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Country Development Strategy Statement

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Zimbabwe

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I. EXECUTIVE SUMMARY

A. Political Summary and Policy Environment

Five years ago the Lancaster House Agreement paved the way for the independence of Zimbabwe. Almost overnight men and women who had fought for fifteen years against the illegal rule of the UDI[1] government became the political leaders responsible for re-establishing stability, rebuilding national unity and managing a sophisticated economy.

The basic objectives of the independence war were political and economic equity. These included majority rule, access to land, improved health, and educational and employment opportunities. While majority rule came rapidly in the election which followed the Lancaster House Agreement, movement on the political/socioeconomic agenda has been slower as the new leaders attempt to balance competing and contradictory economic, social and political forces.

During the ninety years of settler and UDI rule in then Rhodesia, free enterprise capitalism became synonymous with racial discrimination and inequities in access to government, jobs, pay, education and health care. Changes now underway in these areas, often referred to as "restructuring" or "transformation" of the economy, were therefore not unexpected. Talk of socialism and the promise of a one-party state are seen, at times naively, as the means of ensuring economic and political equity. But Zimbabwe, like the United States or Kenya, remains a polycentric society characterized by different ethnic and economic groupings and diverse political orientations. It is a mixed economy of varied agricultural, mining, manufacturing and other private business activities. This economic diversity brings with it caution and pragmatism and any restructuring will, by necessity, be gradual.

In reality, Zimbabwe is seeking both change and stability. Particularly on those matters affecting the economy, a healthy pluralism continues to manifest itself in a slow, consensual approach to change. For instance, rather than acceding to intense political pressures for immediate redistribution of land, income and wealth, the new government has focused on "redistributing opportunity". In this regard, access to education, health and

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1 Unilateral Declaration of Independence made by the Smith government in 1965 just prior to the granting of independence to then Southern Rhodesia by the British.

training has been expanded to the long neglected African majority. Agricultural inputs and markets are now available for previously disenfranchised small farmers. Pragmatism has prevailed over ideology and the productive sectors of the economy are supported despite substantial socialist rhetoric. Private production in agriculture, industry and commerce has been encouraged. Only the clients have changed and the small and disadvantaged now receive greater government support. As Minister of Finance, Chidzero, said in 1982, "Growth without equity is unacceptable. Equity without growth is disaster".

The change in leadership occuring with independence has brought much social development for the poor and rural. But such social programs are unsustainable without sound growth within the economy. In 1980-81 growth was impressive. In 1982-83 unclear investment policy and ill-advised wage increases began to take their toll. The decline in wage employment accelerated and drought, foreign exchange shortages and recession put the economy into a noticable downward spiral. While agricultural policy was positive, a large budget deficit and poor investment policy tended to accentuate the recession.

Such ill-advised policies, drought, the disruption of landlocked Zimbabwe's routes to the sea, and world recession remain potential hazards to reasonable economic growth. The political fabric in Zimbabwe's body politic is also worrisome. There is as yet a tenuous and fragile political cohesion and the announced movement toward a one-party state has caused political discontent which, if it intensifies, could have serious economic consequences.

A major challenge to the government is to maintain sensible pursuit of its long range economic goals within a fragile and fluid political environment. The proof of the viability of Zimbabwe's mixed economy lies in its performance. The next few years will be critical and continued concessional assistance from the West is essential. During this period, Zimbabwe's friends can contribute more to stability by strengthening the mixed economy than by questioning each and every controversial internal political development.

B. Key Constraints to Development

Zimbabwe faces four major groups of constraints to economic growth and development. These include macro-economic constraints related to the structure of the economy, fiscal and monetary policy, investment policy and micro-economic constraints which affect household level production and income.

Key among the structural economic constraints is the general lack of adequate employment opportunities coupled with surpluses of unskilled workers and shortages of skilled workers. The chronic foreign exchange shortage and the reduced level of imported inputs have severely limited output capacity of existing industrial plant while discouraging investment in new plant, further constraining employment. Rural productivity is still adversely affected by the very low level of pre-independence investment in marketing, distribution, extension, transportation infrastructure and technology into communal lands. Building productive capacity in communal areas has correctly been a top priority of the Government. The high population growth rate is a most important structural constraint which inhibits efforts to improve per capita productivity, to increase the proportion of the labor force employed in the higher wage modern economy, to provide a larger proportion of small farm households with productive land, and to sustain gains in health and educational services.

The analysis of fiscal and monetary policy identifies a number of important constraints. Exchange rate policies, for instance, have resulted in sizeable nominal devaluations of the Zimbabwe dollar. However, most economists feel that further devaluation in real terms, along with decisions to further loosen exchange controls could help stimulate investment in export production or efficient import substitution. On the other hand, agricultural producer pricing policies have been good and have led to substantial movement of small farmers into the market economy. But some subsidies persist, adding to the excessive budget deficit.

In 1981 and 1982, the GOZ announced higher minimum wages that sought to redress the distortions that existed at independence. In commercial agriculture, minimum wages were increased by 63% in real terms between 1980 and 1982 and by 22% in the formal sector of the economy. After a shortlived economic boom in rural areas, due primarily to increased remittances, the ultimate effect was the loss of jobs. Commercial farm wage employment was 19%

lower (63,000 jobs) in 1983 than in 1980. In late 1982, the GOZ did belatedly introduce a policy of wage restraint, after recognising the undeniable tradeoff between higher wages and employment. Though still negative in real terms, interest rate policies have sought to restrain demand pressure and interest rates have been increased periodically since 1981.

While government revenue performance has been remarkable, most experts feel that Zimbabwe is overtaxed. Fiscal policies affecting high government spending still require attention. Political pressure is substantial for major expenditure on social programs in education, health as well as other high priorities such as defence. Nevertheless, government must impose more stringent fiscal management controls in order to bring the budget deficit back in line. A reduction of the budget deficit to less than 7% of GDP is a policy objective for the GOZ, IMF and USAID as well.

Investment policy constraints must be addressed and steps must be taken to improve the incentive structure for foreign and domestic investment. Several factors ranging from low savings ratios, the absence of investment insurance agreements, disincentive taxation, laws governing remittability and perceived political risk due to government socialistic pronouncements, to name a few, adversely affect the level of investment in Zimbabwe.

Finally, a look into the household level in Zimbabwe reveals that for the majority of the population, split families are commonplace. Most families in the communal areas depend, at least at times, on remittances from relatives employed in urban areas, commercial farms, mines or elsewhere. Few rural households obtain adequate income from farming alone. An estimated 70%-80% of urban households have close ties to homes in rural areas and are thus attempting to obtain wealth from both agricultrure and wage income. This dual income strategy is critical to family security. The household level analysis shows that expanded rural income choices revolve around development and intensification of agriculture, along with obtaining remunerative off-farm employment. Thus, increasing the productivity of farming systems in communal areas will be required if communal residents are to secure the necessary income to improve living conditions and establish a firm foothold in the market economy.

The strategy summarized below seeks to relax the constraints impeding investment, higher agricultural productivity and greater wage employment.

C. Proposed Assistance Strategy

In support of U.S. objectives in Zimbabwe to preserve and maintain the productive structure and general infrastructure of the economy; to guide the country toward a successful economic model; and to assist Zimbabwe to become a stronger economic actor within the region, an "EMPLOYMENT STRATEGY" is proposed. The strategy, which flows from the analyses, is based on the conclusion that poverty in the Zimbabwe context can best be addressed through increasing farm productivity, employment opportunities and labor productivity. Over the strategy period, the intent will be to support programs to increase both off-farm and on-farm income earning opportunities, to invest in development of skilled human capital and to reduce, over time, the population growth rate and the number of new entrants into the labor force. The strategy has three major components:

1. To Enlarge Employment Opportunities in the Modern Sector of the Economy. Three themes of this element will be emphasized. These are:

- to stimulate new investment and better use of under-utilized industrial capacity;
- to develop an adequate supply of qualified manpower; and
- through collaborative studies and dialogue, encourage economic policies more conducive to growth, investment and labor absorption.

We will seek to bridge part of the gap between labor supply and labor demand in the economy. This gap results generally from the high population growth rate, lagging investment and hence declining demand for labor in the modern commercial farming and industrial sectors.

2. To Increase Productivity and Incomes and Communal Smallholder Farmers. This element of the Mission's strategy derives from four factors substantiated by the analysis contained in this document.

- Most of the poor are located in rural areas and obtain a considerable portion of their income from agriculture.
- The only viable means of raising the standard of living of smallholders is through building on what is available.
- Considerable opportunities exist for raising smallholder productivity - if constraints are eased.

- Raising productivity and income of smallholders has very important demand implications for items produced locally, and more off-farm employment in the rural growth points can be stimulated.

3. To assist the strengthening of Zimbabwe family planning and demographic instututions that can, over time, begin to reduce the population growth rate.

The Mission's objective here will be to pursue our employment strategy through an eventual reduction in the number of new entrants into the labor force each year. This element will be accomplished in three ways:

- institutional support to strengthen and expand the Zimbabwe National Family Planning Council (ZNFPC);
- assistance in contraceptive supply on a full cost sharing basis and possibly contraceptive manufacturing; and
- assistance in defining, planning, and timing integration of family planning services into the country's primary health care delivery system.

D. Program Management

The Mission foresees no management-related obstacles to implementing the proposed strategy. Our fundamental management philosophy remains one of directing a largely non-project assistance portfolio with a very small direct-hire staff, relative to program size. We plan no new projects, other than PRE activities, for the strategy period. Instead, we will continue the three sector programs and two projects that are ongoing as our core portfolio. We will continue to rely on locally hired Zimbabwe professional staff, the use of local private consultants, public accounting and management firms, and selective REDSO and other regional personnel support to help manage our portfolio. The mix of nine direct hire Americans, four Foreign Service Nationals and seventeen (17) locally employed Personal Service Contractors in our view, effectively utilizes locally available personnel to manage the USAID/Zimbabwe program. As long as these skills are available to us no additional American direct hire staff is anticipated.

II. ANALYSIS

A. Post-Independence Development Performance

Historical Disparities

The challenges faced by the government of Zimbabwe derive from its inherited, inequitable structure of access to resources. The ninety years prior to Independence were a period in which economic policies, legislation, administration of land rights and public education were used to establish a structure which ensured cheap labor for the modern sector. Such policies also built an ever increasing difference in levels of infrastructure, social services and employment opportunities available to different racial groups. This led to the co-existence of two economically interdependent but highly unequal sectors. Small, poor subsistence agricultural producers stood in juxtaposition to large modern farms and industry. The contrast was often stark, with the concentration of poverty and under-development in the communal areas (formerly Tribal Trust Lands) populated by Africans, while wealth and modernity were the visible norms in the largely white urban and commercial farming areas of the country.

In education, there were gross disparities, with availability of places and investment by government in favour of white urban schools rather than black rural schools. shortages of urban housing for lower income groups grew from policies which regarded urban black migrants as temporary city dwellers whose real "homes" were in the communal areas. Housing that was built tended to be dormitory-like structures for single workers rather than families. Family splitting was reinforced by failure to invest in education and health services for the urban or African commercial farm worker. Medical facilities discriminated on the basis of race and ability to pay and different standards of health care were applied to urban and rural, black and white. Whites could purchase health insurance which protected them. Blacks could not.

The gap in income between white and black was one of the highest in the world.[1] Poverty was substantial among the employed as well as among the unemployed and underemployed. Surveys from the 1970's show significant

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1. Republic of Zimbabwe, Report of the Commission of Inquiry into Incomes, Prices and Conditions of Service. 1982.

shortfalls between average monthly incomes and poverty datum line requirements for urban workers. In 1982, there were 274,000 workers on the commercial farms who constituted 26% of the nation's formal sector wage earners. In 1981, their wages averaged around Z$60.00 per month, while the minimum acceptable cost of living for a family of five was up to Z$100.00 per month.

Agriculture

At Independence, Zimbabwe had in place a set of excellent policies and institutions that supported very productive commercial sector compared to a much less productive, mainly subsistence, small scale farming sector. About 40% of the land was reserved for the 5-6000 white commercial farmers and about 40% for 600-800,000 small scale black farmers, comprising 72% of the rural population. The commercial farmers controlled the better quality land on which high productivity, technologically advanced agriculture could be readily practiced. Three-quarters of the communal lands fell in the ecological zones considered unsuitable for intensive cultivation. Population growth, intensive cropping, soil erosion over the years and poor land husbandry had contributed to soil degradation in many of these areas.

The keys to the success of the "Rhodesian" commercial agricultural sector were (1) an effective marketing system for the major crops, (2) an agricultural research network focused on major commercial crops, with well developed facilities and programs manned by well qualified and experienced personnel, (3) a supply of credit, (4) a developed extension service, (5) effective planning to ensure availability of needed inputs involving the private sector and government, (6) a pool of trained manpower servicing the sector and (7) a modern industrial and commercial sector providing equipment, seeds and fertilizer transport and other services. Even as late as 1980 this supporting infrastructure failed to reach most small communal farmers. Little research had been done on smallholder crops or on the lower potential communal areas. Very little credit was available to smallholders and in most cases extension did not serve them. Most could not afford hybrid seeds or fertilizers.

The result was a commercial sector producing some 75% of total agricultural output and 90% of all marketed output. Prior to Independence, about 90% of all marketed agricultural produce came from large commercial farms, 3% from the small commercial sector and only 5-7% from the African

communal areas. The communal areas were net importers of food and were also consuming up to 80% of their production.[1]

Since Independence in April 1980 much has been done to reverse the starker aspects of this dualism, mostly through large sector public investments in agriculture, education and health in the rural areas. Agricultural policy over the past five years has been surprisingly pragmatic, designed to support and maintain commercial farm output while slowly building smallholder productive capacity through: (1) price increases for most crops; (2) addition of new smallholder crops to the list of controlled commodities, which gives them a guaranteed market; (3) additional buying points in the communal areas; (4) greater attention to research on lower potential areas, smallholder crops and smallholder farming systems; (5) a shift in the focus of extension towards smallholders; (6) resettlement schemes; and (7) expansion of the output of trained agricultural manpower.

The programs have been extraordinaryily successful. The number of smallholders registered with the Agricultural Marketing Authority (AMA), and thus able to sell directly to the marketing boards, rose from 134,000 in 1980/81 to over 323,000 in 1984. This is almost one-half of all smallholder families. Credit provided to smallholders by the Agricultural Finance Corporation (AFC) rose from 4,400 loans in 1970/80 to 70,852 loans in 1983/84. Market outlets are being brought closer to farmers, with the location of market collection points no more than 60 km from all farmers and ultimately within an 8-12 km radius of their farms. Extension in 1979 provided one agricultural advisor for 70 commercial farmers but only one per 1,000 communal farmers. The latter ratio in early 1984 was in the range of 1:850.

The production response from smallholders already has been notable. In spite of drought and rising input costs, last year smallholders delivered a larger quantity and higher percentage (40%) of total maize marketed than ever before. In 1984/85 smallholders delivered a record tonnage of seed cotton of what was also a record crop. This year about 45% of Zimbabwe's cotton came

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1. Republic of Zimbabwe, Report of the Commission of Inquiry into the Agricultural Industry, 1982, especially Table 20.

from smallholders[1] compared to 10% at Independence. Small farmers now purchase more than one-half of all hybrid maize seed. Fertilizer use by the same group has risen by over 400% since Independence, despite sharp increases in cost.

Reasons for these positive developments are more than just incentive prices. Infrastructure has been well maintained including roads, outlets for seeds, equipment and fertilizer. Mostly private systems of input delivery and efficient parastatal marketing provide the means of production when and where needed and provide farmers with rapid payment for produce. The necessary technology is available to enable increases in production and there are now more trained people in extension and research.

Land re-distribution was one of the primary issues of the independence war and a land resettlement program was proclaimed as a high priority of the new government. The program is based on the purchase of land from willing sellers. To date about 30,000 families have been resettled. This is far short of the announced three-year target of 162,000 families. The program has been slowed principally by drought, planning and financing constraints as well as government's conscious desire not to disrupt commercial agricultural industry and its capacity to produce food, export and earn foreign exchange.

Social Services

Government commitment to redress the inherited, inequitable distribution of social services has been matched with major programs in education, health, housing, water and sanitation. In health, primary and preventive measures have been emphasized. Within one year, more than 180 rural clinics destroyed or damaged during the war were rebuilt. In September 1980 charges were abolished for patients earning less than Z$150.00 per month. This resulted in a dramatic increase in outpatient attendance, particularly in rural areas. With budgetary increases for health, the population-to-clinic ratio is declining. Benefits are visible, as evidenced by the increased percentage of mothers who receive ante-natal care and are

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1. "Peasants bring in a Record Cotton Crop," The Herald, Harare, 12/13/1984, p.1.

more aware of preventive medical practices. In 1984, a survey of mothers found 87% of children aged 12-23 months to have received at least one immunization and 42% to be fully immunized. Comparable data for May 1982 showed figures of 59% and 25% respectively.[1]

In education, Zimbabwe has done in four years, at least in quantitative terms, what other developing countries have taken decades to achieve. The number of schools has increased from 2,411 at Independence to 4,161, a 73% expansion. Enrollment has climbed from 810,586 to 2.5 million students, a 205% increase. Public expenditures on education have grown from around Z$100 million to over Z$456 million over this same period. After peaking at 18% of the national budget in 1983/84 and 9% of GDP, the percentages declined to 16% and 7.6% respectively in 1984/85. This decrease indicates a growing concern within government to come to grips with the fiscal implications of the quantitative gains in education. Thus, the growth in public investment in education has been paralleled by greater investment of private resources as communities have been called upon to match government capital development grants with their own cash and in kind contributions.

Zimbabwe's accomplishments in access to education are impressive. In 1984, nearly all children of primary school age were in schools, in contrast to about half at Independence. Before Independence, only 12% of the children who successfully completed primary education (Grade 7) went on to secondary education. In 1984, 82% of those who finished Grade 7 in 1983 were enrolled in Form I, the first year of secondary school. By 1984, nearly a third of the secondary school age population was in school.

This sort of numerical achievement has been made possible by a combination of educational innovations sponsored by government plus greater community and private self-help. For example, to get more trained teachers into the schools as quickly as possible, the government altered teacher training to a four-year system in which teachers spend one year in residence at a teacher training college learning basic pedagogical skills, a year in the classroom, the third year in residence building on their practical and previous academic training and the final year back in the classroom. Through this practical program, Zimbabwe has not only been able to rapidly expand its

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1. Ministry of Health, Zimbabwe, "Report on a Joint Mission to Evaluate PHC in Zimbabwe." MOH, SIDA, SCF, UNICEF, WHO, June-July 1984.

supply of trained teachers, but also has used these teachers as vehicles for introducing curriculum innovations, such as a more practical secondary science education and greater

The Zimbabwe workforce can be generally divided into communal smallholders, commercial farm workers, mine workers and urban domestic, industrial and commercial workers. These are not isolated categories. Strong links exist between the communal farming sector and the modern sector. These relationships consist of resource and production flows, such as cash and in kind food stuffs as well as labor and manufactured products.

Post-Independence comparisons of income levels suggest that the urban poor and mine workers are relatively better off. The worst off are workers and their families on commercial farms and those living in communal areas. Most commercial farm workers and communal area farmers have incomes which are inadequate, by themselves, to meet the nutritional needs of their families.[1] The largest single group of people in poverty are those who remain tied to agricultural production in the communal areas. Those with little or no land and who lack remittances from migrants and households headed by single women and the elderly and infirm are the worst off.

Zimbabwe has no representative national sample income data for the smallholder population, so inferences must be made on the basis of data from smaller surveys, most of which have taken place since Independence.[2] Average income from small farm production is in the range of Z$250-300 per year, including both cash and subsistence. Rural families with urban migrants remitting income from the cities receive (on average) another Z$250 in cash and kind, thus effectively doubling their income levels. Families in communal lands grow only 60-80% of their maize requirements and 50-70% of rural families have a worker member in the cities or mines. Thus, receipt of a few hundred dollars in remittances from urban family members each year is critical to rural survival. These averages however mask great variations in farm income from place to place, from year to year and within communities. For instance, income is much higher of late in some cotton-producing areas.

Malnutrition remains a serious problem, particularly among commercial farm workers and in certain regions of the country such as Binga and the northern Zambezi valley. Analyses of available data indicate that 15-30% of the children sampled in communal areas had second to third degree

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1. The 1984 CDSS reviewed poverty datum line estimates in detail.

2. World Bank, op.cit., especially Volume 2, Annex 15; and "Social Analysis and Strategy Considerations for FY 87 CDSS, USAID/Zimbabwe."

malnutrition, while on commercial farms the figure, based on weight-for-height measurements, was 32%. Urban areas showed a total, weighted figure of 8%, and a limited mine worker sample showed a condition somewhat better than that for communal areas.[1] The causes of malnutrition are a function of agricultural production shortfalls combined with a lack of cash income to purchase other foods to make up a balanced nutrition intake. Increased income is the clearest route to improved nutritional status.

Since Independence there may have been some redistribution of income away from higher income urban households to lower income rural households. The evidence for this shift comes from the increasing share of the marketed maize and cotton crops produced by smallholders and the significant increases in minimum wages for domestic, commercial farm and industrial workers. The higher wages probably increased slightly the level of remittances. However, overall trends in real per capita income and employment are discouraging. Real per capita income has not grown significantly since the 1960's. The estimated real per capita income in 1984 will be below the 1979 level and the lowest level since 1968.

After an immediate post-Independence surge in employment, the economic downturn in 1983 and 1984 meant a resumption in the decline in job opportunities. In 1979, there were 984,700 people employed in the modern sector. This increased to 1,045,900 in 1982. Since then the total employed in this sector has decreased to 1,033,400 in 1983. The greatest job losses have come in commercial agriculture and domestic service.

Against this backdrop of declining employment opportunities, the number of new entrants into the labor market continues to expand. At the time of Independence, the annual number of new job seekers stood at close to 70,000. Today it is nearer 80,000. By the end of the decade it will have more than doubled to closer to 200,000.

As noted earlier, the post-Independence period has witnessed a significant broadening of access to education, health and agricultural services. While these changes are not reflected in an overall improvement in real per capita incomes and access to employment, they have resulted in improvements in health and educational status of the vast majority of

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1. An excellent review of available nutritional data can be found in World Bank, op.cit.

Zimbabweans. This redistribution of opportunity has created a base upon which more equitable growth can be eventually realized. Success, however, lies in stimulating the economy and investment to create greater opportunities for employment while consolidating the gains in access to health, education and agricultural services. This, of course, will have to be done within national budgetary resource limitations and therein lies one of Zimbabwe's greatest short run difficulties.

C. Macroeconomic Indicators and Economic Performance

Gross Domestic Product and Employment Trends

Zimbabwe's national accounts statistics for the last few years are still provisional. The available data indicate a rapid recovery of real gross domestic product (GDP) in 1980 and 1981 after a three year slump during the intense hostitilies of the late 1970's (see Table 1). This was followed by a sharp decline in 1982 and 1983 stimulated mostly by world recession and drought. Real GDP per capita did not quite regain its 1975 level before the onset of the 1982/3 decline, which left it 15-16% below the 1975 mark at about US$740.[1]

The 1982-83 decline was mainly the result of three factors: (1) drought which reduced real agricultural output by almost 30%, (2) recessionary export demand for minerals, production of which declined by 12% in four years and (3) a constrictive shortage of foreign exchange for imported inputs, which reduced capacity utilization and production (by 5% in 1983) in manufacturing. Forecasts projected a further small decline in GDP of 1-2% in 1984.[2]

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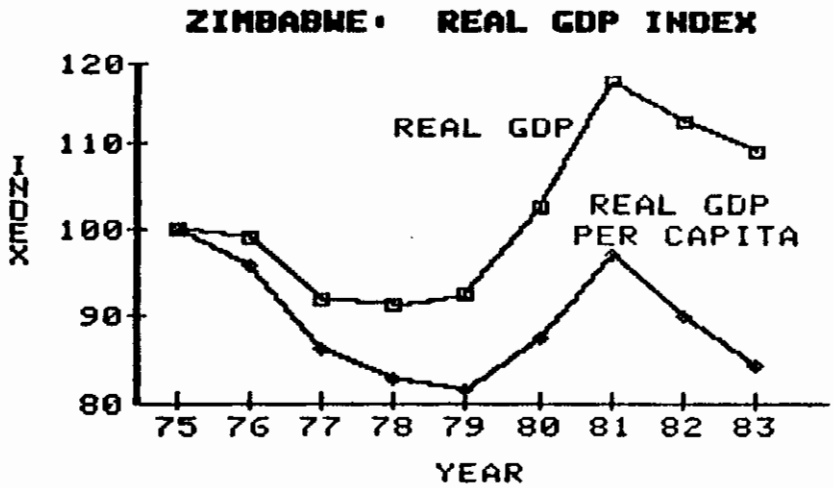
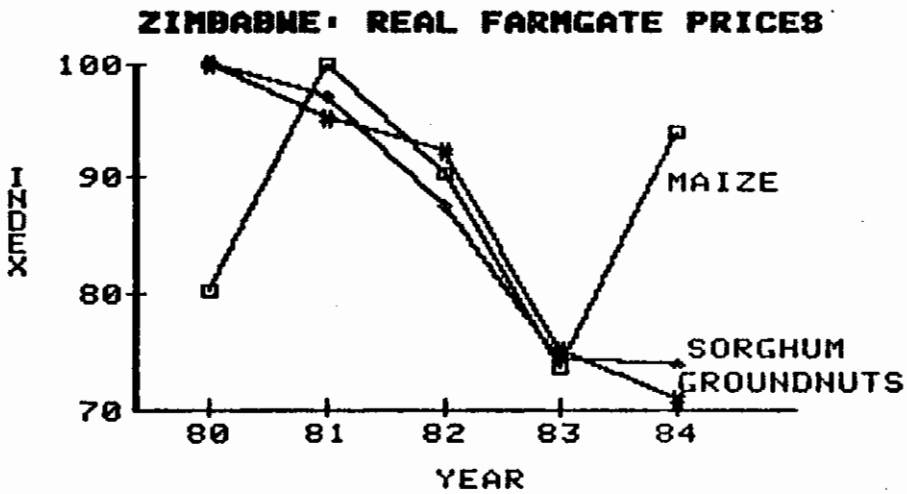
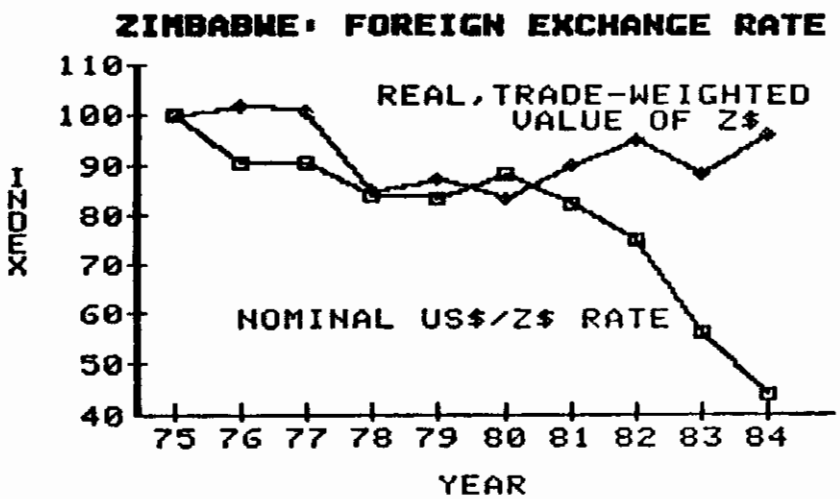
1. 1983 GNP per capita in US dollars as reported in a memorandum from the President of the World Bank, "Per Capita Income Guidelines for Operational Purposes", dated November 8, 1984. Due to the recent decline in real per capita income, Zimbabwe has fallen out of the "upper middle-income countries" into the "lower middle-income" category, making it eligible for assistance from the World Bank IDA window and for softer terms on World Bank loans.

2. "Modest Recovery likely in 1985," Standard Chartered Economic Bulletin, Standard Chartered Banks Group, Zimbabwe, Nov. 1984.

Table 1


ZIMBABWE: REAL GDP INDEX
120
110
100
90
80
INDEX
REAL GDP
REAL GDP
PER CAPITA
75 76 77 78 79 80 81 82 83
YEAR


ZIMBABWE: REAL FARMGATE PRICES
100
90
80
70
INDEX
MAIZE
SORGHUM
GROUNDNUTS
80 81 82 83 84
YEAR


ZIMBABWE: FOREIGN EXCHANGE RATE
110
100
90
80
70
60
50
40
INDEX
REAL, TRADE-WEIGHTED
VALUE OF Z$
NOMINAL US$/Z$ RATE
75 76 77 78 79 80 81 82 83 84
YEAR

However, of more concern than these short-term setbacks, which can measurably improve with better weather and an upturn in the world economy, are longer term trends affecting the labor force and employment. With population (presently around 8 million) and the labor force (estimated around 2.8 million) both growing at well over 3% per year,[1] the economy, to perform one of its most basic functions satisfactorily, must provide productive employment for more than 80,000 new workers (net) each year. Formal (modern) sector employment, however, has been relatively stagnant. Although it had regained, by 1982, 6% over its 1979 low, employment has not yet reached the 1975 peak level of 1,050,200. Rough estimates indicate that formal (modern) sector employment has declined as a proportion of the total labor force from 49% in 1975 to 37% in 1983. This suggests that new job seekers are increasingly having to rely on employment either in traditional agriculture or in the informal sector. Of greater concern, it reflects a growing rate of unemployment and underemployment.

Employment in commercial agriculture dropped by 100,000 workers (28%) between 1975 and 1983 (Table 2) while an additional 36,000 jobs were lost in construction and domestic services. During this same period, manufacturing jobs increased by only 17,000 while employment in public administration, education and health-related services increased by 81,000. As a percentage of the total (formal sector) wage employment, commercial agriculture dropped from 37% in 1975 to 26% in 1983, while employment rose slightly in manufacturing to 17%, in commerce to 14% and more rapidly in services - from 25 to 32%. The latter was due mostly to the expansion of public administration and education (see Annex B, Tables 3a and 3b).

From the perspective of the total labor force, however, the traditional small farm sector still dominates, providing about 60% of all jobs in 1983. Although not much is known about it, the non-farm informal sector is thought to be quite small in Zimbabwe, with an estimated 50,000 workers (in

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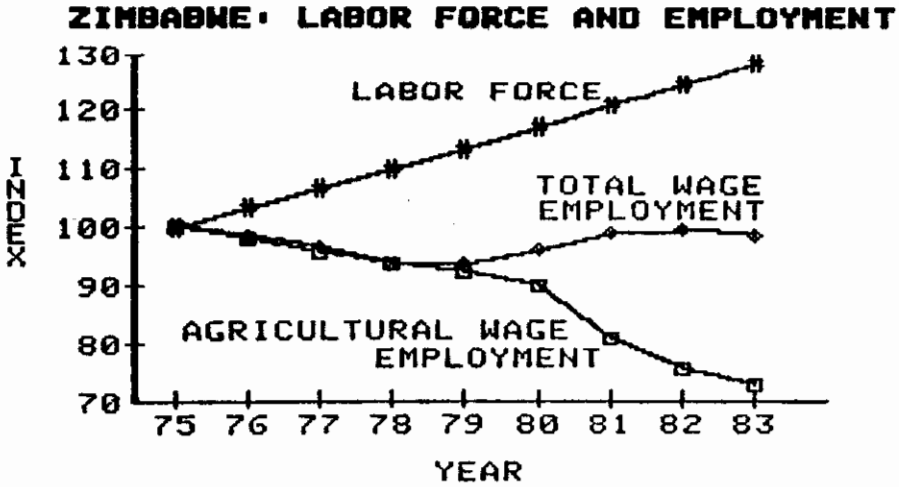
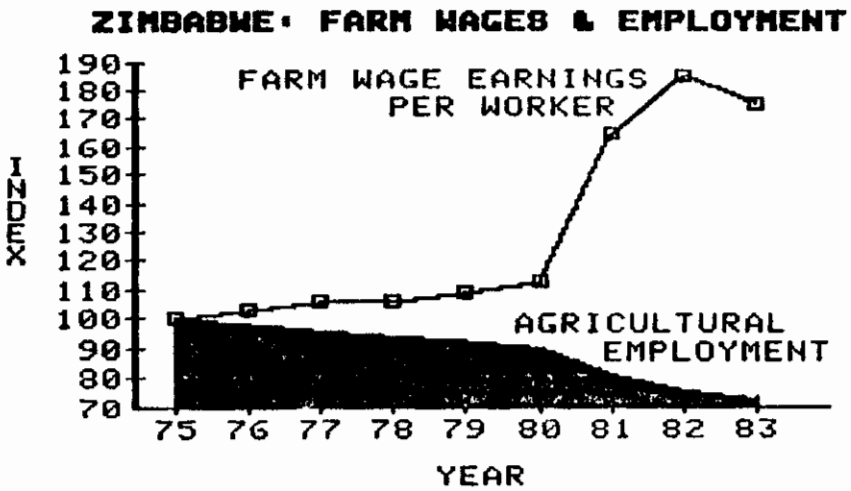
1. Zimbabwe does not publish annual estimates of the labor force, and estimates of the population growth rate range between 3.0% and 4.0%, pending further adjustment and analysis of the 1982 census results. See Annex B, Table 3a for an explanation of the population and labor force used here.

