing was also below antipated levels.

The evidence suggests that Government spending will undershoot budget, particularly on capital account where spending in the first half year was just over $37 million - 26% of the budgeted amount. Revenue should be close to target and, as a result, the 1982 deficit is likely to fall below the $300 million level and possibly below the actual 1980/81 deficit of $254 million.

To the extent that underspendings reflect an inability to spend on capital development - the three main areas of underspending being civil engineering, land purchase for resettlement and buildings, all of which are areas adversely affected by the outflow of skills and experience from the public sector and from the country - the situation is obviously unsatisfactory.

Clearly, future budgets cannot be framed on the basis of expected underspendings - however probable these may be - since any further rise in the deficit and public borrowing would be unwise. Indeed, one obvious shortcoming of the existing expenditure pattern is the bias toward recurrent spending and transfers, relative to

capital expenditure. This could be rectified when the new development plan is published. A sound plan would exhibit recurrent expenditure restraint and a significant investment plan, both public and private.

Table 7

Year	Recurrent Spending (Goods and Services) %	Transfers (including subsidies)	Capital Expenditure %
1978/9	56	37,5	6,5
1979/80	60	35	5
1980/81	50	44	6
1981/2 $	46	46	8

* estimated

Share of subsidies in total budget.

1978/9	14,3%
1979/80	8,9%
1980/81	8,8%
1981/2	9,7%

The main subsidies are in respect of food (maize meal, milk, beef, edible oils) and transport (the National Railways of Zimbabwe deficit). Government has on several occasions stated its intention of reducing food subsidies, and an announcement is expected before the July 1982 budget.

Desirable budgetary reforms include the phasing out of subsidies - over a 2/3 year period and a restructuring of expenditure patterns to reduce the relative amount of expenditure on administration, defence and social services and to increase the element available for capital development. Another modification could be to shift in the financing/expenditure balance so that all recurrent spending (including transfers) be funded from tax revenues, leaving capital expenditure and loan repayments and rollovers to be financed by borrowing.

The most recent financing/expenditure pattern is show below:

Table 8

Year	Recurrent Spending Financed by borrowing	Percentage of borrowing requirement used to fund recurrent spending
	$ million	
1978/9	225	21,6%
1979/80	296	61,0%
1980/81	189	36,8%
1981/2 *	171	26,0%

*estimated

The table shows a marked improvement in the underlying budgetary position to the extent that the reliance on borrowing to fund recurrent expenditure has fallen dramatically since 1980.

Table 9

Zimbabwe Budget: Main Items of Expenditure

	1979/80	1980/81	1981/2
Defence	26%	19,3%	17%
Education	12,6%	18,4%	17,4%
Subsidies	8,9%	8,8%	9,8%
Debt Service	13,4%	11,8%	8,6%
Health	5,1%	6,4%	6,5%

* estimated

The above figures show that in 1981/2 just over 50% of total spending will be accounted for by defence, education, health and food and transport subsidies. It should be stressed that the Government may leave only limited reductions in respect of health and education since it has committed itself to free education and free health (for low income groups) (given the population structure of Zimbabwe, these expenditures can be expected to assume growing proportions of the total budget. Although they could both be made more cost effective by contrast, there is scope - and need - to remove subsidies and reduce defence spending

while keeping general administrative costs in check, while diverting an enhanced proportion of total expenditure to economic services in general, and investment, in particular.

Budget Summary

We believe that overall, the Mugabe Government has pursued fundamentally sound fiscal policies. It has reduced both the size of the budget deficit and of the PBSR as proportions of national product - largely by increasing tax levels on profits, capital gains, higher income groups, fuel and consumption of non-essentials. It has reduced budgetary reliance on borrowings to finance recurrent expenditure. It has pledged to curb subsidies and restrain military spending. However the costs of other services must be restrained. There seems to be a new awareness in both the ministries of Education and Health concerning costs.

Taxation

In its 1981 Zimbabwe Country Memorandum, the World Bank describes tax levels in Zimbabwe as low. Since then, the Government has substantially increased taxes. In February 1981 tax increases designed to bring an extra $86 million in revenue were announced while in the July 1981 budget tax increases designed to bring in a further $170 million were announced. These two tax packages between them represented a rise in taxes equivalent to 6% of GNP.

The main tax increases were:

(i) $48 million in higher sales taxes
(ii) $25 million in higher customs duties
(iii) $40 million from increased gasoline taxation
(iv) Estate duties, dividend and capital gains taxes, $19 million
(v) Tax to replace "Defence levy", $26 million.

In addition to higher taxes, the Government has significantly reduced investment incentives since independence. The special allowance on new investment was reduced from 100% to 30% while depletion allowances for mines have been abolished from April 1982.

The rate of company tax is 45% plus a 15% surcharge to give a corporate tax rate of 51,75%. For families the maximum tax threshold is reached at $17,000 (married person with two children). For comparison purposes Table 10 gives comparable data for neighbouring and other African states.

Table 10

Country (1981)	Corporate Tax	Individuals	Income Level where Max. Rate Applies (Individuals
Kenya	45%	65%	Z$15 000
Zambia	50%	80%	Z$19 500
Nigeria	45%	55%	Z$70 000
Malawi	45%	45%	Z$ 9 500
South Africa	42%	50%	Z$31 500
Zimbabwe	51,75%	51,75%	Z$17 001

Zimbabwe's capital gains tax (30%) is higher than in Nigeria (20%) while sales tax is lower than in Kenya (15%) and Zambia (10% to 30%). The Table shows that not only does Zimbabwe have a lower top rate of tax for families/individuals than capitalist states like Nigeria and Kenya but the minimum rate at which the tax applies is higher than in Malawi and Kenya and tax rates on individuals are lower than in Zambia.

But Zimbabwe's rate of corporate taxation compares unfavourably with all the listed states. Taxation of branches of external companies is substantially higher in Zimbabwe - 60,15% as against 42% to 52% in other African states. Dividend tax of 20% is the same as in Kenya and Zambia but the 10% tax rate on interest remitted abroad is lower than in comparable African countries.

Government Revenue

Table 11 details the sources of Government revenue and their relative importance.

Table 11 Revenue: 1981/2 Fiscal Year (Estimates)

		$ Million	Ratio of Total Revenue
A	Taxes on Income and Profits:	612	45%
	Income Tax: individuals	313	23%
	Companies	258	19%
	Dividend and Branch Profits taxes	41	3%
B	Taxes on Goods and Services:	563	42%
	Sales Tax	288	21%
	Customs Duties	141	10%
	Excise Duties	129	9,5%
	Betting and other taxes	5	0,5%
C	Miscellaneous Taxes	17	1,3%
D	Fees, Revenue from Property, Fines, Pension Contributions, etc.	155	11,5%

As is evident from the Table above, central government revenue is heavily dependent on four taxes - personal income tax, corporate income tax, sales tax and customs/excise duties. These four taxes between them contribute some 85%.

Monetary Policy

An inevitable consequence of the growth in the pre-independence budget deficit and public borrowing was a rapid increase in the money supply (M2) in 1980.

Table 13

Year End	Money Supply (M2) $ million	Growth Rate % p a	Growth Rate of Money GNP
1977	552	+ 6,6%	2,3%
1978	626	+13,4%	5,9%
1979	710	+13,4%	21,0%
1980	952	+34,1%	23,5%
1981	1 035	+ 8,8%	25%

After the monetary explosion of 1980 - the inflationary repercussions of which are still being felt in the economy - the authorities imposed restrictive policies including higher reserve requirements for some financial institutions, general restraints on credit and a doubling bank rate (prime rate) from 4,5% to 9%. It was the first overt use of bank rate as a policy weapon for almost 20 years. The money supply data for 1981 suggests that the interest rate increases have been successful in curbing money supply growth. The growth rate of the money supply slowed in 1981 also because of lower Government borrowings (explained above) increased emphasis on borrowing abroad and some rundown in the country's external reserves (which is reflected in a reduction in M2).

Monetary policy has been cautious and conservative and the substantial rise in interest rates was economically rational at a time of high inflation, when it was necessary to discourage consumer demand and also to encourage industry to use labor-intensive rather than capital-intensive techniques, both because of the balance of payments constraints (on imports of capital goods) and the need to expand job opportunities far more rapidly than in the past.

