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PRESENTS

Critical Issues
For American Investors in
Zimbabwe

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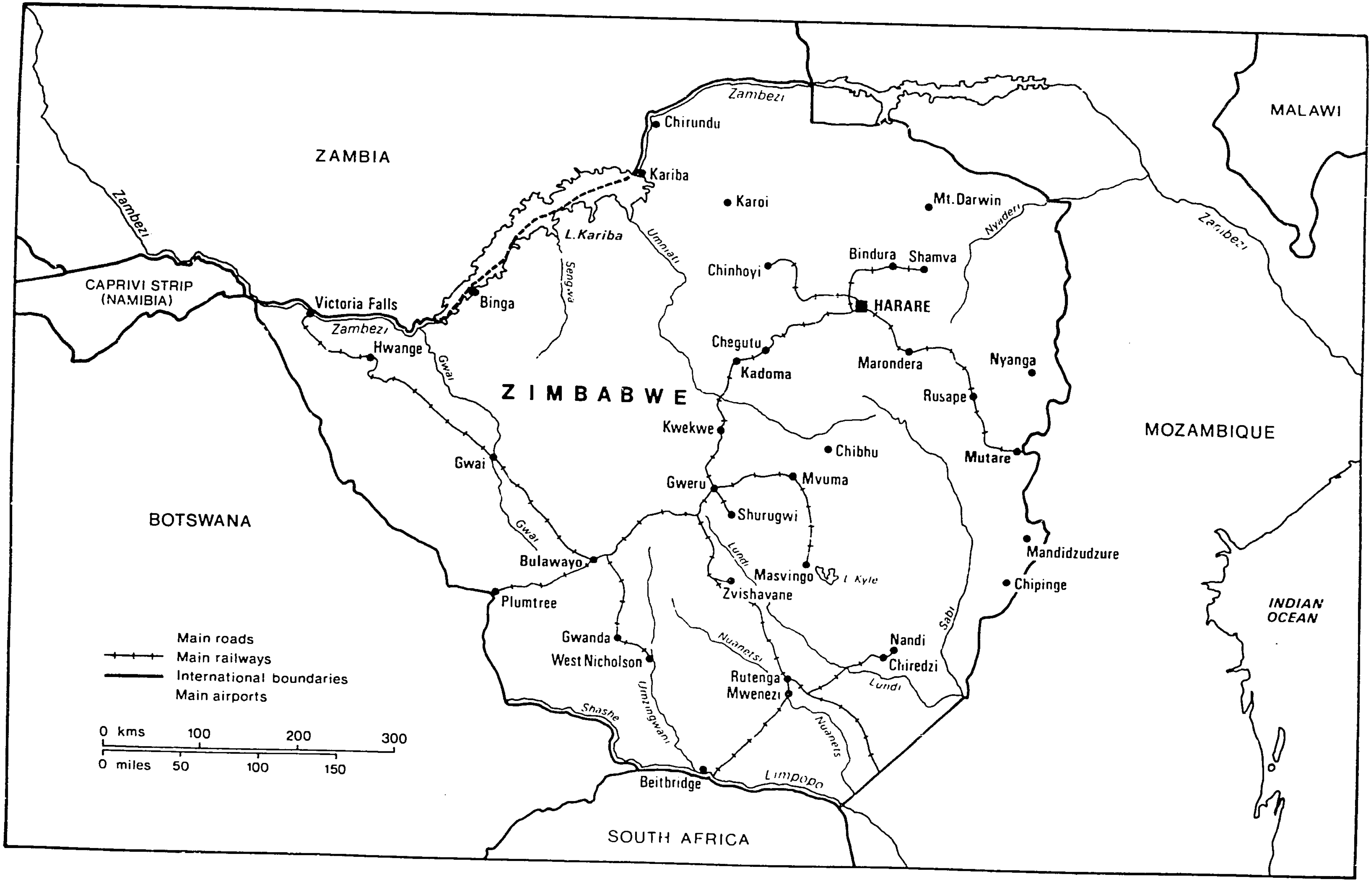
Zimbabwe



ZAMBIA
MALAWI
CAPRIVI STRIP
(NAMIBIA)
BOTSWANA
MOZAMBIQUE
SOUTH AFRICA
INDIAN
OCEAN
ZIMBABWE
Zambezi
L.Kariba
Sengwa
Umniati
Nyadiri
Gwai
Lundi
L.Kyle
Sabi
Nuanetsi
Shashe
Umzingwani
Limpopo
Chirundu
Kariba
Karoi
Mt.Darwin
Chinhoyi
Bindura
Shamva
HARARE
Victoria Falls
Binga
Hwange
Chegutu
Kadoma
Marondera
Nyanga
Rusape
Kwekwe
Chibhu
Mutare
Gwai
Gweru
Mvuma
Shurugwi
Bulawayo
Masvingo
Zvishavane
Mandidzudzure
Chipinge
Plumtree
Gwanda
West Nicholson
Nandi
Chiredzi
Rutenga
Mwenezi
Beitbridge
Main roads
Main railways
International boundaries
Main airports
0 kms 100 200 300
0 miles 50 100 150

BASIC DATA ZIMBABWE

Land Area	390,580 km^2
Population	9.12 mn (1989 estimate)
Main Towns:	Population in '000, 1982

Harare	658	Mutare	75
Bulawayo	495	Kwekwe	48
Chitungwiza	172	Kadoma	45
Gweru	79		

Climate	Sub-tropical
Languages	English, Shona, Ndebele and local dialects.
Measures	Metric
Currency	Zimbabwe dollar (Z$) - 100 cents
Exchange Rate (1989)	$1 = Z$2.113
Time	2 hours ahead of GMT

Contents

Executive Summary

Zimbabwe has the potential to become one of most dynamic economies in Sub-Saharan Africa. It has a vibrant farming sector, dominated by 4,500 large-scale commercial producers, a diverse mining sector, producing gold, ferrochrome, nickel, coal and asbestos, and Africa's second largest manufacturing sector, after South Africa. Its resource base is richer than that of many other African economies, and it has a young, increasingly well-educated, if fast-growing, population. There is a broad based export sector dominated by tobacco and gold, supplemented with ferrochrome, cotton, steel, asbestos, beef, sugar and nickel.

Since Independence in 1980, it has performed better than most Sub-Saharan economies, achieving average annual economic growth of 3.5%. But with population expanding at 2.8% a year there has been only a small improvement in real living standards. Considerable progress has been made in education and health with the number of pupils at primary school almost doubling from 1.2 million to 2.2 million over the past ten years, while secondary enrollments rose from 74,000 in 1980 to 670,000 in 1989. Infant mortality rates have fallen steeply - from 86 to 61 per 1,000 births - life expectancy has increased to 59 from 55 years, the percentage of children fully immunized has more than trebled from 25% to 86% and the population growth rate is slowing reflecting the success of population programs.

During the first ten years of independence, the macroeconomic policy framework was highly interventionist; the public sector share of GDP rose from a fifth to a third, numerous new public enterprises were established, pervasive controls applied to prices, wages, industrial relations, all foreign currency transactions and investment decision-making. Tax and public expenditure ratios rose sharply and the budget deficit averaged 10% of GDP in the second half of the 1980s.

Throughout the period, growth and investment were constrained by a difficult balance of payments situation, partly attributable to adverse world market conditions and four years of severe drought. Imports actually declined 0.4% annually in real terms between 1980 and 1988 and import repression was partly to blame for the rapid growth of unemployment, now officially estimated at 26% of the workforce.

Since 1988, the ruling ZANU-PF government, headed by President Robert Mugabe, has been shifting the emphasis of economic policy. A number of important reforms were introduced including the establishment of an investment agency, the Zimbabwe Investment Center (ZIC), and a commitment to reduce the budget deficit, rationalise the performance of the large state-owned sector and liberalize imports. These commitments have now been formalised in a five-year Structural Adjustment Program, published in mid-January, 1991. The Framework for Economic Reform (1991-95) sets out a range of economic - and social

- policies designed to stimulate investment and remove remaining impediments to growth. The centerpiece of the reform program is enhanced reliance on market forces and a reduction in the role of the state. This marks a major reversal of the policies undertaken by the Zimbabwe government since coming to office eleven years ago, in April 1980.

Providing these reforms are fully implemented and there is an appropriate response from donor agencies on the one hand and domestic and foreign investors on the other, the stage is set for a significantly-improved economic performance, especially in the latter half of the 1990s. At the same time, however, Zimbabwe is embarking on its reforms and seeking to expand non-traditional exports of manufactured goods, at a time of intense and growing competition in international markets. Because it is the most highly industrialized country in the region - after South Africa - Zimbabwe is particularly vulnerable to competition from South African exporters, both within its own domestic market, as imports are liberalized, and in third markets elsewhere in the region.