Table 2


ZIMBABWE: LABOR FORCE AND EMPLOYMENT
LABOR FORCE
TOTAL WAGE EMPLOYMENT
AGRICULTURAL WAGE EMPLOYMENT
INDEX
130
120
110
100
90
80
70
75 76 77 78 79 80 81 82 83
YEAR


ZIMBABWE: FARM WAGES & EMPLOYMENT
FARM WAGE EARNINGS PER WORKER
AGRICULTURAL EMPLOYMENT
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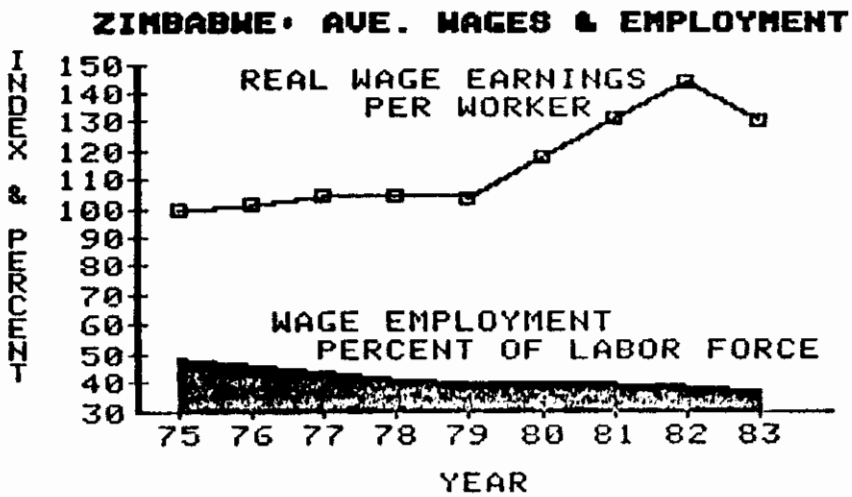
ZIMBABWE: AVE. WAGES & EMPLOYMENT
REAL WAGE EARNINGS PER WORKER
WAGE EMPLOYMENT PERCENT OF LABOR FORCE
INDEX & PERCENT
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1980), or about 2% of the total.[1] Commercial agriculture employed about 9% of the working age population in 1983, so that about 70% of all workers depended directly on the agricultural sector, even though it contributed only 14% to GDP. In contrast, although the manufacturing sector contributed 23% of GDP, it employed only 6% of the entire working age population.

Despite its rapid expansion during the late 1970's and early 1980's, public sector employment remained a very modest proportion of the total in 1983, with employment in public administration and education accounting for about 3% each.

Wage Rates

Average wages for commercial farm workers remain only 25-33% of those in the rest of the formal sector, despite the large increases dictated in 1981 and 1982. As noted earlier, estimates of average annual household income derived from communal farms placed it at about Z$250 in 1978, including about Z$130 in home consumption of food and Z$120 cash, for an average of 2 adult work years per farm. This estimate, Z$125 per worker, indicates average communal farm earnings were little more than a third of average wage earnings in commercial agriculture that same year, when the latter were only 10-20% of other formal sector wages.[2] This gives an idea of the tremendous disparities in income that exist between those working in smallholder agriculture and those working in the formal, modern sectors of the economy.

Fifty to seventy-five percent of all small farm households typically include at least one member in the formal wage economy who remits income each month to relatives on the farm. Hence the rigid distinction between the incomes of peasant cultivators and formal sector wage earners cannot be made. In Zimbabwe this interdependence of sectors not only describes a necessary survival mechanism, but it also points to a means of reducing poverty - i.e., greater off-farm employment.

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1. Rice, E.B., "Prospects for Employment Outside the Small Farm Sector," November 4, 1982, (draft prepared as a background paper for the World Bank, Zimbabwe Agricultural Sector Study, December 28, 1983, pp.4-6

2. See Annex B, Table 4b for formal sector wage earnings per worker, and see Rice, op.cit., pp. 24 for a discussion of the estimates of communal area farm income.

National income distribution changed between 1980 and 1983. The share of indirect taxes in GDP rose from 9% in 1980 to 16% in 1983 as the rates were raised sharply, while the share of gross operating profit fell from 37% to 28% due to poorer profitability in the private corporate sector. The share of wages and salaries rose from 55% in 1980 to 60% in 1982 as a result of the increased minimum wage rate, but then it returned to 55% in 1983, reflecting a policy shift to wage restraint in 1982 and 1983.[1]

Savings and Investment

Investment is relatively high as a proportion of GDP, but it has been on a declining trend since reaching 28% in 1981, falling to 22% in 1983. This reflects the low level of foreign investment capital inflows and a slight decline in the domestic savings ratio, from 21% of GDP in 1981 to 19% in 1983; still high by developing country standards. The investment which has taken place has been largely in infrastructure. New direct investment in productive capacity has been modest, and much of Zimbabwe's capital equipment is still obsolescent or in poor repair.[2]

Fiscal Indicators

While real output has declined, the government budget has expanded. Between 1980/81 (July-June) and 1983/4 government revenues increased from 27% to 36% of GDP while total expenditures and net lending increased from 36% to 50% of GDP. The major portion of this increase was accounted for by current expenditures. The overall budget deficit was 8% of GDP in 1980/81 and 1981/82, 9.7% in 1982/83, and has been estimated to have increased to 11.9% in 1983/84. While the ability to raise 36% of GDP for revenues is unusual for a developing country, expenditures continue to outstrip revenues. Except for 1981/82, the major part of the fiscal deficit has been financed from domestic sources (both bank and non-bank), with consequent pressure on both domestic and import demand. Bringing public sector expenditures under control and reducing the fiscal deficit is one of the more urgent, and yet apparently more

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1. IMF, August 27, 1984, op.cit., pp.1-3.

2. IMF, "Zimbabwe - Recent Economic Developments," August 27, 1984, p.1, and IMF, "Zimbabwe - Staff Report for the 1984 Article IV Consultation," August 15, 1984, p. 2

Table 5

ZIMBABWE: Balance of Payments, 1978-85 (in millions of SDR's)

Item	1978	1979	1980	1981	1982	1983p	(rel.projections) 1984	1985
Trade Balance	214.9	158.4	81.8	-20.5	-147.2	98.6	77.0	162.0
Exports, f.o.b.	733.4	835.7	1110.6	1129.0	1189.6	1062.8	1144.0	1224.0
Imports, f.o.b.	518.5	677.3	-1028.8	1149.6	-1337.4	964.2	1067.0	1062.0
Services (net)	-171.2	-199.2	-250.8	-441.1	-424.3	416.6	-401.0	-450.0
Freight & insurance	-36.0	-51.4	-46.9	-137.3	-147.3	-137.8	-160.0	-152.0
Foreign travel	-61.2	-75.4	-103.4	-106.2	-70.0	-43.1	-45.0	-45.0
Investment income	-28.8	-27.9	-22.0	-97.5	-190.6	-193.6	-158.0	-212.0
Other	-45.1	-64.6	48.6	-100.1	20.4	-42.1	-38.0	-41.0
Private Transfers (net)	-17.9	-47.3	-92.7	-102.9	-126.8	-120.6	-75.0	-99.0
Current Balance	24.7	-84.1	-271.7	-615.6	-694.3	439.6	-399.0	-387.0
Official Transfers (net)	0.0	0.0	44.4	72.6	57.7	32.1	54.0	54.0
Capital (net)	116.4	76.3	-2.3	275.9	474.5	74.5	125.0	102.0
Government	143.2	124.3	-25.8	108.2	126.3	-15.0	60.0	50.0
Public enterprises	-5.0	-7.3	-3.0	151.6	274.7	67.8	77.0	33.0
Other	-21.8	-90.7	26.5	16.1	73.4	21.7	-6.0	-21.0
Net Errors and Omissions	-29.1	92.6	179.8	87.9	83.2	27.1	--	--
SDR Allocation	0.0	0.0	0.0	10.1	0.0	0.0	--	--
Monetization of Gold	0.2	2.8	45.7	18.6	-6.6	36.8	--	--
Overall Balance	117.2	47.6	35.9	-150.5	-85.5	-268.1	-220.0	-231.0
Valuation Adjustment	8.8	-0.1	36.0	-24.2	-3.0	-6.7	--	--
Financing	-126.0	-47.5	-71.9	174.7	88.5	274.8	220.0	231.0
Gold	0.3	-2.8	-81.2	3.3	9.4	-30.8	--	--
Other	-126.3	-44.7	9.3	171.4	79.1	305.6	220.0	231.0
Of which:								
Use of Fund resources				37.5		153.6	71.0	-19.0
Memorandum Items:								
Foreign Assets (net, end of year)	99.9	147.4	219.3	44.6	-43.9	-318.7		
Current Balance as percent of GDP)	1.1	-2.8	-5.8	-12.1	-13.4	-9.7		
External Public Debt:								
Debt outstanding (mil.SDR)	--	456	601	1049	1851	2235	2535	
Debt service ratio (%)	--	--	3.8	8.2	10.9	17.4	23.7	26.9

SOURCES: IMF, "Zimbabwe - Recent Economic Developments," 8/27/84, pp. vii and 42; and IMF, "Zimbabwe - Staff Report for the 1984 Article IV Consultation," 8/15/1984, pp. 15 and 19.

difficult, political tasks for the Government.[1] The last IMF Standby Agreement was suspended in February 1984 when a supplementary budget of Z$304 million pushed public expenditures and borrowing well beyond the agreed program limits.

Domestic Demand and the Balance of Payments

Despite the government's reliance on a restrictive exchange and trade system, domestic demand pressures have had a negative effect on the external balance of payments. The current account deficit increased sharply from 5.8% of GDP in 1980 to 12.1% in 1981, 13.4% in 1982 and then declined to 9.7% in 1983, with a further modest improvement projected for 1984 and 1985. The overall balance of payments situation, which was in surplus in 1980, slid into deficit in 1981, and increased to minus SDR 266 million by 1983. Very little improvement was projected for 1984 and 85. Net foreign assets have declined rapidly to minus SDR 285 million in June 1984. Gross foreign assets equal about two months of imports. Outstanding external public debt has increased from SDR 456 million in 1979 to 2,535 million in 1984 (preliminary), while the debt service ratio has risen from zero to 23.7% and a projected 26.9% in 1985.[2] (See Annex B, Table 9).

Agricultural, mineral and manufactured products each contribute about a third to total export earnings. The main agricultural exports are tobacco, sugar, maize and coffee. The main mineral exports are gold, asbestos, nickel and copper and manufacturing exports include ferro-alloys, iron and steel products, cotton lint, textiles and machinery. Since 1981 exports have been hampered by external transportation bottlenecks through Mozambique and South Africa, shortages of locomotives, freight cars, and skilled transport personnel, stagnant world demand, unfavorable weather and insufficient foreign exchange for necessary spare parts and materials. Moreover, in spite of admirable decisions of the government to permit the currency to fall by 50% against the U.S. dollar since 1982, the real effective appreciation of the Zimbabwe dollar has resulted in reduced international competitiveness for

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1. IMF, August 15, 1984, op. cit., pp. 2-4, and August 27, 1984, op. cit., pp. 21-33.

2. The discussion in this and the remaining paragraphs of this section relies heavily on IMF, August 15, 1984, op.cit., pp. 4-5, and IMF, August 27, 1984, op.cit., pp. 43-45.

manufactured goods. About half the 11 percent decline in 1983 exports was due to the decision to accumulate gold stocks rather than export gold at depressed prices. (See Annex B, Tables 10a and b.)

Major imports in 1983 included machinery and transport equipment (30%), petroleum and petroleum products (21%), chemicals (14%) and other manufactured goods (22%). Imports rose by 26% in 1981 and 3% in 1982; but then were reduced by 28% (in SDR terms) in 1983 for lack of foreign exchange. (See Annex B, Tables 11a and b). Following improvements of 24% and 11% in 1980 and 1981, respectively, Zimbabwe's external terms of trade deteriorated by 3% in 1982 and perhaps another 2% in 1983.

During 1981-1983, the Government undertook a number of measures to restrain the growth in demand:

- In 1981 interest rates were increased, with the bank rate rising from 4.5% to 9.0% and the commercial bank prime lending rate rising from 7.5% to 13.0%. Several consumer lending rates are positive in real terms, but the real interest rates on savings deposits, money market funds, and the prime overdraft rate of commercial banks have remained negative. Statutory reserve and liabilities ratio requirements have been periodically altered to influence bank lending activity. As a percentage of broad money stock at the beginning of the year, total domestic credit increased by 26.5% in 1981, 29.5% in 1982 and 17.2% in 1983. The rate of broad money expansion was 15.2% in 1981 and 21% in 1982 but nearly zero in 1983 due to the large decline in foreign assets. It mushroomed again in 1984, however, increasing by more than 30%.[1]

- There were substantial increases in administered prices in 1982 and 1983, including those for beef, fertilizer, steel, electricity, maize meal, railway tariffs, bread, milk and vegetable oils. Price increases have also been approved for a wide range of products not directly administered but subject to approval. The prices of petroleum products fully reflect world prices.

- There were no general wage increases in either the private or public sectors in 1982/83, representing a significant change in wage policy for lower income groups. During 1983/84 wage restraints continued, with adjustments permitted amounting to an increase of about 5% in the general wage level. Restrictions on new hiring and the filling of vacant positions for the Government service were imposed in 1983/84 and have continued.

- The Zimbabwe dollar was devalued by about 25% in December 1982-January 1983 and has been devalued by smaller amounts since then

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1. "Modest Recovery Likely in 1985", op.cit.

on a periodic basis, both to reduce import demand and to increase the profitability and /or the competitiveness of exports.

These measures have not, however, been sufficient to reduce domestic demand, particularly in the public sector, to appropriate levels to stabilize prices and reduce the balance of payments deficit. Despite the substantial administered price increases of 1982 and 1983, several parastatals (the Agricultural Marketing Authority, the national railway, the airline) and the government-controlled iron and steel company (ZISCO) have incurred large losses which have increased the fiscal deficit. Continuing, albeit lower subsidies for beef, milk, maize and maize meal have also contributed to this deficit.[1] High levels of government borrowing to finance its expenditure, subsidy and lending programs have been the major contributors to high levels of domestic demand. The large 1980-81 rise in real wages also increased demand pressure. Higher wage costs have also put a severe strain on a wide range of enterprises (particularly in the mining and manufacturing sectors), especially as companies are restricted in their ability to reduce the number of employees. Despite the more flexible exchange rate policy, the real, trade-weighted, purchasing power parity of the Zimbabwe dollar has risen since 1980 to a level almost equal to that of 1975-77, as the devaluations so far have not exceeded the differential rates of inflation between Zimbabwe and its trading partners (See Annex B, Table 8). The devaluations therefore have not had the full desired effect of dampening import demand. Combined with the continued high levels of domestic demand fed by fiscal deficits and high wages, the balance of payments has remained under intense pressure.

The rate of inflation has also continued to increase, due to these same high levels of domestic demand. The GDP deflator rose by 8.1% in 1981, 12.8% in 1982 and by 16.4% in 1983. The consumer price index (average of high-income and low-income indices) rose by 13.9% in 1981, 14.6% in 1982 and 19.4% in 1983, and was expected to rise another 16-17% in 1984.

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1. See IMF, August 27, 1984, op. cit., p. 73. Commodity and parastatal subsidies in 1983/84 were estimated at 9.0% of total Central Government expenditure and net lending.

D. Development Potential and Constraints

Development Potential

Zimbabwe is a country of considerable potential for further economic growth. It is rich in natural resources - agricultural, mineral, hydro-electric. It has an extensive transportation network and agricultural servicing infrastructure and has already developed a dynamic manufacturing sector. Exports are diversified enough to provide some protection against price fluctuations for any particular commodity, with agricultural and mineral exports each contributing about a third and manufactured goods another 25%-30% of total export earnings (see Annex B, Table 10a and 10b). Although it has lost a number of skilled managers, professionals and technicians since Independence through emigration, it still retains an essential core of qualified people both in and out of government and intensive efforts, through several academic and technical training programs, have been made to increase the pool. The country's development potential is considerable.

Opportunities for increasing the incomes of the poor among the vast majority of Zimbabwean households can be grouped into four categories: 1) increasing off-farm productive employment through expanded investment in the modern "formal" and non-farm "informal" sectors of the economy; (2) improving productivity on the small, communal farms while sustaining the important commercial farm production; (3) slow and careful resettlement onto richer lands; and (4) reducing over time, population growth and the number of new entrants into the labor force.

The formal sector has already achieved such a critical mass in proportion to the rest of the economy that a resumption of growth of employment in this sector could be enough to make a significant difference within a few years time. For example, if modern sector employment generation could be maintained at an annual growth rate just three percentage points above that of the labor force, that sector would employ 50% of the labor force within ten years and 67% within twenty years, starting from the present level of around 37%. Short of this, however, employment growth in this sector must be raised to a sustainable level above the 3-4% growth rate of the labor force itself, at a minimum, for the employment performance of the Zimbabwe economy to be considered even marginally successful. A slower rate of productive

employment generation would mean the continued decline, instead of an increase, of the percentage of the total labor force productively employed, thereby the failure of the economy to perform one of its most basic functions.

While the non-farm informal sector is thought to be quite small in Zimbabwe, as mentioned above, employing only around 2% of the labor force, it is likely to contain some potential for productive employment growth, particularly in rural areas. Much more needs to be learned about this sector and its potential.

There is mounting evidence, some of which has been mentioned or cited above, that post-independence efforts to increase small farm productivity and marketed production in communal areas are already starting to pay off. Current yields are still low, on average, compared with potential yields from already existing technology (although it may require more adaptive research). Investments in supporting infrastructure and services are responding to the new smallholder clients and most agricultural specialists are convinced significant increases in communal area productivity are possible.[1] These production increases are unlikely to be sustained for very long, however, unless conservation and land management measures can be effectively introduced.

While it is too early yet to evaluate the Government's program to resettle some 162,000 families on more productive farmland, it appears to be a notable attempt to foster greater equity in land distribution. Resettlement would have strong justification on environmental grounds alone if it could relieve population pressures in many communal areas now subject to serious overcropping. However justified, if resettlement is ill-planned or carried too far, it could result in lower production and employment. It has been estimated that up to 5.5 million hectares of commercial farm land could be purchased for resettlement without negative impact on commercial production. Fortunately, the government seems to be well aware of the potential negative effects of a poorly planned and administered resettlement program. Consequently, thus far, it has moved very slowly and deliberately, resettling land that is currently underutilized and voluntarily sold. It is also giving more attention to evaluation and planning.

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1. See, for example, World Bank, Zimbabwe Agricultural Sector Study, December 28, 1983.

Structural Economic Constraints

While the Zimbabwe economy, as it is presently constituted, has considerable potential for employment generation in the modern sector, there are several important constraints that are "structural" in nature, in that they are either inherited or have developed over a long period of time and will require patient, long-term efforts to overcome. For example, the "self-sufficient" legacy of the UDI period reduced attention to export possibilities (which tend to be more labor intensive) and may have led to some industries of doubtful competitiveness. Some continue to receive protection and government subsidy (i.e., ZISCO) because of perceived national interests.

Like most other developing countries, Zimbabwe also suffers from insufficient human capital (people trained in technical, professional and managerial skills) to support the growth of a modern economy. Although it is relatively better endowed in this regard, large numbers of skilled and experienced people have emigrated, and it will take a long time to develop adequately trained and experienced replacements. As little was done during the UDI period to establish in-country training institutions for Africans, particularly in technical subjects, the country faces a twenty-year catch up in many categories.

The utilization of labor has been reduced in some industries and even on some commercial farms through the use of capital-intensive production techniques, although this is not as much of a problem as in some other countries. Commercial farming, in particular, is usually characterized in Zimbabwe as being rather labor-intensive.

The current shortage of foreign exchange has severely reduced imported inputs, inhibiting capacity utilization of existing plants, as well as investment in new plants and equipment - thus reducing employment still further. Export earnings (in SDR's) grew by only 7.6% (estimated) in 1984, after falling 14% the two preceeding years largely due to weather-related crop damage and recessionary demand abroad. On the other hand, domestic demand for foreign exchange has been extraordinarily high due to (1) the strong, pent up demand after years of sanctions, (2) the need for raw materials, spare parts and replacement capital equipment, (3) increasing debt service requirements due to inherited debt and high interest short-term borrowing in 1981/82, and (4) a large requirement for remittances to cover pensions payable abroad. The

latter was a critical part of the Lancaster House settlement. In addition, the large proportion of foreign investment in the modern economic sectors places additional demands on available foreign exchange for profit repatriation.

Current efforts to increase rural productivity are constrained by the low levels of investment during UDI in appropriate technology (adaptive research) and in basic marketing, extension, and transportation infrastructure in communal areas. Consequently, the government has had to start almost from scratch to build up the productive and marketing infrastructure and services in the low-income half of the agricultural sector. Most of the communal land suitable for cultivation has already been brought under the plow, and this limits the potential for further expansion of the cultivated land area itself. Continued environmental damage could also reduce the potential for future productivity. Historically, small farmers have not had much access to good quality land in commercial farm areas, even though some 5.5 million hectares of it is idle or not intensively used.

Finally, the high rate of population growth must be mentioned as a key structural constraint affecting all efforts over the long run to improve per capita productivity, to increase the proportion of the labor force employed in the higher wage modern sector, and to provide a larger proportion of small farm households with productive land. High levels of investment and intensive agricultural efforts will be required just to maintain existing proportionate levels of employment.

Economic policy constraints

Perhaps because it achieved its independence so recently and was able to observe the undesirable effects of certain economic policies in neighboring African countries, perhaps also because it had more technically trained people in its government and universities, Zimbabwe has, so far, avoided the worst examples of bad economic policies witnessed in many other African countries. Yet the political imperatives are similar to those experienced after Independence elsewhere, i.e., for expanded social services, for improvements in the general welfare of the poor majority, and for a more equitable distribution of land, income and wealth. The economic policies being followed in Zimbabwe are often contradictory in appearance, as the country strives for both change and stability, equity and growth. Policies, while pragmatic, are also complex and do not always have the desired effect.

Although the foreign exchange rate has undergone a series of nominal devaluations, its real purchasing power parity, in trade-weighted terms, was higher in mid-1984 than in 1980 and not much below the levels of 1975-77 (see Table 8). Export volumes increased a disappointing 3% in 1983 and were still 11% below the 1974 peak; but they surged ahead by 39% during the first four months of 1984.[1] Given the diversity within the economy, the potential for further increasing exports should be good. Further de facto devaluation in real terms, together with either a freeing up of exchange rate controls, or at least a commitment to maintain the rate at a slightly undervalued level, could help stimulate investment in export production (or in efficient import substitution). It would also help to discourage unnecessary imports of capital equipment and encourage the use of more labor-intensive production techniques.

While commodity and exchange rate pricing policies have been moving in the right directions, they have generally not gone far enough, or else they have lagged too slowly behind the changing costs of production, to keep investment, production and consumption incentives at their optimum levels. Compared to the recent history of several of Zimbabwe's neighbors, commodity pricing policies have apparently not been major constraints to agricultural production. Some manufacturing firms, however, have suffered from slow approval of price increases during recent periods of rapid cost escalation and some parastatals have incurred losses due to prices set too low to cover their costs of production.

So long as the Government insists on controlling them, agricultural producer prices need constant attention and adjustment, particularly in a period of high inflation, if real incentives are to be maintained at appropriate levels. However, sufficient incentives have been provided for Zimbabwean farmers to expand production in most crops; although some are beginning to complain again about a decline in profitability. Significantly, government is very open to review and negotiate prices with the three private farmer unions, and a very positive process is in place for the periodic review of pricing. However, producer pricing is a complex area that requires continual analysis and monitoring.

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1. "Modest Recovery Likely in 1985," Standard & Chartered Economic Bulletin, Standard Chartered Bank Group, Zimbabwe, Nov. 1984.

Another politically complex policy area is that of wages. One of the strongest political imperatives faced by the new government at Independence was the need to redress enormous inequalities of wealth and income. One expedient measure was simply to decree higher minimum wages, which was done in 1981 and 1982. This was an especially appealing solution with respect to commercial farm workers whose income and conditions of work and living were abysmally low. Minimum wages in commercial agriculture were increased by 63% in real terms between 1980 and 1982, compared with a 22% overall increase for the formal sector. The huge increase certainly benefitted those already employed who were lucky enough to keep their jobs. Increased remittances to rural areas also resulted in a short-lived economic boom in the communal areas. It did not help those who lost their jobs, however, nor the even greater numbers who were looking for non-existent jobs. The unfortunate effect was the accelerated decline in commercial farm wage employment.

The government has since recognized the undesirable tradeoff between higher wages and employment. Beginning the latter half of 1982 it has followed a strict policy of keeping further wage increases well below the general rate of inflation. If wage restraint can be continued over an adequate period of time, this will eventually restore the incentives to employ more labor.

The basic cause of low wages is the low productivity of the primary alternative source of income for the largest portion of the labor force - smallholder farming. This in turn is largely the result of years of minimal investment in basic economic and social infrastructure in the rural areas, together with insufficient investment in any alternative source of employment and income. This will take years of hard work, large amounts of capital and much institution building to correct. It cannot be solved with minimum wage legislation, however politically attractive the latter may be.

Interest rate policies have been designed to help restrain excess demand pressures and, as a result, have been raised periodically since 1981. Lending rates to ordinary corporate or private borrowers now range from 13.25% to 23% and are more closely aligned with the rate of inflation than before. They are still mostly negative in real terms, however, to the detriment of domestic savings generation and efficient credit allocation. The Reserve Bank

has also sought to restrain monetary demand, limit the expansionary effect of the large budget deficit and permit adequate credit for the productive sectors, especially agriculture. They have only partially succeeded.

Despite impressive revenue collection (36% of GDP), government spending is still far too high (47% of GDP), with consequent expansionary pressure on domestic credit resources and the money supply. There have obviously been strong political pressures for the programs responsible for major expenditure increases, such as the rapid expansion of the education and health systems, subsidized parastatal operations, defence and some food subsidies. Budget management is now a key policy issue and imposing more stringent spending controls is essential. The necessity to finance such a large deficit drains savings and investment funds away from the productive sectors, thus reducing growth and employment. While this has not had much negative impact in recent years due to excess capacity and slack demand for investment funds, it can be expected to constrain private sector investment during a recovery. The relative scarcity of budgetary resources also restricts the government's financial ability to perform its own basic functions well. Reduction in the deficit, as a percent of GDP, is now a major agenda item for both the GOZ and the IMF. A new standby with the IMF will not be concluded without an acceptable plan for budget restraint, and the IMF will probably insist on a deficit target of no more than 7% of GDP.

Investment Policy Constraints[1]

Government policies constraining both foreign and domestic investment are worthy of special mention since this is an area wherein there exists significant potential for stimulating employment and economic growth. While low profitability and adverse remittability conditions discourage investment in Zimbabwe, the poor investment policy is probably the major negative factor influencing potential investors. New foreign investment is particularly constrained by several factors which include:

- the refusal to negotiate bilateral investment insurance agreements (e.g., a U.S. OPIC agreement),

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1. For a more thorough analysis and discussion of the investment climate and Zimbabwean public policy, see background paper on Public Policy and the Zimbabwe Economy by Professor Tony Hawkins.

- a government Investment Committee which screens each potential investment, often requiring long, protracted negotiations and delays before a decision is taken,

- regulations precluding foreign companies from purchasing domestically-owned concerns - the H.J. Heinz acquisition of the controlling interest in the locally-owned Olivine Industries being the exception,

- a ban on foreign investment in the energy sector, unless on a joint venture basis (with government),

- controls/restrictions over expatriate employment, minimum wage regulations, regulations precluding labor retrenchment without prior Government approval,

- the high level of potential political risk in an economy where profitability of an investment is dependent upon so many variables determined by government, e.g., pricing, conditions of remittability of profits and dividends, taxation, access to foreign currency for imports, employment conditions, etc.,

- concern over short and long-term directions of economic and social policies, particularly in view of constant socialistic pronouncements.

Domestic investment has also slumped since independence, falling far short of post-independence targets, averaging a mere 6% of GDP (allowing for depreciation of net investment in the economy). This slump in domestic investment can be attributed to:

- low capacity utilization levels,

- high corporate taxation levels,

- depressed import (foreign exchange) allocations for new investments,

- the sharp decline in savings ratios, averaging less than 10% in the first four years of independence,

- while the savings ratio has averaged just under 10% of GDP, the budget deficit as a ratio of GDP has averaged just over 10% - meaning that Zimbabwe's entire domestic savings are being used to finance the Government's budget deficit,

- domestic investors, like their foreign counterparts, are also deterred by the policy environment as it effects employment, wages, taxes, price controls, etc. and Government public statements of commitment to socialism.

Businessmen and potential investors often refer to the Zimbabwean environment as "too many sticks and not enough carrots". It has become increasingly clear to government leaders that, if this environment is to change and the country is to attract foreign investment and improve domestic investment performance, the incentive structure must improve. A statement by Finance Minister Chidzero to the House of Assembly on January 31, 1985, suggesting that government plans to take action to improve the investment climate is welcomed and most encouraging. It is rumored that his Ministry is presently developing proposals for presentation to Cabinet later this year. Meanwhile, the Mission has retained as an essential strategy objective, through policy dialogue and program assistance opportunities, the promotion of an incentive investment climate more conducive to increasing employment and economic growth.

On balance, government policy performance to date has been mixed. The government has clearly made some undesirable policy choices since independence. Some stem from their attempts to meet pre-independence expectations of the African majority, particularly in the area of social services (health and education), where opportunities and access had been denied for so long. As previously stated, the financial cost of the massive expansion of these services is taking its toll on the government and this problem is now a pre-occupation with GOZ policy makers. The fact that both education's and health's share of the national budget and GDP declined in 1984/85 is indicative of the government's desire to control growth in the deficit. Other inappropriate decisions with respect to investment, both foreign and domestic, exchange rates, wage increases and taxation stem from a variety of reasons, including the lack of timely information upon which to base informed policy choices and political pressure for greater state intervention into the economy. Regardless of the causes, the Mission believes that the government has demonstrated a willingness and flexibility to reconsider poor policy options once their negative effects become clear and to take the necessary corrective measures. Examples include the government's decision to suspend further wage increases based upon the adverse effects of the precipitous increases in 1981-82, and positive, albeit inadequate, movement on exchange adjustments. Most recently, we have been particularly encouraged by the manner in which the Ministry of Finance, Economic Planning

and Development effectively contained the size of the supplemental budget request to Z$43 million, compared to Z$304 million last year, despite tremendous pressure from various Government Ministries for large increases. This successful effort to strictly limit growth in Government spending and to contain the size of the budget deficit signals greater fiscal discipline among government decision makers. It should be remembered that this politically sensitive decision was taken in an election year. When those actions are considered alongside the favorable agricultural policy environment, we conclude that the outlook for improved policy performance is good and that USAID/Zimbabwe should stay in the policy dialogue business in Zimbabwe.