Public Debt

Detailed public sector debt data is not available. Table 14 shows the rapid growth of Central Government borrowing since the mid-1970s. This was necessary initially to finance war spending and also to sustain the external payments position. Since independence foreign borrowing has been needed again for balance of payments reasons but also to curb domestic money supply growth.

TABLE 14

Year	Public Debt $ million	Domestic %	External %
1975	696	86.5%	13.5%
1978	1,150	80%	20%
1979	1,482	76%	24%
1980	1,843	77.5%	22.5%

According to the Work Bank data, Zimbabwe's 1981 official debt service of US$116.4 million represented 9.1% of actual exports of merchandise (including gold) and an estimated 8% of exports of goods and services. Officials have estimated that the growth of public sector borrowing during 1981 resulted in a debt service ratio (debt service public sector debt service as a ratio of exports of goods and services) of the order of 14%. The government's view is that this ratio should not be allowed to rise much above this.

The target ratio level set by the Ministry of Finance is likely to be reached, if not exceeded, in the period 1982/85 when - as the IBRD data shows - there is a build-up of high short-term debt servicing commitments in respect of debts incurred in 1980 or before. This does not take cognisance of any liabilities arising out of the ZIMCORD exercise in March 1981.

The conclusion is that Zimbabwe has moved rapidly from a much under-borrowed position in the middle-1970's to one where the scope for substantial further short-run foreign borrowing (for general balance of payments purposes and to a lesser extent for projects) is likely to be limited by the 14% ratio on the one hand and expected relatively slow export growth in 1982 (and possibly also 1983) on the other. In the light of the recent announcement that the 1982/5 transitional development plan will rely on foreign finance to fund 45% of the expected Z$4 billion program it seems likely that the 14% ceiling will have to be raised.

Borrowing from the IMF

To date Zimbabwe has drawn only its initial tranche from the International Monetary Fund (US$50 million) but can be expected to draw a further amount during 1982. The IMF has, in the past, reportedly been unhappy at the fiscal situation (notably the high budget deficit relative to GNP and the high level of subsidies) and is known also to feel that the exchange rate is moderately over-valued, and that the money supply was allowed to grow too rapidly.

In the past year, money supply growth has been arrested, the Government has started to phase out food subsidies and the budget deficit situation has improved (see above). Notwithstanding the potentially adverse repercussions of devaluation, some downward adjustment of the Zimbabwe dollar seems increasingly probably (before the end of 1982) and a further upward adjustment in long-term interest rates is thought likely. The Ministry of Finance often points with pride to the fact that they have taken these steps on their own and not as a result of IMF insistence as part of an IMF standby. The Zimbabwean authorities have already demonstrated willingness to undertake structural adjustment in respect of money supply, interest rates and the budget. Many believe that the IMF has been unreasonable in its negotiations.

International Reserves

In April 1982, Zimbabwe's gold and foreign exchange reserves stood at Z$165 million, representing less than 2 months imports cover (merchandise trade) or 1,4 months where imports of services are taken into account. This level of reserve cover is minimal.

Incomes and Industrial Relations Policies

Incomes and industrial relations policies are designed to improve the pattern of income distribution and give the worker an influence over decision-making in the workplace. The main dimension of

incomes policy has been the combination of price controls, significantly higher minimum wages and strict limitations on pay increases for the better paid. Such controls are difficult to monitor and can be evaded by the private sector to some extent with the result that there has been a skills drain from the public sector either out of the country or to private employment. It is also likely that the $20,000 pay cap, considering inflation, has caused increased emigration of higher skilled and experienced personnel.

Employers complain that the ban on overtime and regulations requiring employers to obtain Government permission before dismissing workers have had undesirable consequences, with the latter regulation leading to ill-discipline in the workplace.

The overriding concern is that the combination of higher minimum wages and greater state interference in industrial relations is discouraging employment generation partly by encouraging capital-intensive investment and partly by deterring new investment altogether.

Summary and Conclusions

1. The macroeconomic policies of the Zimbabwe Government have been designed to foster "Growth with Equity". Policies of previous regimes which focussed on growth in per capita income to the near-total neglect of concern with the quality of life and income distribution patterns, have been replaced by a policy framework designed hopefully to maintain a rapid rate of real growth (the transitional development plan target is reportedly 8% p.a.) accompanied by a substantial improvement in the pattern of income distribution, and equity.

2. In the first two years of independence there has already been a notable improvement in equity in the form of equality of opportunity at schools and colleges and in the public sector of

the economy, in particular. The abolition of primary school fees and the provision of free health care to those with incomes of less than $150 a months, represents a significant advance.

3. Real income per capita increased 4,6% in 1979 (despite the war and economic sanctions), 7,8% in 1980 and an estimated 5% last year. However, in 1982 real per capita income is expected to remain static or fall slighlty.

4. Fiscal policy has been expansionist and egalitarian to the extent that subsidies, transfers and grants (free education/health, etc) have been expanded while the bulk of the additional taxation has been raised progressively via dividend taxes, higher effective rates of corporate and personal tax, higher taxes on non-essentials (beer, spirits, soft drings, cigarettes, imports, petroleum, etc) and increased estate duties and the introduction of capital gains tax.

5. Incomes policy which has included an activist minimum wage regime along with restrictions on pay increases for higher income groups and a total ban on salary increases for those earning in excess of $20 000 p.a. has also played its part in nudging the economy towards a more equitable income distribution pattern.

6. Prices policy has been designed to maintain the real income of lower income groups (in particular) at the cost of lower profits and eventual distortions in the pattern of investment and growth in the economy.

7. Land redistribution, via the purchase of unutilised or underutilised land from (white) commercial farmers and the resettlement of more than 12 000 families since independence has been aimed at improving the pattern of wealth distribution.

8. These incomes and wealth distributive policies have been accompanied by a direct thrust of great state involvement in the economy via policies on industrial relations (minimum wages, worker participation programmes) and direct investment (state purchases of a controlling interest in Caps Holdings, Zimbank, and Zimbabwe Newspapers). In addition, the creation of new para-statals (notably the Minerals Marketing Corporation) have ensured more direct state control over economic activity.

9. In addition to redistributive and interventionist policies, the Mugabe Government has pursued some fundamentally conservative economic policies as well. These include higher taxation, increased interest rates, reductions in some Government expenditure demands, relative caution in foreign borrowing, and curbs on domestic borrowing and the rate of increase in the domestic money supply.

10. The overall economic performance has been encouraging in both absolute and relative terms. There are few developing countries in sub-Saharan Africa that can boast real growth of more than 20% in the past two years given the depressed international economy.

Problem Areas

That said, it would be idle to ignore problem areas. In the long term, there are two critical problem areas:

1. Land Policy

Government is committed to the redistribution of land via the settlement of 165 000 families over the next 3 years. This implies a resettlement rate of 55 000 families annually as against 6 000 annually in the first two years of independence. As now conceived it implies excessive spending on the purchase of land. But more important it implies a shift of anything up to 75% of the existing commercial farming land to peasant production. Beside the devastating impact that this could have on food and agriculture production levels, there is also the population transfer problem in that resettlement programs that displace existing commercial farmers will create a new category of landless unemployed in place of the currently-employed agricultural labour force.

2. Population Policy

There is no population policy as such. Zimbabwe's population will double in the next 16 years - if not slightly less. Even with real growth of more than 10% a year since 1979, only 50 000 or so new jobs have been created. Unemployment must have risen by a minimum of 100 000 and probably substantially more since independence. Redistribution policies have made a very

concrete contribution towards a more egalitarian society, but to the extent that wage and industrial relations policies have discouraged job creation, they have imposed a new burden on the community. A critical and vital element in any program for greater equity in the economy must be rapid growth in job opportunities. For this to happen, six prerequisities would seem to be necessary:

1. An expansion of foreign exchange availability.
2. Policies designed to relate wage increases to productivity growth.
3. Policies designed to foster investment - local and foreign.
4. Policies designed to improve the industrial relations climate.
5. Emphasis on vocational training programmes.
6. Positive steps to improve the attractiveness of agricultural investment, particularly small holders. The point made above in respect of land policy must be reiterated here. If land redistribution takes the form of "transferring" unemployment from the existing communal lands to the presently-employed agricultural labor force, then it will have failed the crucial contribution of increasing job opportunities in rural areas and reducing rural-urban drift.