The need for a stronger economic performance in the 1990s is underscored by the growing crisis of unfulfilled expectations amongst school-leavers. New job creation since 1980 has averaged 20,000 a year, but in the early 1990s an estimated 300,000 school-leavers are coming onto the labor market annually. Faster economic growth and a changed pattern as well as substantially increased investment is needed to head off a socio-political crisis early in the next century. Past trends suggest that formal sector employment in Zimbabwe increases at approximately half the rate of economic growth. For formal employment to solve the unemployment problem the economy would need to achieve a growth rate in excess of 10% annually, which is clearly impossible. Accordingly, there will have to be a substantial increase in informal sector employment, more people will have to make their living from the land rather than in industrial employment in the cities and self-employment in services and micro-enterprises must increase. The reform program includes measures to boost the small-scale and informal sectors, to improve training and education and redistribute land thereby slowing rural-urban drift.

The Reform Program

The five-year reform program envisages foreign financing of $3.4 billion to achieve a 5% annual growth rate. It encompasses far-reaching policy changes, including halving the public sector deficit, lowering taxes, improving cost-recovery for state-provided services restructuring the public sector to improve productivity and efficiency and eliminate subsidies. On the monetary side, interest rates will be de-regulated and policy will focus on market-oriented measures in preference to direct controls. Imports will be liberalized with 30% of total imports placed on open general license by the end of 1991. An active exchange rate policy will be pursued to ensure that the Zimbabwe dollar is competitive Existing regulations over prices, wages, labor markets and agricultural marketing will be phased out. If all goes to plan, the policy framework in 1995 will represent the complete reversal of policies implemented for most of the past decade.

The reform package also includes specific measures to mitigate the impact of structural adjustment on vulnerable groups. This includes ensuring that low income groups continue to have access to health and education, protection for those declared redundant because of economic restructuring, and a safety-net to protect those vulnerable to increased food prices and the reduction of food subsidies.

The Political Environment

Zimbabwe maintains good relations with the West, while jealously preserving its non-aligned status. Relations with the US were close immediately after Independence when Washington was the second-largest bilateral aid donor. However, relations deteriorated during the mid-1980s with disagreements over Zimbabwe's reaction to the shooting down of the South Korean airline, the invasion of Grenada and the bombing of Libya. Tension between the two countries culminated in the 1987 suspension of US aid to Zimbabwe but this was resumed in 1988 at significantly reduced levels. Since then there has been a steady improvement in bilateral relations and as a member of the UN Security Council during the Gulf War, Zimbabwe adhered to the general council consensus.

Economic Prospects

Three factors will substantially determine Zimbabwe's economic performance over the next five years:

(i) Political/economic developments in South Africa.

(ii) The rate and pattern of economic growth in the OECD area; because Zimbabwe relies on primary product exports, including semi-processed goods, for 85% of its export earnings, commodity price movements will be of major significance.

(iii) Successful implementation of the economic reform program.

Although the emphasis will be on diversifying the industrial sector and boosting non-trading exports of manufactures, for the foreseeable future Zimbabwe will remain heavily reliant on its traditional primary exports - especially tobacco, gold, ferrochrome, beef, asbestos and cotton. New primary exports are being developed - notably horticulture and fruit, and there is also exciting potential for platinum.

The prospects of developing export-oriented manufacturing should not be under-estimated. There is potential for vertical integration in cotton clothing, footwear, metal processing and foodstuffs, but high transport costs and a small domestic market will militate against competitively-priced exports of manufactured goods. There is also no tradition of producing quality goods to compete in export markets and Zimbabwe's labor costs are not low by Asian - and other African - standards, though rapid currency depreciation in 1989/90 has made the country's exports more competitive in world markets.

Provided the Structural Adjustment Program is implemented rigorously, and attracts the necessary foreign funding, and assuming the peace and reform processes gather further momentum in Mozambique, Angola and within South Africa itself, the Zimbabwe economy should achieve annual growth of 5% in real terms.

Private enterprise

Zimbabwe's private sector is probably the second strongest in sub-Saharan Africa - after South Africa. It falls into three distinct categories:

* a large, powerful multinational sector, dominated by the traditional British multinationals, though with a very strong South African presence, while several leading US and European multinationals also operate in Zimbabwe.

* a strong indigenous business sector with a broad spread of small to medium-sized companies owned and managed by white, Asian and black Zimbabweans;

* a numerically huge informal sector, mainly comprising communal land farmers, but also including large numbers of micro-businesses and informal traders in rural and urban areas.

The Case for Investing in Zimbabwe

Zimbabwe is the most diversified economy in Sub-Saharan Africa, excluding South Africa. With manufacturing industry contributing more than a quarter of GDP and a broad spread of agricultural, mineral and semi-processed exports, Zimbabwe is less vulnerable to adverse movements in world commodity prices than any other African state. This was vividly illustrated during the 1980s, when Zimbabwe's gold and tobacco earnings increased despite depressed commodity prices internationally.

It comes closer than any other mainland African economy to newly-industrializing-country status. Its manufacturing sector is the second largest in the region (after South Africa), it has the most sophisticated financial sector (excluding South Africa) and a stronger skills base than any of its competitors.

After a decade in which macroeconomic and regulatory policies have not favored investment, the Zimbabwe government is poised to implement far-reaching structural reforms that will shift incentives and resources in favor of the private sector and of activities utilizing local resources, rather than imported ones. More investor-friendly tax, pricing, regulatory and foreign exchange regimes are promised.

Taken together these attributes build up to a solid case for investing in Zimbabwe, subject always to the qualification noted below that with the emergence of South Africa from a generation of economic isolation, investment decisions in Southern Africa will take on more regional character than ever before. This means that investment opportunities in Zimbabwe will have to be assessed in competition with others, especially in South Africa, in a region in which trade will become increasingly open.

Investment Opportunities

While a major thrust of the reform program is increased investment and employment in manufacturing, it is acknowledged that this will not be easy to achieve given the relative smallness of the Zimbabwe market and the significance of scale economies in modern manufacturing. Furthermore, the emergence of an unfettered South Africa after majority rule in that country will almost certainly divert regional investment to that market with its far greater potential to serve as an export platform for the sub-region.

These considerations suggest that main investment opportunities are likely to arise in the extractive sectors of the economy, including agriculture and including downstream processing activities. But such a generalization is in no way exclusive and there exists a broad range of other investment opportunities, mainly, though not wholly, for the smaller or medium-sized US enterprise.

(i) **Textiles and clothing**: Zimbabwe already has a sophisticated garments industry, with a high degree of backwards integration. High quality cotton is produced locally and relatively cheap and well-educated labor is available. The likely shift of incentives in favor of export-oriented industries will encourage investment - perhaps for quota-jumping purposes in the EC and North American markets - in this sector.

(ii) **Horticulture and fruit**: Zimbabwe is developing an international reputation as a supplier of flowers and fruit all the year around. There is scope for investment in direct production and in related activities - processing and above all, packaging.

(iii) **Tourism**: the industry is poised for strong expansion for much of the 1990s. As supply side constraints - vehicles, building materials - are eased, so there will be scope for new investment in hotels and the tour operations business.

(iv) **Capital goods**: Zimbabwe has an embryonic capital goods sector. With its iron and steel industry and existing capacity to export heavy equipment, there will be opportunities, especially with a more favorable macroeconomic environment, to export to other African countries. However, this will be an area of intense competition, not just from South Africa but also from Asian suppliers.

(v) **Food processing:** as a significant food producer and exporter, there will be opportunities for export-oriented food processing activities.

(vi) **Location-specific mining** - platinum, diamonds, gold, expansion of the ferrochrome sector, asbestos products, etc.

(vii) **Services:** with its diversified financial sector, Zimbabwe is well-placed to become the regional center for a banking and financial services industry, though here too, severe competition from South Africa and possibly also Botswana must be anticipated.

(viii) **Infrastructural activities:** heavy investment will be needed in the infrastructure - especially transport - during the 1990s. Opportunities will arise for the production of local inputs, with the prospect of exporting to other African countries whose infrastructure needs rehabilitation - Malawi, Mozambique, Angola, Zambia and Tanzania.

(ix) **Privatization**: the reform program includes plans to commercialize and privatize state-owned enterprises. Accordingly, there will be opportunities for foreign capital to participate, though almost certainly on a limited scale.

(x) **Industrial inputs**: the Industrial Development Corporation is currently investigating a range of investment opportunities in the industrial sector, including: the production of hydrogen peroxide, wood chemicals, lace fabric, ammonium paratungsgate, building and construction materials, tractor and vehicle spare parts, ball bearings and industrial magnets.

(xi) **Tobacco packaging and processing:** The tobacco sector is on the threshold of a period of new expansion and there will be investment openings, not just in the production end of the industry but also in processing, packaging and marketing (currently a monopoly).

(xii) **Service activities** - banking, consultancy, healthcare, education and training. All of these are areas where important - if small - investment opportunities are likely to arise in the 1990s.

Investors can also take advantage of Zimbabwe's preferential access to international markets. Her participation in the Lomé Convention gives her preferential access to the markets of the member states of the EC. The Preferential Trade Area for Eastern and Southern Africa (PTA) gives access to 16 countries in the region. There are also bilateral trade agreements with Botswana, Malawi and South Africa.