Constraints Facing Households[1]

For the majority of Zimbabwe's population, split families are a way of life. Nearly all families in communal areas depend, at least at times, on remittances from relatives employed in urban areas, commercial farms, mines or elsewhere, and the trend is toward increased migration. Few rural households obtain an adequate income from farming alone. Small scale farms are very heterogeneous and the range in per farm maize income, off-farm income, subsistence production and remittance levels is very large. The same is true for distribution of land, holding size and cattle ownership.An estimated 70%-80% of urban households have close ties to homes in rural areas.

Households are thus attempting to gain from all sectors of the economy that can create wealth, and agriculture and wage income are both important contributors to family security. For most of those with land, agriculture will remain a key part of rural family income earning strategy. On the other hand, there are limits to the numbers of persons which this dual rural production/urban remittance strategy can support. Many Zimbabweans will have little or no land (even after resettlement) and will be in need of wage employment as the sole income source. While access to land may have been the issue which rallied support prior to Independence, farmers themselves tend to cite, as major constraints, 1) shortage of labor, 2) shortage of cattle, 3) access to credit and cash for inputs, and only after these, 4) shortage of land. They also cite access to transport and extension advice. Only the

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1. See Background Paper "Social Analysis and Strategy Considerations for FY 1987 CDSS, USAID/Zimbabwe," August 1984, for detailed analysis of household level constraints.

landless or those on very poor soils tend to place land at the top of the list. Felt needs appear to be for the resources to make existing landholdings more productive, and most farmers could not farm more land with the resources they have.

Production constraints are also affected by the roles of women and children. Some 80% of Zimbabwean women live in communal areas. With males absent and children in school, the work falling on women in particular has increased. With more children away at school, each child contributes less to the household and farm and recommended agricultural practices often require more labor. Women must often supplement family income with informal sector work, which adds a further work burden. At the same time, rural women are disadvantaged in terms of status, land and property ownership and access to credit, and adult education assistance. Limitations on women's agricultural decision-making persist despite their common role as de facto household heads.[1]

Cattle provide both draft power and organic fertilizer to the farming system. The percentage of rural households that own sufficient cattle for draft is 40%-50% on average. When cattle owners and non-owners are differentiated, owners are shown to have and crop larger acreages and to get higher yields and higher incomes. Owners tend to have larger families and incomes per person tend to be greater. Most non-owners tend to borrow or hire cattle from relatives or others. Membership in farmer organizations facilitates lending and borrowing of draft power. This improves production performance through timely ploughing and planting. In the years to come it will be impossible for all communal area households to have access to adequate numbers of animals, given the existing technology and land base. This points again to the need for cash to purchase inputs, including fertilizer, which is costly to small farmers.

For a number of reasons, demand for children has been historically high in rural areas. There is evidence that production levels of a family

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1. The Legal Age of Majority Act of 1982 brought a major change in Zimbabwean law, under which women are given legal majority status. Although women now have the same basic legal rights as men, the effect is not felt in practice, as women and men do not understand, nor fully accept, the implications of the law, and the courts have yet to fully put it into practice.

rise as the children get older and can contribute more labor to the household, and a distinct upward trend has been recorded in gross income (on- and off-farm) as families get larger. Prospects for much reduced family size for all but the better off families who can afford to hire labor, will very likely depend on reducing the labor constraint in small farm production. There is evidence that, even among the better off farmers on large, previously African Purchase Area farms, the demand persists for family labor because it can be obtained at a much lower cost than hired labor.

Reduction of the need for children's labor on the farm, the increase in educational opportunities for children, lessening of the extended family support network, greater participation by women as well as men in formal employment and higher education status for women, are all factors which will reduce, in time, the demand for children among families in rural areas. Any efforts which effectively increase women's status and broaden their control over resources are likely to lead, in the long run, to smaller families. Better educated women tend to marry later, be employed outside the home and practice contraception effectively. Rising school attendance increases the opportunity cost of having children. Smaller families are the norm in urban areas, as would be expected.

Preliminary analysis from an AID-funded contraceptive prevalence survey suggests a prevalance of close to 20% and increasing. This indicates a shift in traditional attitudes toward children. We feel this is a very positive trend and argues for continued U.S. support to expand the institutional capacity for the delivery of family planning programs. Given the well-established family planning program and its significant potential for success, support for family planning programs in Zimbabwe should continue to be an important element of the Mission's strategy for the foreseeable future.

Household level analysis shows that expanded rural income choices revolve around development and intensification of agriculture, along with obtaining remunerative off-farm employment. Increasing the productivity of farming systems in communal areas will be required if communal area residents are to secure the necessary income to improve living conditions and establish a firm foothold in the market economy.

Many factors constraining productivity in communal areas can be addressed through improvements in infrastructure - services, markets and

access to information - but these must be accompanied by removal of the basic constraints. Highest on the farmers' list is the shortage of human labor and animal power. This points to the importance of continued research to provide access to more cost effective smallholder farming technology.

Moreover, cash income is a requirement for the majority of farmers if they are to make investments in improving productivity. The fact that the land base is, ultimately, limited in its potential to provide resources to a growing population means that reduced proportions of the population will be able to participate in agriculture in the years to come. Landlessness has been estimated at 20%-40% in some areas and will grow rapidly. Well planned resettlement can help, but will not remove, the constraint. Demographic trends ensure that in a few years the population in the communal areas will be what it was or greater than before resettlement. Urbanization will accelerate and a greater percentage of population will of necessity depend on cash income alone. Emphasis on agricultural production must therefore be matched by similar emphasis on modern sector job creation.

This will not be easy. Population increases will frustrate development efforts, as they fuel growth in the labor force, reduce the per capita land base and increase the burden on government to provide basic services. Strong efforts to encourage Zimbabweans to space their children and achieve smaller families are warranted. Other developments such as increased income, educational attainment and employment, reinforce the limited demand for smaller families. More efficient farming practices can reduce the need for child labor, a determinant of high fertility. Employment and education for women will help create the context conducive to smaller families. Also, supplemental women's income and mothers' educational levels will be directly supportive of nutritional and health improvement, especially of young children. Survey after survey in Zimbabwe shows striking positive correlations between growing family resources and improved health status.

E. Role of Government in Development

Zimbabwe's first and only development plan was published in November 1982 and was designed to "rid the Zimbabwean society of vestiges of exploitation, unemployment, poverty, disease, ignorance and social insecurity." The main macro-economic targets established for the three-year plan period were:

- Real GDP growth of 8% annually, while population was forecast to increase at 3.3% a year, thereby giving an improvement of more than 4% a year in real income per head.

- Formal employment was forecast to grow at 3% annually compared with a 2.9% annual growth rate of the labor force. The main increases were to come in manufacturing and construction.

- At current prices, Z$6 billion would be invested during the three years of which 59% would be public sector and 41% private sector investment. Investment would average about 23% of GDP during the plan period, while the share of gross domestic savings in GDP would average 19%.

- Inflation was estimated to average 15% annually.

- Exports would almost double, rising 93%, while imports were forecast to increase 85%. There would be a current account deficit averaging $760 million annually, but this would be financed by capital inflows averaging $826 million annually. The debt service ratio was forecast to average 10.7% annually.

- The investment program would be funded by domestic savings of $3.8 billion (62% of the total) and foreign inflows of $2.3 billion (38%). Domestic savings would comprise 77% from the private sector, with the corporate sector supplying 60% of overall domestic savings and private households 17%. The balance of 23% would represent public sector savings mainly from the parastatals (15% of the total).

The Plan - Performance versus Projections

It is impossible to make an accurate comparison between performance projections, since five months remain in the plan period and up-to-date statistics are not available, but some of the key macro-economic indicators can be tentatively estimated as shown in the following table:

Sector	Plan Target	Actual (*estimates)
Real GDP growth	8% p.a.	-1.2% p.a.
Employment	3% p.a.	-1.3% p.a.
Exports	+93%	+60%
Investment	$6.1 billion	$2.7 billion
Inflation	15% p.a.	15% p.a.
Debt Service	10.7% p.a.	20% p.a.

The failure to meet the 1982/85 targets is no surprise. Even before the plan was published, economists were describing its targets as unrealistic. Moreover, the world recession and three successive years of drought accelerated falling GDP over the plan period. Policymakers focused on fire-fighting and ad hoc decisions intended to sustain output and employment

during the cyclical downturn. Many of the government's longer-run policy objectives have had to be temporarily shelved, pending an upturn in economic activity and greater revenue flexibility which would enable the adoption of a more expansionist stance, especially in public sector capital formation and investments.

Policy was also to blame for the failure to meet targets to the extent that the authorities fell far short of their external financing target, partly because the Zimbabwean economic and political environment deterred new investment. High tax rates, rapid inflation and an active policy of wage increases (until 1982) reduced corporate profitability, savings and hence investment.

The government is now working on a new five-year development plan which, it is believed, will put forward far more modest and realistic targets with real growth expected to average no more than 4% to 4.5% annually.

Investment Priorities

During the plan period, the major part of public investment funds were to be devoted to manufacturing (23%), transport and housing (each 14%) and agriculture (13%). Policy objectives included decentralisation of industry through the establishment of growth points in rural areas, large-scale rural resettlement with 162,000 families being resettled by mid-1985 (actual achievement is unlikely to reach 40,000), greater labor intensity of the economy (in fact, employment has declined), and increased local processing of raw materials for greater value added.

A key aspect of policy has been investment designed to increase self-reliance and reduce dependence on foreign-controlled investments. A few new parastatals, such as the Minerals Marketing Corporation, were established, most of them with the specific aim of increasing domestic control over Zimbabwean resources. This has been accompanied by an acquisition policy of purchasing foreign-held equity in selected Zimbabwean enterprises, for instance, in the single pharmacutical company, and joint ventures with foreign entrepreneurs, such as the Heinz investment.

In some specific sectors Zimbabwean economic policy has coincided with U.S. Government interests, specifically in the promotion of agriculture and vocational education, but also in respect of the government's willingness, to encourage and cooperate with private sector interests. Zimbabwean

authorities have therefore been willing to see U.S. aid channelled towards the private sector in Zimbabwe.

Less satisfactory has been the government's slow progress towards subsidy elimination, its stated long-run intention to increase state intervention and its commitment to new state-owned institutions, and taking over responsibilities previously handled in the private sector (minerals marketing, reinsurance, tourism development etc.).

Development Planning and Policy Implementation

Immediately after independence, development planning capacity was seriously hampered by a shortage of personnel skilled in aid negotiations and implementation. The division of responsibilities between two Ministries - Finance on the one hand and Economic Planning and Development on the other - was also a problem.

Following the merger of the two ministries in 1982, these difficulties diminished but implementation capacity has continued to suffer on three main counts: the shortage of skilled and experienced personnel to develop bankable projects to the implementation stage; delays in decision-making within and between government departments and, above all, financial stringency, which has forced cutbacks in investment programs due to the lack of funds for local input. Absorptive capacity, however, is still good and Zimbabwe is characterised as an efficient user of aid. This is especially true when, as in the case of the AID program, much of the assistance can be channelled through the private sector.

The policy environment is still generally favorable. Where it is not, as in budget management and the investment climate, we expect to see some improvement before the beginning of the strategy period.

Also, Zimbabwe still has a significant comparative advantage over many other sub-Saharan economies in regard to social and economic infrastructure, health and education facilities, the administrative capability of the public service, the relative absence of corruption and the geographical proximity of the South African market.

Zimbabwe's growth performance over the next five years will depend heavily on the thrust of economic policy after the March 1985 elections. Past experience suggests that the Zimbabwe government will seek to adopt more orthodox, mainstream, economic stabilisation strategies in cooperation with

the International Monetary Fund and the World Bank. Unfortunately, in the 1982/84 period, the government was unable to adhere to the deflationary program adopted (partially explained by the world recession and three years of drought) but also by a political unwillingness to make difficult and unpalatable decisions in respect of subsidies, transfer payments and expenditures on the social services.

Prospects for Greater Government Intrusion into the Economy

Most of the instruments for state control and regulation of the economy were inherited at Independence. Contrary to popular belief, the UDI government was anything but market oriented. Exchange and price controls, plus extensive reliance on parastatals were well established by 1980. In nearly five years of Independence, there has been relatively little expansion of public sector intrusion into the economy.

Although the government is vocally committed to the establishment of a socialist economy, Ministers have repeatedly emphasized that this is a long-term goal and that the private sector will continue to play a vital role during the transition. Indeed, the 1982/85 Development Plan assumed that not only would 41% of total investment take place in the private sector, but that private sector finance would supply 77% of domestic savings.

Some private sector institutions - notably organisations like the Zimbabwe National Chambers of Commerce and the Confederation of Zimbabwe Industries - have become less influential since Independence, but the commercial farmers remain an extremely powerful lobby, reflecting their vital strategic importance to the economy as the providers of food and substantial foreign currency earnings.

Since public sector finances are certain to remain under severe strain for the rest of the decade, it is unlikely that the state will move towards a socialist economy as quickly as some of the more radical politicians would like. Given the private sector's crucial economic role, the public sector's glaring managerial shortcomings and the lack of finance to support a sustained program of private sector acquisitions, it is likely that a mixed economy will be maintained for the foreseeable future.

III. DEVELOPMENT ASSISTANCE STRATEGY

A. U.S. Assistance Objectives

Zimbabwe remains as important to U.S. interests today as it was in 1980. With its pivotal geographic position in southern Africa, its extensive infrastructure and largely private productive capacity, its proven ability to produce food surpluses and its fragile multi-racial socio-political structure, continued and significant U.S. assistance is justified. The overriding U.S. objective is to see Zimbabwe work - to see the country succeed. In this regard, specific assistance objectives for the strategy period are:

- To preserve and maintain the productive structure and general infrastructure of the Zimbabwean economy. The unusual balance of private productive agriculture, manufacturing, mining and service sectors, with still untapped capacity, provides the best opportunity for long-term growth, employment and social development.

- Relatedly, to guide Zimbabwe toward a successful post-Independence economic model. This will mean a clearer definition of the country's intended mixed economy and visible and sustainable progress toward the country's objectives of growth with social equity.

- Lastly, to assist Zimbabwe to become a stronger economic actor within the region. A successful multi-racial political model in Zimbabwe can set a positive example for peaceful change in South Africa. A successful mixed economy in Zimbabwe can have beneficial spillover effects within the region and can demonstrate an alternative to failed Marxist economies in Africa. Continued growth in Zimbabwe's agriculture productivity, with greater food surpluses, can set policy examples for Zimbabwe's neighbors and also assist general food security throughout the southern tier of the continent.

B. Assessment of Current Strategy (FY 1982 - FY 1986)

USAID/Zimbabwe's FY 1984 CDSS submitted and approved in Washington in June 1982 contained two longer term goals:

- the marshalling of foreign exchange and domestic resources into the most competitive growth sectors thus providing a firm basis for sustainable poverty alleviation and development growth; and

- assisting the government in raising living standards, expanding agricultural output, rural incomes, and increasing employment opportunities while narrowing the stark dualism in the economy.

Since 1982, progress towards these goals has been made. Highlights include:

- The CIP has been used to underpin the private sector (primarily manufacturing, industry, and commercial agriculture). Recent evaluation results firmly substantiate the impact the CIP has had in keeping numerous industries functioning, easing employment cutbacks and creating as many as 5,000 new industrial jobs. The private sector recipients as well as government users of CIP resources have been forthcoming in their statements of support for the CIP mechanism and its appropriateness in the Zimbabwe economic setting.

- Agricultural productivity has been significantly enlarged in smallholder areas. Over the strategy period, the marketed production of small farmers has increased for several key crops, including maize (from 9% in 1978 to 40% in 1984), and cotton (from 19% in 1978 to 40% in 1984). Research is being increasingly directed to communal farming areas. Agricultural education is being expanded at the agricultural training institutions to meet needs of smallholders and institutional credit for communal and settlement farmers has been increased from Z$1.6 million in 1979-80 to $30 million in 1983-84. Data also reveal a large increase in fertilizer consumption in communal areas. Tonnage used by communal farmers has increased from 8% in 1978-79 to 23% in 1983-4, suggesting a shift to improved technology.

- Notable progress has been made in human resources development to improve education quantitatively and qualitatively and in building/strengthening local training institutions to help the country meet the critical manpower constraints.

- Over 3,000 primary and secondary schools destroyed during the liberation struggle have been reopened.

- The number of secondary schools have increased from 177 mostly urban prior to independence, to more than 1100 mostly rural in 1984, reflecting the GOZ's desire to broaden access of education in rural areas.

- Over 150 Zimbabweans have received training under the AID manpower training program in agriculture, engineering, science, health, administration and education.

- Institutional capacity to train primary and secondary school teachers has been significantly expanded. The number of students enrolled in primary teacher training colleges increased from 2,000 at independence to over 4,000 in 1984. The increase for secondary teacher training was from over 800 to more than 3,200. This increase is due in large measure to the construction of the A.I.D. financed Belvedere Teacher Training College which is also developing new curricula materials.

- In 1983 AID and the GOZ signed a $45 million sector assistance program aimed at sustaining significant progress made to date in addressing the its human resources constraints. A key focus of this program is to identify and institute ways to achieve GOZ education and human resources objectives in the most efficient manner possible. Thus, aside from assisting educational planning, curriculum development and expending technical education and vocational training, a major objective will be to improve budget planning and management so that cost per completer can be contained. It is too early in the program to assess likely effectiveness on this key issue. However, the growing reliance on community resources to complement government resources is a step in the right direction.

- Less progress has been made in expanding employment in rural and modern sectors over the strategy period. Drought and recession have plagued the country over the last three years. Beyond the limited employment creation that can be attributed to the C.I.P., attention has been focussed on averting employment cutbacks and keeping important industries functioning. A Small Enterprises Development Corporation (SEDCO) has been established with AID assistance which will focus on assisting small and emerging entrepreneurs.

- The population growth rate problem is gaining national attention and promising family planning institutions are developing. The national family planning program has been strengthened significantly with AID assistance and by 1986, family planning services will be available nationwide. A contraceptive prevalence survey is presently in its final stages and the results of the female survey are expected to reveal a prevalence of about 15%-20% and increasing. The GOZ is formulating a national family planning policy which will be incorporated into the first five-year development plan of the country.

- A.I.D. housing guaranty loans of US$50 million along with A.I.D. local currency funds allocated for staff housing for rural workers have helped to ease the critical housing problem. The U.S. dollar Housing Guaranty loans have also helped the GOZ meet critical foreign exchange needs.

- A policy dialogue has been maintained with the GOZ in a number of crucial areas. C.I.P. and sector grant assistance have given AID entree for quiet yet effective discussions with the GOZ on devaluation, food subsidies, the budget deficit, agricultural pricing policies, education policy and to a lesser extent small enterprise development. Most notable policy achievements have been more in the areas of agricultural producer prices, housing and population wherein AID has worked closely and effectively with the GOZ and other donors to smooth the way for investment of resources and the establishment of positive government policies in these sectors. We have had less effect on the budget deficit and investment policies.

- Donor coordination efforts have been adequate, given the short history of donor involvement in Zimbabwe. An effective donor coordination mechanism which features intimate government participation is evolving. There is considerable scope for improvement and an important objective of present and future AID activities will be to improve donor coordination and collaboration where feasible.

A retrospective look at the FY 1984 CDSS suggests that although the strategy objectives were ambitious, progress has been made. Much of this can be attributed to AID's selection of a non-project assistance mode. But much must also be attributed to the generally favorable policy environment in some key sectors, such as agriculture, and the GOZ's desire to see a marked improvement in available opportunities for the majority living in rural areas. In implementing this strategy, an important lesson learned is the effectiveness of a subtle policy dialogue process which quietly seeks to educate and persuade. This approach has resulted in increased receptivity to our ideas and suggestions and has led to some policy adjustments. This limited success notwithstanding, there are a number of areas where greater progress is essential e.g. reducing the size of the budget deficit, more realistic exchange rate regimes and the adoption of policies that stimulate and promote domestic and foreign investment if the GOZ expects to seriously meet the challenge of development. The strategy set forth in the pages that follow will continue to emphasize policy dialogue as one of its key elements.

Our strategy for the FY 1987 - 1990 period will, in its key aspects, continue the general directions established during the previous strategy period. The major adjustment will be to focus on the important intersectoral linkages that we believe have a bearing on employment. This more concentrated approach is based upon the Mission's realistic consideration of likely funding levels over the strategy period, government priorities and our analysis of the key development constraints.

C. Elements of Proposed Strategy (FY 1987 - FY 1990)

Our analysis clearly suggests that poverty in Zimbabwe is best solved by increasing productivity and employment. We are proposing an "employment strategy" intended to increase both off-farm and on-farm income-earning opportunities, to invest in human capital, and to reduce over time the number

of new entrants into the labor force. The centerpiece is productive employment and the strategy will have three major components:

1. **TO INCREASE EMPLOYMENT OPPORTUNITIES IN THE MODERN SECTOR OF THE ECONOMY.**

This principal element of our strategy has three complementary themes, which are designed to enlarge the economy's potential for employment in the modern sector and to assure a more employable human capital base:

- to stimulate new investment and better use of underutilized industrial capacity, which will encourage labor demand and job creation,
- to assist the GOZ to develop an adequate supply of qualified and skilled manpower,
- through collaborative studies and dialogue, to encourage economic policies more conducive to growth, investment and labor utilization.

Taken together, these employment strategy themes will address the growing gap between labor supply and labor demand within the Zimbabwean economy. This alarming trend has been shown to result in part from population growth and in part from lagging investment, and hence declining demand for labor by the modern commercial farming and industrial sectors. As pointed out in the analysis, wage employment provides support for all urban and most rural households, provides cash for purchase of farm inputs and will be the only source of income for a growing proportion of the population in years to come. High levels of domestic and foreign investment are going to be required if sufficient jobs are to be generated and an unemployment crisis averted. At the same time, new labor entrants must be qualified to fill modern sector jobs and participate in more productive agriculture. More qualified personnel must be available to fill management and technical positions.

USAID/Zimbabwe will support this element of its strategy through both a continuation of current non project activities and support for selected, new activities, especially those which emphasize investment and employment growth. The specific program areas to which resources will be directed are:

a. Commodity Import Program: We will continue provision of foreign exchange to permit the private sector, including commercial farms, to obtain

necessary imported inputs. One of the major reasons for the decline in employment in the last few years has been the inability of the modern sector to obtain the necessary foreign exchange to replace old, worn out equipment or to purchase raw materials. To increase capacity utilization as well as fuel new investment, the strategy calls for continuation of this program both as a separate CIP and as a portion of the education and agriculture sector programs (BEST, ZASA). A comprehensive 1984 evaluation of the CIP showed very positive results of the CIP in fueling investment and in creation of employment.

b. Basic Education and Skill Training (BEST), ZIMMAN and Agriculture Training: Support for basic education programs that prepare new labor entrants for modern sector jobs and training for farmers, extension agents, researchers, farm managers, etc., will be continued. The focus will be on strengthening and reinforcing the already established Zimbabwean training institutions through ongoing assistance in the education sector and agriculture sector programs. With institutional capacity for developing more relevant learning and instructional systems for basic education and vocational skills training established during the early years of the sector program, the emphasis in the CDSS planning period will be on staff development for those training institutions using both technical assistance and participant training. Through both BEST and ZASA, we will be strengthening the University of Zimbabwe's Agriculture and Education faculties, Belvedere and ZINTEC teacher training colleges, Chibero and Mlezu Agriculture training colleges and the five technical colleges in Harare, Masvingo, Bulawayo, Gweru and Mutare. In the latter case, we plan to emphasize private sector linkages with the technical colleges so that private industry can better assist with curriculum planning, equipment for training and the provision of lecturing staff. Our resources will be used in part to develop closer ties between public training and private sector labor demand, so that the output of the technical colleges is more employable.

Similarly, the ZIMMAN project will continue its efforts in strengthening local institutional capacity to train higher level manpower in the areas of agriculture, engineering, administration/management and

health. The project will increase the investment in the University of Zimbabwe's staff development program, particularly in the fields of health, engineering, science, business administration and economics. In addition, the project will be altered to enlarge the capacity of the non-profit, private institutions to train professional and technical manpower. Although there has been a major expansion in enrollments at the University of Zimbabwe and the various technical colleges under the public sector, at least half of all post-school training opportunities are in the private sector. It is proposed that ZIMMAN resources be utilized to strengthen this capacity and develop closer complementary ties between public and private sector training.

c. Policy Dialogue, Monitoring and Adjustment: The Mission will seek through several studies to try to help improve the general investment and employment climate. These policy areas include exchange rates, consumer pricing, taxation, foreign exchange and budget management and interest rates. Also important are ways in which wage, labor and industrial relations policies affect the demand for labor. For example, the inability of firms to alter their workforces in response to the market and to ups and downs in business cycles has probably increased the direct costs of labor intensive production. The Mission proposes to strengthen research capacity in economic policy, both within the government and at the University of Zimbabwe, and to work with the Confederation of Zimbabwe Industries and the Chamber of Commerce to carry out several studies on labor demand, pricing policies and small enterprises. A U.N.-financed tax commission will report its findings next year and is likely to recommend tax changes designed to stimulate more domestic investment. An informal government/private sector working group is being convened to study employment. The Mission may quietly finance some working papers for the group. As the IMF is reviewing exchange controls and budget management with the GOZ, the Mission will monitor the negotiations but intends to play only an indirect role in this policy dialogue. We will, however, work within the education sector to bring needed efficiencies and better management of the education budget, the largest single item in the national budget.

d. PRE Programs. Through assistance from PRE, and in cooperation with a local merchant bank, the Mission plans to assist in the establishment of a private export trading company. A PRE-funded feasibility has been completed by Price Waterhouse and Equator Bank. An American venture capital project is under consideration which could result in investment of $30-50 million in un-invested local surpluses owned by several American companies. As some foreign exchange will be needed, depending on the final project selection, a PRE loan will be considered. With Embassy assistance we will continue to encourage the GOZ to sign an OPIC agreement.

e. Housing Guaranty Program: Activities which improve housing for the growing urban labor force and open up access to home ownership for low income families will receive continued support through the Housing Guaranty Program. Emphasis will be on full cost recovery of capital and recurrent housing costs. Our housing program can make a significant contribution to employment in the construction industry, help provide suitable shelter for the increasing number of households seeking employment in the cities, and is intended to strengthen the role of private building societies in extending assistance to low-income families.

2. TO INCREASE PRODUCTIVITY AND INCOMES OF COMMUNAL SMALLHOLDER FARMERS.

The second element of our proposed strategy is to increase productivity and income of smallholders. This portion of the strategy emerges from four factors substantiated in our foregoing analysis of the Zimbabwean economy:

First, most of the poor are located in rural areas and derive a considerable proportion of their income from agriculture. Although remittances and off-farm income are important, agricultural enterprises remain the main source of livelihood. This is particularly true for the least well-off members of this group - the rural women.

Second, the only viable method of raising smallholder's standard of living is to build on what is available. The large numbers of people involved, the education and skill base of this group and the lack of other alternatives for the majority dictate programs aimed at people where they are.

Third, opportunities exist to raise smallholder production. While the natural resource base limits the potential, in some areas, there is considerable scope for raising output if constraints can be relaxed. For example, yields in many smallholder areas are much, much lower than those attained by commercial farmers in similar agro-ecological zones. Yet the essential infrastructure, such as private seed distribution, farm implement manufacturing, fertilizer companies and effective marketing, are all in place. The recent response by smallholders to marketing and production incentives suggests the push needed may not be that difficult.

Finally, raising productivity and income of smallholders has very important demand implications for products produced locally, and more off-farm employment in the rural growth points can be stimulated. Considerable upstream and downstream growth in the agriculture industry and food processing sectors is possible. It is not an exaggeration to predict that greater output and improved productivity in small-scale agriculture may be the most important engine for future growth in a large part of the modern sector of the economy.

The modest input proposed from AID will not enable a measurable impact on all the constraints to increasing farmer productivity and income. Of necessity, and in recognition of U.S. expertise and what other donors are doing, it is proposed to concentrate U.S. resources on a limited number of constraints. The mechanism to be employed is continuation of an agriculture sector support program that includes local currency as well as foreign exchange. The local currency will be generated by a commodity import mechanism included in the program.

The specific constraint areas where resources will be directed are:

- Technical assistance for research and manpower development. This aims to address the related constraints of insufficient trained manpower in key teaching/research areas and the lack of necessary technology suited to smallholders. A contract with Michigan State University and Pennsylvania State is already in place to provide the necessary technical assistance.

- Programs providing greater access to the means of improved productivity, i.e., reliable input supply. If smallholders cannot obtain fertilizers, seeds, tools, etc. to maximize the effect of available technology the development of the technology means nothing. The access to inputs within reasonable distance when needed is particularly important. With local currency financing marketing and input supply depots are being located in many rural areas. AID

will begin to work with the private farmers unions and input supply companies to utilize to where possible more private channels for extension and technology transfer.

- Training activities to increase the numbers and skills of agriculture/rural development support personnel. Quantities of these people have been inadequate, considering the numbers of smallholders to be reached. We will support the enlargement of certificate and degree level agriculture training institutions at Mlezu, Chibero and the University Faculty of Agriculture. Levels of women's enrollment at these institutions will continue to increase.

- Programs aimed at maintaining and improving the natural resource base. Over-population and overgrazing are already causing severe erosion and land degradation problems in many areas. Since land pressure will increase even more in the future, it is vital that programs are developed/instituted to arrest the decline. Sustained productivity is the target.

- Planning for agriculture/rural development. Effective and efficient use of the limited resources available requires careful planning and management. In Zimbabwe where new programs to reach new target groups are being organized this is particularly important. Unfortunately the pool of planners is somewhat insufficient to do the job needed in all areas. ZASA will provide short-term technical assistance for selected planning.

- Programs that reduce the drought vulnerability of smallholders. Two types of activities are needed - irrigation to use water that normally runs off and the provision of technology to enable better use of rainfall through more timely planting, etc. Modest efforts in both areas need to be expanded. Irrigation in many communal areas could also expand opportunities for more off-farm employment.

- Agricultural research focused on productivity improving technology and high value crops. While manpower is a problem the focus of research also needs to be correct if smallholders are to be able to use results. Farming systems efforts and programs aimed at production constraints identified by smallholders, especially farm labor, need to be expanded. Simultaneously, because land holdings are small, efforts are needed to identify high value crops that can be successfully grown to provide higher incomes. In these efforts methods of maximizing the use of indigenous farming expertise will be developed and supported. Zimbabwe is fortunate to have a good pool of expertise and people on which to build. Unfortunately, these resources are not always used to the maximum i.e. commercial farmer skills are not transferred to communal farmers. The private sector is not called on to do as much as it might. Utilizing these resources which are Zimbabwe-proved and tested is a cost-effective method of achieving results.

3. TO ASSIST IN THE STRENGTHENING OF ZIMBABWEAN INSTITUTIONS THAT CAN OVER TIME BEGIN TO REDUCE THE POPULATION GROWTH RATE.

An eventual reduction in Zimbabwe's population growth rate supports an employment strategy through a reduction in the numbers entering the labor force each year. As family planning objectives are met, it is also expected that improvements in nutrition, health and hence worker productivity, particularly in the communal areas, can also be realized.

From an institution building perspective, this element of the Mission strategy will continue to strengthen and expand the services of the Zimbabwe National Family Planning Council (ZNFPC). The ZNFPC enjoys government support at the highest levels and is regarded by many external observers as the best national family planning institution in sub-Saharan Africa. During 1984, ZNFPC was gazetted as a statutory body which will function under the general direction of the Ministry of Health. ZNFPC's enacting legislation also established an interministerial executive committee which will provide policy guidance for the Council. This committee is comprised of Secretaries from the Ministries of Health (Chairman), Agriculture, Youth, Community Development and Womens Affairs, Lands and Resettlement and the Ministry of Finance Economic Planning and Development (MFEPD).

The Central Statistical Office within MFEPD is also assisting the Council to develop and promulgate a national population policy statement. The GOZ's objective is to incorporate this policy statement into the first five-year national development plan, expected to be published later this year. The GOZ's very positive steps over the past year to institutionalize the support structure and build a policy for national family planning have already resulted in considerable improvement and receptivity of ZNFPC's operations. Government's emphasis on and support for voluntary family planning programs in Zimbabwe clearly reflects its appreciation of the important role such a program plays in achieving national development and growth objectives.