In the near term, the vital policy issues will be:

1. Management of the external payments situation. Reservations expressed above concerning the adverse potential of currency depreciation notwithstanding, it is clear that the Zimbabwe currency is overvalued and needs to be adjusted - preferably gradually -downwards. Increased levels of foreign borrowing would seem to be necessary in the medium term, together with specific policies designed to encourage exports. It is obvious that the balance of payments constraint will continue as a major factor limiting the growth rate of the economy.
2. Rationalisation of the investment situation. The three-year Transitional Development Programme envisages investment of Z$4 billion of which $1,8 billion takes place in the private

sector and 1,5 billion would represent foreign investment (or foreign borrowing). Total investment (private and public sector) in the Zimbabwe economy in 1980 is estimated at $600 million (17,4% of GNP). The three-year programme envisages investment at more than double this rate with the ratio of investment to GDP (in 982/3) rising to 25%. These levels look to be overly ambitious in terms of:

a. Absorptive capacity

b. The balance of payments constraint (capital investment has a very high foreign exchange component)

c. The availability of foreign funds

d. The willingness of the private sector to invest at the prescribed levels given the existing profitability and remittability regime and existing policies in respect of prices, wages and industrial realtions.

Whether an investment code would - or would not - encourage new investment from abroad is a matter of dispute. It would appear that foreign investors are seeking higher post-tax returns than those currently available and a more liberalised foreign payments regime.

3. Continuation and intensification of policies to restructure Government spending, increasing the capital formation element and reducing transfer payments (especially subsidies) while at the same time curbing recurrent spending on general administration and defence and making education and health programs less costly. Some progress appears likely on this front but the improvement will be gradual given the intractability of the many equity problems.

4. Increased user charges by the para-statals - specifically the Railways and electricity undertakings - aimed at eliminating operating deficits and ensuring that the para-statals earn enough to amortise their capital and make at least some contribution towards financing expansion programmes.

5. A rationalisation of consumer pricing policies which, as presently operated, are likely to lead to distortions in investment and pricing patterns, discourage new investment and add a

severe burden to an already-overstrained administration.

6. Consolidation of the manpower and skills situation in the economy as a whole and in the public sector in particular. There is a grave danger of reduced efficiency and productivity in public services and in the para-statals because of the exodus of skilled and particularly of experienced personnel. Plans to expand into new public sector corporations should be delayed if not abandoned altogether since there is just not enough expertise and experience to go around, particularly given the fact that the incomes policy framework is impinging more severely on the public sector which is unable to match private sector incomes and working conditions.

Conclusion

Much has been achieved in the first two years of independence, but the economy has now shifted onto a slower and more difficult expansion path which will necessitate greater emphasis on investment in productive capacity and exports and a reduced emphasis on redistributive policies. This is particularly important in the light of the long-term population/employment problem.

In the long-term, growth with equity will only be secured as a result of a massive expansion in gainful employment opportunities in both the formal economy and in rural areas. Two inter-related prerequisites for such employment expansion are higher investment levels and an improved wage price.

ANNEX B

The Private Sector in Zimbabwe: The Past and Future Prospects

Introduction

Historically, the mainspring of economic growth in Zimbabwe was provided by private colonial enterprise. When the Rhodesian Front Government of Mr. Ian Smith declared unilateral independence in November 1965, gross domestic product was valued at Z$740 million (one billion US dollars at current rates of exchange), of which 95% represented aggregate economic activity in the money economy. The balance of 5% was contributed by the African rural household sector (the subsistence economy). The public sector "share" of the economy was estimated at 23,4%.

Such was the dominance of the private sector that the wage and salary bill of non-financial private companies alone exceeded the public sector's factor "share" of GDP. In 1965 too, private sector investment (gross fixed capital formation) accounted for more than 60% of the total while private consumption spending exceeded Government spending by more than 5 to 1.

The public sector's role was largely confined to public administration, social services (education and health), defence and security and the provision of essential economic infrastructure - the railways, electric power, airline, agricultural marketing, the Central Bank, etc. However, the commitment to private enterprise while paramount, was not allowed to stand in the way of what Government considered to be necessary development. Thus, in the late 1940s, the railway system was nationalized; the iron and steel and cotton spinning industries were both established, initially by the State, because private enterprise was unwilling or unable to invest in these two relatively large-scale developments. The Kariba hydro electric power project was established as a state-owned enterprise (now the Central African Power Corporation). Both the steel and cotton spinning industries, while established

by Government, were subsequently sold off to the private sector. In the early 1960s, the Smith Government established both a state-controlled Industrial Development Corporation and a Mining Promotion Council, designed to participate with the private sector or to take the initiative in new investments. Relationships between the private and public sector were close. The national business organizations representing commercial agriculture, manufacturing, mining, commerce and tobacco growers, were accorded a special relationship with Government. They were consulted before major decisions were taken and more often than not their advice was heeded. (The Unilateral Declaration of Independence, in the face of opposition from the bulk of the business sector, was an exception). Throughout the pre-sanctions period there was a close identity of interests between the public and private sectors.

Government was committed to rapid growth with minimal intervention in the private sector. It saw its role as one of creating the climate in which investment - and particularly foreign investment by transnational corporations - would prosper. There was no explicit reference in policy documents of the time to the need for a more equitable pattern of development - though decentralization to achieve more even regional growth was a policy target - and scant attention was paid to the need for narrowing wealth and income disparities. Growth in per capita incomes was the priority.

The Post UDI Period

The Unilateral Declaration of Independence (UDI) in 1965 and the advent of the liberation struggle, particularly from 1972 onwards, necessitated increasing state intervention. The imposition of economic sanctions, initially by Britain at the end of 1965, gave rise to a

range of direct controls on the economy which led to a reduction in private sector autonomy. The most far reaching measures were import controls, a tightening of exchange controls (originally introduced in February 1961), price controls and the new project approval machinery.

Despite its initial opposition to UDI, the business sector quickly accepted that the new situation provided substantial economic opportunities, especially in the field of import substitution.

Cordial relations with Government were rapidly restored and the establishment of the Private Sector Co-ordinating Committee (PSCC) representing the five national business organisations (commercial agriculture, tobacco, manufacturing, commerce and mining) provided a top-level forum for frequent consultation between the private and public sectors.

Predictably the private sector was frequently and publicly critical of state intervention in the economy. However, the period from 1968 to 1974 was one of above-average economic expansion, with real growth averaging 9% a year; the major constraint on growth being the tight balance of payments position. But after the economy peaked out in 1974 and moved into a prolonged decline that lasted until 1978, the private sector experienced an increasingly adverse economic and political environment. State intervention increased, particularly on the manpower front as far-reaching measures were necessary to try andcheck the spread of insurgency. The growth of military spending meant that the public sector share of GDP started to rise very sharply in the latter half of the 1970s with public expenditure giving rise to a substantial budget deficit. This reduced state spending on economic and social services, brought higher taxes, and substantially increased public sector borrowings both domestic and external.

The Impact of Independence

When the Mugabe Government took office in April 1980, it inherited a comprehensive and extensive battery of controls over the economy as well as a substantial public sector. The marketing of almost all

agricultural produce - the main exceptions being tobacco, sugar and tea - was controlled by the Agricultural Marketing Authority and its operational boards (Cold Storage Commission, Dairy Marketing Board, Grain Marketing Board etc). Power generation and supply was largely controlled by the state via the Central African Power Corporation. The national airline and railways were both state controlled. The country's steel producer (Zisco) was effectively state controlled, though state ownership fell just short of majority participation. The Central Bank (Reserve Bank of Zimbabwe) was state controlled as was the Industrial Development Corporation which held assets with a book value of Z$37 million in 1981.

In addition to this substantial degree of direct participation in the economy, state controls over economic and business decision-making included:

(i) Control over the availability and price of foreign exchange via the import and exchange control systems and the daily quotation of exchange rates by the Reserve Bank.

(ii) Control over new investment via the project approval machinery and the Foreign Loans Committee, (for any new investment requiring foreign borrowings in excess of Z$2 million).