US investment in Zimbabwe

While Zimbabwe has not been a major field for US investment - the US share of foreign investment is estimated at 5% to 7% - US firms are major players in key sectors. In ferrochrome, Union Carbide is one two major producers - the other being the South African-controlled Zimbabwe Alloys. In consumer goods, Colgate-Palmolive and, a recent arrival, H J Heinz, which owns 51% of Olivine Industries in a joint-venture with the government, have significant market shares. Heinz recently announced plans to expand its operations with the construction of a $3.5 million canning factory to process and export local produce. A second newcomer is Sheraton which manages the Conference Center Hotel and there are also Holiday Inn hotels in both Harare and the second city, Bulawayo.

Mobil has had a presence as a petroleum marketing company for many years but recently invested in oil exploration in the Zambesi valley. In tobacco, two of the largest players are Universal Leaf Tobacco, which controls Zimbabwe Export Leaf, and Standard Commercial Tobacco. 3M (Minnesota, Mining and Manufacturing Company) has an important operation in Zimbabwe and BHP-Utah is one of several companies engaged in platinum development. The computer groups - IBM, Digital etc - are represented too.

The Regulation of Foreign Investment

Foreign investment has been closely regulated for most of the post-independence period, but since 1988 a policy of progressive liberalization has been adopted. A single-window clearance agency - the ZIC - was established in 1989 and legislation will be introduced in 1991 to increase its powers. It will have final authority to sanction projects worth less than Z$10 million and substantive recommendatory authority for larger projects.

A foreign company is defined as :

a) any company at least 25% of whose shares are owned by non-Zimbabweans (previously it was 15%); or

b) any partnership at least 25% of whose capital is owned by non-Zimbabweans; or

c) as defined under Exchange Controls Regulations.

Similarly, a local investor is defined as a company or partnership at least 75% of whose shares or capital are owned by Zimbabweans or otherwise defined by Exchange Control.

All proposals for investment in Zimbabwe, that require foreign exchange, must be submitted to the center. These include:

a) all proposals to establish a new business or project;

b) all proposals to expand an existing business which has a foreign exchange component;

c) any proposal to acquire or issue shares which would result in, or increase, a foreign interest in an existing company incorporated in Zimbabwe;

d) any proposal to acquire the whole or any portion of a Zimbabwean business by the purchase of the assets in the business; and

e) any proposal for the transfer of the shareholdings in a Zimbabwean company between foreign owners.

Joint-ventures

Zimbabwe prefers joint-ventures that enable Zimbabweans to participate in the ownership and management of businesses, though 100% foreign ownership is permitted. Because, by African standards, the private enterprise sector is large and sophisticated, there is no shortage of joint venture partners. There is a highly-developed banking sector, including investment banks with corporate finance departments that are able to provide guidance and assistance in the search for partners. The private sector is well organised with chambers of commerce and industry, agriculture and mining. A US company seeking a joint venture partner could either approach the ZIC itself or, if it prefers, contact one of the commercial or merchant (investment) banks. There is also a growing management consultancy capability and the major audit firms also provide investment advice and can put a potential investor in touch with local businesspeople.

Introduction

Zimbabwe is situated in South Central Africa between the Limpopo and Zambezi rivers. A land-locked country, bordered by Zambia, South Africa, Mozambique and Botswana, it has a total land area of some 390,000 square kilometres - a little smaller than California. Virtually the entire country lies more than 300 metres above sea level. Although Zimbabwe lies within the tropics its high altitude gives it one of the finest climates in the world, and approximately two-thirds of the country is suited to productive rainfed agriculture.

The estimated population is 9.4 million (1990) with an annual growth rate of 2.8%; the average population density is 108 persons per square kilometer of agricultural land (1984). About half of the population live in rural areas. The population of greater Harare, the capital city, is just under one million.

English is the official language with Shona and Ndebele being the main ethnic languages. Using UNESCO's definition, Zimbabwe's literacy rate is now in excess of 80%.

Zimbabwe gained independence in 1980 from Britain after a protracted civil war between the white settlers and members of the black majority. The legislature of Zimbabwe consists of the Presidency and Parliament - a fusion of the US and British political systems. The President is the Head of State and Government and holds office for a period of seven years. Robert Mugabe, re-elected in March 1990, has been leader of the country since Independence. The ZANU-PF party dominates the national legislature and national political affairs. Zimbabweans are proud of the national unity and reconciliation they have achieved since Independence.

Zimbabwe has the potential to become one of the region's most dynamic economies. Unlike most sub-Saharan economies, Zimbabwe is not a mono-economy, dependent on a single crop or export. It boasts the region's third most industrialized economy after South Africa and Nigeria. It has what is widely acknowledged as one of the most efficient large-scale farming sectors in the Third World, operated by some 4,500 white farmers.

It is effectively self-sufficient in food and a significant exporter of maize, beef, and sugar with small-scale exports of soyas, coffee and tea. It is the world's third largest tobacco exporter - after Brazil and the US - and a significant producer and exporter of high-grade cotton.

Its mining sector is broadly-based with substantial exports of gold, ferrochrome, asbestos, steel and nickel. It also exports copper, coal, coke, tin and minor metals. Exports of manufactures - especially clothing and textiles and a broad range of goods to neighbouring states - have grown significantly since 1985.

Despite this, its economic performance since Independence in April 1980 has been disappointing:

* Hopes that Zimbabwe would attract major inflows of foreign investment have been dashed and there has, in fact, been a net outflow of capital with disinvestment exceeding new inflows. Only one new substantial multinational - H J Heinz - has invested in Zimbabwe, while some significant international firms, mainly South Africa-domiciled, have divested.

* Economic growth has averaged less than 3.5% annually - barely adequate to keep pace with population growth. This compares with real growth of more than 8% a year during the 1967-74 period when the economy was the target of international economic sanctions.

* Unemployment increased from some 200,000 eleven years ago to an estimated 1.25 million in 1991 - officially estimated at 26% of the workforce.

* In 1989, gross capital formation fell below 11% of Gross Domestic Product - its lowest level since World War II. In fact, net investment has been negative in some years meaning that the country's ageing and often-obsolete capital stock has shrunk.

* Exports stagnated in the 1980s fluctuating between SDRs 1,100 million and SDRs 1,200 million. At SDRs 1,134 million in 1990, they were barely changed from their 1980 level of SDRs 1,115 million ten years previously.

There is no single explanation for this. It is the result of a combination of international economic developments, adverse climatic conditions, regional geopolitical events and the government's commitment to interventionist macroeconomic policies.

* With the end of the war in 1979, the lifting of sanctions and a superb agricultural season, the economy grew strongly in 1980/81 making up most of the ground lost in the second half of the 1970s. But international recession and a severe drought in 1982 marked the start of a four year period of stagnation. Real GDP grew little more than 1% a year between 1981 and 1987. During this period, there were three droughts, metal prices were severely depressed, and the country was a target of South African destabilization.

* Since 1988, there has been a recovery with growth of 6.5% in 1988, 4.9% in 1989 and an estimated 4.5% in 1990. This is explained largely by the strong recovery in metal prices in 1987/8, and excellent tobacco prices in 1989/90, while manufacturing industry which had stagnated for much of the period has been growing at more than 4% a year since 1987.

The Policy Environment

While exogenous influences, outside the control of government, have been partially responsible for economic stagnation, there is no doubt that the policy environment has also been a crucial influence. When President Robert Mugabe's ZANU-PF party took office in April 1980, it was committed to the "socialist transformation" of the economy, as well as to the establishment of a single party Marxist-Leninist state.

But many of the policies are still in place today - the entire import control and exchange control systems - are those inherited from the previous white minority regime. There has been no nationalization or expropriation of private property, but the role of the state has increased substantially as a result both of the method of policy implementation and the purchase by the state of controlling shareholdings in major ventures, previously privately-owned, and often South African-controlled. Tax and government spending levels rose steeply and new direct controls on wages, on the employment of expatriates and on recruitment and dismissal of employees were introduced. The public sector share in GDP rose from a fifth in the mid-1970s to a third in 1989.

While impressive progress was achieved in education, health and smallscale agriculture, this strategy failed to meet the demands of a fast-growing population, evidenced by the growth in unemployment, the shortage of housing and land, a deteriorating urban transport system and falling real wages. In education, health and smallholder agriculture:

*The percentage of children fully immunized has trebled from 25% to 86%

*infant mortality has fallen to 61 from 86 per 1,000 births;

*life expectancy has risen to 59 from 55 years;

*the population growth rate has fallen to 2.8% and is still declining

*primary school enrolments rose from 1.2 million pupils in 1980 to 2.2 million in 1989 and secondary enrolments from 74,000 to 671,000.

*in agriculture, the share of maize delivered by small-scale farmers rose from virtually zero in 1980 to more than 70% by 1989.

These impressive achievements notwithstanding by 1991, a crisis of unfulfilled expectations is apparent, which lies at the heart both of the radical shift in economic strategy embracing far greater market orientation than previously and the 1990 constitutional amendment designed to redistribute land.

At the same time, pervasive administrative controls over business operations and an acute shortage of foreign exchange, partly attributable to heavy debt-service commitments, has taken its toll of business confidence reflected in the decline in domestic investment, negligible inflows of foreign capital and a significant level of disinvestment, especially since 1987.