AID resources will be directed toward the following program elements:

a. Continued support for and expansion of the various activities of the Zimbabwe National Family Planning Council. The specific program areas that AID will support are:

- Further expansion of the community-based program of contraceptive distribution. The target of increasing the number of trained Community Based Distributors from 300 in 1982 to almost 700 by 1986 will be met. By 1987 new objectives for CBD's will be to have total coverage of the country - particularly in remote communal areas where services are not yet provided. New CBD's will receive the necessary training, supplies and supervision to deliver contraceptive methods to family planning clients.

- Training of general health personnel to deliver some family planning services. Considerable effort will be given to the training of nurses, medical assistants, medical students, doctors, pharmacy students, and other health personnel in family planning. Much of this training is being conducted at ZNFPC facilities but family planning content is also to be included in the curricula of other medical training institutions.

- Increasing awareness of the importance and benefits of family planning through public information, education and communication (IE&C) campaigns. This program will focus heavily on men and adolescents principally within secondary schools. Resources will train key IE&C personnel and support the development and dissemination of IE&C brochures, films and slide presentations on family planning as well as radio and television spots and posters.

- Further strengthening of the management capability of the ZNFPC. Emphasis will be placed upon improving capacity for policy formulation and planning of ZNFPC programs at the national, district and provincial levels. Participation in and exposure of Zimbabwe family planning policy makers and managers to informational conferences, workshops, seminars and the like will be emphasized. The objective will be to promote the exchange of information and to expose Zimbabwe officials to other programs.

- Continued enlargement of the research and evaluation capability within various ZNFPC offices. Although the Zimbabwe Family Planning program is well developed and increasingly effective, prior to AID's involvement in 1982 no attention was paid to research and evaluation. This is regarded as a very critical need and a range of activities will be included. Initial evaluation efforts will include: (1) assuring an effective logistics and supply system for ZNFPC to track contraceptive usage and supply requirements; (2) developing a management information system for the ZNFPC (3) strengthening the financial management functions of the ZNFPC through further training of its personnel and installing a computerized accounting system. (4) assessing the usefulness and effectiveness of various IE&C techniques and (5) exploring methods for integrating family planning into the nation's primary health care service.

b. Assistance in contraceptive supply on a cost sharing basis with the GOZ. This will include possible assistance in the form of feasibilitiy studies to explore potential for contraceptive manufacturing in Zimbabwe. Over the last eighteen months there has been a significant increase in contraceptive demand. When the AID project was designed in 1981, it was not envisaged that AID would become involved in the supply of contraceptives since few AID supplied methods were in use in Zimbabwe at the time. However the demand situation has now changed dramatically and several oral contraceptives available through A.I.D. are now in use in Zimbabwe. To help meet this growing demand and to maintain momentum of the project, AID will assist the ZNFPC over the next few years with contraceptive supplies. AID assistance will be contingent upon the GOZ sharing, on an increasing basis, the foreign exchange costs of procuring contraceptives.

AID and the government will also explore the feasibility of private manufacturing of contraceptives in Zimbabwe to both help meet local demand and export to other countries in the region. At first glance, the idea appears promising and if successfully launched, will contribute directly to the Mission's employment and productivity strategy objectives.

c. Work with the Ministry of Health to clearly define the pace and manner in which family planning services are to be integrated into the primary health care delivery system. This will also include an effort to enlarge the role of PVO's in the delivery of family planning services and encourage their involvement and participation. Our efforts will focus on:

- short-term technical experts to assist the GOZ in developing integration plans.

- adding basic primary health care tasks (e.g. taking blood pressure, hygiene and nutrition) to the work of the ZNFPC, particularly the community based workers who have the greatest contact with mothers and infants. The CBD's can also assist in health referral work.

- Providing the government access to and information on the various approaches to integration in other developing countries as well as evaluation data.

D. Recurrent Cost Implications of Strategy

The foregoing strategy is proposed giving full consideration to recurrent government expenditures and the Mission's own desire to discourage unneccesary expansion of the civil service. Particular care is and will continue to be taken to assure that our major sector programs in agriculture and education do not increase recurrent budget requirements. On the contrary, the objective which permeates both these programs is the development and introduction of more cost effective and cost efficient measures that result in cost savings. For example: the assistance being provided to the examination branch in the Ministry of Education under the BEST program has two objectives. The first is to decrease the dependency on external marking of the secondary examinations. This is estimated to cost about $4.0 million a year. Not only will domestic marking of the examination save foreign exchange, it will also reduce the annual recurrent costs associated with examination marking. The second is to improve the overall capacity of the branch to administer and process the various primary and secondary level examinations. Rather than considering a linear expansion of the branch which would involve the hiring of more clerical staff, it was estmated that considerable savings in recurrent costs would be achieved by greater automation of the various administrative and processing functions.

As in the above example, recurrent cost implications are carefully weighed in deciding which activities will receive support under BEST and ZASA. These implications are reviewed by the two joint AID and government working groups which manage these programs. The working groups have representation from the sections of the Ministry of Finance, Economic Planning and Development which have responsibility for assessing recurrent cost implications. Each proposal submitted for funding by the various implementing ministries must address this issue to the satisfaction of the Ministry of Finance, Economic Planning and Development and AID. This consideration of recurrent cost implications is also applied to all other aspects of the Mission's program and will remain an important determinant in the allocation of resources over the strategy period.

E. Strategy Benchmarks

Within the next two years, the viability of the FY 1987 CDSS will be measured by assessing movement along several socioeconomic benchmarks. These benchmarks reflect the extent to which Zimbabwean policy is effectively laying the basis for sustained economic growth as reflected in growing employment and income levels. The challenge faced by Zimbabwe is to consolidate the equity gains since independence with sustained economic growth that increases employment opportunities and real income per capita.

In developing these benchmarks, it is important to recognize the weakness in Zimbabwe's socioeconomic data base. Many statistics on income, employment and population are only estimates or have been derived from sample survey data with fairly wide margins of error. For these reasons, the assessment will be based on the movement and direction of change in these benchmarks rather than their absolute levels.

Another caveat is in order. Although the benchmarks are listed as separate indicators, they are not necessarily mutually exclusive, but rather interdependent. For example, decreases in the rate of inflation are likely to be dependent on control of the rate of growth in the deficit financing of government recurrent expenditures. While we have listed both as indicators, movement on one is likely to be reflected in change in the other, albeit perhaps with a time lag.

There are four categories of benchmarks. These are fiscal and monetary policy, investment promotion, general policy climate and demographic change. These are outlined below.

Fiscal and Monetary Policy

- Greater price stability through a reduction in the 1980-85 average inflation rate of 12.5%.

- Lowering the deficit as a percentage of GDP from 12.2% in 1983/84 toward 7%.

- Decrease in the 17% annual rate of growth in money supply.

- Reversal of the trend toward greater share of GDP accounted for by the public sector, which increased from nearly one-third at independence to one-half in 1984-85.

- Reduction of subsidies from the current 5.2% of GDP.

- Decrease in the share of the national budget allocated to defense from current level of 13%.

- Increase in rate of savings from 8% of GDP in 1983 through an increase in the real interest rate from the present negative rate of 7.7%.

Investment Promotion

- Increases in minimum wages kept significantly below rate of increase in inflation.

- Improvement in competitiveness of Zimbabwean exports through further exchange rate adjustments.

- Increase in the gross return on capital investments from the current 13%.

- Increase in the rate of capital formation.

- Increase in the remittability of profits.

- Reduction in the effective profit tax rate of 56.3%.

General Policy Climate

- De-emphasis on government regulation and control of industry and the economy to a policy of employment and investment promotion.

- Maintain an incentive agricultural policy environment conducive to increased productivity on communal and commercial farms.

Demographic Change

- Increase in the contraceptive prevalence rate from the current rate of 15-20%, paving the way for an eventual reduction in the population growth rate and decline in new entrants to the labor force.

F. Other Donor Assistance and Collaboration

Magnitude of Donor Aid

Although the U.S. was the first to provide economic assistance to the new nation of Zimbabwe with a grant of US$2 million on independence day, large scale economic assistance to Zimbabwe effectively began with the commitments made at the Zimbabwe Conference on Reconstruction and Development (ZIMCORD) in March 1981. At this conference, attended by some eighty delegations, external

assistance pledges topped two billion Zimbabwe dollars[1] and were almost equally divided between grants and loans. Most funds were earmarked for the Government's Public Sector Investment Program (PSIP).

By March, 1984, donors had committed approximately US$1.8 billion (Z$2.03 billion) with an estimated 40/60% grant/loan split (see chart). Nearly 60% of the aid committed has been in the form of project assistance, program support and direct cash transfers available in foreign exchange to finance imported requirements e.g. equipment, materials, technical assistance and training.

External Aid, ZIMCORD - 3/1984

	Total committed	%	Grant	%	Loan	%
Total	2030	100	804	40	1226	60
Bilateral	1268	62	685	54	583	46
Multilateral	762	38	119	16	643	84

Donor assistance, AID's included, during the first two years of independence was heavily focused on the reconstruction and rehabilitation of the country's infrastructure - schools, clinics, hospitals, roads, bridges, dip tanks, etc. - destroyed or damaged during the war. Some of the assistance was provided in flexible cash grants for quick disbursement during the reconstruction period. However, since many donors were required to provide aid through the more traditional project assistance mode, disbursements for much of the ZIMCORD funds have been slow.

The focus of donor assistance began shifting in 1982/83 to the longer term development concerns and many donors started committing resources to also help with drought relief. The government successfully appealed to donors during the three years (1982-84) of economic recession, to convert some funds already earmarked for project aid to commodity imports, cash transfers, and other forms of quick dispersing program assistance. This was needed to provide sorely needed foreign exchange for food and essential raw material imports. Moreover, many donors were open to commodity import programs following the successful model set by AID.

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1. In 1984 dollars, the value of ZIMCORD pledges amounted to U.S.$1.776 billion or Z$2.018 billion

Leading other donors to Zimbabwe from 1980 through July 1984 by level of commitments in U.S. dollars were: IBRD ($460 million), U.K. ($282 million), EEC ($125 million), France ($113 million), Germany ($99 million), Kuwait ($52 million), Sweden ($25.9 million), and ADB ($68 million).

Donor Collaboration

The AID program in Zimbabwe has been planned to take into account the areas of interest and the activities of other donors. For instance, AID has no active program in primary health, not because it is unimportant but because it is a sector adequately covered by other donors. The same is true for energy and fuelwood. There is close collaboration at sector and project level and care is taken to insure that AID programs are compatible with and complement the programs of other donors.

AID has effectively taken the lead in program assistance in Zimbabwe and our sector grants and commodity import programs have been used by government as models for other donors. AID, along with UNDP, has assisted the GOZ in establishing a better system for tracking and accounting for donor assistance. The government took advantage of an AID offer to finance a study by Price Waterhouse of its procedures for accounting for and end use reporting of donor funds. Many of the recommendations of this report, including the preparation and use of new procedural manuals, have been implemented. The government has also called upon the UNDP to provide long- term technical assistance to the Ministry of Finance Economic Planning and Development (MFEPD) to help streamline and restructure the functioning of this key ministry responsible for all external assistance.

Since independence, there has been steady improvement in donor coordination. The present UNDP Resident Representative holds monthly working sessions for donors. These sessions are not the usual informal luncheon meeting but are well attended gatherings where substantive discussions take place. Often, key government officials participate and make presentations at these sessions. Over the last year, these meetings proved extremely useful when the government and donors exchanged information on the drought and food aid commitments. With the opening of the World Bank resident office later this year, the level and effectiveness of donor coordination is expected to increase. A more formal Consultative Group would be very useful, particularly as Zimbabwe enters a difficult period of policy dialogue and adjustment with

the IMF. Cooperation for Development in Africa (CDA) has not functioned well in Zimbabwe. Local CDA representatives continue to receive few, if any, instructions from their home capitals and local CDA meetings have not been held since 1982, when AID hosted two such get-togethers.

Administration of External Aid

The Ministry of Finance, Economic Planning and Development (MFEPD) plans and coordinates external assistance and the sectoral ministries and parastatals are the implementing agencies. When external aid began flowing into Zimbabwe it encountered a government inexperienced in dealing with the myriad of procedures and regulations that attend foreign assistance. Systems had to be quickly developed and administration of the significant aid levels has not been as efficient as desired. It has been estimated that less than fifty percent of total aid commitments had been disbursed by the end of 1984. Bilateral donors have the best disbursement ratio, 60%. The recent analysis undertaken by UNDP concludes that those donors which have a high percentage of commodity aid or equipment and materials transfers have had a relatively higher disbursement ratio.

Cash transfers to provide balance of payments or budgetary support such as OPEC loans or bilateral grants from the U.S., U.K. and other countries for the post-independence reconstruction program were disbursed quickly and absorbed immediately. Multilateral financing from organizations such as the ADB, BADEA, EEC and IBRD, which is generally targetted for specific projects and programs, has not moved as quickly. This is due to complex procedures for project formulation and financial commitment and detailed disbursement procedures coupled with the government's inability to fulfill such requirements quickly.

Efforts to improve the efficiency and speed with which external development assistance is used are continuing. The government convened a meeting of all donors late in 1983 to identify constraints to aid utilization and propose solutions. Several of the measures proposed have been instituted and an advisor in aid monitoring and information systems development has been recruited for the MFEPD. AID will also continue to assist in this effort to improve absorptive capacity through a follow-on study on aid accounting procedures to be done by Price Waterhouse.

G. Program Implementation and Resource Requirements

Despite requirements for policy adjustment in several areas of the economy and some slippage in government administrative capacity, an essentially non-project mode of assistance is still appropriate for Zimbabwe. Program assistance here enables rapid disbursement of foreign exchange, mostly through the private sector where substantial liquidity means easier generation of local currency. Zimbabwe dollars have substantial local utility and can purchase a wide range of goods and services because of the diverse manufacturing, agricultural and industrial sectors of the economy. This further justifies a largely non-project approach.

Government capability to manage the various program elements is considered good-to-adequate in those primary ministries with whom we work, such as Finance, Agriculture, Education, Health and Housing and Construction. While some project planning and decision-making is less efficient now than in 1981, mechanisms have been put in place to provide the necessary planning and decision-making help. For instance, ZASA and BEST resources are allocated by interministerial committees on which A.I.D. project managers sit. CIP foreign exchange is allocated to the private sector (80%) by another well-established interministerial committee under the direction of the Ministry of Trade and Commerce. This committee is now well aware of A.I.D. procurement regulations, source origin requirements and commodity eligibility regulations. Because of the very high private sector demand for CIP resources, disbursements can usually take place between 12-18 months after Letters of Credit are opened. Public sector CIP (20%) disbursements usually take longer because of competitive bidding and award review. All public sector use of CIP foreign exchange is decided upon by the Ministry of Finance, Economic Planning and Development, since public sector use also generates local currency and assurance of adequate public budget coverage is essential.

Local currency generated by the two sector programs, agriculture and education, is programmed for specific sub-projects by the respective interministerial working groups according to criteria outlined in the two PAAD's. CIP-generated counterpart is programmed in general to support the CDSS strategy elements with the joint approval of the Ministry of Finance and A.I.D. A composite listing of all local currency projects as of the end of FY 1984 is provided in Table 4. Lest the impression be left that the project

management workload is light in the Mission, it should be noted that there are 57 active local currency-funded projects.

The general management approach of this Mission is to maintain larger units of management, rely on government capacity where the policy framework suggests that resources will be well invested, and to maintain a very small U.S. Direct Hire Staff. The limited U.S. staff will, of necessity, work outside their specialities and will need to cover a range of areas assisted only by locally-recruited professional Zimbabwean staff and TDY support from REDSO and other Southern African Missions. For instance, the Mission's Human Resources Development Officer will manage the education sector program, handle all participant training, backstop all PVO activities, direct all assistance to small enterprises and monitor the local currency-funded Community Development Fund. The Deputy Director is responsible for Mission management, liaison with the JAO, security and local personnel. At the same time he manages the population and Housing Guaranty programs and also carries the Program Officer portfolio until the latter position is filled early in 1985.

Direct Hire Staff

With the addition of a Program Officer position, bilateral Mission staffing will remain at only eight Direct Hire positions as follows:

Mission Director
Administrative Secretary
Deputy Director
Program Officer
Human Resources Development Officer
Agriculture Development Officer
Supply Management Officer
Controller

Local Staffing

The Mission is now in a full implementation phase and the management workload has increased substantially, especially with local currency projects. Rather than looking to additional USDH staff, the Mission has turned to recruiting and training more Zimbabwean professional staff. As a general rule, each Division (Agriculture, Human Resources, Supply Management, Controller's Office, Program Office) will be staffed by one American, one Zimbabwean secretary and at least one local-hire professional. Accordingly, through the proposed strategy period 1987-1990, local staffing, both direct hire (4) and personal service contracts (15), will be as follows:

Position	D.H.	PSC
Program and Housing Assistant		X
Human Resources Assistant		X
Agriculture Assistant		X
Office Manager		X
Financial Analyst	X	
Voucher Examiner		X
Voucher Examiner		X
Cashier	X	
Administrative Assistant (SMO)		X
Administrative Assistant (HRDO)		X
Administrative Assistant (Deputy Director)		X
Secretary (ADO)		X
Secretary (Controller)		X
C & R Clerk	X	
Receptionist		X
Chauffeur		X
Chauffeur		X
Janitor/Gardener		X
Janitor/Gardener		X

Resources Required for the Strategy Period

Zimbabwe has been an effective user of the $361 million obligated since Independence in April 1980. It is unfortunate that bilateral levels have declined over FY 84 and 85, just when the economy is trying to recover from the effects of both drought and world recession. There would be greater possibility of success of an employment strategy, as put forth in this document, if ESF levels were somewhat greater than the $28 million received in FY 1985. Given its positive agricultural policies, we continue to believe that Zimbabwe should be considered for future year funding under EPI. Barring any unforeseen drought, Zimbabwe should be able to provide not only its own basic food grains, but also export some maize within the region. Therefore, we are not proposing any PL 480 in future years.

Resource requirements by funding accounts are shown in Table 6. This Table reflects the increased importance of Housing Guaranty and PRE resources as part of the Mission's efforts to fuel local investment and employment.

LOCAL CURRENCY FUNDED PROJECTS (FY 1980 - 1984)

TABLE 4

A. ONGOING ACTIVITIES

SECTOR/PROJECT TITLE	AMOUNT (Z$)	AMOUNT (Z$)
AGRICULTURE/RURAL DEVELOPMENT		
1. Gokwe Farming System Study	394,000	
2. Cotton Training Center at Kadoma	1,163,000	
3. Chibero Agricultural College	702,759	
4. Vegetable Training/Agritex	121,378	
5. Chegutu Bulk Storage	5,400,010	
6. Norton Bulk Storage	5,200,000	
7. Mlezu Agriculture Training Institute	161,949	
8. Sanyati Cotton Ginnery	1,700,000	
9. Water Program Development	1,400,000	
10. Rural Afforestation	128,000	
11. Rural Service Centers	4,000,000	
12. Cooperative Development - Revolving Loan Fund	7,800,000	
13. Faculty of Agriculture Expansion (UZ)	4,900,000	
14. AGRITEX (MINAG) Communications	391,000	
15. Chibero College	1,565,000	
16. Irrigation Development	2,000,000	
17. Cooperative Credit	2,000,000	
18. Cooperative Marketing and Supply	2,000	
17. Open Wells Test	100,000	
18. Rutenga Mapping	502,000	
19. Small Farmer Research	57,000	
20. Underground Water Investigations	400,000	
21. Natural Resources Extension Education	100,000	
22. Forestry Commission	150,000	
23. Pilot Ranching Scheme	500,000	
24. Henderson National Dairy Research	76,500	40,914,596
EDUCATION AND HUMAN RESOURCES		
1. Decentralization/Strengthening Ed. Planning	684,000	
2. Localization of Examinations	100,000	
3. Administration/Processing Examinations	100,000	
4. Belvedere Teachers Training College	17,114,999	
5. Agricultural Training at Teachers Colleges	45,000	
6. Upgrading Secondary Teachers	200,000	
7. Zimbabwe Integrated National Teachers Course	1,863,000	
8. Vocational/Technical Secondary Teachers Kits	4,100,000	
9. Primary School Arts/Crafts	100,000	
10. Distance Education Materials	2,000,000	
11. National Education Centre	2,600,000	
12. Hostels for University of Zimbabwe	3,000,000	
13. National Literacy Campaign	2,600,000	
14. District Council Primary Schools	11,553,962	

TABLE 4a

SECTOR/PROJECT TITLE	AMOUNT (Z$)	AMOUNT (Z$)
EDUCATION (continued)		
15. Govt. Rural Secondary Schools	8,332,604	
16. Mission Primary/Secondary Schools	4,736,354	
17. Zimbabwe Foundation for Ed. Production	2,280,000	
18. National Vocational Training Centre	8,135,000	
19. Mutare Technical College	6,250,000	
20. Masvingo Technical College	4,250,000	
21. Gweru Technical College	500,000	
22. MANDATA Fund/Vocational Training	447,000	
23. Public Service Provincial Training Centre	2,607,831	83,599,750
POPULATION/HEALTH		
1. Binga District Hospital Expansion	1,000,000	
2. Child Spacing - Spilhaus Center *	1,500,000	2,500,000
LOW COST HOUSING		
1. Rural Housing	980,999	
2. UNDP/USAID Low Cost Housing	2,600,000	
3. Cooperative Staff Housing	1,500,000	
4. National Household Survey	220,000	5,300,999
PRIVATE SECTOR DEVELOPMENT		
1. Small Enterprise Development Corporation	5,000,000	
2. National Community Development Fund	1,000,000	6,000,000
TOTAL ONGOING		138,315,345

LOCAL CURRENCY FUNDED PROJECTS (FY 1980 - 1984)

TABLE 5

B. COMPLETED ACTIVITIES

SECTOR/PROJECT TITLE	AMOUNT (Z$)	AMOUNT (Z$)
AGRICULTURE		
1. Summer Crop Pack	2,000,000	
2. Extension Assistants Housing	411,000	
3. Irrigation Reconstruction	1,040,000	
4. Winter Seed Packs	962,277	
5. Water Supplies	324,141	
6. Roads and Bridges	974,859	
8. Dipping Services	300,000	
9. C.M.E.D.: Bulldozers	425,880	
10. Water Development Feasibility	333,833	
11. Intensive Resettlement - First Year Crop Inputs	238,845	
12. Commission of Inquiry into Agricultural Industry-Research Assistant	8,366	
13. Rural Marketing Depots	400,000	
14. Tarpaulins	46,000	
15. Extension Staff Training	677,375	
16. Grant to UNHCR	3,000,000	
17. Maize under WFP	5,000,000	16,142,576
EDUCATION		
1. Survey of Community Based Training Programs	20,000	
2. Extension Staff Training	677,375	
3. Vehicles for Schools	160,000	857,375
POPULATION/HEALTH		
1. Gweru Medical Training School	420,000	
2. Bulawayo Medical Store	1,500,000	
3. Binga District Hospital	1,000,000	2,920,000
TOTAL COMPLETED		19,919,951

PROPOSED FUNDING LEVELS (FY 1986 - FY 1989)
(US$.000)

TABLE 6

	FY 86		FY 87		FY 88		FY 89	
	DA	ESF	DA	ESF	DA	ESF	DA	ESF
Grants								
1. Commodity Import Program (CIP)	-	10,000	-	10,000	-	10,000	-	10,000
2. Zim Agr. Sector Asst. (ZASA)	5,250	-	-	5,000	5,000	-	5,000	5,000
3. Basic Ed. and Skills	-	4,900	5,000	-	5,000	5,000	5,000	-
4. Zim. Manpower Dev. (ZIMMAN)	5,250	-	7,000	-	-	-	3,000	-
5. Child Spacing and Family Planning (CSFPC)	2,500	-	3,000	-	5,000	-	2,000	-
6. Private Sector Housing T.A.	-	100	-	-	-	-	-	-
Sub-total DA and ESF	13,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Total Program	28,000		30,000		30,000		30,000	
PRE Loans								
1. Contraceptive Manufacturing	-		2,000		-		-	
2. Zimbabwe Export Cooperative (ZEPCO)	2,500		-		-		-	
3. American Venture Capital	-		2,500		-		-	
Housing Guaranty Loans	25,000		-		25,000		-	

Other

The Mission will selectively supplement the above proposed levels through centrally funded resources as they are or become available. This will include the use of centrally funded population projects and the continued use of matching grants to support local non-Governmental Organizations (NGO's).

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Country Development Strategy Statement

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Zimbabwe

ANNEX B

STATISTICAL TABLE

Febuary 1985

Agency for International Development
Washington, D.C. 20523

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STATISTICAL TABLES

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Table 1. ZIMBABWE: Gross Domestic Product, 1975-83 (Millions of Zimbabwe dollars)

Sector of Origin	1975	1976	1977	1978	1979	1980	1981	1982	1983p
A: At Current Prices:									
Agriculture & forestry	323	350	334	294	329	462	647	670	677
Mining & quarrying	131	152	149	156	226	285	250	212	261
Manufacturing	447	480	460	514	623	802	1016	994	1135
Electricity & water	50	57	56	62	71	70	78	79	122
Construction	94	88	84	68	92	87	133	137	152
Finance & insurance	86	92	102	105	123	159	185	226	242
Real estate	44	47	47	45	44	43	55	51	55
Distribution, hotels & restaurants	258	262	242	265	313	425	566	656	758
Transport & communications	145	159	166	178	188	211	303	356	458
Public administration	130	163	204	238	269	290	307	357	377
Education	65	73	76	86	98	169	217	311	345
Health	38	43	49	54	63	73	84	109	110
Domestic services	45	49	52	52	53	65	72	85	89
Other services less imputed bank charges	46	49	48	51	54	65	82	78	90
Gross Domestic Product	1902	2064	2069	2168	2546	3206	3595	4321	4871
B: At Constant 1980 Prices:									
Agriculture & forestry	460	512	403	444	444	462	592	521	419
Mining & quarrying	299	326	309	292	292	285	271	264	257
Manufacturing	729	687	653	629	697	802	881	886	844
Electricity & water	94	85	58	70	64	70	70	64	67
Construction	156	123	109	91	89	87	99	97	91
Finance & insurance	190	192	192	171	147	159	206	232	211
Real estate	81	72	66	54	48	43	50	43	43
Distribution, hotels & restaurants	378	353	337	329	339	425	497	462	479
Transport & communications	196	189	165	167	174	211	242	229	229
Public administration	198	219	245	277	277	290	337	329	334
Education	134	134	137	127	127	169	236	261	285
Health	65	65	70	70	70	73	78	89	91
Domestic services	74	74	72	69	65	65	63	61	61
Other services less imputed bank charges	78	75	68	68	67	65	57	34	31
Gross Domestic Product	3132	3106	2884	2858	2900	3206	3679	3526	3415
Total Population 1/	6280	6490	6700	6920	7150	7360	7600	7848	8104
GDP per Capita	499	479	430	413	407	436	484	449	421

1/ These are population projections based on earlier censuses. Provisional results of the 1982 Census indicated a total population of 7,539,000. Estimates for other years have not yet been revised.

SOURCES: 1975-81: Central Statistical Office, Quarterly Digest of Statistics, June 1984, pp. 1 & 10.
1982-83: IMF, Zimbabwe - Recent Economic Developments, Aug. 27, 1984, p. 66.
(1982-83 constant price figures were recalculated from 1969 prices in source; they do not add to totals due to rounding error.)

MEDSO/ESA: CBCallison, 11/26/84

Table 2. ZIMBABWE: Composition and Growth of Gross Domestic Product, 1975-83 (Percent)

Sector of Origin	1975	1976	1977	1978	1979	1980	1981	1982	1983p
A: Percent Composition by Sector of Origin:									
Agriculture & forestry	17.0	17.0	16.1	13.6	12.9	14.4	16.2	15.5	13.9
Mining & quarrying	6.9	7.4	7.2	7.2	8.9	8.9	6.3	4.9	5.4
Manufacturing	23.5	23.3	22.2	23.7	24.5	25.0	25.4	23.0	23.3
Electricity & water	2.6	2.8	2.7	2.9	2.8	2.2	2.0	1.8	2.5
Construction	4.9	4.3	4.1	3.1	3.6	2.7	3.3	3.2	3.1
Finance & insurance	4.5	4.5	4.9	4.8	4.8	5.0	4.6	5.2	5.0
Real estate	2.3	2.3	2.3	2.1	1.7	1.3	1.4	1.2	1.1
Distribution, hotels & restaurants	13.6	12.7	11.7	12.2	12.3	13.3	14.2	15.2	15.6
Transport & communications	7.6	7.7	8.0	8.2	7.4	6.6	7.6	8.2	9.4
Public administration	6.8	7.9	9.9	11.0	10.6	9.0	7.7	8.3	7.7
Education	3.4	3.5	3.7	4.0	3.8	5.3	5.4	7.2	7.1
Health	2.0	2.1	2.4	2.5	2.5	2.3	2.1	2.5	2.3
Domestic services	2.4	2.4	2.5	2.4	2.1	2.0	1.8	2.0	1.8
Other services less imputed bank charges	2.4	2.4	2.3	2.4	2.1	2.0	2.1	1.8	1.8
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
B: Annual Percentage Rates of Growth:									
Agriculture & forestry		11.3	-21.3	10.2	0.0	4.1	28.1	-11.9	-19.7
Mining & quarrying		9.0	-5.2	-5.5	0.0	-2.4	-4.9	-2.5	-2.6
Manufacturing		-5.8	-4.9	-3.7	10.8	15.1	9.9	0.6	-4.8
Electricity & water		-9.6	-11.8	20.7	-8.6	9.4	0.0	-8.7	4.8
Construction		-21.2	-11.4	-16.5	-2.2	-2.2	13.8	-2.0	-6.3
Finance & insurance		1.1	0.0	-10.9	-14.0	8.2	29.6	12.6	-9.2
Real estate		-11.1	-8.3	-18.2	-11.1	-10.4	16.3	-13.6	0.0
Distribution, hotels & restaurants		-6.6	-4.5	-2.4	3.0	25.4	16.9	-7.1	3.8
Transport & communications		-3.6	-12.7	1.2	4.2	21.3	14.7	-5.3	0.0
Public administration		10.6	11.9	13.1	0.0	4.7	16.2	-2.3	1.6
Education		0.0	2.2	-7.3	0.0	33.1	39.6	10.4	9.5
Health		0.0	7.7	0.0	0.0	4.3	6.8	13.8	3.0
Domestic services		0.0	-2.7	-4.2	-5.8	0.0	-3.1	-3.6	0.0
Other services less imputed bank charges		-3.8	-9.3	0.0	-1.5	-3.0	-12.3	-40.9	-7.7
Gross Domestic Product		-0.8	-7.1	-0.9	1.5	10.6	14.8	-4.2	-3.2
GDP per Capita		-4.0	-10.1	-4.1	-1.5	7.1	11.1	-7.2	-6.2

SOURCE: Calculated from Table 1.