(iii) Price controls, ranging from direct control over the prices of a list of basic essentials (coal, sugar, maize meal, bread, etc). to measure regulating the size of mark-up on locally manufactured items.

(iv) Indirect control over recruitment abroad of manpower via the residence permit and immigrant selection procedures.

(v) Control over wages and salaries through the Emergency Powers regulations, used to impose a form of incomes policy during the sanctions period.

<u>The Size of the Public Sector</u>

Accordingly, when a new Government, committed, it said - to a unique but as yet, ill-defined, brand of Zimbabwe socialism, took office,

it inherited a highly "socialised" economy.

The public sector's "share" of the economy grew rapidly during the 1970s. Total Government spending - which excludes the public sector state-owned corporations - therefore rose from some 12% in 1970 to almost 20%.

Revised national accounts data suggest that the public sector share of GDP (factor cost) in the 1970s was as follows:

Year	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Per-cent	22,5	23,7	23,1	22,1	22,0	23,0	24,8	28,0	31,0	27,5	25,0

Thus at the depth of the recession in the 1970s, the public sector factor income share exceeded 30%, falling sharply to 25% as the economy recovered in 1979/80 . In 1980, government budget spending - including transfer payments - constituted 34% of GDP (19% of GDP if transfer payments are excluded). In 1970, the ratio had been only 22,5%.

During the 1975 to 1978 period (latest data available) the public sector share of Gross Fixed Capital Formation averaged 45%, while 1980 figures suggest that total exports by the public sector (chiefly the Agricultural Marketing Authority, Zisco and some IDC companies) accounted for approximately 25% of commodity exports. All gold is exported by the Central Bank and if this is included the ratio of public sector exports to total exports is 34%. The establishment of the Minerals Marketing Corporation will increase this ratio to some 60% of total exports if all minerals are handled by the MMC.

The Structure of Private Enterprice in Zimbabwe

Two aspects of the structure of private enterprise in Zimbabwe are crucial to any discussion of its future prospects and role. These are the high degrees of concentration in the industrial/commercial mining and agricultural sectors and the extent to which the "commanding heights" of the private enterprise economy are susceptible to foreign influence.

Size and Concentration

Table I

Manufacturing Production in Zimbabwe 1978

Operations Classified by number of employees in 1978

Employees	Units	% of total number of units	Cumulative
less than 10	255	18,7	18,7
11 to 20	230	16,8	35,5
21 to 50	291	21,3	56,8
51 to 100	202	14,8	71,6
101 to 200	132	9,7	81,3
201 to 300	58	4,2	85,5
301 to 400	42	3,1	88,6
401 to 500	18	1,3	89,9
501 to 750	64	4,7	94,6
750 to 1000	27	2,0	96,6
More than 1 000	47	3,4	100,0

Source: Central Statistical Office. Census of Production 1978/9

Table II

Manufacturing Production in 1978

Gross Output	Units	Percentage of total units	Numbers employed	Percentage of total employment	Percentage of gross output	Output Percentage cumulative
Less than $50 000	246	18,0	2 081	1,5	0,4	0,4
$50 001 to $100 000	191	14,0	3 338	2,4	1,0	1,4
$100 001 to $150 000	104	7,6	2 816	2,0	0,9	2,3
$150 001 to $200 000	77	5,6	2 488	1,8	0,9	3,2
$200 001 to $500 000	257	18,8	12 339	8,9	5,4	8,6
$500 001 to $1 000 000	142	10,4	12 301	8,9	6,0	14,6
$1 000 001 to $2 000 000	110	8,1	18 142	13,1	8,5	23,1
$2 000 001 to $5 000 000	123	9,0	29 066	21,0	17,7	40,8
$5 000 001 to $10 000 000	48	3,5	17,852	12,9	14,0	54,8
More than $10 000 000	67	5,0	38,054	27,5	45,2	100,00

Source: Census of Industrial Production 1978/9. Central Statistical Office, Harare.

Table III

Mining Production 1978

Gross Output	Units	Percentage of total units	Numbers employed	Percentage of numbers employed	Percentage of gross output	Output % Cumulative
Less than $50 000	67	36,0	1 149	2,1	0,4	0,4
$50 000 to $150 000	43	23,1	2 159	4,0	1,4	1,8
$150 000 to $500 000	30	16,1	3 182	15,8	3,0	4,8
$500 001 to $2 million	18	9,7	6 297	11,7	6,8	11,6
$2 million to $5 million	15	8,1	11 034	20,5	15,4	27,0
$5 million to $10 million	5	2,7	6 251	11,6	13,2	40,2
More than $10 million	8	4,3	23 876	44,3	59,8	100.0

Table 1 shows 56,8% of the manufacturing industry units in Zimbabwe employed 50 or less people emphasising the small-scale nature of much of industrial activity. Only 10% of the number of units employed more than 500 people. Numercially then, manufacturing industry is overwhelmingly small-sized. But, as Table II shows, output is heavily concentrated in the hands of a small number of industrial units. Almost 60% of industrial output is produced by 115 units or 8,4% of the total number of units. At the other end of the scale, 64% of the units (by number) account for some 8,5% of total output (by value). Thus, manufacturing industry is characterised by a substantial number of very small and medium-sized enterprises whose contribution in terms of total employment and output is relatively small.

Furthermore, in manufacturing just over 50% of production is carried out under monopolistic conditions while 80% of total output is carried out by three or less firms pointing to extremely high levels of industrial concentration. Such concentration or monopoly while unacceptable in western industrialised economies are only to be expected in developing states. Nonetheless, this concentration of market power necessitates government monitoring, if not intervention to ensure that monopoly pricing is avoided.

In mining, the dominance of large-scale operations is even more pronounced. 73% of the total output is produced by 13 mines (7% of the total number of mines), while at the other end of the spectrum, 110 small mines (60% of the total) account for lesss than 2% of gross output.

Agriculture

Concentration of land ownership and of output is very high also in agriculture. In 1980, total farm out put was valued at $734 million of which 80% was produced by some 5 300 commercial farmers and the balance of 20% by 750 000 peasant producers. Within the commercial farming group - largely comprised of white farmers - production is highly concentrated too with more than 50% of total production emanating from 12% of the producers and more than 90% of output coming from 57% of the farmers.

State involvement is considerable. In 1980, 55% of total marketed agricultural produce was handled by the state-owned marketing boards, while the Agricultural Finance Corporation was responsible for some 37% of short-term credit facilities provided for the farmers - exceeding the share of the commercial banks (35%).

Foreign Influence

The extent of foreign ownership of the private sector capital stock cannot be accurately assessed, but estimates by Stoneman and Clarke suggest that at the end of the 1970s, more than 70% of the capital stock was owned abroad. About half of the foreign-owned capital stock was British-owned and 30% owned in South Africa. The balance was largely American-owned.

The sanctions period, however, emphasised the distinction between ownership and control. Although many large Zimbabwean enterprises in mining, manufacturing, banking, agriculture and commerce were legally owned by British and/or American shareholders, these subsidiary companies continued to operate in defiance of the economic sanctions imposed by the Governments of the parent-company countries. Indeed, this episode served to bolster the viewpoint of those Zimbabwean nationalist leaders suspicious of, and hostile to, the attitudes and conduct of transnational corporations. In theory the "independence" of the companies and their defiance of the UK and US Governments ought to have reassured the nationalist politicians. In fact, however, as evidenced by the establishment of the Minerals Marketing Corporation, Government in Zimbabwe remains highly critical and suspicious of transnationals, and determined to extend control over their operations.

The fact that at least 70% of the private sector capital stock is estimated to be foreign-controlled has posed a major policy dilemma for the new Government. It needs foreign investment, but at the same time it prefers that the capital stock and the management be Zimbabweanised. Measures to attain this objective include restrictions on recruitment abroad of and employment of expatriates, the "Growth with Equity" investment guidelines which emphasise joint-ventures and majority Zimbabwean control of foreign investment, the purchase

of controlling interests in some previously foreign-owned companies (Zimbank and Zimbabwe Newspapers being the main examples) and the so-called 50% rule which stipulates that foreign companies repatriate no more than 50% of after-tax profits, less 20% non-resident shareholders tax or branch profits tax.