The strategy of direct controls and interventionism has become increasingly counter-productive. The efficient and small civil service inherited at Independence was replaced by a bloated public sector in which decision-making has become increasingly opaque and subject to interventions at a variety of levels. Growing recognition of this situation was one of several influences culminating in the 1987 decision to liberalize the economy, now taken to its logical conclusion with the adoption of a far-reaching Structural Adjustment Program. Other factors at work were:

* persistent pressure from the private sector within Zimbabwe itself;

* Acknowledgement that Zimbabwe is unlikely to attract significant inflows of foreign capital without major policy change, underpinned by reluctant acceptance that such foreign capital is necessary if the unemployment crisis is to be alleviated.

* the changed international situation; no longer can Zimbabwe cite East Europe, Cuba, China or North Korea as models for its own economic development.

* the fast-moving regional situation. In the words of one senior black businessman: "We now have two or three years - at most - to get our act together and face up to competition from the new South Africa".

The Structural Adjustment Program

Formal recognition of the need for a change of policy direction was signalled first in the July 1990 budget when the Finance Minister tabled an Economic Policy Statement (EPS) and subsequently in October 1990 when a second major policy pronouncement was made. Shortly afterwards, it was admitted that the international and domestic business reactions to these two policy statements had fallen short of expectations and that a Structural Adjustment Program (SAP) would be drawn up with the assistance of the World Bank and IMF to be presented to a Consultative Group Meeting (CGM) in March 1991.

The program, published in January 1991, is designed to stimulate investment and remove impediments to economic growth. Its centerpiece is trade liberalization and domestic deregulation underpinned by appropriate macroeconomic policies in respect of the balance of payments, the exchange rate and the monetary and fiscal systems.

There are two vital additional components :

(i) A Public Enterprise reform program designed to improve public sector efficiency. The program states: "The costly and ineffective operations of the PEs (public enterprises) are at present a major obstacle to the achievement of .. (structural adjustment)".

(ii) Proposals to address and mitigate the social costs of adjustment.

The detailed program is outlined in the framework for economic reform published in January 1991, setting out specific policies and targets to be attained within a five-year timespan (by the end of 1995). Specific policies and targets include:

1. Fiscal Policy

The central government's deficit will be reduced to 5% of GDP by 1994/5 from 10.4% in 1990/91. Given Zimbabwe's "relatively high tax ratio", this will be achieved mainly through the containment of recurrent spending. Part of the adjustment will be achieved from cost recovery, while public enterprise subsidies - currently Z$630 million - will be virtually eliminated by 1995. The public service wage bill will be cut from 16.5% to 12.9% of GDP partly by reducing the size of the civil service by a quarter.

Some public enterprises will continue as state-owned monopolies but operated on commercial lines; others will operate in a competitive, commercialized environment. Non-viable industrial/commercial entities will be liquidated and where a PE duplicates that of another entity, it will be merged or closed. Priority action programs will be introduced in 1991 to commercialize and improve the efficiency of the major parastatals.

The reform program will include privatization, contracting out and management contracts with the Zimbabwe Stock Exchange being used to raise capital from the investing public.

2. Monetary Policy and Financial Sector Reform

Inflation will be reduced to 10% by 1995, with direct controls over the monetary system being gradually replaced by market-oriented measures. Administered interest rates will be eliminated by 1995, though during the 1991/2 period the Base Lending Rate will be used to indicate the direction of interest rate movements. Open market operations will become the primary instrument for money market intervention to regulate the monetary aggregates and influence interest rates.

During the program period, monetary restraint will be enforced by greater use of reserve requirements and money market operations. To improve the efficiency of the stock exchange, a Security Exchange Commission will be established in 1991 as a regulatory body.

3. Trade Liberalization

Almost all imports will be placed on open general import license (OGIL) by 1995 - the sole exceptions being those excluded on the grounds of defense, safety or overwhelming public interest. The volume of imports on open license will rise from 6% in 1990 to 30% by the end of 1991 and 60% by the end of 1993. The first goods to be liberalized will be raw materials, followed by intermediates, while capital equipment will be made available from special lines of credit supervised by the Zimbabwe Investment Center (ZIC).

As import control is phased out, so the external tariff will become the principal means of industrial protection. From 1991, almost all tariffs will lie in the range of 0% to 30%, with the existing 20% import surcharge being reduced to 10% by 1993 and abolished from 1995. The average customs duty will increase from 9% to 13%, while average nominal protection (that is customs duty plus the surcharge) will decline to 14% from 19% by 1995. Final consumption goods will carry import duties in the range of 20% to 30%, with intermediates 15%, and raw materials and capital goods, 10% each. Government and public sector imports will become subject to import tax.

4. Exchange Rate policy

Import liberalization will be underpinned by an active exchange rate policy. The average real rate for the Zimbabwe dollar depreciated 20% in 1989/90 and the government is committed to maintaining a competitive exchange rate. The 9% export subsidy, mainly for manufacturers, will be phased out by 1994/5.

5. Deregulation

The full benefits of trade liberalization will not be achieved without the deregulation of existing pervasive controls. The deregulation program embraces:

(a) Investment Approvals

The investment approval mechanism was streamlined in 1989/90 mainly through the establishment of the" one-stop investment center" (ZIC). In future, investment approvals will be based on feasibility studies and project evaluations rather than such criteria as foreign exchange saved or earned. The ZIC will undertaken a more promotional role including developing free trade zones, export processing zones and bonded warehouse operations. By 1995, only large projects will require approval, and all exchange control restrictions on profit and dividend remittances will have been removed.

(b) Price and Distribution controls

Price controls have been liberalized since 1988; existing controls will be removed as products are put on OGIL and by 1995 price controls will apply to "very few" commodities.

(c) Agricultural prices and marketing

The agricultural marketing boards will be given greater independence and required to commercialize operations. Existing marketing operations for major crops are under review with the aim of establishing competitive private marketing channels.

(d) Labor Market Regulations

Previous measures to deregulate labor markets, providing for a return to free collective bargaining and streamlining procedures for hiring and firing employees will be broadened and employment councils established to take over functions currently undertaken by government departments.

(e) Local Government Regulations

Rules governing small businesses, shops, hawking, vendors etc will be liberalized as part of a program to boost the informal sector.

(f) Transport

Existing regulations will be liberalized to encourage single owner-operated trucking and allow competition in urban transport.

6. Supporting Sectoral Initiatives

The framework includes a broad range of sectoral initiatives to improve facilities in health, education, urban infrastructure, land resettlement and smallholder farming and energy. Special attention is also paid to informal and small-scale enterprise and the role of women in development.

Social Dimensions of Adjustment

The program will have adverse implications for some groups and individuals in the form of increased frictional unemployment, higher inflation and social service cutbacks and increased cost recovery. The framework estimates that unemployment of some 32,000 people due to public sector and parastatal retrenchment and restructuring of the formal sector could occur. Compensation will be paid to civil servants made redundant while special efforts will be made to retrain retrenched workers. A safety-net will be established to protect vulnerable groups from food price increases. Health and education programs will be targeted to protect the poor - eg by retaining the Z$150 income threshold - and both health and education spending will rise in real terms despite planned reductions in public expenditure. Cost recovery will be used to ensure that those who can afford to pay, do contribute.

Financing

Balance of payments projections point to faster export growth as the reforms take effect, while imports will be allowed to increase rapidly in 1991/2. The current account deficit is projected to double in 1991 to $348 million, increasing slightly to $373 million in 1992 and then starting to decline to $269 million by 1995. Long-term external debt will increase from, $2.4 billion in 1989 to $4 billion by 1995, but exports will grow rapidly so that the projected debt service burden will fall below 20% in 1991 and remain there.

Key Macroeconomic Projections
(% p.a.)

Years	1990	1991	1992	1993	1994	1995
GDP growth rate	4.2	4.3	4.4	4.6	4.8	5.0
GDP per head	1.4	1.6	1.7	1.9	2.2	2.4
Debt-Svc Ratio	24.0	19.4	19.9	18.5	18.6	19.2
Debt Outstanding to GDP	44.4	51.4	57.9	62.9	64.0	63.2
Inflation	16.0	16.0	14.0	12.0	10.0	10.0
Govt Spending to GDP ratio	47.6	46.9	45.7	44.0	42.6	41.5
Budget Deficit (% of GDP)	10.2	9.3	7.8	6.6	5.5	5.0

Source: Zimbabwe A Framework for Economic Reform (1991-95)

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External Financing Requirements
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Years	**1991**	**1992**	**1993**	**1994**	**1995**	**Total**
Requirements						
Imports	2,097	2,274	2,429	2,600	2,779	12,179
Interest	167	191	217	241	262	1,078
Amortization	235	259	242	265	313	1,314
Factor payments	140	150	159	169	179	797
Reserves	136	114	123	108	114	595
Total	2,775	2,987	3,170	3,383	3,647	15,963
Sources						
Exports	2,028	2,207	2,409	2,640	2,900	12,184
Invisibles	48	60	69	79	88	344
Transfers	-20	-25	-31	-35	-37	-148
Foreign Investment	19	26	28	32	33	138
Total	2,076	2,267	2,475	2,640	2,900	12,158
Financing	700	720	696	666	663	3,444
Disbursements from existing commitments	360	380	167	79	77	1,063
New Money required	340	340	528	587	586	2,382

Total foreign funding required is $3.44 billion, or about $690 million annually. This implies a doubling of recent financial inflows and very little of it is projected to take the form of new direct investment.