REDSO/ESA: CSCallison, 11/26/84

Table 3A. ZIMBABWE: Modern Sector Wage Employment by Industry, 1965-75
(thousands - annual averages)

Sector	1965	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983
Agriculture & forestry	295.6	297.8	363.8	396.1	348.2	341.4	335.2	327.0	294.3	274.3	263.5
Mining & quarrying	47.1	57.2	62.6	63.8	61.6	58.1	59.5	66.2	68.2	63.7	60.3
Manufacturing	80.7	114.7	156.0	153.6	145.1	139.3	144.7	159.4	173.2	180.5	177.4
Electricity & water	4.9	5.6	6.9	6.7	6.6	6.5	6.6	6.7	6.6	6.5	6.9
Construction	27.2	42.4	60.8	51.6	46.5	40.9	40.6	42.2	47.1	51.1	49.3
Finance & insurance & real estate	7.9	9.0	12.1	12.1	12.2	12.0	12.1	12.5	13.8	14.6	15.8
Distribution, hotels & restaurants	60.8	65.6	77.3	74.7	72.5	69.1	67.6	70.3	75.0	79.8	80.6
Transport & communications	35.3	36.5	45.3	45.7	45.5	44.0	43.4	45.6	49.1	50.4	49.6
Public administration	29.9	39.0	48.9	53.8	60.6	68.3	73.7	71.1	83.2	81.3	82.5
Education	29.1	31.0	36.0	36.9	36.6	34.9	33.8	41.9	59.1	71.8	78.2
Health	9.1	10.7	13.5	13.5	14.5	14.7	14.8	15.2	16.3	18.9	19.0
Domestic services	94.7	109.3	124.1	122.8	120.0	115.9	110.4	108.0	104.6	101.4	99.8
Other services	25.2	34.5	42.9	42.1	42.3	41.1	42.3	43.8	47.3	51.7	54.5
Totals	747.5	853.3	1050.2	1033.4	1012.2	986.2	984.7	1009.9	1037.7	1045.9	1033.4
Totals without agriculture & domestics	357.2	446.2	562.3	554.5	544	528.9	539.1	574.9	638.8	670.2	670.1
Total Population 1/	4516	5310	6280	6490	6700	6920	7130	7360	7600	7848	8104
Est. Labor Force 2/	1558	1832	2167	2239	2312	2387	2460	2539	2622	2708	2796
Formal Wage Employment as a percent of:											
Total Population	16.6	16.1	16.7	15.9	15.1	14.3	13.8	13.7	13.7	13.3	12.8
Est. Labor Force	48.0	46.6	48.5	46.2	43.8	41.3	40.0	39.8	39.6	38.6	37.0

1/ These are population projections based on earlier censuses. Provisional results of the 1982 Census indicated a total population of 7,539,000. Estimates for other years have not yet been revised.
2/ Reliable labor force estimates are not available in Zimbabwe. The Riddell Commission computed a labor force estimate of 2.5 million in Dec. 1979. This was 34.5% of the estimated total population. This total participation rate is used here to derive rough estimates of the labor force for each year.

SOURCE: Central Statistics Office, 'Quarterly Digest of Statistics,' June 1984, pp. 1 & 6.

REDSD/ESA: CSCallison, 12/10/84

Table 3b. ZIMBABWE: Distribution of Modern Sector Wage Employment by Industry, 1965-75
(percent of total - annual averages)

Sector	1965	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983
Agriculture & forestry	39.5	34.9	34.6	34.5	34.4	34.6	34.0	32.4	28.4	26.2	25.5
Mining & quarrying	6.3	6.7	6.0	6.2	6.1	5.9	6.0	6.6	6.6	6.1	5.8
Manufacturing	10.8	13.4	14.9	14.9	14.3	14.1	14.7	15.8	16.7	17.3	16.8
Electricity & water	0.7	0.7	0.7	0.6	0.7	0.7	0.7	0.7	0.6	0.6	0.7
Construction	3.6	5.0	5.8	5.0	4.6	4.1	4.1	4.2	4.5	4.9	4.8
Finance & insurance & real estate	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.3	1.4	1.5
Distribution, hotels & restaurants	8.1	7.7	7.4	7.2	7.2	7.0	6.9	7.0	7.2	7.6	7.8
Transport & communications	4.7	4.3	4.3	4.4	4.5	4.5	4.4	4.5	4.7	4.8	4.8
Public administration	4.0	4.6	4.7	5.2	6.0	6.9	7.5	7.0	8.0	7.8	8.0
Education	3.9	3.6	3.4	3.6	3.6	3.5	3.4	4.1	5.7	6.9	7.6
Health	1.2	1.3	1.3	1.3	1.4	1.5	1.5	1.5	1.6	1.8	1.8
Domestic services	12.7	12.8	11.8	11.9	11.9	11.8	11.2	10.7	10.1	9.7	9.7
Other services	3.4	4.0	4.1	4.1	4.2	4.2	4.3	4.3	4.6	4.9	5.3
Totals	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: Calculated from Table 3a.

REDSO/ESA: CSCallison, 12/3/84

Table 4a. ZIMBABWE: Modern Sector Wage Earnings by Industry, 1965-75
(Z$ millions)

Sector	1965	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983
Agriculture & forestry	52.3	53.3	93.4	103.2	112.2	120.1	137.8	149.7	219.1	252.0	279.5
Mining & quarrying	23.2	35.4	57.1	65.7	71.4	72.6	85.4	116.3	157.3	178.7	186.0
Manufacturing	66.1	107.8	226.6	244.9	253.5	267.0	307.0	401.8	539.9	651.4	709.7
Electricity & water	5.6	7.5	15.6	17.0	18.7	20.7	22.1	26.2	30.0	34.2	38.1
Construction	17.3	31.5	69.1	63.2	61.5	57.8	64.1	77.8	105.6	138.2	154.2
Finance & insurance & real estate	15.5	22.9	46.9	51.1	55.2	57.4	64.3	78.5	99.3	116.2	138.2
Distribution, hotels & restaurants	57.1	71.8	124.9	130.4	135.8	138.1	152.6	187.6	245.4	299.8	335.9
Transport & communications	52.9	65.0	108.4	121.5	128.0	133.7	147.8	188.7	237.8	275.7	279.5
Public administration	33.7	51.8	109.1	140.5	180.1	215.3	243.5	263.3	280.8	329.6	347.7
Education	27.8	37.8	64.5	72.2	76.0	85.8	97.7	168.2	216.1	309.8	344.1
Health	8.1	12.0	24.4	27.3	30.5	34.8	39.0	48.6	55.7	75.8	76.0
Domestic services	22.7	30.2	45.8	48.5	50.9	52.1	53.2	64.7	72.2	85.4	88.5
Other services	22.3	35.9	63.8	68.3	73.8	77.6	87.1	109.6	135.4	170.1	191.8
Totals	400.7	559.0	1049.6	1153.8	1247.6	1333.0	1501.6	1881.0	2394.6	2917.2	3169.2
Totals without agriculture & domestics	325.7	475.5	910.4	1002.1	1084.5	1160.8	1310.6	1666.6	2103.3	2579.8	2801.2

SOURCE: Central Statistics Office, 'Quarterly Digest of Statistics,' June 1984, p. 6.

REDSO/ESA: LSCallison, 12/16/84

Table 4b. ZIMBABWE: Modern Sector Wage Earnings per Worker by Industry, 1965-75
(Zimbabwe dollars)

Sector	1965	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983
1) In current prices:											
Agriculture & forestry	176.9	179.0	256.7	289.8	322.2	351.8	411.1	457.8	744.5	918.7	1060.7
Mining & quarrying	492.6	618.9	912.1	1029.8	1159.1	1249.6	1435.3	1756.8	2306.5	2805.3	3084.6
Manufacturing	819.1	939.8	1452.6	1594.4	1747.1	1916.7	2121.6	2520.7	3117.2	3608.9	4092.8
Electricity & water	1142.9	1339.3	2260.9	2537.3	2833.3	3184.6	3348.5	3910.4	4545.5	5261.5	5521.7
Construction	636.0	742.9	1136.5	1224.8	1322.6	1413.2	1578.8	1843.6	2242.0	2704.5	3127.8
Finance & insurance & real estate	1962.0	2544.4	3876.0	4223.1	4524.6	4783.3	5314.0	6280.0	7195.7	7958.9	8746.8
Distribution, hotels & restaurants	939.1	1094.5	1615.8	1745.6	1873.1	1998.6	2257.4	2668.6	3272.0	3756.9	4167.5
Transport & communications	1498.6	1780.5	2392.9	2658.6	2813.2	3038.6	3405.5	4138.2	4843.2	5470.2	5635.1
Public administration	1127.1	1328.2	2231.1	2611.5	2971.9	3152.3	3303.9	3703.2	3375.0	4054.1	4214.5
Education	817.9	1090.3	1791.7	1956.6	2076.5	2458.5	2890.5	4014.3	3656.5	4314.8	4400.3
Health	890.1	1121.5	1807.4	2022.2	2103.4	2367.3	2635.1	3197.4	3417.2	4010.6	4000.0
Domestic services	239.7	276.3	369.1	395.0	424.2	449.5	481.9	599.1	690.2	842.2	886.8
Other services	884.9	1040.6	1487.2	1622.3	1744.7	1888.1	2059.1	2502.3	2862.6	3290.1	3519.3
Totals	536.1	655.1	999.4	1116.5	1232.6	1351.7	1524.9	1862.6	2307.6	2789.2	3066.8
Totals without agriculture & domestics	911.8	1065.7	1619.1	1807.2	1993.6	2194.7	2431.1	2898.9	3292.6	3849.3	4180.3
CPI for Lower Income Urban Families (1980 = 100.0)	44.2	49.6	63.4	69.5	74.8	82.2	93.5	100	111.5	122.7	149.4
2) In constant 1980 prices:											
Agriculture & forestry	400.3	360.8	404.9	417.0	430.8	428.0	439.7	457.8	667.7	748.7	[illegible]
Mining & quarrying	1114.4	1247.7	1438.7	1481.7	1549.6	1520.2	1535.1	1756.8	2068.6	2286.3	2064.6
Manufacturing	1853.1	1894.8	2291.1	2294.1	2335.7	2331.8	2269.1	2520.7	2795.7	2941.2	2739.5
Electricity & water	2585.6	2700.2	3566.0	3650.8	3787.9	3874.2	3581.3	3910.4	4076.6	4298.1	3695.9
Construction	1439.0	1497.8	1792.6	1762.3	1768.2	1719.2	1688.6	1843.6	2010.8	2204.2	2093.6
Finance & insurance & real estate	4439.0	5129.9	6113.6	6076.5	6048.9	5819.1	5683.5	6280.0	6453.5	6486.5	5854.6
Distribution, hotels & restaurants	2124.8	2206.7	2548.6	2511.7	2504.1	2431.3	2414.3	2668.6	2934.5	3061.9	2789.5
Transport & communications	3390.5	3590.4	3774.3	3825.4	3760.9	3696.6	3642.3	4138.2	4343.7	4458.2	3771.8
Public administration	2550.0	2677.8	3519.1	3757.6	3973.2	3834.9	3533.6	3703.2	3026.9	3304.1	2821.0
Education	1850.4	2198.2	2826.0	2815.3	2776.1	2990.8	3091.5	4014.3	3279.4	3516.5	2945.3
Health	2013.8	2261.1	2850.8	2909.7	2812.1	2880.0	2818.3	3197.4	3064.7	3268.6	2677.4
Domestic services	542.3	557.1	582.1	568.3	567.1	546.9	515.4	599.1	619.1	686.4	593.6
Other services	2002.1	2097.9	2345.7	2334.3	2332.5	2296.9	2202.2	2502.3	2567.3	2681.4	2355.6
Totals	1212.8	1320.8	1576.4	1606.5	1647.8	1644.3	1630.9	1862.6	2069.6	2273.2	2052.7
Totals without agriculture & domestics	2062.9	2148.5	2553.7	2600.3	2666.2	2670.0	2600.1	2898.9	2953.0	3137.2	2798.0

SOURCE: Calculated from Tables 3 and 4a. Consumer Price Index from Central Statistics Office, 'Quarterly Digest of Statistics,' June 1984, p. 9.
REDSO/ESA: CSCallison, 12/16/84

Table 5. ZIMBABWE: Direction of Trade, 1981-83 (US$ millions)

Country	Exports: 1981	1982	1983	Total Exports 1981-83	Imports: 1981	1982	1983	Total Imports 1981-83	Total Trade 1981-83	Percent of Total
United States	100.2	87.5	69.8	257.5	108.0	135.3	87.4	330.7	588.2	8.0
Japan	35.7	31.7	61.4	128.8	89.3	73.6	54.0	216.9	345.7	4.8
Belgium	46.7	22.9	20.7	90.3	24.0	10.0	11.2	45.2	135.5	1.9
France	22.4	25.9	18.2	66.5	53.2	72.0	50.2	175.4	241.9	3.3
Germany	106.2	89.2	68.8	264.2	106.5	116.5	71.3	294.3	558.5	7.7
Italy	63.5	46.2	51.5	161.2	30.3	33.3	19.7	83.3	244.5	3.4
Netherlands	38.4	47.3	42.6	128.3	33.7	25.0	19.6	78.3	206.6	2.9
Spain	16.9	14.4	21.1	52.4	6.5	4.3	18.1	28.9	81.3	1.1
Switzerland	26.1	15.9	15.6	57.6	30.8	30.2	18.8	79.8	137.4	1.9
United Kingdom	88.2	113.6	107.8	309.6	146.9	214.8	113.3	475.0	784.6	10.8
Botswana	41.9	34.5	39.1	115.5	24.9	41.2	46.2	112.3	227.8	3.1
Malawi	21.6	17.3	17.9	56.8	21.7	13.6	9.2	44.5	101.3	1.4
South Africa	282.7	189.9	148.0	620.6	362.4	330.5	207.1	900.0	1520.6	21.0
Zaire	28.2	27.5	23.8	79.5	1.1	0.7	0.4	2.2	81.7	1.1
Zambia	52.1	37.0	30.7	119.8	35.4	31.1	22.4	88.9	208.7	2.9
Sub-Totals	970.8	795.8	737.0	2507.6	1074.7	1130.1	748.9	2953.7	5459.3	75.4
Total Trade	1320.9	1073.3	955.0	3349.2	1465.6	1421.9	1008.4	3895.9	7245.1	100.0
Sub-Total % of Total	73.5	74.1	77.2	74.8	73.3	79.6	74.3	75.9	75.4	75.4

SOURCE: IMF, Direction of Trade Statistics Yearbook 1984.

REDSO/ESA: CL Allison, 11/8/84

Table 6a. ZIMBABWE: Nominal Exchange Rates of Major Trading Partners, 1975-84

Country	Foreign Currency/U.S. Dollar (period averages): 1975	1976	1977	1978	1979	1980	1981	1982	1983	Latest Month 1984
United States	1	1	1	1	1	1	1	1	1	1
Japan	296.79	296.55	268.51	210.44	219.14	226.74	220.54	249.05	237.52	242.3
Belgium	36.799	38.605	35.843	31.492	29.319	29.243	37.131	45.691	51.132	58.327
France	4.2864	4.7796	4.9134	4.5128	4.2545	4.226	5.4346	6.5724	7.6213	8.862
Germany	2.4603	2.518	2.3222	2.0086	1.8329	1.8177	2.26	2.4266	2.5533	2.8871
Italy	652.85	832.28	882.4	848.7	830.9	856.4	1136.8	1352.5	1518.8	1781.5
Netherlands	2.529	2.6439	2.4543	2.1636	2.006	1.9881	2.4952	2.6702	2.8541	3.2561
Spain	57.41	66.9	75.96	76.67	67.13	71.7	92.31	109.86	143.43	164.46
Switzerland	2.5813	2.4996	2.4035	1.768	1.6627	1.6757	1.9642	2.0303	2.0991	2.4167
United Kingdom	0.4501	0.5536	0.5729	0.521	0.4713	0.4299	0.4931	0.5713	0.6592	0.7613
Botswana	0.7319	0.8696	0.8415	0.8282	0.8146	0.7769	0.8331	1.0217	1.0963	1.3633
Malawi	0.8638	0.9130	0.9029	0.8437	0.8169	0.8121	0.8953	1.0555	1.1748	1.4447
South Africa	0.7319	0.8696	0.8696	0.8696	0.8418	0.7780	0.8703	1.0837	1.1122	1.5731
Zaire	0.5000	0.7920	0.8570	0.8360	1.7290	2.8000	4.2840	5.7500	12.8890	36.7400
Zambia	0.6435	0.7097	0.7897	0.7999	0.7933	0.7685	0.8684	0.9282	1.2506	1.8501
Zimbabwe	0.5678	0.6256	0.6282	0.6773	0.6799	0.6426	0.6982	0.7573	1.0106	1.3016

SOURCE: IMF, International Financial Statistics, Oct. 1984 and 1984 Yearbook

REDSO/ESA: CSCallison, 11/28/84

Table 6b. ZIMBABWE: Nominal Exchange Rate Indices of Major Trading Partners, 1975-84

Country	Foreign Currency/U.S. Dollar Indices (period averages): 1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
United States	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Japan	130.9	130.8	118.4	92.8	96.6	100.0	97.3	109.8	104.8	106.9
Belgium	125.8	132.0	122.6	107.7	100.3	100.0	127.0	156.2	174.9	199.5
France	101.4	113.1	116.3	106.8	100.7	100.0	128.6	155.5	180.3	209.7
Germany	135.4	138.5	127.8	110.5	100.8	100.0	124.3	133.5	140.5	158.8
Italy	76.2	97.2	103.0	99.1	97.0	100.0	132.7	157.9	177.3	208.0
Netherlands	127.2	133.0	123.4	108.8	100.9	100.0	125.5	134.3	143.6	163.8
Spain	80.1	93.3	105.9	106.9	93.6	100.0	128.7	153.2	200.0	229.4
Switzerland	154.0	149.2	143.4	106.7	99.2	100.0	117.2	121.2	125.3	144.2
United Kingdom	104.7	128.8	133.3	121.2	109.6	100.0	114.7	132.9	153.3	177.1
Botswana	94.2	111.9	108.3	106.6	104.8	100.0	107.2	131.5	141.1	175.5
Malawi	106.4	112.4	111.2	103.9	100.6	100.0	110.2	130.0	144.7	177.9
South Africa	94.1	111.8	111.8	111.8	108.2	100.0	111.9	139.3	143.0	202.2
Zaire	17.9	28.3	30.6	29.9	61.8	100.0	156.6	205.4	460.3	1312.1
Zambia	81.6	90.0	100.2	101.4	100.6	100.0	110.1	117.7	158.6	234.6
Zimbabwe	88.3	97.4	97.8	105.4	105.8	100.0	107.1	117.8	157.3	202.3

SOURCE: Calculated from Table 6a.

REDSO/ESA: CSCallison, 11/28/84

Table 6b. ZIMBABWE: Trade Weighted Foreign Exchange Rate Index, 1975-84

Country	% of All Trade 1975-84	Foreign Currency/U.S. Dollar Indices (period averages) times trade weights: 1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
United States	8.05	8.05	8.05	8.05	8.05	8.05	8.05	8.05	8.05	8.05	8.05
Japan	4.77	6.24	6.24	5.65	4.43	4.61	4.77	4.64	5.24	5.00	5.10
Belgium	1.87	2.35	2.47	2.29	2.01	1.87	1.87	2.37	2.92	3.27	3.73
France	3.34	3.39	3.78	3.88	3.57	3.36	3.34	4.30	5.19	6.02	7.00
Germany	7.71	10.44	10.68	9.85	8.52	7.77	7.71	9.59	10.29	10.83	12.25
Italy	3.37	2.57	3.28	3.47	3.34	3.27	3.37	4.47	5.32	5.98	7.01
Netherlands	2.85	3.63	3.79	3.52	3.10	2.88	2.85	3.58	3.83	4.09	4.67
Spain	1.12	0.90	1.05	1.19	1.20	1.05	1.12	1.44	1.72	2.24	2.57
Switzerland	1.90	2.93	2.83	2.73	2.03	1.89	1.90	2.23	2.30	2.38	2.74
United Kingdom	10.83	11.34	13.95	14.43	13.12	11.87	10.83	12.42	14.39	16.61	19.18
Botswana	3.14	2.96	3.51	3.40	3.35	3.29	3.14	3.37	4.13	4.43	5.51
Malawi	1.40	1.49	1.57	1.56	1.45	1.41	1.40	1.54	1.82	2.03	2.49
South Africa	30.99	19.75	27.46	23.46	23.46	22.71	30.99	23.48	29.24	30.01	42.44
Zaire	1.13	0.20	0.32	0.35	0.34	0.70	1.13	1.77	2.32	5.20	14.63
Zambia	2.88	2.75	2.89	2.88	2.92	2.90	2.88	3.17	3.39	4.57	6.76
Subtotals	75.35	78.57	87.57	86.71	80.89	77.63	75.35	86.42	100.16	110.70	144.32
75.35 = Totals	100.00	104.28	116.21	115.07	107.35	103.03	100.00	114.69	132.92	146.91	191.57

SOURCE: Calculated from Tables 5 and 6b.

REDSO/ESA: CSCallison, 11/28/84

Table 7a. ZIMBABWE: Consumer Price Indices of Major Trading Partners, 1975-84

Country	Consumer Price Indices (period averages): 1975	1976	1977	1978	1979	1980	1981	1982	1983	Latest Month 1984
United States	65.3	69.1	73.6	79.2	88.1	100.0	110.4	117.1	120.9	126.3
Japan	72.9	79.7	86.1	89.4	92.6	100.0	104.9	107.7	109.6	111.8
Belgium	73.5	80.2	85.9	89.8	93.8	100.0	107.6	117.0	126.0	134.4
France	60.9	66.8	72.8	79.4	87.9	100.0	113.4	126.8	139.0	149.8
Germany	82.0	85.5	88.7	91.1	94.9	100.0	106.3	111.9	115.6	118.2
Italy	46.9	54.8	64.1	71.9	82.5	100.0	117.8	137.2	157.3	173.0
Netherlands	74.7	81.3	86.5	90.1	93.9	100.0	106.7	113.0	116.2	119.8
Spain	43.6	50.2	62.5	74.8	86.5	100.0	114.6	131.1	147.0	164.7
Switzerland	89.2	90.7	91.8	92.8	96.1	100.0	106.5	112.5	115.9	119.0
United Kingdom	51.1	59.6	69.0	74.7	84.8	100.0	111.9	121.5	127.1	133.3
Botswana	57.0	63.8	72.2	78.7	87.8	100.0	116.2	129.6	142.9	152.8
Malawi	64.5	67.3	70.0	76.1	84.5	100.0	109.6	119.9	138.4	
South Africa	57.0	63.4	70.5	77.7	87.9	100.0	115.2	132.1	148.4	167.0
Zaire	7.4	13.4	22.7	33.7	70.4	100.0	134.9	185.1	325.5	492.9
Zambia	49.3	58.6	70.1	81.6	89.5	100.0	114.0	128.2	153.6	
Zimbabwe	62.1	68.9	76.0	80.3	94.9	100.0	113.1	125.2	154.1	180.9

SOURCE: IMF, International Financial Statistics, Oct.1984 and 1984 Yearbook; Bank of Zambia Report..for..1983,p.51.

REDSO/ESA: CSCallison, 11/29/84

Table 7b. ZIMBABWE: Trade-Weighted Foreign Consumer Price Index, 1975-84

Country	% of All Trade 1975-84	Consumer Price Indices (period averages) times trade weights: 1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
United States	8.05	5.26	5.56	5.92	6.38	7.09	8.05	8.89	9.43	9.73	10.17
Japan	4.77	3.48	3.80	4.11	4.26	4.42	4.77	5.00	5.14	5.23	5.33
Belgium	1.87	1.37	1.50	1.61	1.68	1.75	1.87	2.01	2.19	2.36	2.51
France	3.34	2.03	2.23	2.43	2.65	2.94	3.34	3.79	4.24	4.64	5.00
Germany	7.71	6.32	6.59	6.84	7.02	7.32	7.71	8.20	8.63	8.91	9.11
Italy	3.37	1.58	1.85	2.16	2.42	2.78	3.37	3.97	4.62	5.30	5.83
Netherlands	2.85	2.13	2.32	2.47	2.57	2.68	2.85	3.04	3.22	3.31	3.41
Spain	1.12	0.49	0.56	0.70	0.84	0.97	1.12	1.28	1.47	1.65	1.84
Switzerland	1.90	1.69	1.72	1.74	1.76	1.83	1.90	2.02	2.14	2.20	2.26
United Kingdom	10.83	5.53	6.45	7.47	8.09	9.18	10.83	12.12	13.16	13.76	14.44
Botswana	3.14	1.79	2.00	2.27	2.47	2.76	3.14	3.65	4.07	4.49	4.80
Malawi	1.40	0.90	0.94	0.98	1.07	1.18	1.40	1.53	1.68	1.94	NA
South Africa	20.99	11.96	13.31	14.80	16.31	18.45	20.99	24.18	27.73	31.15	35.05
Zaire	1.13	0.08	0.15	0.26	0.38	0.80	1.13	1.52	2.09	3.68	5.57
Zambia	2.88	1.42	1.69	2.02	2.35	2.58	2.88	3.28	3.69	4.42	NA
Subtotals	75.35	46.05	50.68	55.77	60.25	66.71	75.35	84.49	93.48	102.77	105.34
/.7535 = Totals	100.00	61.12	67.26	74.02	79.97	88.54	100.00	112.14	124.06	136.40	148.22

SOURCE: Calculated from Table 7a.

REDSO/ESA: CSCallison, 11/29/84

Table 8. ZIMBABWE: Real, Trade-Weighted, Foreign Exchange Rate Index, 1975-84

Rate or Index — Year:	1975	1976	1977	1978	1979	1980	1981	1982	1983	Latest Month* 1984
1. Zimbabwe $/US$ rate	0.5678	0.6256	0.6282	0.6773	0.6799	0.6426	0.6882	0.7573	1.0106	1.3016
--Index	88.3	97.4	97.8	105.4	105.8	100.0	107.1	117.8	157.3	202.5
2. US$/Zimbabwe $ rate	1.7613	1.5984	1.5919	1.4764	1.4709	1.5561	1.453	1.3205	0.9895	0.7683
--Index	113.2	102.7	102.3	94.9	94.5	100.0	93.4	84.9	63.6	49.4
3. Nom.FC/US$ Ave. Index	104.3	116.2	115.1	107.4	103.0	100.0	114.7	132.9	146.9	191.5
4. Nom.FC/Zim.$ Index	118.0	119.4	117.7	101.9	97.4	100.0	107.1	112.8	93.4	94.6
5. Zimbabwe CPI	62.1	68.9	76.0	90.3	94.9	100.0	113.1	125.2	154.1	180.9
6. Foreign CPI Ave.	61.1	67.3	74.0	80.0	88.5	100.0	112.1	124.1	136.4	148.2
7. Zimbabwe/Foreign CPI	101.6	102.4	102.7	100.4	107.2	100.0	100.9	100.9	113.0	122.1
8. Real FC/Zim.$ Index	119.9	122.3	120.9	102.3	104.4	100.0	108.0	113.8	105.5	115.4

*Normally March-April-May 1984.

SOURCE NOTES: 1 & 2: IMF, International Financial Statistics (IFS). 3: From Table 6c.
4: Row 2 (Index) x Row 3/100. 5: IMF, IFS. See Table 7a. 6: From Table 7b.
7: 100 x Row 5/Row 6. 8: Row 4 x Row 7/100.

EXPLANATORY NOTE: Row 1 is the Zimbabwe dollar exchange rate per U.S. dollar.
Row 2 is the nominal U.S. dollar value of (exchange rate per) Zimbabwe dollar.
Row 3 is a trade weighted average index of 15 foreign currency exchange rates per U.S. dollar.
Row 4 is a trade weighted index of foreign currency values per Zimbabwe dollar.
Row 5 is the Zimbabwe consumer price index (CPI).
Row 6 is a trade weighted average of the consumer price indices of Zimbabwe's 15 largest trading partners.
Row 7 is the Zimbabwe CPI deflated by the trade weighted average CPI of its trading partners.
Row 8 is the real, trade weighted, foreign currency value (the purchasing power parity) of the Zimbabwe dollar.

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Table 9. ZIMBABWE: Balance of Payments, 1978-85 (In millions of SDR's)

Item	1978	1979	1980	1981	1982	1983p	Prel.Projections 1984	1985
Trade Balance	214.9	158.4	81.8	-70.5	-143.2	98.6	77.0	162.0
Exports, f.o.b.	737.4	835.7	1110.6	1229.0	1189.6	1062.8	1144.0	1224.0
Imports, f.o.b.	-522.5	-677.3	-1028.8	-1299.6	-1332.8	-964.2	-1067.0	-1062.0
Services (net)	-171.2	-199.2	-220.8	-441.1	-424.3	-416.6	-401.0	-450.0
Freight & insurance	-36.0	-31.4	-46.9	-137.3	-143.3	-137.8	-160.0	-152.0
Foreign travel	-61.2	-75.4	-103.4	-106.2	-70.0	-43.1	-45.0	-45.0
Investment income	-28.8	-27.9	-22.0	-97.5	-190.6	-193.6	-158.0	-212.0
Other	-45.1	-64.6	-48.6	-100.1	-20.4	-42.1	-38.0	-41.0
Private Transfers (net)	-13.9	-43.3	-92.7	-103.9	-126.8	-120.6	-75.0	-99.0
Current Balance	29.7	-84.1	-231.7	-615.6	-694.3	-438.6	-399.0	-387.0
Official Transfers (net)	0.0	0.0	44.4	72.6	57.7	32.1	54.0	54.0
Capital (net)	116.4	36.3	-2.3	275.9	474.5	74.5	125.0	102.0
Government	143.2	134.3	-25.8	108.2	126.3	-15.0	60.0	90.0
Public enterprises	-5.0	-7.3	-3.0	151.6	274.7	67.8	73.0	33.0
Other	-21.8	-90.7	26.5	16.1	73.4	21.7	-8.0	-21.0
Net Errors and Omissions	-29.1	92.6	179.8	87.9	83.2	27.1	--	--
SDR Allocation	0.0	0.0	0.0	10.1	0.0	0.0	--	--
Monetization of Gold	0.2	2.8	45.7	18.6	-6.6	36.8	--	--
Overall Balance	117.2	47.6	35.9	-150.5	-85.5	-268.1	-220.0	-231.0
Valuation Adjustment	8.8	-0.1	36.0	-24.2	-3.0	-6.7	--	--
Financing	-126.0	-47.5	-71.9	174.7	88.5	274.8	220.0	231.0
Gold	0.3	-2.8	-81.2	3.3	9.4	-30.8	--	--
Other	-126.3	-44.7	9.3	171.4	79.1	305.6	220.0	231.0
Of which:								
Use of Fund resources				37.5		153.6	71.0	-19.0
Memorandum Items:								
Foreign Assets (net, end of year)	99.9	147.4	219.3	44.6	-43.9	-318.7		
Current Balance as percent of GDP)	1.1	-2.6	-5.8	-12.1	-13.4	-9.7		
External Public Debt:								
Debt outstanding (mil.SDR)	--	456	601	1449	1851	2238	2535	
Debt service ratio (%)	--	--	3.8	8.2	10.9	17.4	23.7	26.9

SOURCES: IMF, "Zimbabwe - Recent Economic Developments," 8/27/84, pp. vii and 42; and IMF, "Zimbabwe - Staff Report for the 1984 Article IV Consultation," 8/15/1984, pp. 15 and 19.

RELSO/ESA: CSCallison, 11/30/84

Table 10a. ZIMBABWE: Exports by Principal Product, 1978-83
(Zimbabwe $ millions)

Product	1978	1979	1980	1981	1982	1983
Major Agricultural Exports	187.7	171.7	203.1	332.4	309.1	
Tobacco 1/	102.5	85.5	122.8	224.4	194.7	
Sugar 2/	10.9	20.6	47.4	54.8	52.3	
Maize	25.4	17.0	7.4	34.7	39.9	
Coffee	11.6	10.8	6.9	9.9	14.7	
Meat	37.3	37.8	18.6	8.6	7.5	
Major Mineral Exports	174.3	215.8	283.0	227.6	280.8	
Gold	46.1	66.6	115.2	76.3	140.5	
Asbestos	57.3	70.5	80.1	75.9	60.9	
Nickel	36.5	37.9	52.8	46.8	45.5	
Copper	26.5	31.3	24.6	18.3	21.7	
Coal/coke	7.9	9.5	10.3	10.3	12.2	
Major Manufactured Goods	151.6	193.6	263.0	235.0	219.0	
Ferro-alloys	31.6	46.3	88.1	79.5	77.2	
Iron/steel	39.8	57.9	67.2	41.8	50.1	
Cotton lint	40.1	46.4	57.2	60.3	51.8	
Textiles/clothing	21.4	23.5	26.1	22.5	15.0	
Machinery/equipment	14.1	14.0	16.7	19.2	12.7	
Chemicals	4.6	5.5	7.7	11.7	12.2	
Other	91.2	105.1	116.7	115.5	103.8	
Totals 3/	604.8	686.2	865.8	910.5	912.7	

1/ Including manufactured tobacco.
2/ Including refined sugar.
3/ Excluding migrants' effects, re-exports, and internal freight.