The dilemma is highlighted in the fact that the reinvestment of 50% of after-tax earnings ensures that - even with no new inflow of foreign investment from abroad - the foreign stake in Zimbabwe's private-sector capital stock is increasing in absolute terms. Indeed, it could well also be increasing in relative terms as well - thereby pushing up the 70% ratio.

Assuming a 20% after-tax return on foreign-owned capital, if this were to be reinvested each year, this would imply that foreign investment would annually provide an increment of one-tenth each year to the foreign-owned capital stock (i.e. 7% of the total capital stock). Adjusting Clarke's 1980 figures, this would suggest that transnational companies would be ploving back some $250 million a year into their Zimbabwean operations. The "indigenous" private sector would, therefore, need to invest more that this amount annually in new or net investment (in addition to replacement capital) in order to ensure that the Zimbabwe-owned share of the capital stock increased.

Foreign influence extends well beyond ownership of the capital stock. Senior management is overwhelmingly white and it is estimated that less than 20% of top management holds Zimbabwean citizenship. Even where Zimbabwean citizenship (or birth) applies, management is heavily British, South African or American-oriented. This reflects background, education, training, experience, trade and commercial links as well as links with parent companies in Western Europe, North America and South Africa. Even today management training courses are heavily dependent on foreign inputs (from the UK/US/South Africa)

or are actually conducted abroad - mainly South Africa but also Britain. The foreign influence is undoubtedly positive in major respects. Technology transfer is one. Access to foreign capital and expertise is another. A more outward-looking attitude is a third. Foreign companies are, on the whole, more inclined to promote and develop black Zimbabwean workers and managers. Their pay levels and conditions of work tend to be better than those of purely domestic enterprises. But - and this is a key disadvantage in the eyes of Government - policy decisions tend to be made by the foriegn head office or by expatriate staff in consultation with their headquarters abroad. Foreign companies dominate substantial areas of the economy. In the banking, finance, and insurance, mining, plantation agriculture (sugar, citrus, forestry etc.) and manufacturing sector of the economy, the foreign companies are dominant. This is more obviously so in mining, in plantation agriculture and finance and insurance than elsewhere in the economy. A breakdown of the different industrial sectors of manufacturing industry also shows high levels of foreign penetration.

It is also true that the foreign owned companies are either export-intensive (mining, sugar, etc) or dependent on import allocations, tariff protection and/or import controls as a means of meeting domestic demand. Many of the transnationals established plants in Zimbabwe in order to exploit the domestic market and also during the Federal era - to serve the common trade area of Zambia and Malawi. Given both the strategic and quantitiative significance of the foreign-owned corporate sector in Zimbabwe, analysis of policy towards private enterprise and of the future prospects for the private sector must hinge, in the main, on policy towards trans-nationals.

<u>The Business and Investment Climate</u>

A clear distinction must be made between the attitudes and outlook of "domestic" enterprise and that of foreign business.

Domestic enterprise is currently pessimistic about the investment climate. This pessimism is partly political - the result of frequent criticism of private enterprise by Government Ministers and repetitive accusations of "sabotage" and "subversion" - and partly economic, with the most important single reason for business gloom being the two successive quarterly cutbacks in import quotas which have left many business with foreign currency quotas at least 25% below those applicable in the middle of 1981. Despite this pessimism, domestic enterprise is "locked into" the economy in such a way that ensures continued expansion and investment. The 60% increase in retail volumes (adjusted for inflation) since 1979 and the 26% rise in the volume of manufacturing output over the same period, reflect both buoyant demand and substantial expansion of capacity. This expansion is, however, dependent upon continued rapid growth in foreign exchange allocations. The reductions imposed from October 1981 onwards - (and unlikely to be alleviated at least until 1983) - will ensure a slowdown in the growth rate of manufacturing production in 1982.

Foreign-owned businesses operating in Zimbabwe are also"locked in" to the extent that they can only repatriate a maximum of 50% of after-tax earnings. Accordingly, against a background of buoyant demand, they too have invested in new fixed and working capital.

Foreign-owned business is - generally - less pessimistic about the economic outlook. Business morale is higher, not necessarily amongst executives in Zimbabwe, but amongst those in regional or international headquarters who are the ultimate policy-makers. They are more optimistic partly because they compare conditions in Zimbabwe with those elsewhere in developing Africa and find the position substantially more encouraging. Many business "worries" - which adversely affect the moral of both domestic and foreign-

businessmen, located in Zimbabwe, are emotional or environmental. They include fears over the future of the education and health services; concern at possible deterioration in public sector services, exposure to local media, and exposure to the attitudes of the white minority which, on the whole, tend towards varying degress of pessimism.

Conclusion

Despite declining business morale, purely domestic enterprise has hitherto been prepared to invest and expand as rapidly as possible - the chief constraints being the foreign exchange and skills bottlenecks. However, positive forces making for high investment/expansion are weakening (see below) while constraints on investment are becoming more severe.

Foreign-owned businesses with profit-generating enterprises in Zimbabwe have similarly been prepared to reinvest and expand using effectively "blocked" funds.

Foreign-owned businesses have been unwilling to expand where this requres an injection of funds from abroad - notwithstanding the overtly more positive attitude of businessmen abroad than their local counterparts.

There has been a marked reluctance on the part of "new" foreign business to invest in Zimbabwe. Reasons cited for this being:

(i) The absence of an investment code

(ii) The lack of track record

(iii) The existing policy framework which does not offer a high enough rate of return on capital and restricts remittability of earnings.

(iv) Policy pronouncements by Government Ministers implying that private enterprise is living on borrowed time and that, ultimately, Government plans to socialise a substantial proportion of privately-owned activity.

(v) The purchase of a controlling interest in some foreign-owned companies and the establishment of the Minerals Marketing Corporation.

(vi) Government opposition to new investment on the basis of majority foreign ownership.

Growth Prospects and Constraints

Real growth in the Zimbabwe economy since Independence is estimated at 11,7% in 1980 and 7,5% to 8% in 1981, making an average of just over 10% p.a. The main growth stimuli were the 41% improvement in the terms of trade (during 1980/81), the rundown of stockpiles accumulated under sanctions, the return to full participation in the economy of many thousands of men previously involved in hostilities, the transfer of funds from unproductive wartime expenditures to economic uses, a 75% increase in the volume of imports and a bumper agricultural season in 1980/81. Most - if not all - of these stimuli have lost momentum in the past 6 to 9 months and real growth in the economy this year is unlikely to keep pace with the rate of population growth. The Government development plan target of 8% p.a. (in real terms) is probably unattainable and a more realistic medium-term target would be 4% to 5% p.a. implying very marginal annual growth in per capita incomes. The key constraints on private sector economic expansion in the 1982/84 period are likely to be:

(1) Foreign exchange Export growth in 1982 is unlikely to reach the 10% level primarily due to the drought and depressed markets for Zimbabwe's mineral exports and an increasingly difficult market environment for industrial products in South Africa, due to the 10% import surcharge and the depreciation of the rand. With Zimbabwe having borrowed heavily in short-term financial markets in 1981, prospects for import growth are dependent on aid and foreign investment inflows, trends in import prices and export growth.

The first two factors - aid inflows and lower import prices, especially oil- should be favourable in 1982/3, but export growth will be slow and there is little scope for material improvement in import allocations to the private sector which in 1982, at least are likely to be lower than in 1981. Some increases areanticipated in 1983, but it is clear that the foreign exchange constraint will remain the most serious obstacle to more rapid economic expansion.

(2) Skills and experience The strong outflow, not just of skilled manpower, but of experience (which in some respects is even more serious) is expected to continue during 1982. The private sector would welcome an acceleration of skills training from public institutions.

(3) Demand growth The rate at which demand for exports will expand in 1982 will be substantially slower than in either of the two previous years due to the difficult international economic climate and the reduction in the impetus of the growth stimuli cited above.

(4) Profitability

Slower growth, escalating costs - especially of labour and essential inputs (electricity, finance, transport etc). falling productivity and price restraint and the 51,75% tax rate between them, point to reduced profitability levels in 982/3.

(5) Remittability of Profits (for foreign-owned business). The remittable rate of return on investment in Zimbabwe by a wholly-owned subsidiary is 19,3%. An example of this calculation is

Example:

After Tax Profits	$1 000 000
Tax at 51,75%	517 500
	482 500
50% remittance	241 2500
Less Non-Resident Shareholder Tax (20%)	48 250
	Z$193 000

This is not an incentive rate of return given high interest rates elsewhere.