Prospects for the Reform Program

Because so many of these policy reforms fly directly in the face of the post-Independence policy stance, assessment of their likely impact is difficult.

There are five vital unknowns in the Zimbabwe reform equation:

(i) The extent of political commitment. The Finance Minister, Mr Bernard Chidzero, has repeatedly stated his commitment to reform since mid-1987, but very little was achieved. Successive reform packages, including the launch of a new investment code in May 1989 and the abortive trade liberalization package of October 1990, have failed to fire the imagination of investors either at home or abroad. So much so in fact, that after three separate policy packages aimed at encouraging investment, the government admitted that in 1989 the share of investment in GDP had fallen to a 40-year low.

The reform policies will undoubtedly be unpopular politically -leading to higher interest rates, food prices, and fees and tariffs for public utilities, along with public sector retrenchment. Strong political opposition to many of the reforms can be expected and the government will find it difficult to meet the demanding targets set out in the program.

(ii) A second threat to reform is posed by the capacity and commitment of the public service. Civil service morale is low. Real earnings have declined. The best brains have been enticed into the private sector by attractive remuneration packages that the public sector cannot match. Many civil servants are demoralized too by the extent to which the politicians interfere in day-to-day administration for personal reasons.

(iii) A third problem is financing. A total of $3.4 billion is needed over the five years and the program warns that raising this amount will be " a major challenge". The crucial assumption is that exports will increase more than 50% over the 1991/95 period implying strong growth in industrial exports. The assumptions underlying the balance of payments projections depend greatly on factors outside Zimbabwe's control.

(iv) The government's land acquisition policy. For years the Zimbabwe administration argued that it saw no need to sign bilateral investment treaties (such as OPIC) because foreign investors were protected by "ironclad" constitutional guarantees. The amendment to the Zimbabwe Constitution in December 1990, enables government to compulsorily acquire land - urban as well as rural. That there is a strong case for a more equitable pattern of land distribution is not disputed, but the government's proposals to purchase white-owned farmland at prices set by the buyer with no arbitration procedures or recourse to the courts, are a major threat to the investment environment. It should be stressed that the government has still to publish its Land Bill which may yet provide a satisfactory answer to the fears of white farmers, who believe they may be forced to sell their land at a price and on conditions below those prevailing in the marketplace. It is essential that this matter be resolved if Zimbabwe is to attract meaningful inflows of foreign capital.

(v) The South African situation; an objective assessment of the Zimbabwe investment climate is possible only if explicit account is taken of the impact of political change in South Africa. With a GDP of some US $86 billion - compared with Zimbabwe's $6 billion - South Africa is the regional economic superpower. The repercussions of the reform process in that country will be felt throughout the region and could have a profound impact on Zimbabwe.

(a) Should the reform process collapse in chaos and civil strife - the so-called "Lebanon scenario" - then the investment climate in the entire region will suffer. Foreign investors are unlikely to invest or relocate activities in neighbouring countries when the main regional market - South Africa - is collapsing.

(b) Alternatively, if there is a relatively smooth transition to a new and internationally-accepted political order, South Africa will become an engine of growth for the entire region. This will have important implications for Zimbabwe in two main respects:

* It will draw potential investors into the South African market where the advantages of scale economies, superior infrastructure, advanced technology and lower transport costs, are likely to prove decisive in any location decisions.

* Zimbabwe will face formidable competition in third markets elsewhere in sub-Saharan Africa at precisely the moment when it is seeking to develop an export-oriented manufacturing sector.

Attitudes towards foreign capital

In the early years of Independence there was little official enthusiasm for foreign investment. It was stressed repeatedly that Zimbabwe was interested only in joint-ventures; that it would protect strategic industries from foreigners and that where foreign firms invested, they should expect to plow their profits back into the country rather than taking out profits and dividends.

Over the years this situation has changed for the better, culminating in the 1989 publication of the revised investment guidelines. Its main features include:

* relaxation of the definition of a non-Zimbabwean company;

* the establishment of the one-stop Zimbabwe Investment Center and the commitment to streamline project approvals;

* legal measures to protect private property and investment by joining OPIC and MIGA;

* acceptance that 100% foreign ownership might be necessary for high priority projects;

* incentives for capital investments, training and exports;

* relaxation of the regulations concerning the use of blocked and surplus funds and improved dividend remittability;

This May 1989 package was followed in October 1990 by a second set of regulations designed to boost investment, including:

(i) An export retention scheme where agriculture and mining are now allowed to retain 5% of their export earnings while manufacturers, construction firms, road hauliers, the horticulture sector and tourism are allowed to retain 7.5% of foreign revenues. The scheme came into effect in January 1991.

(ii) Increased export bonuses for exports of manufactured goods. The export bonus was raised to 30% from 25% previously. However, it is now assessed not on the Zimbabwe dollar value of exports - which rises with currency depreciation - but on their SDR valuation.

(iii) Dividend remittance regulations were liberalized for "export-oriented projects". These are defined as projects which export at least 75% of output or that have a foreign exchange payback period of no more than three years and are able over five years to earn double the foreign currency released by the government for capital goods and raw materials.

A number of special new incentives were introduced for projects meeting these export-oriented criteria. These incentives include more liberal dividend remittances, greater use of blocked funds to finance projects and encouragement to borrow abroad for development projects.

(iv) The ZIC was to be strengthened and allowed to take decisions in respect of projects worth Z$10 million or less.

(v) New proposals to finance small-scale enterprise, including the establishment of a Venture Capital Company.

(vi) Increased investment in the trucking industry to ease constraints in the road haulage sector.

Constraints

Despite these many substantial improvements, formidable constraints remain.

(a) The most severe of these continues to be the foreign currency situation which, even if aid inflows are forthcoming on the scale envisaged, will remain tight for the foreseeable future.

(b) The regulatory environment will continue to pose difficulties. Even today a project valued at more than Z$10 million (US $3.8 million) has to be approved at ministerial level. The ZIC is frequently unable to meet its self-imposed 90-day timetable for project approvals. Indeed, even when approvals are forthcoming within the 90-day period, projects are being delayed because there is no foreign currency available to finance the necessary imports.

(c) The land acquisition program - unless resolved when the Land Bill is brought to parliament - conflicts with the letter as well as the spirit of the new reform program.

(d) There is great ambivalence within the administration over the role of private enterprise; many senior officials and ministers cling to the belief that public enterprise - possibly in the form of parastatals, such as the Industrial Development Corp or the state holding company, the Zimbabwe Development Corp, are the appropriate vehicles for major new investment projects.

(e) Price controls, while far less of a constraint than in the past, still apply for most products, though their application is increasingly difficult to monitor. The employee dismissal regulations remain a thorn in the private sector's side.

(f) Tax levels have been high and while the authorities are now committed to a major reduction in taxation, new investment will be inhibited until the new lower rates are in place.

(g) Above all, there is massive regional uncertainty; businessmen dislike the unknown and there is bound to be a deep reluctance to undertake major new investment projects anywhere in the region - not just Zimbabwe - unless or until the picture clarifies in South Africa. This could well take three or four years.

(h) A serious constraint too is the unpopularity of investment in sub-Saharan Africa as a whole. At a seminar of senior management in a major British multinational investor, one speaker revealed that his organization had recently invested US$1 billion in a project in Spain, but it had rejected a proposal to spend US$10 million on expanding a project in Africa. He cited two reasons for this:

* the hurdle (discount rate) on the Spanish project was 7%, while for the African project it was 15%;

* there was, he said, a deep reluctance to invest in countries with fast-depreciating exchange rates, which applied to most African countries, including Zimbabwe. Currency depreciation meant that above-average rates of return in domestic currency were necessary to ensure an adequate rate of return on the original hard currency investment.

While, full-blooded implementation of the proposals outlined in the Framework for Economic Reform, will eliminate or ease many of these constraints, foreign investors have the choice of investment opportunities in many markets throughout the world and Zimbabwe will need to promote itself far more vigorously than in the past.

Aids

Zimbabwe has a severe AIDS problem, though just how severe is unclear. Estimates of the level of HIV infection range from 20% to more than 30% of the population. One semi-official estimate points to half a million AIDS-related deaths before the turn of the century, equivalent to 5% of the present population.

The epidemic is now taken extremely seriously by government and employers, many of whom have launched AIDS information and prevention programs within their firms. There is deep concern too within the life assurance industry where AIDS testing is now mandatory for life cover in excess of Z$100,000.

If the worst fears of an AIDS epidemic were to materialize then present concerns of an unemployment crisis in the next century would fall away. Because AIDS strikes at the upwards mobile members of the community - as well as infants born with the virus - its potential impact on investment is far-reaching. Already, the tobacco sector has sent a team to Canada to investigate the use of capital-intensive machinery in the industry as a precaution against the possibility of a future labor shortage.