SOURCE: IMF, 'Zimbabwe - Recent Economic Developments,' 8/27/84, p. 83, and Central Statistics Office, 'Quarterly Digest of Statistics,' June 1984.

REDSO/ESA: CSCallison, 11/30/84

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Table 10b. ZIMBABWE: Percentage Composition of Exports by Principal Product, 1978-83
(Percent)

Product	1978	1979	1980	1981	1982	1983
Major Agricultural Exports	31.0	25.0	23.5	36.5	33.9	
Tobacco 1/	16.9	12.5	14.2	24.6	21.3	
Sugar 2/	1.8	3.0	5.5	6.0	5.7	
Maize	4.2	2.5	0.4	3.8	4.4	
Coffee	1.9	1.6	0.8	1.1	1.6	
Meat	6.2	5.5	2.1	0.9	0.8	
Major Mineral Exports	28.8	31.4	32.7	25.0	30.8	
Gold	7.6	9.7	13.3	8.4	15.4	
Asbestos	9.5	10.3	9.3	8.3	6.7	
Nickel	6.0	5.5	6.1	5.1	5.0	
Copper	4.4	4.6	2.8	2.0	2.4	
Coal/coke	1.3	1.4	1.2	1.1	1.3	
Major Manufactured Goods	25.1	28.2	30.4	25.8	24.0	
Ferro-alloys	5.2	6.7	10.2	8.7	8.5	
Iron/steel	6.6	8.4	7.8	4.6	5.5	
Cotton lint	6.6	6.8	6.6	6.6	5.7	
Textiles/clothing	3.5	3.4	3.0	2.5	1.6	
Machinery/equipment	2.3	2.0	1.9	2.1	1.4	
Chemicals	0.8	0.8	0.9	1.3	1.3	
Other	15.1	15.3	13.5	12.7	11.4	
Totals 3/	100.0	100.0	100.0	100.0	100.0	

1/ Including manufactured tobacco.
2/ Including refined sugar.
3/ Excluding migrants' effects, re-exports, and internal freight.

SOURCE: Calculated from Table 10a.

REDSO/ESA: CSCallison, 11/30/84

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Table 11a. ZIMBABWE: Imports by Principal Products, 1978-83
(Zimbabwe $ millions)

Product	1978	1979	1980	1981	1982	1983
Food	4.6	9.7	28.0	15.3	10.6	
Tobacco and beverages	1.4	2.1	3.7	2.2	2.1	
Crude materials	13.1	18.5	26.1	33.4	37.0	
Fuels and electricity	92.4	162.2	195.0	211.7	178.7	
of which: petroleum	78.4	147.0	174.2	189.1	154.8	
Oils and fats	0.4	2.2	6.5	8.5	6.9	
Chemicals	60.5	76.4	108.9	142.0	125.0	
Machinery and transport equipment	102.1	126.7	208.6	327.4	439.9	
Other intermediate and manufactured goods	129.2	151.5	232.6	277.2	280.7	
Totals 1/ 2/	403.7	549.3	809.4	1017.7	1081.8	

1/ Figures may not add up due to rounding
2/ Excluding internal freight.

SOURCE: IMF, Zimbabwe - Recent Economic Developments, 8/27/84, p. 82.

REDSO/ESA: CSCallison, 11/30/84

Table 11b. ZIMBABWE: Percentage Composition of Imports by Principal Products, 1978-83
(Percent)

Product	1978	1979	1980	1981	1982	1983
Food	1.1	1.8	3.5	1.5	1.0	
Tobacco and beverages	0.3	0.4	0.5	0.2	0.2	
Crude materials	3.2	3.4	3.2	3.3	3.4	
Fuels and electricity	22.9	29.5	24.1	20.8	16.5	
of which: petroleum	19.4	26.8	21.5	18.6	14.3	
Oils and fats	0.1	0.4	0.8	0.8	0.6	
Chemicals	15.0	13.9	13.5	14.0	11.6	
Machinery and transport equipment	25.3	23.1	25.8	32.2	40.7	
Other intermediate and manufactured goods	32.0	27.6	28.7	27.2	25.9	
Totals 1/	100.0	100.0	100.0	100.0	100.0	

1/ Excluding internal freight.

SOURCE: Calculated from Table 11a.

REDSO/ESA: CSCallison, 11/30/84

Table 12. ZIMBABWE: Prices of Principal Agricultural Products, 1980/1-1984/5 (Zimbabwe $/ton)

Intake years (April-March):	1980/1	1981/2	1982/3	1983/4	1984/5
A. In current prices:					
Producer prices: 1/					
Maize (Class A) 2/	85	120	120	120	180
Wheat (Class AS)	135	165	190	220	250
Soya Beans (Class B)	160	170	200	260	287
Sorghum (Class A)	105	115	115	120	140
Groundnuts (shelled)	390	420	450	450	500
Coffee (Class 5)	2300	1550	1700	1700	1700
Cotton	375	400	515	515	570
Selling prices:				3/	
Maize (Class A/B)	63	137	137	157	157
Wheat (Class AS/D)	134	157	169	239	239
Soya Beans (Class B)	168	168	168	314	314
Sorghum (Class A)	117	117	117	147	147
Groundnuts (shelled)	490	490	490	600	600
Consumer Price Index	100.0	113.1	125.2	154.1	180.9
B. In constant 1980 prices:					
Producer prices: 1/					
Maize (Class A) 2/	85.0	106.1	95.8	77.9	99.5
Wheat (Class AS)	135.0	145.9	151.8	142.8	138.2
Soya Beans (Class B)	160.0	150.3	159.7	168.7	158.7
Sorghum (Class A)	105.0	101.7	91.9	77.9	77.4
Groundnuts (shelled)	390.0	371.4	359.4	292.0	276.4
Coffee (Class 5)	2300.0	1370.5	1357.8	1103.2	939.7
Cotton	375.0	353.7	411.3	334.2	315.1
Selling prices:				3/	
Maize (Class A/B)	63.0	121.1	109.4	101.9	86.8
Wheat (Class AS/D)	134.0	138.8	135.0	155.1	132.1
Soya Beans (Class B)	168.0	148.5	134.2	203.8	173.6
Sorghum (Class A)	117.0	103.4	93.5	95.4	81.3
Groundnuts (shelled)	490.0	433.2	391.4	389.4	331.7

1/ Producer prices for intake years 1980/1-1981/2 are pre-planting prices for all crops, while those for intake years 1982/3-1984/5 are post-planting prices except for wheat and 1984/5 maize.
2/ An early delivery bonus scheme is applied (Z$20/ton for deliveries in April, Z$15/ton for deliveries in May, and Z$10/ton for deliveries in June), beginning in 1984/5. A 1984/5 pre-planting price for maize was announced in November 1984.
3/ Selling prices for 1983/4 were effective in August 1983.

SOURCE: IMF, 'Zimbabwe - Recent Economic Developments,' 8/27/84, p. 5; CPI from IMF, International Financial Statistics, Oct. 84.
PEDSO/ESA: CSCallison, 1/24/85

Table 13. ZIMBABWE: Area Under Cultivation for Major Crops, 1979/80-1983/84 (In thousand hectares)

Crops	1979/80	1980/81	1981/82	1982/83	1983/84
Maize	1127.73	1355.27	1408.00	1340.00	1356.00
Cotton	89.92	125.05	109.25	138.36	191.34
Tobacco	64.03	39.72	46.72	50.80	54.36
Flue-cured	62.25	38.09	43.81	47.00	50.00
Burley	1.78	1.64	2.84	3.80	4.36
Soya Beans	52.78	39.97	55.56	60.60	56.96
Sorghum	126.77	209.29	208.54	288.50	166.60
Groundnuts	178.84	312.91	253.83	191.50	151.10
SUBTOTALS	1640.07	2082.22	2081.83	2069.76	1976.36
Coffee	4.10	4.61	5.06	7.00	---
Sugarcane	24.52	34.15	31.55	33.03	---
Wheat	34.29	32.56	36.85	37.38	---
TOTALS	1702.97	2153.54	2155.28	2147.17	
Indices:					
Maize	83.2	100.0	103.9	98.9	100.1
Cotton	71.9	100.0	87.4	110.6	153.0
Tobacco	161.2	100.0	117.6	127.9	136.8
Flue-cured	163.4	100.0	115.0	123.4	131.3
Burley	108.6	100.0	173.5	232.3	266.5
Soya Beans	132.1	100.0	139.0	151.6	142.5
Sorghum	60.6	100.0	99.6	137.8	79.6
Groundnuts	57.2	100.0	81.1	61.2	48.3
Subtotals	78.8	100.0	100.0	99.4	94.9
Coffee	88.8	100.0	109.7	151.7	
Sugarcane	71.8	100.0	92.4	96.7	
Wheat	105.3	100.0	113.2	114.8	
Totals	79.1	100.0	100.1	99.7	

SOURCE: IMF, "Zimbabwe - Recent Economic Development," 8/27/84, p. 69.

REPORTER: CSCallison, 12/1/84

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Table 14. ZIMBABWE: Value of Agricultural Production and Sales, 1975-83
(Z$ million)

	1975	1976	1977	1978	1979	1980	1981	1982	1983
Communal Lands: Gross	95.2	108.4	106.0	74.3	102.4	146.0	264.6	271.3	
Production for House-hold Consumption	68.6	80.2	84.0	51.8	85.5	117.1	185.1	186.7	
Sales thru Mkt.Agencies	26.6	28.2	22.0	22.5	16.9	28.9	79.5	84.6	
Of which: Main Crops	14.2	18.2	15.6	17.1	12.2	22.0	63.7	65.0	45.6
Livestock	7.2	8.5	6.9	4.9	3.2	5.2	7.6	8.1	8.7
Commercial Areas:									
Gross Production	371.3	401.1	392.5	418.2	438.5	591.6	784.3	841.8	
(in constant 1964 prices)	169.4	182.7	168.8	167.1	164.8	185.2	197.5	190.3	
Of which sales:									
Main Crops	224.2	225.4	228.6	237.0	249.2	350.1	518.2	484.7	451.1
Livestock	73.2	84.9	102.0	99.9	111.8	115.5	124.8	195.1	209.5
Total Production	466.5	509.5	498.5	492.5	540.9	737.6	1048.9	1113.1	
Percent of Total Production:									
Communal Lands: Gross	20.4	21.3	21.3	15.1	18.9	19.8	25.2	24.4	
Production for House-hold Consumption	14.7	15.7	16.9	10.5	15.8	15.9	17.6	16.8	
Sales thru Mkt.Agencies	5.7	5.5	4.4	4.6	3.1	3.9	7.6	7.6	
Of which: Main Crops	3.0	3.6	3.1	3.5	2.3	3.0	6.1	5.8	
Livestock	1.5	1.7	1.4	1.0	0.6	0.7	0.7	0.7	
Commercial Areas:									
Gross Production	79.6	78.7	78.7	84.9	81.1	80.2	74.8	75.6	
Of which sales:									
Main Crops	48.1	44.2	45.9	48.1	46.1	47.5	49.4	43.5	
Livestock	15.7	16.7	20.5	20.3	20.7	15.7	11.9	17.5	
Total Production	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Index of Producer Prices (1964 = 100)	153.4	152.6	163.7	178.0	190.3	231.4	284.5	317.0	
Consumer Price Index	62.1	68.9	76.0	80.3	94.9	100.0	113.1	125.2	154.1
Real Index of Producer Prices 1/	247.0	221.5	215.4	221.7	200.5	231.4	251.5	253.2	
--Normalized on 1975	100.0	89.7	87.2	89.7	81.2	93.7	101.8	102.5	

1/ Index of Producer Prices deflated by CPI.

SOURCE: Central Statistical Office, 'Quarterly Digest of Statistics,' June 1984, pp. 30-31.

REDSO/ESA: CSCallison, 12/1/84

Table 15a. ZIMBABWE: Volume Index of Manufacturing Production, 1975-83 (1980 = 100)

Industrial Group	Index Weight	Gross 1980 Output 1/	Percent of Total	1975	1976	1977	1978	1979	1980	1981	1982	1983
Foodstuffs	13.5	309.3	22.0	80.8	85.3	93.0	89.2	95.9	100.0	108.4	123.7	126.9
Drink & tobacco	10.4	160.8	7.0	87.4	90.4	84.5	85.3	88.5	100.0	89.4	91.7	90.1
Textiles, ginning	10.1	254.2	11.0	81.1	73.9	74.5	72.6	78.8	100.0	111.6	118.8	108.8
Clothing & footwear	7.2	143.3	6.2	90.8	86.1	82.9	75.3	83.7	100.0	128.4	118.6	109.2
Wood & furniture	4.4	82.2	3.6	85.4	78.9	66.7	65.9	85.2	100.0	103.4	85.8	82.3
Paper,printing,publishing	6.1	114.3	5.0	84.4	76.9	72.4	76.9	86.2	100.0	112.4	112.3	106.2
Chemicals & petroleum	12.5	335.3	14.6	91.5	81.2	80.2	80.5	83.1	100.0	116.6	118.2	121.4
Non metallic minerals	3.7	62.0	2.7	123.8	106.9	86.9	69.5	86.7	100.0	118.0	109.7	105.4
Metals & metal products	26.8	555.2	24.1	98.6	91.1	78.9	78.1	89.7	100.0	104.8	96.4	94.8
Transport equipment	2.1	58.2	2.5	115.3	90.6	86.2	75.1	85.8	100.0	155.0	178.4	145.6
Other	1.2	30.5	1.3	67.1	67.4	71.6	71.2	76.7	100.0	95.6	80.0	76.6
All manufacturing	100.0	2301.3	100.0	91.6	86.0	81.2	79.2	87.2	100.0	109.4	108.7	105.8

1/ Z$ million

SOURCE: Central Statistical Office, Quarterly Digest of Statistics, June 1984, pp. 40-42.

REDGO/FSA: CSCallison, 12/1/84

Table 15b. ZIMBABWE: Volume and Value of Mineral Production, 1979-83

Mineral	1979	1980	1981	1982	1983
Asbestos (1000 tons)	259.6	250.9	247.6	194.4	153.0
Chrome (1000 tons)	541.8	553.5	536.1	431.6	431.4
Coal (1000 tons)	3188.0	3134.0	2867.0	2769.0	3236.0
Copper (1000 tons)	29.6	27.0	24.6	24.8	20.9
Iron ore (1000 tons)	1201.0	1622.0	1096.0	837.0	924.0
Nickel (1000 tons)	14.6	15.1	13.0	13.3	9.9
Cobalt (tons)	205.0	115.0	94.0	98.0	73.0
Tin metal (tons)	967.0	934.0	1157.0	1197.0	1235.0
Gold (1000 fine oz.)	386.0	367.0	371.0	426.0	453.0
Silver (1000 fine oz.)	977.0	949.0	857.0	918.0	935.0
Overall volume index (1964 = 100)	185.3	181.7	172.3	168.1	163.2
Value in Z$ millions:					
Asbestos	65.9	70.2	91.3	76.6	69.3
Chrome	16.1	18.4	20.3	19.9	26.1
Coal	25.8	28.0	29.5	35.8	42.2
Copper	35.1	35.4	27.9	26.8	32.9
Iron ore	7.4	14.8	14.8	13.9	14.6
Nickel	45.1	55.6	51.7	49.8	43.1
Cobalt	5.2	2.7	1.4	0.8	0.2
Tin metal	9.9	9.9	11.3	11.6	16.2
Gold	80.9	144.9	117.4	122.8	193.9
Silver	7.3	13.0	6.0	5.3	10.6
Other 1/	16.0	21.9	21.8	19.7	21.3
TOTAL	314.8	414.6	393.5	383.0	470.5
Unit value:					
Asbestos (Z$/ton)	254	280	369	394	453
Chrome (Z$/ton)	30	33	38	46	60
Coal (Z$/ton)	8	9	10	13	13
Copper (Z$/ton)	1187	1311	1134	1082	1576
Iron ore (Z$/ton)	6	9	14	17	16
Nickel (Z$/ton)	3089	3687	3974	3738	4332
Cobalt (Z$/ton)	25478	23696	15053	7755	3164
Tin metal (Z$/ton)	10285	10567	9748	9722	13128
Gold (Z$/fine oz.)	210	395	316	288	428
Silver (Z$/fine oz.)	7	14	7	6	11
Overall unit value index (1964=100)	314.2	428.3	426.9	426.0	540.6

1/ Includes precious stones, phosphate, tantalite, magnesite, limestone, and lithium.

SOURCE: IMF, 'Zimbabwe - Recent Economic Developments, Aug. 27, 1984, p. 9.

REDSO/ESA: CSCallison, 12/17/84

Table 16. Zimbabwe: Economic Classification of Central Government Expenditure and Net Lending, 1979/80-1983/84

(Z$ million)

Classification	1979/80	1980/81	1981/82	1982/83p	Estimated 1983/84
Current expenditure	970.4	1142.4	1435.5	1808.9	2210.2
Expenditure on goods and services	596.2	614.6	761.8	911.1	1045.8
Wages and salaries	315.8	374.5	473.3	559.1	620.2
Other	282.9	240.0	288.5	352.0	425.6
Interest payments	70.4	100.2	142.4	200.4	260.7
Subsidies and other transfers	301.3	427.6	531.3	697.4	903.7
Subsidies	84.6	106.1	138.1	156.1	236.5
Pensions	47.9	72.3	74.6	75.4	71.8
Grants to private schools	55.8	125.0	183.0	238.7	284.9
Public assistance 1/	1.4	15.9	3.2	22.0	49.5
Demobilization gratuities	0.0	0.0	14.7	59.9	67.1
Other transfers	111.6	108.3	117.7	145.3	197.8
Capital expenditure	54.9	107.3	158.2	218.3	221.7
Total expenditure	1026.3	1249.7	1593.7	2027.2	2431.9
Net lending	24.5	48.5	113.8	235.3	184.5
Total expenditure and net lending	1049.8	1298.1	1707.6	2262.5	2616.4
Percent of total:					
Current expenditure	92.4	88.0	84.1	80.0	84.5
Expenditure on goods and services	57.0	47.3	44.6	40.3	40.0
Wages and salaries	30.1	28.8	27.7	24.7	23.7
Other	26.9	18.5	16.9	15.6	16.3
Interest payments	6.7	7.7	8.3	8.9	10.0
Subsidies and other transfers	28.7	32.9	31.1	30.8	34.5
Subsidies	8.1	8.2	8.1	6.9	9.0
Pensions	4.6	5.6	4.4	3.3	2.7
Grants to private schools	5.3	9.6	10.7	10.6	10.9
Public assistance 1/	0.1	1.2	0.2	1.0	1.9
Demobilization gratuities	0.0	0.0	0.9	2.6	2.4
Other transfers	10.6	8.3	6.9	6.4	7.6
Capital expenditure	5.2	8.3	9.3	9.6	8.5
Total expenditure	97.8	96.3	93.3	89.6	92.9
Net lending	2.3	3.7	6.7	10.4	7.1
Total expenditure and net lending	100.0	100.0	100.0	100.0	100.0

1/ Predominantly drought

SOURCE: IMF, Zimbabwe - Recent Economic Developments," R 27/84, p. 31.

REPORTING: Callison, 12/3/84

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Table 17. ZIMBABWE: Functional Classification of Central Government Expenditure and Net Lending, 1979/80-1983/84

(Z$ million)

Classification	1979/80	1980/81	1981/82	1982/83p	Estimated 1983/84
General public services	173.1	182.8	234.2	340.9	372.7
General administration	62.7	88.4	131.4	224.1	237.7
Public order and safety	110.3	94.4	102.8	116.8	135.0
Defense	321.1	231.7	290.4	345.5	403.4
Education	132.3	240.3	325.9	413.1	484.7
Of which: primary	72.2	145.5	198.3	250.8	282.7
secondary	34.9	46.7	72.6	95.4	112.0
Health	53.5	79.0	107.0	124.0	132.1
Welfare 1/	81.4	143.5	154.5	216.0	218.7
Housing and community services	8.4	51.0	98.2	113.9	115.1
Economic services	215.6	292.9	367.1	491.8	599.0
Agriculture & forestry	73.1	100.2	140.8	195.2	265.9
Mining & manufacturing	15.5	3.6	4.0	21.9	71.6
Roads	32.9	45.2	64.9	73.4	80.7
Transportation	63.3	75.1	104.4	103.3	58.9
Other economic services	30.8	68.9	53.0	97.9	121.9
Unallocable(interest,etc.	70.4	100.2	142.4	200.4	260.7
Total expenditure and gross lending 2/	1055.8	1321.4	1719.6	2245.6	2586.4
Net short term seasonal lending	6.8	-11.3	0.2	28.5	40.0
Less loan recoveries	-12.8	-12.0	-12.3	-11.6	-10.0
Total expenditure and net lending	1049.8	1298.1	1707.6	2262.5	2616.4
Percent of Total:					
General public services	16.5	14.1	13.7	15.1	14.2
General administration	6.0	6.8	7.7	9.9	9.1
Public order and safety	10.5	7.3	6.0	5.2	5.2
Defense	30.6	17.8	17.0	15.3	15.4
Education	12.6	18.5	19.1	18.3	18.5
Of which: primary	6.9	11.2	11.6	11.1	10.8
secondary	3.3	3.6	4.3	4.2	4.3
Health	5.1	6.1	6.3	5.5	5.0
Welfare 1/	7.8	11.1	9.0	9.5	8.4
Housing and community services	0.8	3.9	5.8	5.0	4.4
Economic services	20.5	22.6	21.5	21.7	22.9
Agriculture & forestry	7.0	7.7	8.2	8.6	10.2
Mining & manufacturing	1.5	0.3	0.2	1.0	2.7
Roads	3.1	3.5	3.8	3.2	3.1
Transportation	6.0	5.8	6.1	4.6	2.3
Other economic services	2.9	5.3	3.1	4.3	4.7
Unallocable(interest,etc.	6.7	7.7	8.3	8.9	10.0
Total expenditure and gross lending 2/	100.6	101.8	100.7	99.3	98.9
Net short term seasonal lending	0.6	-0.9	0.0	1.3	1.5
Less loan recoveries	-1.2	0.9	-0.7	-0.5	-0.4
Total expenditure and net lending	100.0	100.0	100.0	100.0	100.0

1/ Including demobilization gratuities and consumer subsidies,mainly maize.
2/ Excluding short-term seasonal lending, mainly for agriculture.
SOURCE: IMF. "Zimbabwe - Recent Economic Developments. 8/17/84, p. 34.
REVISOR: CSCollison, 12/3/84

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Table 18. ZIMBABWE: Summary of the Overall Operations of the Central Government, 1979/80-1983/84

(Z$ million)

	1979/80	1980/81	1981/82	1982/83p	Estimated 1983/84
Total revenue & grants	674.8	1012.3	1367.9	1815.8	1991.7
Total revenue	674.8	950.6	1333.7	1763.1	1914.0
Tax revenue	561.7	777.7	1207.6	1579.5	1713.0
Nontax revenue	113.1	172.9	126.2	183.6	201.0
Grants	--	61.7	34.2	52.7	77.7
Total expenditure & net lending	1049.8	1298.1	1707.6	2262.5	2616.4
Current	970.4	1142.4	1435.5	1808.9	2210.2
Capital	54.9	107.3	158.2	218.3	221.7
Net lending	24.5	48.5	113.8	235.3	184.5
Overall deficit	-375.0	-285.8	-339.7	-446.7	-624.7
Financing	375.0	285.8	339.7	446.7	624.7
External (net)	72.7	31.7	220.4	49.9	71.7
Domestic (net)	302.3	254.1	119.3	396.8	553.0
Nonbank	164.8	117.3	132.4	290.5	320.0
Banking system 1/	137.5	136.8	-13.1	106.3	233.0
As percent of GDP:					
Total revenue	23.6	26.6	32.1	38.4	36.4
Tax revenue	19.7	21.7	29.1	34.4	32.5
Total expenditure & net lending	36.7	36.3	41.1	49.3	49.7
Current	34.0	31.9	34.5	39.4	42.0
Capital	1.9	3.0	3.8	4.8	4.2
Overall deficit	-13.1	-8.0	-8.2	-9.7	-11.9
Bank financing	4.8	3.8	-0.3	2.3	4.4

1/ 1980/81 includes Z$31.0 million domestic counterpart to IMF loan.

SOURCE: IMF, "Zimbabwe - Recent Economic Developments," Aug. 27, 1984, p. 22.

HD50/ESM: GSGallison, 12/16/84

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Table 19. ZIMBABWE: Limited Public Sector Deficit,1/ 1980/81-1983/84

	(Z$ millions) 1980/81	1981/82	1982/83p	Estimated 1983/84
I. Central government deficit	-285.8	-339.7	-446.7	-624.7
II. Government transfers to public enterprises	66.9	80.7	102.5	198.5
III. Adjusted central government deficit (I + II)	-218.9	-259	-344.2	-426.2
IV. Current losses of public enterprises	-74.1	-148.1	-272.4	-277.6
Agricultural marketing boards	-43.2	-83.3	-157.2	-139.1
Grain Marketing Board	-7	-32.7	-62.7	-46.6
Dairy Marketing Board	-10.1	-18.3	-35.7	-35
Cold Storage Commission	-30.2	-33.3	-46.4	-45.1
Cotton Marketing Board	4.1	1	-12.4	-12.4
Nat'l Railways of Zimbabwe	-32.7	-41.1	-55.6	-59
Air Zimbabwe Corp.	--	-4.4	-15.4	-20.5
ZISCO	1.8	-19.3	-44.2	-59
National Oil Co. of Zim.				--
V. Combined limited public sector deficit (III+IV)	-293	-407.1	-616.6	-703.8
In percent of GDP:				
Central government deficit	-8	-8.2	-9.7	-11.9
Adjusted central govt. deficit	-6.1	-6.2	-7.5	-8.1
Current public enterprise losses	-2.1	-3.6	-5.9	-5.3
Limited public sector deficit	-8.2	-9.8	-13.4	-13.4

1/ Comprises the Central Government and selected public enterprises, which require government financial support.

SOURCE: IMF, "Zimbabwe - Recent Economic Developments," Aug. 27, 1984, p. 20.

REDSO/ESA: CSCallison, 12/16/84

Table 20. ZIMBABWE: Commercial Bank Advances by Sector, 1979-83
(Z$ millions, end of period)

	1979	1980	1981	1982	1983
Private enterprises	222.3	219.8	294.6	375.2	441.8
Agriculture	52.3	57.3	57.4	80.9	98.5
Mining	13.9	14.8	27.1	46.2	38.5
Manufacturing	75.0	67.5	103.6	110.2	127.2
Construction	3.8	3.3	3.7	2.5	4.6
Distribution	28.6	28.2	31.7	54.8	80.2
Finance, insurance, real estate	36.5	35.8	55.8	60.0	69.8
Other	12.2	12.9	15.3	20.6	23.0
Public sector	73.9	125.3	271.7	316.5	344.8
Private persons	24.7	27.8	35.3	32.8	38.0
Other 1/	5.0	15.5	15.0	35.3	7.8
Total	325.9	388.3	616.7	759.8	832.4

1/ Includes nonresidents, unallocated, and timing adjustments

SOURCE: IMF, Zimbabwe - Recent Economic Developments, Aug. 27,1984, p. 78.

REDSO/ESA: CSCallison, 12/16/84

Table 21. ZIMBABWE: Monetary Survey, 1979-84

Rates of change from previous year (%):	Dec. 1979	Dec. 1980	Dec. 1981	Dec. 1982	Dec. 1983
Domestic Credit	--	29.8	26.9	27.2	15.0
Net claims on Gov't	-6.8	85.6	-19.2	78.5	-8.3
Credit to private sector	2.0	7.7	28.2	14.8	25.0
Money supply	8.1	22.3	15.2	21.0	--

SOURCE: IMF, 'Zimbabwe - Recent Economic Developments,' Aug. 27,1984, p. 35.

REDSO/ESA: CSCallison, 12/16/84

Country Development Strategy Statement

FY 1987

Zimbabwe

ANNEX C

PUBLIC POLICY AND THE ZIMBAWE ECONOMY

Febuary 1985

Agency for International Development
Washington, D.C. 20523

PUBLIC POLICY AND THE ZIMBABWE ECONOMY

Introduction

As a backdrop to the discussion of public policy in the Zimbabwe economy since Independence in 1980, the data in Table One provide a 20 year perspective in terms of output, employment, income **per capita** and prices. The data in the table are put forward with some reservations given the relative weakness of the data base itself, the need to link different indices of economic performance, the unreliability of population estimates, the essentially provisional nature of post-1982 figures and the fact that the 1984/5 figures are estimates and forecasts.

However, Table One does underline the seriousness of the problems facing the Zimbabwe Government in respect of the stagnation of **per capita** income over 20 years -- much of which was a period of political instability -- and the declining ratio of employment to total population. **Per capita** incomes, estimated at constant 1980 prices, are shown to have increased 29% between 1965 and 1974 when a peak of Z $556 (1980 prices) was reached. Income per head fell for the rest of the seventies, declining 23 % to return to 1965 levels by 1979.

Independence in 1980 produced two years of rapid growth, largely the result of the one-off effects of the ending of the war, the lifting of economic sanctions and the excellent 1980/81 agricultural season. But these positive effects were outweighed in the 1982/4 period by the impact of the world recession on the Zimbabwe economy, three successive drought years and an economic policy environment that failed to inspire business and investment confidence either at home or abroad. Following good rains in 1984/5 and in the light of the international economic recovery, Zimbabwe is expected to return to positive real growth in 1985 for the first time since 1981. However, real **per capita** incomes in 1985 will be effectively no different from their 1965 and 1979 level, while employment, as a ratio of total population will have declined to a low point of 12,4%.

A feature of the table is the increase in the inflation rate since 1979. Inflation, as measured by the GDP deflator,is estimated to have averaged 12,5% during the 1980/85 period.

Leaving equity considerations on one side, the clear challenge to the Zimbabwe Government is that of securing an economic growth path that ensures some improvement in **per capita** living standards, after a generation of stagnation, greater price stability and, above all, a much faster rate of job creation.

The fortunes of the Zimbabwe economy since independence have been determined largely by exogenous influences. The over-riding impression from the data in Table One is that economic policies adopted by the Government had little positive impact on economic performance, but may -- for reasons discussed in the main body of the paper -- have had a significant negative impact insof as investment, output growth and employment generation are concerned.

TABLE ONE

Income,Output and Employment in the Zimbabwe Economy 1965/1985

YEAR	GDP 1980 prices Z $ million	Per Capita GDP.Constant Prices Z$	Inflation % p.a.	Employment	Ratio Of population employed
1965	1 755	430	1,0	748 000	18,3 %
1966	1 785	422	-	735 000	17,4 %
1967	1 930	440	1,0	751 000	17,1 %
1968	1 969	432	1,5	790 000	17,4 %
1969	2 250	478	3,5	836 000	17,7 %
1970	2 336	479	3,7	853 000	17,5 %
1971	2 616	517	2,7	891 000	17,6 %
1972	2 867	546	4,5	953 000	18,2 %
1973	2 959	544	6,0	998 000	18,3 %
1974	3 136	556	16,0	1 040 000	18,4 %
1975	3 132	536	7,0	1 050 000	18.0 %
1976	3 106	518	8,0	1 033 000	17,2 %
1977	2 884	460	9,0	1 012 000	16,1 %
1978	2 858	440	5,5	986 000	15,2 %
1979	2 900	430	16,0	985 000	14,6 %
1980	3 206	458	13,5	1 010 000	14,4 %
1981	3 679	508	9,0	1 038 000	14,3 %
1982	3 648	486	12,0	1 046 000	13,9 %
1983	3 500	452	15,0	1 033 000	13,3 %
1984*	3 465	433	13,5	1 000 000	12,9 %
1985*	3 600	434	13,0	990 000	12,4 %

Notes :

Assumed rate of population growth is 3,5% annually.