(6) Shortages of business investment opportunities for foreign business. The most obvious investment opportunities in both the export and import-replacement sector have already been developed by existing enterprise (domestic or foreign) thereby reducing the scope of opportunities available to new business. In the domestic economy, the degree of protection afforded existing enterprise - via import control and/or tariff protection - is considerable and access to foreign currency allocations by newcomers is highly restrictive. These are obstacles to "new" business investment as distinct from plowback investment by companies already operating in Zimbabwe.

(7) Labor Management. Businessmen complain increasingly of ill-discipline in the labor force arguing that the state regulations inhibiting dismissal of employees have had an adverse effect on productivity. Government plans to increase the authority of worker councils and install profit-sharing and worker-ownership-participation programs are also likely to inhibit new investment, especially by foreign concerns.

Public Responsibility

To what extent are the politicians and policy-makers responsible for the constraints on growth and investment? The simple answer is that Ministerial statements and Government policies are substantially responsible for at least some of the constraints. This is certainly the case in respect of profitability, remittability and business/investor morale and sentiment.

However, such an explanation is too facile. Many of the Ministerial pronouncements that have adversely influenced business confidence were designed to play to a completely different constituency - the rural and urban poor, the workers, the intellectual elite, the party rank and file. In the present Cabinet, only five ministers - less than 20% of total cabinet strength (Agriculture, Trade and Commerce, Finance and Economic Planning, Mines and Energy and Industry Development) can be described as "economic" ministers whose prime concern is with growth and efficiency rather than equity and welfare.

In other words, policies are not being pursued because Government wishes to handicap private enterprise. Policies that are disincentive to investment or expansion are, for the most part, strategies designed to achieve a more egalitarian society with a more equitable distribution of income, wealth, land and opportunity. In any economy, this is bound to result in a trade-off relationship with efficiency and growth. In the eyes of the politicians the positive social and welfare effects more than offset the negative consequences for efficiency and for the economy.
In essence, policy is not hostile to business. The fact that farm profitability increased substantially in the first year of independence largely due to Government agricultural pricing policies is evidence of this.

The policymakers are, however, wary and suspicious of transnational enterprise and of much of white owned or controlled domestic enterprise. Policies to Zimbabweanise ownership and control of the private sector may deter new investment, may speed the white exodus and may have deletorious medium-term effects on the economy, but these are a consequence more of nationalism than socialism or marxism. For the next few years, at the very least, private enterprise will have to adapt to this changed milieu.

Role of Public Enterprise

The Mugabe Government is committed to an expanded role for public enterprise. Since Independence, the purchase of a controlling equity stake in major corporations (state capitalism) such as Zimbank, Caps Holdings and Zimbabwe Newspapers has been accompanied by promises to extend the range of state-owned statutory enterprises. The first, and in many respects, the most important of these, the Minerals Marketing Corporation is due to commence operations by mid-1982. It is designed to take over the

marketing function of the mining industry whose 1981 production was valued at Z$394 million, including exports of Z$280 million, one third of total exports in the 11 months to November, 1981. Government has explained the establishment of this state-owned enterprise as follows:

(1) To increase Government's information concerning mineral exports and to give it control over the rate at which exhaustible resources are exploited and exported.

(2) To prevent manipulative transfer pricing by the mining houses.

(3) To ensure that mineral exports are sold in the most lucrative markets and that markets in Eastern Europe, Africa and other third-World socialist economies are not neglected in favour of Zimbabwe's traditional trade ties with the OECD countries.

The Chamber of Mines complains that its advice and representations concerning the legislation to establish the Corporation were totally ignored. The mining houses assert that they have never been guilty of manipulated transfer pricing and point out that no valid evidence has been found of such activity on the part of mining groups in Zimbabwe. They has also argued that the marketing of minerals is a highly technical business best left to experts. Ironically, though, during the sanctions period Rhodesia operated a mining marketing agency (Univex Ltd.) chiefly to sell Union Carbide chrome output in defiance of US economic sanctions. This was a highly successful operation, even under sanctions, and it is conceivable that the Governmen sees this experience as a model for its Corporation. It will only be possible to pass judgement on the wisdom or otherwise of establishing the MMC when its performance can be assessed. In the meantime, four interim comments can be made:

(a) It will almost certainly deter new investment in mining. Few mining houses are willing to invest substantially in exploration and development with a high risk exposure if they know they will have little influence over marketing and pricing.

(b) It may also deter foreign buyers who prefer to deal directly with producers.

(c) Experience elsewhere is discouraging. The track record of similar organizations in developing countries is very unimpressive, especially in the formative years.

(d) Control over marketing will almost certainly extend to influence over production, labour and wage policies, personnel policies etc., at the production stage, thereby increasing the degree of state intervention in the mining sector via the back or side door.

(e) New mining investment will, in all probability, have to be negotiated on the basis of a price guarantee by the MMC, since mining houses are most unlikely to exploit exportable resources without some "iron-clad" price guarantee. Government is determined to widen and extend the range of statutory bodies operating in the economy. Extension of the public sector is justified politically rather than economically. While some public sector agencies in Zimbabwe have been both efficient and successful in the past, the likelihood of their being able to maintain this record is not strong. The case against public sector extension in Zimbabwe centres around:

(1) <u>Subsidies</u> The great temptation to Government to use public agencies as a political vehicle, regardless of the impact on efficiency. Traditionally, Rhodesia

and now Zimbabwe have used the railway tariff boot to subsidise the movement of coal, maize, fertlizer and raw material exports. The Dairy Marketing Board is running a substantial operating deficit because of the state's attempt to maintain milk prices at current levels.

(2) Efficiency losses The probability of efficiency loss is considerable. Wage restraint and black advancement policies have led to a substantial outflow of white skills and experience from public sector agencies, especially at blue collar level with very adverse ramifications for the services sector of the economy. The private sector's greater flexibility in coping with wage controls is likely to make it an increasingly attractive employer for skilled and experienced blacks as well as whites.

Centralised and bureaucratic decision structures - frequently requiring political consultation at cabinet or central committee level - give rise to inordinate delays, and inflexibility in the face of changing market conditions.

Public agencies tend to be feather-bedded - established as legalised monoploies - thereby diluting the impact of market forces. There is seldom a firm requirement to amortise capital, earn an acceptable rate of return on capital employed and secure the surplus necessary to fund future growth.

(3) Finance The ability of public sector enterprise to attract finance is circumscribed by lack of flexible and decentralised decision-making, by an unwillingness on the part of the politicians to allow the public sector to compete in the market for finance, for skills and to price its output on the basis of market forces. Growth is thereby stunted to the extent that public enterprise can only invest funds supplied by the state or borrowed under state guarantee.

(4) Neglect of market forces. For the reasons already cited, market forces tend to have a delayed and diluted impact on the operations of public enterprise. The net result is that greater inefficiencies, larger deficits and more unjustified investment decisions are made than if the enterprise were allowed to respond quickly and flexibly to changing market situations.

In essence, it is not the concept of public ownership that is to blame, but the inherent inefficiences, centralised decision-making, susceptability to political interference, that render it an inefficient and costly means of providing goods and services. The justification for public ownership lies in the realm of scale economies, natural monopolies and the need to invest and develop services that will not attract private sector capital. In Zimbabwe these needs are already supplied by the existing public sector infrastructure (railways, airline, electricity supply, agricultural marketing). Accordingly, there is no legitimate economic case for further extending the public sector. This can only be justified politically.

State Capitalism and State Participation

It follows from the above that state participation in the form of joint-ventures, minority or majority stakes in enterprise with domestic or foreign-owned business can be beneficial. The critical requirement is that decision making is decentralised. The evidence in Zimbabwe is that Zimbank and Caps Holdings are operating as efficiently as before despite the state purchase of a controlling equity stake in the two companies. This will only last so long as Government resists the temptation to enforce appointments (nepotism) or to direct business on political criteria. Indeed, Zimbank can be expected to benefit from its state participation since Government business will be channelled to it.