The epidemic has implications for investment decisions because of the high cost of training personnel, only to lose them to the disease when they are at their most productive, the obvious choice between labor-intensive and capital-intensive techniques, and the potential healthcare and pension burden on employers. It is a consideration that must be factored into any investment decision, though the sheer absence of factual data makes it extremely difficult to achieve this on any rational scientific basis.

Summary

The overall picture is a mixed and complicated one; the authorities are committed to radical reform of a kind that could transform the economic outlook, but might also generate political protest from among their most enthusiastic supporters. After all, the SAP represents the final nail in the coffin of Zimbabwe-style socialism. Until this program is firmly in place and unless and until the situation in South Africa (and to a far lesser degree, in Angola and Mozambique) clarifies, foreign investors are likely to await developments. They will now want to see how far and how fast the Zimbabwe authorities move in dismantling the centralized controls that have inhibited economic growth over the past decade. As and when the reform process takes root, so the prospects for investment must improve dramatically.

Chapter 1

Political Background

1.1 Government and Politics

Zimbabwe became independent in 1980 after 90 years rule by British Colonial Administration which in the 1920s conferred responsible government on the white settler minority, though this stopped short of full independence. Southern Rhodesia, as it was then known, was however, a full member of the British Commonwealth though responsibility for external relations lay with the colonial power in Whitehall.

During this period, the economy developed largely on the basis of :

* gold which was the dominant export prior to World War II;
* other base minerals, especially chromite and asbestos;
* tobacco, notably after 1945; and
* manufacturing industry designed to serve the domestic market and those in neighbouring Northern Rhodesia (Zambia) and Nyasaland (Malawi). The manufacturing sector expanded and diversified during the period of the short-lived Federation of Rhodesia and Nyasaland (embracing the two Rhodesias and Nyasaland) from 1953 to 1963.

After protracted negotiations over conditions for full independence, the minority government severed links with the colonial power declaring unilateral independence (UDI) in November 1965. The country was immediately the target of the most extensive range of economic sanctions ever applied against a nation state by the United Nations (prior to the Gulf Crisis of 1990), but despite this, the economy boomed, with an average real growth rate of 8% per annum between 1967 and 1975. Thereafter, the two oil price shocks, the world recession of the mid-70s and increasing escalation of the guerilla war launched by the two main nationalist liberation groups - ZANU and ZAPU - undermined the economy.

The bitter guerilla war launched in 1972 was ended by the Lancaster House constitutional settlement of December 1979 and Zimbabwe became an independent republic within the Commonwealth in April 1980. There have been three parliamentary elections since Independence, all of which have been easily won by President Robert Mugabe's ZANU-PF party. In the March 1990 elections, ZANU-PF won 147 of the 150 seats.

At Independence in 1980, ZANU-PF described itself as a Marxist-Leninist party committed to transforming the capitalist economy into a socialist one. The new government inherited an economy with a broad resource base, a well developed physical and financial infrastructure and Africa's most sophisticated indigenous private enterprise sector, outside South Africa. But the distribution of income, wealth - and land - was highly skewed in favor of the white minority numbering some 200,000. Access to education, health, housing and other services was very unequal. The key objectives of government policy since Independence have been to reduce these socio-economic inequalities and achieve an improved pattern of wealth, income and land distribution.

While progress was made on these fronts - most dramatically in education where the number of children at school rose from 885,000 in 1979 to almost three million ten years later - it is now clear that faster economic growth, fuelled by increased inflows of foreign aid and capital is necessary to consolidate social gains and curb the rapid growth of unemployment. Accordingly, the Cabinet recently endorsed a conventional World Bank/IMF Structural Adjustment Program to cover the 1991/1995 period, marking a reversal of past economic policies.

At the same time, two other crucial elements of ZANU-PF policy are in the throes of change. While President Mugabe and some of his closest advisers remain staunchly committed to the establishment of a one-party state, in late 1990 the ruling party's Politburo rejected the concept with an overwhelming majority. To all intents and purposes the issue is now dead, though the President continues to insist that because the one-party state was endorsed by a full congress of the party, it remains his long- term aim.

1.2 The Land Issue

The third major element of ZANU-PF policy subject to change is its attitude towards the land issue. In 1980, some 6,000 large-scale commercial farmers (all of them white) owned some 15,680 hectares (ha) or 40% of the total land area. The new government embarked on an ambitious land resettlement policy, partially financed by the British government in terms of the Lancaster House constitutional settlement. It was agreed that land would be obtained from white farmers on a "willing buyer, willing seller" basis and that the funds generated from the sale of land would be remittable abroad. The government announced its intention of resettling 162,000 families within a three year period (by 1985).

By 1990, only 52,000 families had been resettled and with the rapid growth of unemployment, the government subsequently announced plans to amend the 1980 constitution thereby doing away with the "willing-buyer, willing-seller restriction and foreign remittability, since the ten years period of the Lancaster House safeguards had lapsed. In December 1990, the constitution was amended accordingly and the government has declared its intention of acquiring up to 6 million hectares of farm land. White-owned land has declined to 12.8 million hectares since 1980 and the 6 million hectares now targeted constitutes some 47% of the land still owned by an estimated 4,500 white farmers.

Criticism of the land acquisition policy has focused not on the principle of resettlement, but on the method of its application and its potential economic repercussions. It has come not just from farmers and businessmen but from both the recently-retired Chief Justice and his successor.

* The government proposes to acquire land on conditions and prices set by itself, the buyer. There will be no remittability abroad of the proceeds, nor will the seller have recourse to the courts or to any arbitration procedure. Chief Justice Gubbay expressed "concern and disappointment" that the Judiciary will be excluded from intervening in cases of unfair compensation for land seizure.

* The 4,500 white farmers are responsible for 80% of all marketed output and the bulk of agricultural exports - especially tobacco, beef, horticultural products and soyas.

* Land resettlement is unlikely to help solve the unemployment issue. It is calculated that families settled on the land will simply displace the families of retrenched black farm-workers.

The land issue is crucially important because it goes to the very heart of investment confidence.

1.3 Party Politics

Zimbabwe is a de facto one-party state to the extent that 147 of the 150 parliamentary seats are held by the ruling ZANU-PF party. The sole opposition party of any significance is Edgar Tekere's Zimbabwe Unity Movement which is pro-free enterprise, pro-multi party democracy and anti-corruption. Its poor showing in the March 1990 elections, when it won just two seats, demonstrates that it is not a material threat to the government.

More serious are faction and tribal fissures within the ruling party. The Shona who are the largest and oldest ethnic group in Zimbabwe, dominate the ZANU wing of ZANU-PF, while the Ndebele who arrived from what is now South Africa in the mid-19th century and established themselves in Matabeleland in the west represent the former ZAPU element, headed by Mr Joshua Nkomo, second Vice-President of the country.

Relations between these two dominant ethnic groups were always difficult, and there were bitter confrontations during the 1960s when the Mr Joshua Nkomo's predominantly Ndebele ZAPU was confronted by ZANU, led initially by the Rev Ndabaningi Sithole and subsequently by Mr Robert Mugabe. This rivalry continued after independence and tribal strife threatened social and political stability. But in December 1988 Robert Mugabe, a Shona and Joshua Nkomo, a Ndebele, agreed to merge their two political parties - ZANU-PF and ZAPU respectively - in a bid for national unity. In December, 1989 the national unity accord was consummated with the formal merger of the two parties, turning Zimbabwe into a de facto one party state.

The white minority, now reduced to below 100,000 permanent residents - though there is a growing "expatriate element", of aid workers, diplomats and businessmen on short-term contracts - has little direct political influence. It is, however, extremely influential economically - a fact that arouses considerable resentment in some quarters.

1.4 Human Rights

Zimbabwe's human rights record in the early 1980s was a major cause of concern, especially the conduct of the Fourth Brigade of the Zimbabwe National Army in the Matabeleland campaign against the "dissidents", who wanted to establish a Ndebele-based administration, apparently with some support from Pretoria.

There has, however, been a marked improvement in recent months, beginning with the ending of the state of emergency which had existed throughout the post-Independence period and for 15 years before it. Persons accused - and convicted - of spying for Pretoria have been released (and deported) while political detainees, held under the emergency regulations have also been freed.

1.5 Corruption

Zimbabwe has a good record by African standards. Two major scandals with political involvement - the so-called Paweni affair and the "Willowgate" car-price incident - were brought before the courts. The Willowgate scandal in which government ministers, prominent businessmen and public servants were convicted of using political and business influence to obtain new cars for resale at prices above those set by the price control regulations, resulted in the resignation of several senior cabinet ministers. Although it was brought before the courts, its handling was marred by the political intervention of the government to pardon - from jail sentences - those sentenced to prison for their involvement. However, the convicted persons were required to pay the fines imposed by the courts.

1.6 Freedom of expression

One result of the Willowgate affair was the reshuffling of editors within the state-owned near-monopoly newspaper group (Zimbabwe Newspapers). The editor responsible for exposing Willowgate was removed from day-to-day editorial activities and given a head office posting. Earlier he had been the target of threats by one top minister, who was subsequently forced to resign.