* = forecast/estimate

GROWTH WITH EQUITY

At independence, the new Government inherited a much-distorted economy with unacceptably large imbalances between urban and rural living standards and between the economic and social infrastructure in white-dominated areas and that in the black communal areas. Much of the economic growth achieved during sanctions had been import-substitution-inspired with the result that the ratios of exports and imports to GDP were drastically reduced. (Table Two)

TABLE TWO

Foreign Trade Ratios

YEAR	IMPORT RATIO	EXPORT RATIO
1965	36%	48,0 %
1979	22%	28,0 %
1983	22%	23,5 %

The new administration committed itself to a " Growth with Equity " strategy. designed to simultaneously increase living standards and improve the highly inequitable pattern of both income and wealth distribution.

Central to this strategy was a much-enhanced role for public policy generally and for the public sector in particular. Government´s frequently-stated long-run goal is the establishment of a one-party socialist state, in which the role of the private sector would be reduced.

THE PUBLIC SECTOR

The public sector, accounting for between 35% and 40% of GDP, comprises three distinct elements :

(a) Central Government,
(b) Local Government, and
(c) A substantial and fast-growing parastatal sector.

GOVERNMENT PARTICIPATION IN THE ECONOMY

Since independence, there has been a marked trend towards increased government intervention and participation in the economy. This has taken five main forms :

(i) Rapid growth in public sector spending and public sector investment programmes. Structural constraints, however, have resulted in substantial under-spendings on capital account with the result that public sector investment targets have not been met.

(ii) The adoption or extension by the state of a wide range of regulatory policies in respect of employment, wages, investment and pricing decisions. Adherence to these regulations has frequently necessitated prolonged negotiations with Government departments and resultant delays in decision-taking in the private sector. Regulatory policies have facilitated substantial Government influence over private sector decisions.

(iii) Large-scale expansion by the parastatal sector in the form of new parastatals and/or wider influence for existing institutions.

(iv) Direct investment by the state in a number of private sector enterprises giving the Government either effective control or joint-venture status, with a powerful minority stake.

(v) Increased utilisation of interventionist fiscal, monetary and exchange rate policies along with enhanced reliance upon direct controls -- especially exchange controls.

National income accounts are not available for the period since 1982, but it is obvious that in the post-independence period, the share of the public sector in GDP which averaged 30% in the 1970s and early 1980s has increased and is probably closer to 40% today. Since independence, the Government has established a number of new parastatals, the most important of which is the Minerals Marketing Corporation, which is responsible for the sale of all minerals including steel and ferrochrome, but excluding gold whose sales are handled by another parastatal, the Reserve Bank of Zimbabwe. At a conservative estimate, when the activities of the state-owned Agricultural Marketing Authority are taken into account, the state has direct control over some 55% to 60% of total exports as well as licensing powers over all imports.

The main parastatals established since independence are :

(i) The Minerals Marketing Corporation of Zimbabwe.
(ii) The Zimbabwe Development Bank
(iii) The Small Enterprises Development Corporation (SEDCO)
(iv) The Zimbabwe Reinsurance Corporation
(v) The Zimbabwe Mining Development Corporation
(vi) The National Oil Company of Zimbabwe Ltd.,
(vii) The Zimbabwe Mass Media Trust

In addition, the Government bought out the minority shareholders in the Zimbabwe Industrial Development Corporation, which has been active in taking over small and medium-sized manufacturing businesses since 1982.

FISCAL POLICY

The growth in the relative importance of fiscal policy is reflected in Table Three showing the increased proportionate significance in GDP of Government spending and revenue.

All the indicators reflect not just an increase in the relative impact of fiscal measures on the economy, but also a growing element of the " crowding out " of private sector investment financing by the public sector. The savings ratio for Zimbabwe (defined as the Gross Fixed Capital Formation minus the current account balance of payments deficit) has averaged 15% of GDP over the past decade. Table three shows that more than half of these savings are needed to fund the public sector deficit.

Despite this, " crowding out " has not been a problem, if only because private sector investment levels have been seriously depressed. This is reflected in estimates of the rate of capital formation in the economy since independence. These suggest that in the 1980/84 period total investment averaged 16% of GDP while, assuming a depreciation factor of 3,5%, the ratio of net investment was of the order of 12,5% of GDP over the period.

Furthermore, there is no evidence to suggest that depressed investment levels are the direct consequence of excessive public sector funding in the capital market. Instead, the admittedly-fragmentary evidence suggests that private sector investment has been deterred by the policy environment (especially tax rates, foreign remittance regulations and frequent Ministerial forecasts of a " socialised " economy), by the foreign exchange bottleneck (almost all investment having a substantial foreign currency content) and by the the existence of substantial excess capacity in both mining and manufacturing.

However, as and when private sector investment demand recovers, there is a very real danger of a crowding out situation developing, especially in the light of the government's heavy national debt funding program during the rest of the century. The rolling over of existing domestic debt obligations --- excluding foreign borrowings -- will absorb $2,5 billion between now and the turn of the century. In addition, the public sector will need to step up its investment program to " catch up " the major capital underspendings forced on the authorities by a much-strained budgetary situation since 1982.

Indeed, the combination of these problems and the severe foreign currency constraint on investment spending suggests that a sustained increase in private sector investment is dependent upon both substantial and continuing injections of foreign capital to help close the domestic savings gaps and the external foreign exchange gap. This might well take the form of increased reinvestment of retained profits by transnational corporations, -- a possibility accentuated by the recent trend towards agglomeration of investment holdings in the hands of a limited number of foreign-dominated firms, flowing partly from dis-investment by South African companies and also by medium-sized (often family-controlled) domestic firms.

TABLE THREE

FISCAL INDICATORS 1980/85

FISCAL YEAR +	1980/81	1984/85
As ratios of GDP	%	%
1. Public Expenditure	35,6	46,9
2. (Recurrent)	31,5	38,7
3. (Capital)	4,0	8,0
4. Revenue (Taxes and fees)	26,4	35,0
5. Budget deficit	7,9	11,0
6. Net borrowing requirement	7,6	8,0
7. Total borrowing requirement	10,3	13,0

NOTES

1. Public expenditure = recurrent spending + net lending + central government investments.

2. Recurrent spending = wages/salaries, purchase of goods and services and transfer payments.

3. Capital spending = central Government capital expenditure + net lending to parastatals etc + investments by the state.

4. Revenue = taxes on income and expenditure + fees, judicial fines etc.,

5. Basic budget deficit = Public spending - revenue - aid grants

6. Net borrowing requirement = basic deficit - aid loans

7. Total borrowing requirement = net borrowing requirement + refinancing of maturing loans.

* = forecast

+ fiscal year = July 1 to June 30

PUBLIC EXPENDITURE

The pattern of post-independence public expenditure is illustrated in Tables 4 and 5. Table 5 drawing on International Monetary Fund data provides a comparison of Zimbabwe's public expenditure profile during the 1980/85 period with that of a number of African countries (ranging from 19 to 25 depending on the item concerned) for 1977.

Table 5 shows a significantly higher proportion of recurrent to total spending in Zimbabwe relative to the " African average", highlighting the strong consumption element in aggregate demand. This is explained, partly by the high level of defence spending -- itself an understandable aftermath of the war, -- but also by the significantly higher level of transfer payments in Zimbabwe. The lower level of capital expenditure is partly a reflection of the larger and more sophisticated private sector, responsible for at least half total investment, which in turn has meant lower absolute levels of public investment. At the same time, capital expenditure is more readily susceptible to spending cuts and this element has borne the brunt of Zimbabwe's cost-savings programmes since 1981/2.

The much higher ratio of transfer payments to aggregate government spending reflects high levels of annual interest payments on the national debt, domestic and foreign, with such interest charges absorbing 14% of total expenditure in the 1984/5 fiscal year.

Two other crucial items under the transfer payments heading are grants to private schools, averaging 10,3% of overall budget expenditure in the 1980/85 period and the heavy -- and still growing -- burden of subsidies, which averaged 8,3% of total spending during the period (Table 6). Despite the grant support for the private schools, education spending as a ratio of the total budget is not materially above the African average -- 17,4% as against 15,4%. Pension payments absorb a further 3,9% of annual budgets. (Table 5).

The excessive level of transfer and subsidy payments is further underlined when a comparison is made in terms of GDP. The average ratio of transfer payments, including subsidies, to GDP for 21 African countries in 1977 was 4,5%, while in Zimbabwe (1980/85) the average has been 19%. This not only puts Zimbabwe well in front of most developing economies, outside as well as within Africa, but also alongside such prosperous, developed economies as West Germany (19,5%), Italy (21,4%), the United Kingdom (19,1%) and Israel (23,5%) and well ahead of the United States, Canada and Switzerland.

TABLE FOUR

COMPARATIVE PUBLIC SPENDING PATTERNS

ITEM	ZIMBABWE 1980/85	AFRICAN COUNTRIES 1977
Ratio of total spending	%	%
Recurrent	84,7	70,0
Capital	15,3	27,0
Transfers/Subsidies	42,4	14,7
Interest charges	9,7	3,7
Wages/Salaries	26,0	29,0
Defence	15,8	10,0
Education	17,4	15,4
Agriculture	6,6	8,7

Sources: IMF data and Zimbabwe Government Financial Statements.

TABLE FIVE

Breakdown of Transfer Payments 1980/85

ITEM	RATIO OF TOTAL BUDGET EXPENDITURE
Private School grants	10,3%
Subsidies	8,7%
Pension payments	3,9%
Interest payments	9,7%
Other transfers	9,8%

A partial explanation is that although Zimbabwe's spending on education is not far above the average for Africa in terms of its proportion within the government budget, as a ratio of GDP, Zimbabwe is devoting 7,6% of national income to education compared with 3,9% for Africa as a whole. This, of course, results from public spending's large relative share of GDP.

A further explanation is that the average African country in 1977 was devoting 1,1% of GDP to interest payments compared with 4,5% in Zimbabwe -- admittedly during a period of significantly-higher interest rates. Furthermore, this ratio has more than doubled in four years from 2,8% in 1980/81 to 6,2% in 1984/5.

An additional explanatory factor is the difference in time frames. The IMF data refers to 1977 since which time, interest, subsidy and transfer payments have risen in many African countries reflecting the rise in interest rates and efforts by governments to counter deflationary pressures in their economies.

International comparisons aside, what is crucial is that -- assuming an unchanged policy environment,-- educational and debt-service expenditures will impose an increasing burden on the public purse for the rest of the century. This comment flows from the twin considerations of the age structure of population on the one hand and the rapid rate of population growth on the other, while the increase in debt-service costs is the inevitable consequence of enhanced levels of public sector borrowing at a time of high nominal interest rates.

It has been estimated that, with an unchanged education policy, government education spending will have to increase at an annual rate of 9% (at constant prices) for the next 10 years. With real GDP unlikely to grow at much above 4,5% annually, this means that by 1995, education's share of GDP will exceed 12%.

Table seven shows that with the exception of defence, all the major functional items of public sector spending have been growing faster than GDP, whose current-prices growth rate averaged 13,5% over the period, compared with 26% for debt-service payments, 37% for agriculture and 20% for education.

However, the Table 7 data must be interpreted cautiously since the 1984/5 figures refer to budget estimates rather than actual realised expenditure. It is therefore possible that the lower spending on defence and education forecast in the 1984 budget may not be achieved and indeed, in recent years, it has been the norm to announce substantial supplementary appropriations mid-way through the fiscal year.

TABLE SIX

ZIMBABWE: REVENUE AND EXPENDITURE OF CENTRAL GOVERNMENT 1979/80--1984/85

Fiscal year July 1 to June 30. Z $ millions.

YEAR	79/80	80/81	81/82	82/83	83/84	84/85	Annual Growth
	$m	$m	$m	$m	$m	$m	%
EXPENDITURE:							
RECURRENT	971	1 137	1 449	1 820	2 233	2 323	19%
Wages/Salaries	(316)	(375)	(473)	(558)	(621)	(670)	16%
Goods/Services	(284	(224)	(290)	(352)	(434)	(404)	7,5%
Transfers:							
Interest	(70)	(100)	(142)	(200)	(271)	(372)	40%
Private School grants	(56)	(125)	(183)	(239)	(285)	(265)	36,5%
Subsidies	(85)	(106)	(138)	(156)	(237)	(313+)	30%
Other	(161)	(208)	(223)	(315)	(385)	(300)	13%
CAPITAL	55	65	122	192	208	241	35%
NET LENDING	24	31	102	197	165	233	57%
INVESTMENTS	-	49	5	24	57	63	n.a
Total Spending	1 050	1 283	1 681	2 247	2 628	2 811	22%
REVENUE							
Taxes and Fees	676	951	1 359	1 765	1 940	2 100	25%
Grants	-	49	5	24	57	63	n.a
Total Revenue	676	1 000	1 364	1 789	1 997	2 163	26%
BASIC DEFICIT	374	283	317	458	631	648	11,5%
Deficit as % of GDP	13%	8%	7,5%	10%	12,2%	11%	n.a.

= Budget estimate

\+ = excludes $125m carried over into 1985/6

TABLE SEVEN

Functional Expenditure Patterns 1980/85

ITEM	1980/81 Z$ m.	1981/82 Z$m.	1982/83 Z$m	1983/84 Z$m.	1984/85 Z$m.	Growth Rate % p.a.
Debt-Service	268	343	528	524	673	26%
Education	217	310	397	466	456	20%
Defence	232	290	345	415	352	11%
Agriculture	64	94	139	217	225	37%
Transport	77	106	106	147	146	17%
Health	77	106	123	139	131	14%

Functional Expenditures as ratios of GDP and Total Public Spending

Debt Service					
Ratio of GDP	7,4	8,1	11,3	10,0	11,2
Ratio of Budget	20,9	20,4	23,5	20,0	24,0
Education					
Ratio of GDP	6,0	7,3	8,5	9,0	7,6
Ratio of budget	16,9	18,4	17,7	17,7	16,2
Defence					
Ratio of GDP	6,4	6,9	7,4	8,0	5,9
Ratio of budget	18,1	17,3	15,4	15,8	12,5
Agriculture					
Ratio of GDP	1,8	2,2	3,0	4,2	3,8
Ratio of budget	5,0	5,6	5,7	8,3	8,0
Transport					
Ratio of GDP	2,1	2,5	2,3	2,8	2,4
Ratio of budget	6,0	6,3	4,4	5,6	5,2
Health					
Ratio of GDP	2,2	2,5	2,6	2,7	2,2
Ratio of budget	6,0	6,3	5,1	5,3	4,7

Three items -- debt-service, defence and education -- between them account for one-quarter of GDP and more than half of aggregate government expenditure. While the relative magnitude of defence spending should decline in the late 1980s, the debt-service burden will remain obstinately high, and might even increase beyond 20% of the total budget and 10% of GDP. Unless the government restructures education policy, the burden of such spending is likely to reach unmanageable levels by the mid-1990s, and maybe even sooner than that.

PUBLIC EXPENDITURE : SUMMARY

The salient features of public expendiure policy in Zimbabwe since independence can be summarised as follows :

(i). Public sector spending has grown faster than GDP with the result that the ratio of public expenditure to GDP rose from 35,6% in 1980/81 to a forecast 46.9% in the 1984/5 fiscal year.Recurrent spending has grown at 19,5% annually as against 13,5% for GDP, with the transfers element expanding at 23% annually and debt-service payments at 26%.

(ii). The share of recurrent spending in the total budget at almost 85% has necessitated reductions in public sector capital formation. Indeed, the main impact of public spending cuts has been on capital account.

(iii).Zimbabwe is spending far more on transfer payments -- notably interest on public sector debt, subsidies and grants to schools -- than the average African economy, though total spending on education at 17,4% of the budget is only marginally above the 1977 African average of 15,4%.

(iv). Since 1980, there have been some disquietening increases in the proportion of debt-service payments to GDP, in particular, but also in education spending's share of GDP. In 1980/81 these two votes represented 13,4% of GDP, but by 1984/5 this had risen to 18,8% -- a 40% rise.

(v). Looking ahead, its difficult to see any reversal of these undesirable trends, unless or until there is a major change in education policy -- publicly ruled out by the Prime Minister in January 1985 -- and reduced reliance on deficit financing to fund recurrent spending which has been a disturbing feature of fiscal policy since 1982.

REVENUE

Revenue from taxation has expanded at nearly double the GDP growth rate since 1980 --- 24% annually as against a GDP growth rate of 13,5%. As a result, the share of taxes in GDP has risen from 21,5% in 1980/1 to a peak of 33,7% in 1982/3, falling to 31% (forecast) in 1984/5. Over the period, the average tax/GDP ratio was 30%.

Revenue buoyancy is explained by the combination of rapid economic expansion in the early part of the period, new revenue measures and higher rates of tax.

Since 1980, 88% of total revenue -- excluding international aid -- has been obtained in taxes, with the balance being income from property and fees charged for government services, judicial fines etc.,

Table Eight shows that there are five main sources of tax revenue -- corporate income tax on profits, personal income tax, sales tax, customs duties and excise duties.

TABLE EIGHT

Tax Revenue 1980/85

Tax	Ratio of Total Tax Income 1980/85	Average annual growth rate 1980/85
Personal Income Tax	27,1%	20,5% p.a.
Company profits Tax	21,2%	15% p.a.
Sales Tax	23,5%	21,5% p.a.
Customs Duties	13,4%	51% p.a.
Excise Duties	11,1%	35% p.a.

Since 1980, there has been a marked shift towards indirect taxes. Direct taxes accounted for 56% of total tax revenue in 1980/81 but only 45% (forecast) in 1984/5. In part, this reflects cyclical influences -- notably the decline in company tax revenue from $365 million in 1982/3 to an estimated $321 million in 1984/5. This is the result of declining corporate profitabilty, which more than offset increased rates of company taxation.

The basic rate of company tax has remained unchanged at 45% since independence, but a 15% surcharge, (originally 10%) and a drought surcharge of 10% in 1984 has raised the effective tax rate on profits to 56.25%.

Personal income tax is levied at rates ranging from 14% to 45% for single taxpayers and from 10% to 45% for married taxpayers These rates are also subject to surcharges raising the effective marginal rate to 63%. Although individual taxation is the major source of government revenue, it is collected from a relatively small proportion of wage earners since the level of abatements is high relative to average wages.

In April 1984, in an effort to broaden this tax base, a new Lower Level income tax at the rate of 2% was imposed on individuals earning more than Z$100 monthly, but who are not liable for PAYE (Pay-As-You-Earn) income tax in the normal manner. This tax is expected to raise $20 million in a full year.

The second explanation for the relative increase in indirect taxes is the imposition of higher customs and excise duties along with an enhanced import volume leading to increased revenue from import taxation. Revenue from customs duties grew at an annual average rate of 51% while that from excise duties expanded at 35% annually.

The major source of customs revenue is the duty on petroleum, accounting for more than half the total while most of the balance of customs revenue is collected in the form of the 20% duty on imports, excluding petroleum and government imports.

The rapid growth in excise revenue is partly explained by the 1984 decision to collect sales duties on tobacco, beer and soft drinks, at factory level as an excise duty rather than at retail level as a sales tax.

The net effect of tax changes since 1980 has been to substantially increase the burden on individuals. Table Nine shows that the ratio of total wage income being absorbed in personal income tax, and in sales,customs and excise duties, increased nearly 50% over the period.

TABLE NINE

Tax Ratios of Wage Incomes 1980/85

YEAR	Ratio of Wages paid in taxes
1980/1	30 %
1981/2	37 %
1982/3	40 %
1983/4	44 %
1984/5*	44 %
Average 1980/5	39 %

* = forecast

THE BUDGET BALANCE

Despite the rapid expansion in government revenues, which far outpaced GDP growth, the basic budget deficit has increased -- at an average annual rate of 23%. (Table Six). The ratio of the budget deficit to GDP rose from 8% in 1980/81 to a peak of 12,2% in 1983/4 and is forecast to dip slightly to 11% in 1984/5. Whether this 11% target is attained will, of course, depend on the extent to which 1984/5 budgetary projections are met.

A budget deficit of this magnitude has far-reaching, adverse ramifications for the economy. These include the spillover of the budget deficit into the current account of the balance of payments, the need to finance this deficit using both domestic and foreign capital, the inflationary implications of the resultant money supply growth flowing from so substantial a budget deficit and the long-term effects in respect of a growing national debt and associated debt-service burden. The financing of the budget deficit since 1981 is illustrated in Table Ten :

TABLE TEN

Financing the Deficit

YEAR	Deficit Z $ m.	Foreign Finance Z$ m.	Domestic Non-Bank Z$ m.	Domestic Bank Z$ m.
1981/2	317	220	110	(-13)
1982/3	467	50	311	106
1983/4	631	51	382	198
1984/5*	648	126	315	207

* = forecast

The Table shows that during the four fiscal years, foreign borrowing to fund the budget deficit amounted to $447 million (about 18% of Zimbabwe's total external obligations), while bank borrowing by the Government, which directly increases the money supply, amounted to $497 million. It is likely too that the authorities would have been forced to rely to an even greater extent on bank borrowing domestically had it not been for the one-off effect of statutory increase in the required asset portfolios of pension funds and insurance companies. In September 1983, these institutions were required to hold 60% of Government and quasi-government paper in their portfolios compared with 50% previously. For non-life insurance companies, the increase was from 25% to 30%. This has temporarily enabled the authorities to sell a larger volume of governent stock in the domestic capital market while these institutions are increasing their holdings of official paper.

A particularly disturbing aspect of the budgetary situation is illustrated in Table Eleven, which shows the extent to which deficit financing has been used to fund **recurrent** government spending.

TABLE ELEVEN

The recurrent budget deficit

YEAR	Recurrent spending	Revenue	Recurrent deficit
	Z$ m.	Z$ m.	Z$ m.
1980/1	1 137	1 000	137
1981/2	1 449	1 364	85
1982/3	1 820	1 789	41
1983/4	2 233	1 997	236
1984/5*	2 323	2 163	160

* = forecast

While borrowing to finance capital investment programs, net lending to parastatals and the refinancing of maturing debt is acceptable, it is clearly undesirable as a means of funding subsidies, interest payments, wages and salaries and current purchases of goods and services. Yet in the five years under review, some 7,5% of recurrent spending, amounting to $659 million, was financed by domestic and foreign borrowing.

The need to resort to borrowing, foreign as well as domestic, to finance current expenditures underlines the critical nature of Zimbabwe's present fiscal difficulties. As Table Eleven shows, larger-scale bank borrowings to fund the recurrent deficit have become necessary since 1983 with adverse repercussions on the inflation rate and on the ability of the authorities to keep the growth rate of the money supply in line with the underlying growth poptential of the economy. Indeed, since 1980, while GDP growth - in real terms - has averaged 2% annually -- the money supply (M2) has increased at an average annual rate of 17%. Central Bank figures indicate that two-thirds of money supply growth in the 1980/83 period was the result of increased public sector borrowing.

FISCAL POLICY : AN ASSESSMENT

Although fiscal policy since 1980 has been both active and interventionist, it is impossible to detect any coherent, underlying fiscal strategy other than a " good housekeeping " approach designed to raise as much revenue as possible to meet burgeoning expenditure commitments. The new administration inheriting a heavy defence bill and committed to large-scale social services spending, allowed public sector expenditure programs to outpace revenue availability.

The gap was partially closed through the expedient of tax increases to the extent that by 1983/4, 44% of personal sector income from wages and salaries was being collected in taxes compared with 30% in 1980/1.In essence, fiscal policy has been tightly constrained by a fast-expanding funds requirement that left policymakers with virtually no room for manoevre.

The Government´s committment to subsidy-reduction notwithstanding, subsidy payments have been an increasing ratio of GDP (Table 12).

TABLE TWELVE

Subsidies in the Zimbabwe Economy 1980/85

YEARS	1980/1	1981/2	1982/3	1983/4	1984/5*
Food Subsidies	73,5	100,5	125,6	150,5	149,7
National Railways	36,0	37,6	28,0	24,0	31,3
ZISCO Steel	-	-	-	52,0	76,0
Air Zimbabwe	-	-	-	-	18,0
Exporters	5,6	-	2,5	10,0	15,0
Assistance to Industry	-	-	-	20,0	5,3
Reserve Bank of Zimbabwe	-	-	-	10,0	13,6
Zimbabwe Broadcasting	-	-	-	3,0	3,7
Total	106,1	138,1	156,1	269,5	312,6
Ratio of Total Budget	8,3%	8,2%	6,9%	10,3%	11,1%
Ratio of GDP	2,9%	3,3%	3,3%	5,2%	5,2%

*= forecast

If the $125 million in subsidies that should have been provided for in the 1984/5 budget, ($69 million food subsidies,$40 million for the National Railways and $16 million for Air Zimbabwe) is added into the 1984/5 figure, total subsidy payments then reach $446,6 million or 7,4% of forecast GDP.

Subsidies are part of the administration's program to check consumer inflation and limit wage increases, to boost exports (via the steel and transport subsidies and the export incentives), to avoid price rises in the parastatal services sector (notably the railways and national airline), and to bolster those industries which are uncompetitive under present economic conditions.

The authorities introduced a new subsidy in mid-1984 -- for gold producers -- which graphically illustrates their thinking. The aim of the gold price support program is to bolster both employment and output at a time of a falling bullion price on world markets and also, through subsidisation, increase gold exports. Gold producers are being paid a guaranteed price of Z $500 an ounce for their gold when the world market price is below that level. When the bullion price rises above Z$500, gold producers are required to pay 25% of the " premium " to cover the previously-obtained subsidy support.

The steady decline in the bullion price since the gold-subsidy program was announced has added to the overall level of subsidies. In January 1985, the subsidy was averaging Z$20 an ounce which would cost the Treasury Z$5,5 million annually.

To the extent that they are necessary to achieve a smooth transition from one pricing policy regime to another, or to bolster an industry during a temporary cyclical setback, subsidies can be justified, but their continued application not only creates price distortions within the economy, sending out misleading signals to producers and consumers alike, but has also imposed a severe and growing burden on the taxpayer.

It is clear that urgent and effective action is necessary to reverse the trend towards increased subsidies. This will involve upward adjustment of consumer prices for food products, a major restructuring of the steel industry and a revision of pricing policies in the national airline and railways.

POLICY NEUTRALITY

Since 1980, fiscal policy has been constrained by the government´s political committments, especially those in respect of education and health, income redistribution (via the subsidy mechanism), defence and the demobilisation of former combatants -- at a cost in terms of demobilisation gratuities of $150 million.

This left virtually no room for manoevre on the revenue-raising side with the Treasury being required to raise substantially-increased revenues to finance rapidly-increasing spending programs. As a result, virtually no measures have been introduced to encourage savings, to induce investment, to generate jobs or to improve the balance of payments -- the main exception being the revival of the export incentive scheme.

In a policy sense, fiscal policy has been neutral, though the steep rise in the proportion of incomes paid in taxes has had a deflationary impact on output and employment which must also have had favourable ramifications for the balance of payments. The chief preoccupation of the Treasury has been with keeping the budget deficit within acceptable limits, while at the same time meeting the government´s political priorities. The Treasury´s failure to maintain this difficult balance was reflected in the collapse in February 1984 of the IMF standby agreement following supplementary expenditure estimates of $304 million which pushed public sector spending and borrowing well beyond the previously-agreed IMF program limits.

Fiscal policy inertia is unlikely to continue beyond 1986. The Commission of inquiry into Zimbabwe´s public finances is due to report early in 1986 and may submit a preliminary report before then. This report is expected to recommend changes to the existing discriminatory system of taxation of married women, to recommend substantial simplifications of the tax code and suggest the adoption of a tax on under-utilised land based on the productive potential of farm land.

While none of these measures would have a major favourable impact on revenue, the land tax would represent an important policy iniative designed to achieve favourable supply-side effects through enhanced land utilisation and, almost certainly, a more equitable pattern of land distribution.

However, this could also have negative implications for the level of agricultural productivity, and result in large-scale land purchases by the state from (white) commercial farmers wishing to dispose of " under-utilised " land. This, in turn, could create a new and severe financial burden in the form of land purchase costs.

Unless or until there are major new policy initatives in the realm of public spending -- and these may be forthcoming after the 1985 elections, --Zimbabwe's fiscal position will remain under severe strain. Recent criticism of the IMF -- which has urged the Zimbabwe government to rationalise its expenditure on education -- and the outright public rejection of IMF suggestions by the Prime Minister does, however, suggest that no radical change of direction is currently contemplated.

There are also no signs of any sustained effort by policymakers to integrate spending on education with an associated program of job-generation. The fact that there are fewer people in employment in 1985 than in 1975, during which time the population increased by more than one million people, underscores the urgency of an integrated economic program designed to generate jobs for the estimated 80 000 annual school-leavers.

Economic recovery from recession in 1985/6 will be reflected in increased public sector revenue, but the high rate of inflation, rapid population growth, government's commitments to expanded social welfare programmes, especially in education and the need to both maintain and improve the social and economic infrastructure are likely to mean that public expenditure will grow at least as rapidly as revenue, leaving little if any room for tax reductions unless major cuts in the underlying level of recurrent public spending can be achieved as a result of a restructuring of existing public spending programs.

PUBLIC DEBT

Local and central Government debt -- excluding the borrowings of the Central Bank and the parastatals -- increased very sharply in the late 1970s from $896 million in 1975 (47% of GDP), to $1,77 billion (69% of GDP) in 1979. By 1984, public debt had more than doubled to $3,75 billion (about 68 % of GDP).

Table 13 shows that Zimbabwe has become more dependent on foreign borrowing since 1975 when the ratio of foreign to total public debt was 13,5%. This reached a peak of 34,5% in 1983 but is likely to decline somewhat over the next few years reflecting a slowdown in the rate of government borrowing abroad.

TABLE THIRTEEN

Central and Local Government Debt 1975/1984

YEAR	Total Debt Z$ m	Ratio of GDP %	Foreign Ratio of total %
1975	896	47%	13,5%
1979	1765	69%	24,7%
1980	2170	68%	22,5%
1981	2476	62%	24,5%
1982	2908	65%	33,9%
1983	3309	67%	34,5%
1984	3750	68%	32,9%

MONETARY POLICY AND INTEREST RATES

Throughout the post-independence period, the real interest rate on savings has been negative. Table 14 shows the relationship between interest rates on 12-month deposit and the average inflation rate, measured by the Consumer Price Index for both higher and lower income groups.

The prime overdraft lending rate of commercial banks, which has been pegged at 13% since 1981, has also been negative in real terms, which ought to have marginally stimulated domestic investment given the tax breaks available for capital formation on the one hand and the fact that interest payments on loans are tax-deductible.

The negative real return on savings helps explain the recent steep fall in savings ratios in Zimbabwe (Table 19). Table 15 provides confirmatory data showing that the growth rate of savings in the financial institutions has been slower than that of GDP with the result that the ratio of financial savings to GDP fell from 50,7% in 1979 to 44% in 1983. A further decline is likely to have taken place during 1984.

TABLE 14

INFLATION AND DEPOSIT RATES

MAXIMUM RATES PAYABLE FOR 12 MONTH DEPOSITS

YEAR	COMMERCIAL BANKS %	FINANCE HOUSES %	BUILDING SOCITIES %	P O S B %	MERCHANT BANKS %	INFLATION RATE %
1980	4,25	5,25	4,75	3,25	4,5	8,5
1981	12,0	9,13	9,75	7,5	14,0	14,0
1982	10,5	9,13	9,75	7,5	10,75	14,5
1983	14,0	9,13	9,75	7,5	13,0	19,75
1984	8,75	9,13	9,75	10,00	13,0	16,5

TABLE 15

SAVINGS IN ZIMBABWEAN FINANCIAL INSTITUTIONS

YEAR	TOTAL SAVINGS Z $ MILLIONS	RATIO OF GDP %	REAL INTEREST RATE %
1979	1 292	50,7	-4,25
1980	1 518	47,3	-2,00
1981	1 767	44,2	-4,00
1982	2 043	43,8	-5,75
1983	2 159	44,0	-7,7

* Real interest rate is inflation rate minus 12 months commercial bank deposit rate.

The most representative money market interest rate -- the 90-day rate on NCDs -- also remained negative in real terms throughout the 1980/84 period. It rose from 4,5% in 1980 toa high of 15% at the end of 1983, before falling to average 9% during 1984. The return on Government stock issues has also been lower than the inflation rate throughout the post-independence period.