Future Policies and Prospects

Policy towards the private sector in Zimbabwe is unlikely to follow a consistent ideological path. The first two years of the Mugabe administration points to a substantial gap between rhetoric and practice, underpinned by at least a willingness to experience with pragmatism.

The Political Dimension

Furthermore, policy towards the private sector must be assessed in the aggregate. Policies to impose a one-party state or to limit private medical practice and private sector education, will adversely affect the business and investment enironment. Indeed, policies already

being pursued to deter new investment by the private sector in private hospitals and clinics, and hints of similar disincentives in respect of private schooling, are likely to have a more severe impact on business morale, recruitment and investment decisions than talk of a one-party state.

The Economic Dimension

The fact that in the 1982/5 Transitional Development Plan period, private enterprise is forecast to provide 45% of total investment, allied with the fact that private sector savings are the major source of government borrowings for investment, underlines the viewpoint that the Mugabe Government is unlikely to pursue new policies overtly antagonistic and hostile to private enterprise. At the same time, it is clear that policies already implemented and those foreshadowed in Ministerial statement - the proposed expansion of the public sector, the establishment of the Minerals Marketing Corporation, the rent and price freeze, the extension of worker participation schemes etc., will further limit the decision-making autonomy of private enterprise and create disincentives to new investment particularly where such programs result in lower profitability and/or marked dilution of control on the part of business, especially transnational business.

For these reasons, it is unlikely that the private sector investment levels targeted in the Transitional Development Plan (TDP) will be realized, unless or until there is a shift in existing official perceptions of the "partnership" (as Prime Minister Mubage has called it), between private and public enterprise.

Discussions with businessmen who attended the recent Business International Investment Roundtable with the Zimbabwe Government (March 1982) point to a continuation - indeed probably a hardening - of the wait-and-see philosophy. The need for a track

record as distinct from an investment code enshrined in a piece of paper that can be easily destroyed - was stressed by some of the participants, who left the country certainly not hostile to the prospect of future investment, but insistent that more time must elapse to assess policies and performance as distinct from promise, before funds are committed.

A possible scenario is the now-familiar African (or LDC) U-Turn syndrome. In the early years of independence, government pursues policies that deter new investment and that erode the position of private enterprise. Increasingly, Government becomes aware that extension of public enterprise is inadequate to meet the aspirations of the community (especially in the provision of job opportunities) and that public organisations are a drain on the public purse. After a period of "bumping along the bottom" of the U, during which government reappraises its attitude towards private enterprise in general and the foreign investment in particular, there tends to be an acceptance of the need to adopt policies more acceptable to the private sector. But confidence is slow to return and the passage along the bottom of the U can be a prolonged one. In Zimbabwe, it is contended that confidence has not been eroded to the point where there will be a prolonged period during which private enterprise will reassess the position. Rather, as the Business International Conference implies, investors are broadly positive in attitude but require a track record evidence. Accordingly, events over the next 18 months will be crucial in determing whether investment confidence is rapidly revived or whether the "bumping along the bottom" trend continues. At present, the existing policy and environmental framework - environmental in the sense of level of import quotas, world demand, shortage of manpower - is simply not sufficiently attractive to induce the levels of investment necessary if expectations, especially in respect of jobs, are to be realised.

The Investment Code Debate

Little mention has been made of the investment code debate. It is argued (see Riddell March 1982) that the more certainty Government can achieve in respect of investment decision-making - by stipulating explicit rules - the more investment will be attracted.

This harks back to the discussion above on the dilemma between Zimbabweanisation of the capital stock and the attraction of new investment. But even if this dilemma is resolved in favour of policies to attract new investment, it is an open question whether an investment code is desirable or not. Some local economists believe that codes are detrimental and argue that the more rigid and explicit the rules become, the greater the likelihood that certain investments will be excluded. (The proposed Heinz investment is a case in point. It would appear to be ultra vires in terms of the existing Growth With Equity guidelines). Secondly, no code is inviolate. Conditions change. Governments change. Business decision-makers dislike uncertainty but they dislike sudden and frequent changes in the rules as much if not more than uncertainty, since what was previously certain now becomes uncertain. If the Heinz investment is allowed on the basis of foreign majority ownership and control, then the"Growth With Equity" code will have been broken within 18 months of its original publication. This surely indicates that codes are less important than track records. There is no substitute for experience and performance.

Conclusion

It is impossible to suggest programmes and policies that can do much more than secure marginal improvements in the short-run viability of private enterprise. A difficult near-term policy framework and a deteriorating short-run economic environment are likely, between them, to deter substantial new investment, either by local or foreign business. The rehabilitation of the investment climate is, therefore, a medium term objective and one that must perforce be carried out within the parameters of stated Government policy to bring much greater equity to the economy.

The private sector's best strategy in this situation is to accommodate Government policy as far as possible; to enter into serious dialogue on issues of disagreement; to avoid public pronouncements and actions that create friction; to improve channels of communication at all levels, not just with Government with organised labour and other pressure groups, and to ensure that communication is as low profile as possible rather than carried out in highly-charged public forums.

ANNEX C

STRATEGY OBJECTIVES AND VEHICLES FOR ATTAINING THEM AS WELL AS ESTIMATED TIME FRAME

STRATEGY OBJECTIVE	VEHICLE FOR PURSUING OBJECTIVE	ANTICIPATED TIME SCHEDULE											
		FY 1982		FY 1983		FY 1984		FY 1985		FY 1986		FY 1987	
		First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half
1. Expanding Productivity Capacity of Economy by Relieving Shortage of Foreign Exchange	° FY 80 & FY 81 Program Grants	1111111											
	° FY 82-FY 87 CIP's		1111111	1111111	1111111	1111111	1111111	1111111	1111111	1111111	1111111	1111111	1111111
	° FY 82-FY 84 Agricultural Sector Program Grant		1111111	1111111	1111111	1111111	1111111						
	° FY 83-FY 85 Human Resources Sector Program Grant				1111111	1111111	1111111	1111111	1111111				
	° FY 82-FY 86 HG's		1111111	1111111	1111111	1111111	1111111	1111111	1111111	1111111	1111111		
	° Private Investments through PRE programs			1111111	1111111	1111111	1111111	1111111	1111111	1111111	1111111	1111111	1111111
2. Enlarging Productive Capacity of Small Farmer Agriculture	LOCAL CURRENCY FROM FY 80 AND FY81 PROGRAM GRANTS												
	° Assistance to Marketing and Input Cooperatives	1111111	1111111	1111111									
	° Extension Staff Training	1111111	1111111	1111111									
	° Irrigation Reconstruction	1111111	1111111	1111111									
	° Livestock Management and Health Care	1111111	1111111	1111111									
	° Credit for Resettled Farmers	1111111	1111111	1111111									

STRATEGY OBJECTIVES AND VEHICLES FOR ATTAINING THEM AS WELL AS ESTIMATED TIME FRAME

STRATEGY OBJECTIVE	VEHICLE FOR PURSUING OBJECTIVE	ANTICIPATED TIME SCHEDULE											
		FY 1982		FY 1983		FY 1984		FY 1985		FY 1986		FY 1987	
		First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half
	LOCAL CURRENCY FROM FY 80 AND FY 81 (Cont'd)												
	° Reconstruction of Rural Infrastructure (roads, dip tanks, extension staff houses)	1111111111111111111											
	° Small Farmer Research	1111111111111111111											
	° Adult Literacy PVO Grant	1111111111111111111											
	LOCAL CURRENCY FROM FY 82 CIP												
	° Assistance to Cooperatives		1111111111111111111111111										
	° Expansion of Housing For Extension Staff		1111111111111111111111111										
	° Bulk Grain Storage		1111111111111111111111111										
	° Small-Scale Irrigation		1111111111111111111111111										
	° Staff Training		1111111111111111111111111										
	° Small Farmer Research		1111111111111111111111111										

ANNEX C (Cont'd)