The media is largely state-controlled - the main daily newspapers, radio, TV and tl national news agency are closely controlled by government, though this is vehemently, unconvincingly, denied by ministers. There are exceptions to this, including the month publication Moto, and - far more importantly - the weekly Financial Gazette, ε independent publication owned and edited by black businessmen and journalists.

1.7 International Relations

Zimbabwe's foreign policy has been dominated by :

* membership of the Non-Aligned Movement (NAM) of which Mr Mugabe was Chairma between 1987 and 1990,

* bitter opposition to apartheid in South Africa; and

* a commitment to regional co-operation in Africa through the OAU, the PTA an SADCC.

Relations with the West have been constrained by the depth of the commitment to NAN and a desire to demonstrate independence from either of the two main power blocs Initially relations with the US were close and Washington was the second largest aid dono early in the 1980s. But relations deteriorated with the Reagan Administration accusin Zimbabwe of pursuing an anti-US voting policy at the United Nations. There were bitte disagreements over the shooting down of the South Korean Airliner, the US invasion o Grenada, and the bombing of Libya. At a US July Fourth celebration party in Harare ir 1986, ex-President Jimmy Carter, walked out of the room after a junior Zimbabwe ministe used the occasion to launch a sharp attack on the US. All US economic assistance tc Zimbabwe was terminated in 1987 but reinstated at significantly reduced levels in 1988. Relations have since improved radically and Zimbabwe is once again the recipient of a small amount of US assistance.

The collapse of the communist governments in Eastern Europe in 1989 came as a severe shock and setback to the Mugabe government. It had developed close ties with East Germany, Bulgaria, Czechoslovakia and Romania, and the sweeping political change within Eastern Europe left a gaping hole in Zimbabwe's foreign relations strategy. However, the country maintains close relations with non-European communist states, notably Cuba, China and North Korea.

Relations with South Africa have always been difficult and uneasy. Zimbabwe repeatedly accused South Africa of military and economic destabilisation during the 1980s, including a sabotage attacks on a military airfield near Gweru in 1982 in which several military aircraft were destroyed. Economic ties are strong with South Africa accounting - directly and indirectly –for nearly one fifth of Zimbabwe's total imports and purchasing about 8% of its exports. On several occasions during the 1980s, South Africa came to Zimbabwe's rescue in providing rail locomotives for hire so that the country's transit and export traffic could be moved. Recently, there has been a modest improvement in relations with Pretoria following the election of President F W de Klerk's new reformist administration in September 1989, though President Mugabe remains a trenchant critic of South Africa and a staunch advocate of continued economic sanctions against South Africa.

Chapter 2

Economic Performance and Outlook

2.1 Historical Performance

Since Independence in 1980, the economy has grown at an average annual rate of 3.3% a year - marginally above the estimated rate of population increase. Accordingly, there has been no material improvement in real living standards. The actual growth rate is well below the targets of 8% a year called for in the Transitional Development Plan and the 5% specified in the First Five Year National Development Plan (1985-1990).

The sectoral structure of the economy has changed little since 1980 in terms of the relative importance of the main productive sectors.

During the 1980s, the pattern of economic growth was fundamentally unsatisfactory and unsustainable, relying heavily on public sector spending. Just over 42% of the growth in GDP between 1980 and 1989 emanated from education (23%), public administration (12%), health and transport (7%). All four sectors were heavily reliant on government financing, frequently borrowed funds.

2.2 Structure of the Economy

Structure of GDP - Percentages (constant prices)

Years	1980 %	1989* %
Agriculture	14.0	14.0
Mining	8.8	7.0
Manufacturing	25.0	25,0
Construction	2.8	1.4
Distribution/hotels	14.0	11.0
Public Administration	8.8	9.9
Education	5.2	9.6
Economic services#	15.0	13.5
Social Services+	6.4	8.6
Total	100.0	100.0

* = provisional

\# = electricity and water, transport and distribution, real estate, finance and insurance

\+ = health and private domestic and other services

Source: Central Statistical Office, Harare

From 1980 to 1989 the five directly productive sectors of the economy - agriculture, mining, manufacturing, construction, distribution and hotels - accounted for 40% of growth of which manufacturing's share was 25%, despite the fact that there was no industrial growth between 1982 and 1985. Agriculture's contribution to growth was 14% while the joint contribution of construction, mining and distribution was negligible. Indeed, their share of GDP declined during the 1980s.

The reliance on fiscal policy to generate economic growth is underlined by the increased importance of the public sector in the economy. The share of government spending in GDP rose from 36% to 47%, while budgetary revenues increased from 27% to 36% of GDP. This left a large and widening deficit of 11% of GDP in 1989/90. The public share of GDP rose from a quarter in 1980 to a third in 1989.

There have been three distinct phases of growth since 1980:

(i) The 1980/81 post-sanctions boom when GDP rose more than 10% a year, due mainly to 26% expansion in manufacturing and 16% growth in agriculture;

(ii) Between 1981 and 1987 the economy grew at only 1.3% annually due to severe drought, world recession, reduced import allocations and falling private sector investment;

(iii) There has been a strong recovery since 1987, when growth accelerated to 5% a year, mainly reflecting increased exports and booming tobacco prices.

The table shows that per capita incomes - at constant prices - rose $20 or a mere 4% during the 1980s, growing less than 0.5% annually. This stagnation was accompanied by falling investment and rapidly-escalating unemployment.

Gross Domestic Product at Constant 1980 prices

Year	GDP Z$ million	Population mlns	GDP per head Z$
1980	3,224	7.1	455
1982	3,589	7.5	480
1984	3,540	7.9	450
1986	3,882	8.4	460
1988	4,089	8.9	460
1990*	4,475	9.4	475

* = estimated   *Source: Central Statistical Office, Harare*

Net investment (gross fixed capital formation less depreciation), fell from 13.5% of GDP at the height of the "sanctions boom" in the early 1970s, to a low point of 1% during the 1987-89 period. Since the depreciation calculation - 3.5% of the estimated capital stock - is extremely conservative - it is probable that the capital stock has been declining since 1987 and possibly even longer.

Fixed Investment

Years	Gross Fixed Investment % of GDP	Net Fixed Investment % of GDP
1970-74	23	13.5
1975-79	19	8.0
1980-82	18	8.0
1983-86	17	3.5
1987-89	11	1.0

Source: Central Statistical Office, Harare

It should be stressed that the binding constraint on investment is neither the availability of finance nor the profitability of investment, but rather the acute shortage of foreign exchange. Investment in Zimbabwe has a very high foreign exchange content - at least 50% of a typical investment project represents foreign currency spending.

2.3 Economic Prospects 1991-95

Three main factors will substantially determine Zimbabwe's economic performance over the next five years:

(i) Political/economic developments in South Africa.

(ii) The rate and pattern of economic growth in the OECD area; because Zimbabwe relies on primary product exports, including semi-processed goods, for 85% of its export earnings, commodity price movements will be of major significance.

(iii) Successful implementation of the economic reform program.

Although the emphasis will be on diversifying the industrial sector and boosting non-trading exports of manufactures, for the foreseeable future Zimbabwe will remain heavily reliant on its traditional primary exports - especially tobacco, gold, ferrochrome, beef, asbestos and cotton. New primary exports are being developed - notably horticulture and fruit, and there is also exciting potential for platinum.

The prospects of developing export-oriented manufacturing should not be under-estimated. There is potential for vertical integration in cotton clothing, footwear, metal processing and foodstuffs, but high transport costs and a small domestic market will militate against competitively-priced exports of manufactured goods. There is also no tradition of producing quality goods to compete in export markets and Zimbabwe's labor costs are not low by Asian - and other African - standards, though rapid currency depreciation in 1989/90 has made the country's exports more competitive in world markets.

Provided the Structural Adjustment Program is implemented rigorously, and attracts the necessary foreign funding, and assuming the peace and reform processes gather further momentum in Mozambique, Angola and within South Africa itself, the Zimbabwe economy should achieve annual growth of 5% in real terms. For this to happen the budget deficit must be reduced; there must be a major switch of resources from public consumption to private sector investment along with inflows of foreign capital.

Chapter 3

A Sectoral Analysis of the Economy

3.1 Agriculture

Although it accounts for just 14% of GDP, agriculture is the mainstay of the economy. Tobacco is comfortably the largest export, contributing an estimated 25% of export revenues in 1990, while farming as a whole regularly contributes more than 40% of total exports. Agriculture is the largest employer of formal sector labor (25%) while approximately 40% of the total population is dependent on informal agriculture for a livelihood.

As noted above, there has been disappointingly little growth in agriculture since Independence. The sector has expanded at an annual average rate of 3.2% annually - almost exactly in line with GDP. In 1989/90 the value of agriculture production rose 10% to Z$1.87 billion.

The sector is highly dualistic; farm sales and exports are dominated by the 4,500 large scale producers who account for almost all tobacco production, more than 90% of wheat, soyas and coffee, and three-quarters of beef and dairy production. Operating alongside are some 750,000 small-scale - or communal - producers who account for 60% of both maize and cotton production and about a quarter of livestock output. Their share in total farm production is less than 20%.