Negative real interest rates of this magnitude must have been a deterrent to saving, though it is not possible to quantify their impact on savings rates.

However, there is no evidence to suggest that negative real interest rates have stimulated investment in the economy. Indeed, although real interest rates have been negative, net investment rates have remained low. It does seem likely though that savings ratios have been adversely affected by the negative real return available.

There are two powerful reasons for favouring a higher interest rate structure in Zimbabwe. Firstly, it would stimulate savings and secondly, rationalise credit utilisation in the economy. It is often argued that positive real interest rates would increase the cost of capital relative to that of labor in the economy, thereby encouraging labor-intensive production techniques. But this assumes that alternative production techniques that economise on capital are readily available, which very frequently is not the case given the modern bias towards labor-saving innovations, and implies also that entrepreneurial bias against labor-intensity can be overcome through efficient pricing of the factors of production.

In Zimbabwe, there are strong grounds for believing that this may not happen, since state regulations on hiring and firing labour have substantially raised the implicit, as distinct from the explicit, cost of employing labour. This trend towards increasing the implicit cost of labor may be intensified by new labor legislation being enacted in 1985.

NON-FINANCIAL PUBLIC ENTERPRISE

Nonfinancial public enterprises in Zimbabwe account for a minimum of 15% of GDP. A disquietening feature of their operations in recent years has been their escalating losses. These losses fall into two main categories -- those incurred by the agricultural marketing boards and those incurred by the National Railways of Zimbabwe, Air Zimbabwe and Zisco Steel. (Table 16)

TABLE SIXTEEN

PUBLIC ENTERPRISES LOSSES

YEARS	1980 Z$ m.	1981 Z$ m.	1982 Z$ m.	1983 Z$ m.	1984 Z$ m.
Agricultural Boards	18,1	45,5	81,3	153,9	144,4
National Railways	32,9	41,1	55,6	59,0	45,8
Air Zimbabwe	(0,03)	(0,36)	4,4	16,3	17,
Zisco Steel	(1,8)	19,3	44,2	59,0	75,0
TOTAL	48,9	105,5	185,5	288,2	282,2
Ratio of GDP	1,5%	2,6%	4,2%	5,9	5,3

In the period from 1981 to 1984, the total losses of the parastatal sector totalled $860 million or 57 % of the economy's net savings. This illustrates the severity of the burden on the economy arising out of the unsuccessful trading operations of the parastatals.

Some parastatals -- notably the Posts and Telecommunications Corporation, the Electricity Supply Commission and the Minerals Marketing Corporation -- have earned surpluses in recent years, but the public enterprise sector as a whole is a major drain on the economy's savings and a serious burden on the taxpayer.

The causes of poor financial performance are many. State enterprise has often been saddled with controlled prices intended to subsidise the final consumer, especially in the food sector. In rail transport, the national railways has long been used as a means of hidden subsidy for agricultural and mineral exporters.

The airline's losses are of more recent origin and can be explained in terms of reliance on high-cost fuel-inefficient aircraft and relatively low load-factors on long-haul international flights. The steel industry, dependent on export markets taking some 75 % of its output is poorly placed geographically to compete in international markets. The Jansen study of manufacturing in Zimbabwe found that the steel industry had a domestic resource cost (DRC) ratio of 3,62 -- easily the most unfavourable in the entire industrial sector. A DRC ratio of below unity means that local industry has a comparative advantage internationally; but the steel industry figure of 3,62 implies that the industry is massively inefficient internationally.

Parastatal deficits would be substantially reduced if the Government were prepared to eliminate food subsidies, and the position would also be improved if past losses could be written off thereby reducing the heavy burden of interest charges in the parastal sector. But even if the situation in respect of the agricultural marketing boards could be resolved along these lines, Air Zimbabwe, the National Railways and Zisco would continue to incur substantial losses. In the case of Zisco, reduction in the scale of activities, new equipment and a changed product range are required, while for the NRZ steps should be taken to eliminate transport subsidies.

STATE PARTICIPATION

In addition to creating new -- and more extensive -- parastatals, the Zimbabwe Government has increased state participation in the economy by way of active investment in the private sector. This has taken two main forms :

(i) Direct investment, sometimes on a joint-venture basis, with private sector interests -- e.g., the joint-venture with Heinz in the purchase of Olivine Industries or the purchase of a controlling stake in CAPS Holdings (pharmaceuticals) or Zimbank (the country's second largest commercial banking group).

(ii) Indirect investment in the private sector via a parastatal, using the Industrial Development Corporation, the Mining Development Corporation or even the Mass Media Trust as the vehicle for acquiring effective control.

The main investments in the private sector since 1980 are :

(i). A 43% share in Zimbabwe Newspapers purchased from the Argus newspaper group in South Africa, giving the state an effective monopoly in daily newspaper industry and 95% of the weekly newspaper sector.

(ii). A 61% share of the equity in Zimbank purchased from the Netherlands Bank of South Africa Ltd.

(iii). A 42,6% controlling interest in the Stock Exchange listed company CAPS Holdings, of the largest domestically-controlled manufacturer of pharamceuticals.

(iv). A 49% share in Olivine Industries (manufacturer of soaps, cooking oi;s etc), in a joint-venture with Heinz which ha 51%.

(v) A 47% share in the Bank of Credit and Commerce Zimbabwe (53% held by the Bank of Credit and Commerce group internationally).

(vi) A 40% share in Wankie Coliery Company Ltd (Zimbabwe's only coal producer), purchased from the South Africa Anglo American Corporation. This gives the state effective control.

(vii) Control of MTD Mangula (Zimbabwe's main copper mining group), acquired from The South African Messina group by the Mining Development Corporation.

(viii) Control of Kingstons Ltd -- previously 60% owned by CNA Investments of South Africa -- was acquired by the Mass Media Trust in 1984. Kingstons operates a chain of retail booksellers and stationery outlets in the main centres.

(ix) Joint ventures with the Rennies Group in the Harare Holiday Inn and with Sheraton Hotels for the management of the Harare Conference Center.

To these major investments must be added the often-unpublicised activities of the Industrial Development Corporation (IDC). The IDC was established in 1964 as a state-controlled enterprise but with a 20% private sector equity stake. This minority stake has been purchased by the state. The IDC has followed an active investment strategy in recent years, frequently taking over companies in financial distress or purchasing the minority stakes of foreign investors wishing to divest their Zimbabwean interests.

Three features of the state´s investment policy should be emphasised. First, there is no evidence at all to suggest a coherent underlying strategy of public investment in the private sector. Most of the investments were undertaken because the existing owner (Netherlands Bank, Argus Newspapers , The Margolis family in respect of Olivine) wished to dispose of their interests and this offered the state an opportunity to acquire a powerful stake in a viable, and in the case of banking, coal and newspapers, a strategically-vital, industry.

Frequently, the state has purchased shares in private enterprises in order either to prevent closure and financial collapse, or to inject fresh capital for expansion purposes. This latter reason -- capital injection -- explains the Wankie purchase since private sector investors were unwilling to put up funds for the colliery´s expansion program. Several of the IDC´s investments were companies in financial distress, while the state take-over of MTD Mangula was designed to both avoid eventual closure and provide a platform for expansion.

The policy of participation has therefore been essentially ad hoc rather than a carefully-planned assault on the commanding heights of the economy.

A second crucial aspect has been the state´s willingness to purchase shares at mutually-agreed valuations or at market valuations. Indeed, a major criticism of the Mangula participation was the Government´s decision to purchase the assets at a book valuation rather than at a much-lower market valuation.

A further positive feature of the investment programme -- to date -- has been the state´s willingness to leave operational control in the hands of existing management. To that end, the state has signed management contracts with Anglo American Corp (Wankie), with Messina Transvaal Development Company (Mangula) and with the Netherlands Bank of South Africa (Zimbank). In the case of Olivine Industries, the existing management team was retained as was also the case at CAPS Holdings. However, there have been major managerial changes at Zimbabwe Newspapers, and there is evidence in some of the state-controlled enterprises that existing managers see these management agreements as essentially short-run and anticipate an active " Zimbabweanisation " of management before very much longer.

It is clear too that the state could have invested in the private sector on a far larger scale given access to adequate finance. A number of mining groups, for instance, would have been willing to divest given a reasonable price for their assets (which the state certainly did pay in the Mangula case) and given reasonable terms under which the proceeds could be remitted. It is likely too, that a number of South African-controlled industrial companies would have been happy to divest under similar conditions, but Government´s strained finances have -- to date -- precluded a more activist policy in this field. That said, it is clear where the government´s preferences and intentions lie --- in the direction of greater participation.

REGULATORY POLICIES

The adoption of a broad range of regulatory policies by the state has its origins in three main influences. First, the government's innate mistrust of a foreign-dominated, white-dominated and capitalist-oriented private sector. Secondly, its inheritance of a comprehensive range of direct controls over most aspects of business decision-making -- controls that not only ensured that the state could "manage " the economy, but also provided the opportunity of political patronage in the context of the award of foreign currency quotas, price increase approvals etc., Third, the political philosophy of the new administration with its belief in capturing the " commanding heights " of the economy and imposing a system of central planning.

United States research into regulation highlights two key conclusions :

(a) that regulatory programmes have substantial costs as well as benefits

(b) that the evaluation of such costs and benefits is an essentially subjective exercise, determined by the personal preferences, the objectives and the constraints perceived by the analyst.

Despite this, there is widespread agreement amongst economists and business leaders that the net impact of Zimbabwean regulatory policies is overwhelmingly negative. A persistent complaint is that the emphasis has been upon regulation rather than promotion. Thus,. labour legislation is designed not to boost job-generation but to avoid job-losses. Price controls are designed to slow inflation, without due regard to the impact on investment, on output and on employment. Exchange controls are designed to defend an overvalued currency ignoring the adverse implications for foreign investment. Similarly, import controls are intended to achieve a satisfactory current account balance, without due regard being paid to the impact on input costs and prices and on the over-protection of the manufacturing sector.

Quantification of these negative effects is difficult, but the Jansen study of manufacturing industry in Zimbabwe (1981), found that 60% of industry was uncompetitive in comparative advantage terms. The extent of underpricing in the farm sector is reflected in the heavy subsidisation of the agricultural marketing boards. The over-valuation of the exchange rate is underlined by the severity of the direct controls required to maintain that exchange rate, by Zimbabwe's lack-lustre export performance since independence and by the fundamental imbalance on the current account of the balance of payments.

Employment Regulations

The failure of the minimum wage program and of policies designed to prevent retrenchment is reflected in the steep fall in employment and in the -- predictable -- inverse relationship between real wage increases and employment. (Table 13).

TABLE THIRTEEN

Employment and Earnings Growth 1979/83

Average Annual Growth Rates

SECTOR	Employment Growth	Real Earnings Growth
Agriculture	-6,0 % p.a.	+12,3 % p.a.
Mining	nil	+6,4 % p.a.
Manufacturing	+4,5 % p.a.	+3,5 % p.a.
Services	+6,8 % p.a.	-1,0 % p.a.
All sectors	+1,2 % p a	+4,7 % p.a.

The table shows that rapid real earnings growth (as in agriculture and mining) has been associated with stagnant and falling employment, while job-generation has been fastest in the services sector and in manufacturing where real wages have fallen or increased only marginally.

Although intended to protect workers, legal procedures designed to preclude retrenchment have been found in industrial countries to be counter-productive. Of critical importance to Zimbabwe, given the country´s deepening employment crisis is European evidence suggesting that such legislation encourages firms to minimise job-creation at all times in an effort to avoid being forced to employ such labor during a cyclical downswing.

The European evidence suggests too that legislation of this kind generates long-run unemployment since when redundancies occur, such workers are unlikely to be re-employed once demand recovers. Overtime bans -- such as in Zimbabwe -- encourage firms to invest in labor-saving equipment and to maintain spare capacity to meet increased demand when it arises without taking on extra workers for short periods. As a result, it is increasingly accepted that labor-market rigidities of this kind increase unemployment -- the exact opposite of what policymakers intended.

Price controls resulting in falling profitability are a major deterrent to investment and to job-generation. Fragmentary evidence of the profitability of stock exchange-listed companies in Zimbabwe suggests that pre-tax profits fell 33% between 1981 and 1983 while the national income accounts show gross operating profits, as a ratio of national income, slipping from 37% in 1980 -- and a peak of 45% in 1974 -- to 30% in 1982. A further decline is likely to have occurred in 1983/4.

Assessment

The over-riding picture of state intervention and regulation that emerges is one of undue emphasis on controls with inadequate attention being devoted to incentives and to promotional programs. The solutions - which look to be politically unacceptable in the current environment -- include greater resort to market-oriented pricing policies in place of direct administrative controls, a reduced burden on central government by reversing the present trend towards greater state participation, and decentralisation of decision-taking within the paratatal sector, thereby allowing managers to respond more flexibly and more rapidly to market signals.

Management is a key constraint -- a major resource bottleneck -- on the public sector. Pay and job-satisfaction differentials have resulted in a drift of skilled managerial personnel away from central and local government to the private sector and, in some instances, the parastatals where remuneration is better than in government administration. It therefore makes little sense to expand the public sector -- where managerial skills are a scarce resource -- at the expense of the private sector which is better able both to attract and train managerial personnel.

World Bank research (notably Ramgopal Agarwala : Price Distortions and Growth in Developing Countries. World Bank Working Paper No. 575), finds an inverse relationship between price distortions (agricultural under-pricing, over-valued exchange rates, negative real interest rates, statutory wage minima etc .,) and economic growth. It demonstrates also that price distortions do not improve economic equity and may even damage it. There is evidence too, showing that export-led growth -- stimulated by a competitive exchange rate -- is considerably more employment-intensive than a policy of import substitution.

THE INVESTMENT ENVIRONMENT

Slow growth and poor economic performance in African countries is attributed to three main factors :

(a) basic constraints in terms of a narrow natural resource base, adverse climatic conditions, rapid population growth, low educational standards etc.,

(b) inappropriate policies and,

(c) institutional weaknesses resulting in inefficient economic management.

Improvement of Zimbabwe's long-term productive potential is dependent on easing the underlying constraints on the economy, but short and medium-term performance could be enhanced significantly by a combination of a more appropriate policy framework, faster response to structural economic change and more effective policy-implmentation

In Sub-Saharan Africa as a whole, average returns on investment have declined since the 1960s despite some easing of the underlying constraints. The World Bank has noted :

> "It is hard to escape the conclusion that deteriorating economic management has been a major -- in some countries -- the major cause". (World Bank : Towards Sustained Development in Sub-Saharan Africa Washington, 1984).

Some idea of the low productivity of capital in Zimbabwe in the recent past can be gleaned from macroeconomic data suggesting that net investment in the 1970s calculated at constant 1975 prices, after allowing 3,5% for annual depreciation, approximated $1,6 billion, but over the same period real GDP rose an estimated $400 million, suggesting a very high capital-output ratio of four to one.

If a longer-run view is taken, the position is better, with net investment (1975 prices) at an estimated $2,5 billion from 1965 to 1982 during which time real GDP increased by $1 billion to give a much more acceptable degree of capital productivity and a capital-output ratio of 2,5.

The incremental capital-output ratio was very low (around 1,5) in the late 1960s and early 70s. There was considerable excess capacity in the economy in the mid-1960s which facilitated rapid GDP growth with relatively modest levels of net investment. From 1974 to 1979, net investment fell sharply as did real GDP and at the time of independence, the economy was, once again, operating with a substantial degree -- around 25 % -- of excess capacity.

From 1980 to 1982, it again became possible to secure major output gains with modest levels of net investment and the incremental capital output ratio fell to around unity. But as capacity utilisation increased, reaching 95% in 1981, so the scope for further productivity gains was reduced. The combination of three drought years and the world recession resulted in declining GDP in the 1982/84 period with the result that by the start of 1985, the degree of capacity utilisation was estimated at only around 80%.

PROFITABILITY

The admittedly-limited data indicates a close, but predictable, correlation between capacity utilisation and profitability. At times of high capacity utilisation, such as the 1970/75 period when utilisation averaged 95%, the gross return on capital in the Zimbabwe economy averaged 16%, and in 1981/2 when capacity utilisation was 90%, gross profitability exceeded 13%. This compares with 10% in the late 1960s, when capacity utilisation was 75% and with a gross return of 12% in the 1976/79 period when capacity utilisation approximated 78%. (Table 18).

TABLE EIGHTEEN

Profitability and Capacity Utilisation

PERIOD average %	CAPACITY UTILISATION average %	GROSS RETURN ON CAPITAL average %	PROFIT SHARE IN GDP
1965/70	75 %	10 %	32 %
1971/75	95 %	16 %	42 %
1976/79	78 %	12 %	38 %
1980/82	90 %	13 %	37 %

The fact that a sharp increase in capacity utilisation appears not to have a material impact on profitability in the 1980/82 period -- as against the 1976/79 phase -- highlights the post-independence pressures on profits in the form of sharply-increased labour costs, in particular. Thus, at the peak of the post-independence boom in 1981, the share of GDP going to profits at 38% was well below the 46% share going to profits at the height of the UDI boom in 1974. But in 1981, 60% of GDP went to wages and salaries compared with 50% in 1974.

International profit comparisons show that the gross rate of return in six OECD countries (US, UK, West Germany, France and Canada) in the early 1970s averaged 15% compared with 16% in Zimbabwe. Given the substantially greater risk on investment in a developing economy, this gross return was simply not high enough.

By 1982, the average gross return for the same six OECD countries had fallen to 12% -- aproximately the same return as in Zimbabwe. However, tax rates in Zimbabwe had risen sharply in the interim period and, after adjustiung for depreciation as well as tax, the return on investment in Zimbabwe in the 1980s is estimated at no more than half the gross return of 13%. For an international company, required to reinvest at least 50% of its after-tax earnings in Zimbabwe and pay 20% witholding tax on dividends, the remitted rate of return was therefore unlikely to have exceeded 3% prior to the March 1984 exchange control measures which placed a temporary ban on profit and dividend remittances. Such a low remitted rate of return is obviously a major disincentive to foreign investment -- the more so now that foreign remittances have been temporarily suspended altogether.

In fact, estimates suggest that the actual remitted rate of return on foreign investment in Zimbabwe during the 1981/83 period was no more than 2,5% annually. This is based on an estimated foreign-owned capital stock of more than Z$4 billion and annual remittances averaging $100 million.

FOREIGN INVESTMENT

Recent estimates of foreign ownership of the Zimbabwe capital stock suggest that earlier assessments probably overstated the degree of foreign ownership. One very rough assessment suggests that one quarter of the total capital stock is owned by the central Government while a further 15% is owned by parastatals. Of the balance, about 10% represents the stock of privately-owned housing and the remaining 50% is owned by business enterprises and individual entrepreneurs -- particularly in agriculture, industry and distribution.

Foreign investors own approximately half of this remaining balance -- i.e. only about 25% of the total capital stock and half the private sector-owned capital stock, excluding housing. The degree of foreign ownership varies considerably from sector to sector, ranging from as high as 80% in mining to around 33% in the services sector. In agriculture, foreign ownership is low -- no more than 20% -- while in manufacturing it is relatively high at about 60% of the total.

However, the estimate that about half the private sector capital stock is owned abroad underlines the importance to Zimbabwe of re-establishing foreign business investment confidence. Direct investment in Zimbabwe from abroad since 1980 has been disappointing. Central Bank data for the 1980/83 period show long-term private sector net capital infows of only $56 million -- a negligible amount when set against a capital stock in excess of Z$20 billion.

But low profitability and adverse remittability conditions do not provide a full explanation for Zimbabwe's lack-lustre investment performance. The policy environment for foreign investors has been unattractive not just because profitability has been depressed and remittability restricted,
but also due to :

(a). Zimbabwe's failure to negotiate investment insurance agreements -- for instance, with OPIC.

(b). the need to satisfy the Government Foreign Investment Committee, often involving protracted negotiations,

(c). regulations precluding foreign companies from purchasing domestically-owned concerns -- varied in at least one case to allow H J Heinz to acquire a controlling stake in the locally-owned Olivine Indusries,

(d). the ban on foreign investment in the energy sector, unless on a joint-venture basis,

(e) controls over expatriate employment,minimum wage regulations, regulations precluding labor retrenchment without prior Ministerial approval, etc

(f). The high level of perceived " political risk " in an economy where the profitability of an investment is dependent upon so many variables directly determined by Ministers and their advisers, especially price and mark-up levels, conditions for remittability of profits and dividends, taxation, access to foreign currency for imports, employment conditions etc.,

(g). Concern over the long-run direction of economic and social policies given repeated assertions that Zimbabwe's ultimate goal is the establishment of a one-party socialist state.

DETERMINANTS OF DOMESTIC INVESTMENT

It is not only the level of foreign investment in the economy that has been a disappointment since independence. Domestic investment levels too have fallen far short of target. Indeed, after allowing for depreciation net investment in the Zimbabwe economy -- by the private and public sectors combined -- has averaged a mere 6% of GDP. This compares very unfavourably with 13% net investment achieved at the peak of the UDI boom in 1971/75. Explanatory factors for this situation include :

(i). Capacity utilisation levels. As noted above, these were higher in the first half of the 1970s, as also was profitability.

(ii). Corporate taxation was lower, and the degree of state intervention -- while still high -- was well below that of the 1980s.

(iii).Import allocations for new investments were substantially higher which is a key influence given the extent to which capital investment is dependent on imported machinery and equipment. Import volumes in the 1971/5 averaged 108 annually (Central Statistical Office External Trade volume index, 1964 = 100), while in the 1980/83 period, the same index averaged 107 annually. Bearing in mind the larger volumes of raw materials, intermediate goods and final cosumption items being imported since 1980, there must have been a significant decline in the volume of capital good imports.

(iv). The sharp fall in savings ratios. The savings ratio (defined as gross fixed capital formation less the current account external payments deficit), averaged less than 10% in the first four years of independence compared with 17,5% during the 1970s. (Table 19).

(v). If the savings data from the table is compared with the budget deficit data (Table Six), it will be seen that since 1980 the savings ratio has averaged just under 10% of GDP while the budget deficit as a ratio of GDP has averaged just over 10%. In other words, the country´s entire domestic savings are being used to finance the Goverment budget deficit leaving nothing over for private sector investment.

(vi) Domestic investors, like their foreign counterparts, are also deterred from investing by the policy environment in respect of employment, wages, taxes, price controls etc and by the Government´s public committment to socialism.

(vii) Although the domestic rate of return on investment is effectively double the remitted rate of return on foreign investment, the real level of profitability is low. Zimbabwean company accounts are not inflation-proofed and with the high rates of inflation experienced since the late 1970s, reported profitability significantly exceeds real profitability. 1983/4 profit figures for companies listed on the Zimbabwe Stock Exchange show a pre-tax margin on total turnover of 6%. This is a most unattractive rate of return when set against a prime borrowing rate of 13%, and a cost of equity capital estimated to be in the region of 20% to 25%.

TABLE NINETEEN

Savings Ratios in Zimbabwe 1970/1983

YEAR	GROSS CAPITAL FORMATION Z$ m.	CURRENT ACCOUNT DEFICIT Z$ m.	SAVINGS NET Z$ m.	SAVINGS RATIO OF G D P %
1970	175	13	162	16 %
1971	222	55	167	14 %
1972	256	+ 2	258	19 %
1973	330	15	315	22 %
1974	418	80	338	19 %
1975	467	121	346	18 %
1976	409	+ 5	414	20 %
1977	375	10	365	17,6 %
1978	348	+30	378	17,5 %
1979	396	74	322	12,6 %
1980	525	157	368	11,5 %
1981	800	440	360	11 %
1982	950	533	417	9 %
1983*	850	450	400	8 %

* = estimated

(viii) Price controls are a major constraint on investment. Firms have been kept waiting for a year and more for a response from the Ministry of Trade and Commerce to a request for a price increase. The recent experience of the sugar industry where major fluctuations in profitability have resulted from the timing of price-rise approvals, underlines the extent of uncertainty in investment decision-making in Zimbabwe under the existing policy framework. A key factor in the Heinz decision to invest in Zimbabwe was the Government's decision to allow factory-gate price increases -- without which the investment may well not have occurred.

THE INVESTMENT ENVIRONMENT: CONCLUSION

The Zimbabwean investment environment has been summarised as : " Too many sticks and not enough carrots ". Indeed, this comment applies not just to those factors influencing investment, but also to the economic policy environment as a whole. Incentives to save, to invest, to work harder, to employ more people, etc ., are virtually non-existent, but at the same time, business decision-makers are hedged around with onerous and far-reaching obligations and hurdles that must be surmounted before business decisions can be implemented.

One exception to this - since 1983 - has been the adoption of incentives to exporters, both in the form of the 9% export incentive to industrial exporters, not shared by the mining and agricultural sectors, and the recent apparent shift in policy in import allocations to favour exporters. Industrialists, who say that exporting is a marginal exercise from a profit viewpoint, see three main advantages to be attained from exporting. These are lower unit costs, arising from greater volumes, output demand that ensures maintained plant employment, and the very real benefit of increased import quotas.

It has been argued that agricultural pricing policy since 1981 has been incentive-oriented, but in fact producer prices have, on the whole, failed to keep pace with cost escalations and, in any event, beginning in 1985, it is intended to abolish the system of announcing pre-planting producer prices, thereby eliminating this incentive altogether. Maize growers believe that this could well lead to a reduced area under maize in the commercial farming sector in 1985/6.

IMPROVING THE INVESTMENT ENVIRONMENT

Programs to improve the investment climate come under two heads :

(i). First, those that require a change in political direction.

(ii). Secondly, those that are mainly " technical " -- in the economic sense -- though they would still, of course, have political implications.

POLITICAL CHANGE

It should be emphasized that some of the required political changes are very unlikely to occur in the existing political climate.

(a). Public Expenditure

It is evident from a wide range of economic indicators discussed in this paper, that public spending on consumption (recurrent expenditure) has been allowed to grow too rapidly at the expense of public sector investment, on the one hand, and of an unrealistically heavy tax burden on the other. It is obvious too that although no serious " crowding out " problem has arisen as yet, this will become a phenomenon of the later 1980s, as and when private sector investment demand recovers.

The sharp decline in savings ratios since the middle-70s is another indication of swollen consumption spending in both the public and private sectors, but especially the former. The high proportion of domestic savings being used to fund the recurrent budget deficit, and specifically directed towards subsidies, is a serious problem.

The essentially political nature of the problem has been recently highlighted by Prime Minister Mugabe's criticism of IMF advice that Zimbabwe rationalizes its education spending. It has been estimated that -- in constant dollars -- education spending over the next decade will increase at double the rate of GDP growth. In any event, a policy that will produce hundreds of thousands of unemployed " O Level " -- and even " A Level " and University -- graduates is untenable in the long run.

A perturbing feature of the Zimbabwean economic landscape since 1974 is the steady decline in the ratio of the population employed in the money economy. The supply-side emphasis on upgrading the quality of the labour force must be integrated with a demand-side programme to generate jobs. The existing imbalance in public sector spending on consumption is a positive dis-incentive to job-creation because it **directly** reduces public sector investment demand and has a similar **indirect** effect on the private sector, via the deflationary impact on consumer demand of excessive tax rates, the deterrent to savings of high tax rates and high inflation (partly created by state credit-creation), high corporate tax rates and, eventually, a crowding out effect.

The need is for a public expenditure strategy that reduces the ratio of recurrent to capital spending, specifically by lowering the proportion of the budget devoted to defence, to education and to transfer payments, especially subsidies.

From a strictly economic viewpoint, the existing policy whereby deficit-finance is used to fund recurrent expenditure is undesirable to the extent that it means that a debt-burden is being created for future Finance Ministers. Already, servicing public debt is the largest single item in the budget and substantially higher than in most African economies.

(b).Subsidies

The arguments for and against the removal of subsidies are inherently political because of their implications for living standards, inflation and for jobs in the state-supported sector -- especially Zisco steel. Not only do subsidies impose a major burden on the taxpayer, but they are also an important price-distortion factor within the economy. Despite frequent public promises that subsidies will be reduced, the net impact of policy in recent years has been to slow the growth of food subsidies but to impose a new burden in the form of growing financial support for Air Zimbabwe, Zisco and, (through the gold price assistance scheme,) the mining sector.

(c).Policy Orientation

It is ironic that Zimbabwe should be swimming against the economic tide to the extent that it continues to move towards greater state participation and intervention in the economy, at a time when throughout the world, including centrally-planned economies, the clear trend is towards less intervention and more reliance on market forces.

The overwhelming evidence in Third World economies is that state enterprise becomes a financial burden on the state. This is vividly illustrated in Zimbabwe in the rapid growth of subsidies. It would be unrealistic to expect a government with socialist tendencies to embark on a program of privatisation, but it might not be too much to hope for a policy framework emphasising decentralisation of decision-making (within parastatals) and greater reliance on market signals and influences. Without such a change, the adverse impact of price distortions within the economy will only increase.

There is no doubt too that the growth of state regulatory policies, documented above, allied with socialist rhetoric, has had - and continues to have -- adverse ramifications for investment sentiment at home and abroad. It is noteworthy that the recent Business International investment conference on Africa rated Zimbabwe in 12th place (out of 43) in terms of political risk. It was notable too that Botswana and Malawi -- two countries in the region with a free-market orientation were ranked ahead of Zimbabwe (fourth and sixth respectively).

It is often argued that investors should judge the Government on its policies rather than its rhetoric. While this is a valid argument, it should not be overlooked that by publicising the rhetoric of state intervention and central-planning, there is the danger that investors will be deterred from even giving serious consideration to investment in Zimbabwe.

(d).Foreign Investment

It seems obvious from an analysis both of Zimbabwe's recently-declining savings and investment ratios and serious balance of payments dificulties, that a more " open-door" policy towards foreign investment is an attractive option. For Zimbabwe to once again become attractive to the foreign investor, policy changes would seem to be necessary. An obvious case is Zimbabwe's reluctance -- essentially political -- to sign the OPIC agreement. A second political element is the country's unwillingess, to date, to establish an investment code.

The temporary ban on profit and dividend remittances (which does not apply to post-1979 foreign investments such as the Heinz investment in Olivine), has obviously had an adverse effect on foreign investor sentiment, but even more serious -- in the medium-term -- must be the very low remitted rate of return on foreign investment in Zimbabwe.

A changed policy orientation -- including a more positive attitude at the top towards foreign investors -- is essential if Zimbabwe is to be able to close the external " foreign exchange" and internal " savings " gaps which currently constrain investment and job-generating programs.

ECONOMIC POLICY

The programme outlined in the Transitional Development Plan (1982/5) has not been successfully implemented. Real income which was supposed to increase more than 25% over the three years will have fallen by at least 5% and most, if not all, of the other targets in the plan have not been met.

There is, therefore, a **prima facie** case for re-examining economic policy, despite frequent assertions that the failure to reach plan targets was purely the result of the world recession and three successive droughts.

The areas where reforms are required can be summarised under the following headings :

(i). The role of Government versus the private sector.

(ii). The role of regulations and intervention versus incentives and promotion

(iii). Policies to stimulate greater utilisation of domestic resources -- especially labor -- which, more often than not, imply a lower effective exchange rate.

(iv). Export promotion.

(v). Policies to secure more balanced regional development

(vi). Strengthened investment promotion measures -- for domestic as well as foreign investors.

(vii). A streamlining of procedures in respect of price controls, import controls, investment approvals, labor force and wage decisions etc.,

All these issues should be examined against a backdrop of increased reliance on market, as distinct from administrative, mechanisms. This implies, as suggested above, a more flexible exchange rate policy to ensure that there is no appreciation in the real effective exchange rate (as there has been since 1983); it implies higher nominal interest rates on deposits to secure a real return for savers ; it implies a shift away from policies designed to improve income distribution via minimum wage legislation towards policies designed to generate jobs, albeit probably at lower average wage levels; it implies the adoption of policies favouring labor rather than capital intensity -- not just price-related policies, but also a reduced level of state intervention in the employer-employee relationship.

Three overriding themes should be emphasized :

(a). Greater reliance on market forces, thereby reducing the burden of bureacracy.

(b). Increased emphasis on managerial efficiency which in turn means decentralised decision-making, especially in the parastatal sector.

(c). A greater willingess to use incentives and promotional policies rather than regulation, direction and controls.

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