STRATEGY OBJECTIVES AND VEHICLES FOR ATTAINING THEM AS WELL AS ESTIMATED TIME FRAME

STRATEGY OBJECTIVE	VEHICLE FOR PURSUING OBJECTIVE	ANTICIPATED TIME SCHEDULE											
		FY 1982		FY 1983		FY 1984		FY 1985		FY 1986		FY 1987	
		First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half
	FY 82-FY 84 AGRICULTURAL SECTOR PROGRAM GRANT												
	° Redirected Agricultural Research Capacity												
	° Effective Extension System												
	° Small Farmer Credit												
	° Improved Inputs Supply and Output Marketing Infrastructure Centered on Cooperatives												
	° Small-scale Irrigation												
	° Staff Development Through Pre-service and In-service Training												
	FY 82-FY 84 ZIMMAN PROJECT												
	° Training of Staff and Faculty at Agricultural Training Institutions												

ANNEX C (Cont'd)

STRATEGY OBJECTIVES AND VEHICLES FOR ATTAINING THEM AS WELL AS ESTIMATED TIME FRAME

STRATEGY OBJECTIVE	VEHICLE FOR PURSUING OBJECTIVE	ANTICIPATED TIME SCHEDULE											
		FY 1982		FY 1983		FY 1984		FY 1985		FY 1986		FY 1987	
		First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half
3. Improve Human Productivity, Skills Development, Expanding Education Qualitatively and Quantitatively	LOCAL CURRENCY FROM FY 80 AND FY 81 PROGRAM GRANTS												
	° Primary and Secondary Schools Reconstruction	1111111											
	° ZINTEC (Primary Teacher Training)	1111111111111111											
	° Secondary Teachers Training	1111111111111111											
	° Training School for Medical Assistants	1111111111111111											
	° Technical/Vocational Training	1111111111111111											
	° AFGRAD	1111111111111111111111111111111111111111111111111111											
	° AMDP	1111111111111111111111111111111111111111111111111111											
	ZIMMAN PROJECT												
	° Training of Trainers for Institutes, Colleges and University			1111111111111111111111111111111111111111111111111111111111111111111111111111									

STRATEGY OBJECTIVES AND VEHICLES FOR ATTAINING THEM AS WELL AS ESTIMATED TIME FRAME

STRATEGY OBJECTIVE	VEHICLE FOR PURSUING OBJECTIVE	ANTICIPATED TIME SCHEDULE											
		FY 1982		FY 1983		FY 1984		FY 1985		FY 1986		FY 1987	
		First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half
	LOCAL CURRENCY FROM FY 82 CIP												
	° Primary/Secondary Schools Reconstruction		111111	111111	111111								
	° Primary Teacher Training (ZINTEC)		111111	111111	111111								
	° Secondary Teacher Training (Belvedere)		111111	111111									
	° National Library and Documentation Center		111111	111111	111111								
	FY 83-FY 85 HUMAN RESOURCES SECTOR PROGRAM GRANT												
	° Improved efficiency/cost-effectiveness in formal education through improved administrative and analytical capacity			111111	111111	111111	111111	111111	111111	111111	111111	111111	111111
	° Reductions in unit cost of education, use of cost-saving technologies			111111	111111	111111	111111	111111	111111	111111	111111	111111	111111
	° Enlarged technical skills training capacity			111111	111111	111111	111111	111111	111111	111111	111111	111111	111111

ANNEX C (Cont'd)

STRATEGY OBJECTIVES AND VEHICLES FOR ATTAINING THEM AS WELL AS ESTIMATED TIME FRAME

STRATEGY OBJECTIVE	VEHICLE FOR PURSUING OBJECTIVE	ANTICIPATED TIME SCHEDULE											
		FY 1982		FY 1983		FY 1984		FY 1985		FY 1986		FY 1987	
		First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half
	FY 83-FY 85 HUMAN RESOURCES SECTOR PROGRAM GRANT (Cont'd)												
	° Enlarged capacity for training semi-skilled manpower												
	° Enlarged in-service GOZ training capacity for village/district level workers/administrators												
4. Expand Employment in Modern and Rural Sectors	° Foreign exchange from FY 83 to FY 87 CIP's directed at more competitive labor-intensive industries												
	° Local currency from FY 83 CIP for establishment of small enterprise development corporation and credit/loan facility												
	° Local currency from FY 82 CIP to establish National Community Development Trust Fund												
	° FY 83 CIP foreign exchange for import industrial training equipment												

STRATEGY OBJECTIVES AND VEHICLES FOR ATTAINING THEM AS WELL AS ESTIMATED TIME FRAME

STRATEGY OBJECTIVE	VEHICLE FOR PURSUING OBJECTIVE	ANTICIPATED TIME SCHEDULE											
		FY 1982		FY 1983		FY 1984		FY 1985		FY 1986		FY 1987	
		First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half
Expand Employment in Modern and Rural Sectors (Cont'd)	° Local currency from FY 83 or FY 84 CIP for establishment of Industrial Learning/Research Center					1111	1111						
	° Local currency from CIP's and FY 83-FY 85 Human Resources Sector Program Grant for expansion of institutional training capacity for skilled and semi-skilled workers				1111	1111	1111	1111	1111	1111	1111	1111	1111
	° Training of trainers under ZIMMAN			1111	1111	1111	1111	1111	1111	1111	1111		
	° Short-term technical assistance from centrally-funded activities such as PISCES			1111	1111	1111	1111						
	° FY 83 Community Development Support Grant			1111	1111	1111	1111	1111					

ANNEX C (Cont'd)

STRATEGY OBJECTIVES AND VEHICLES FOR ATTAINING THEM AS WELL AS ESTIMATED TIME FRAME

STRATEGY OBJECTIVE	VEHICLE FOR PURSUING OBJECTIVE	ANTICIPATED TIME SCHEDULE											
		FY 1982		FY 1983		FY 1984		FY 1985		FY 1986		FY 1987	
		First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half
5. Moderate Population Growth Rates	° FY 82 Grant to strengthen Child-Spacing and Fertility Association field staff, supervision/administration, education, and research capacity	1111111111111111111111111111111111111111											
	° Short-term (possibly long-term) technical assistance for Central Statistical Office census work using AFR/POP and S&T/POP projects			1111111111111111111111									
	° Staff Training under ZIMMAN and centrally-funded POP training programs			1111111111111111111111111111111111111111111111111111									
	° Participation in Whitsun Foundation Population Policy Study			1111111111111111111111111111111111111111111111111111									
6. Provide Capital Resources to Open up Home Ownership to Low-Income Families	° FY 82-FY 86 HG's (Local Currency)	1111111111111111111111111111111111111111111111111111111111111111111111111111111111111111111111111111111111111111111111111111111111111111											
	° HABITAT/USAID (Local Currency from FY 82 CIP) Low-Income Housing Project for small urban areas working												

ANNEX C (Cont'd)

STRATEGY OBJECTIVES AND VEHICLES FOR ATTAINING THEM AS WELL AS ESTIMATED TIME FRAME

STRATEGY OBJECTIVE	VEHICLE FOR PURSUING OBJECTIVE	ANTICIPATED TIME SCHEDULE											
		FY 1982		FY 1983		FY 1984		FY 1985		FY 1986		FY 1987	
		First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half
Provide Capital Resources to Open up Home Ownership to Low-Income Families (Cont'd)	through Building Societies														
	° FY 82 Technical Assistance and Training Grant														
	° Short-term Technical Assistance and Training from RHUDO/Nairobi														
7. Engage GOK in Policy Dialogue	MACRO ISSUES												
	° FY 82 to FY 87 CIP's														
	° FY 82 to FY 84 Agricultural Sector Program														
	° FY 83 to FY 85 Human Resources Sector Program														
	SECTOR SPECIFIC ISSUES												
	° FY 82 to FY 84 Agricultural Sector Program														
	° Fy 83 to FY 85 Human Resourses Sector Program														

STRATEGY OBJECTIVES AND VEHICLES FOR ATTAINING THEM AS WELL AS ESTIMATED TIME FRAME

STRATEGY OBJECTIVE	VEHICLE FOR PURSUING OBJECTIVE	ANTICIPATED TIME SCHEDULE											
		FY 1982		FY 1983		FY 1984		FY 1985		FY 1986		FY 1987	
		First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half	Second Half
8. Collaboration With Other Donors	° Support for SADCC through Regional Program	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111
	° Establishment of CDA Local Informal Working Group	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111
	° Regular Meetings of Major Donors	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111
	° Meetings of Donors to collaborate in Agricultural and Human Resources Sectors	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111	11111111

ANNEX D

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