Value of Agricultural Production
Year ended March 1990

	Z $ Millions	Share %
Tobacco	580	31.0
Maize	248	13.0
Cotton	233	12.5
Sugar	207	11.0
Beef	183	10.0
Dairy	130	7.0
Wheat	115	6.0
Coffee	57	3.0
Others	....	....
Total	**1,868**	**100.0**

Source: Reserve Bank of Zimbabwe, Quarterly Bulletin, March-June 1990

3.1.1 Tobacco

Agriculture is dominated by the flue-cured tobacco indus: y, almost entirely in the hands of some 1,400 white producers. Their share of agricultural production is rising with tobacco faring better in world markets than other products. During the 1990/91 season the value of tobacco production jumped 50% to Z$868 million and its share of the total moved above one third.

Its success is largely attributable to its niche-approach to the world tobacco industry. All along, the Zimbabwean industry - for 15 years the main target of international economic sanctions - has emphasised quality leaf. The industry is therefore locked into competition with high-quality US and Canadian producers rather than lower quality Asian farmers. Brazil and China are major competitors too, though very much at the lower end of the market.

In the past, Zimbabwe has targeted quality-conscious smokers, especially in the EC, but in 1990 there was a major breakthrough in exports to the Soviet Union and other East European countries. This was the main reason for the industry's strong showing in 1990.

Prospects for 1991 are encouraging, though initial climatic conditions in the final weeks of 1990 were less than ideal. Production is targeted to rise to about 140 million kgs amid expectations that the average price - in domestic currency - will increase by at least 25%.

3.1.2 Cotton and Maize

The second industry success story has been the performance of the small-scale (communal) sector, especially its cotton and maize production. Today, it accounts for more than half total marketed output of both these products. The small-scale sector's share in total marketed production (by value) rose steeply from 5.5% in 1980 to 18% in 1985. However, it has since plateaued with the 1989 figures showing an unchanged communal sector share of 18%. Indeed, its likely that there was a fall in the communal sector's share in 1990, when the share of tobacco (grown almost exclusively by large-scale commercial farmers) rose strongly.

The peasant sector's strong performance in the first half of the decade is frequently cited as justification for believing that the proposed land resettlement program will not have the damaging impact on output and exports that commercial farmers suggest. While this may well be the case, the fact remains that the peasant sector share has not grown much - if at all - in recent years while the most promising export activities - tobacco, beef, horticulture and cotton - are largely in the hands of the large-scale producers.

The cotton sector is set to recover after a major setback in 1989-90 when production fell from 324,000 tonnes to less than 190,000 tonnes. This was attributed to adverse rainfall conditions, a low producer price and the distribution of sub-standard seed. But in 1991, assuming reasonable rains in the first quarter of the year, output should exceed 280,000 tonnes.

Cotton is an ideal crop in several respects; there is a very high degree of vertical integration - from cotton growing through to the textiles and clothing industries; it is an excellent peasant crop that is relatively drought resistant. As with tobacco, Zimbabwe has traditionally managed to secure a quality premium in world markets for its cotton lint. This is because the product is hand-picked.

There has been some diversification by large-scale producers in recent years with growing emphasis on products whose prices are not subject to direct government control - such as horticultural production (for export) and game farming. Horticultural production will equate with that of dairy and wheat - in value - in the early 1990s.

There are some attractive investment openings in agriculture - expansion of tobacco production and of fruit and flowers, though the latter activities are highly competitive internationally. Game farming also has obvious potential as does cotton.

But like agriculture worldwide, the industry is concerned about oversupply in world markets - especially the beef industry's prospects after the Uruguay round of trade talks. In the past Zimbabwe' strength has been its capacity to deliver quality products - tobacco, beef, cotton and, today, horticulture. This competitive advantage has been squeezed by the shortage of imports which have forced producers to work capital equipment long after its replacement date and to utilize sub-standard packaging materials, which has damaged the horticulture sector's export drive. Given freer access to imported inputs as a result of trade liberalization, the industry will be better placed to maintain its quality niche in world markets.

3.2 Mining

Although mining's share of GDP shrunk during the 1980s, it remains a strategically crucial industry for three reasons:

* it regularly accounts for 40% of exports - gold, ferrochrome, nickel,asbestos and copper;

* it is the industry with enormous long-term growth potential - especially gold, ferrochrome and platinum, but also diamonds and base minerals; and

* it is the sector most likely to attract meaningful inflows of foreign capital.

Value of Mining Output 1989

	Z$ mlns	Share %
Gold	414	35
Nickel	284	24
Asbestos	134	11
Coal	120	10
Copper	77	6
Chrome	58	5
Others	102	9
Total	1,190	

Source: Reserve Bank of Zimbabwe: Quarterly Bulletin May-June 1990

3.2.1 Gold

Gold is the country's chief mining export accounting for between 35% and 40% of the sector's foreign exchange earnings. The industry has been predominantly small-scale in structure with more than 80% of output in the hands of the smaller mines. The industry has become more concentrated in recent years with new investment by the UK-based Cluff Resources group, the emergence of Rio Tinto Zinc's Renco mine as a major producer and the growth of output in the Lonrho group.

In 1984 the authorities introduced a floor price for gold to give longer-run stability for investors and this has been raised in line with inflation, currency depreciation and world bullion price trends and currently stands at Z$950 an ounce. Producers are paid the floor price when the world market price dips below it, though it is treated as a loan and producers are expected to repay the "subsidy" as and when the free market price increases.

All bullion must be sold to the RBZ and until recently this was refined abroad - initially in South Africa and subsequently in Australia. Zimbabwe has since opened its own refinery. Production increased by more than a third during the 1980s.

3.2.2 Ferrochrome

Ferrochrome is currently the country's third largest export, after tobacco and gold, worth some Z$250 million in 1987. After South Africa and Yugoslavia, Zimbabwe is the world's third largest supplier of ferrochrome to the United States, which is the main consuming country. Of the 36 billion tons of shipping-grade chromite resources, 99% are located in southern Africa, about 70% in South Africa and 30% in Zimbabwe. There is potential for significant expansion in smelting capacity though this will depend on world market conditions. The near-term recessionary outlook suggests that such expansion is unlikely until ten mid-1990s. Chrome ore production was 560,000 tonnes in 1988, little different from the 554,000 tonnes in 1980.

3.2.3 Nickel

The nickel industry was operating close to breakeven in 1986/7 and one producer, Empress Nickel Mine closed. But the value of output more than trebled in 1988 following the surge in the world nickel price increasing a further 43% in 1989. But the value of production was sharply lower in 1990 reflecting the decline in the international price. Nickel is very sensitive to world market conditions and there is little obvious immediate potential for expansion. Production is small, averaging 10,000 tonnes annually in recent years.

3.2.4 Asbestos

The asbestos sector has fared better than widely forecast given health concerns about usage of the material. Relative to other major exporters - Canada and South Africa - Zimbabwe has a strong comparative advantage in asbestos production, with plentiful reserves of high-quality asbestos and favorable mining conditions. Furthermore, Zimbabwe produces chrysotile asbestos considered less dangerous to health than other types. Production is handled by the UK-based Turner-Newall group, but asbestos, like other minerals, is marketed by the MMCZ. Output declined steeply in the 1980s from 250,000 tonnes at Independence to 185,000 tonnes in 1989.

3.2.5 Coal

Coal production has expanded strongly from just over 3 million tonnes in 1980 to five million tonnes in 1988/9, mainly reflecting the increased usage of coal by the thermal power station at Hwange.

Investment prospects in mining include three major platinum projects currently under investigation, new ventures in coal, diamonds and gold and a possible major expansion of the country's ferrochrome capability. The two main constraints on mining development are world demand, since almost all mining output is exported, and the country's ability to retain its competitive edge. This has been threatened recently by rising transport and energy prices, the shortage of technical skills and the obsolete nature of much of the sector's plant and equipment.

Currency devaluation has helped the industry to remain competitive but it has a cost in terms of high increased energy and transport expenses and the higher cost of imported capital equipment.

In the 1980s, while mining was invariably the main contributor to export earnings its growth record was disappointing; in real terms, value added rose a mere 4% in the decade to 1989. Growth is likely to accelerate in the 1990s, once the current downturn in commodity prices is reversed, but expansion is unlikely to exceed 5% a year unless or until major new investments - such as one or other of the platinum projects under review by BHP/Delta Gold, Union Carbide and Anglo American/Rio Tinto Zinc - comes on stream. Much of the recent investment in the industry has been in small to medium-sized gold properties and while the volume of gold output has expanded from 370,000 ounces in 1980 to more than 500,000 ounces today, in most other sub-sectors volume growth has been minimal. Indeed, the volume index for the industry as a whole grew at less than 1% a year during the 1980s, despite a 60% increase in asbestos production, higher gold output and a 33% increase in coal production. Copper, nickel, iron ore and silver output all declined.

The crucial determinants of the sector's growth will be world demand on the one hand and the pending investment decisions in the platinum and ferrochrome sectors on the other. But even if these major projects are given the green light, the impact on mining will only be felt in the latter half of the decade given the long lead time for such projects.

3.3 Manufacturing

3.3.1 Sector Size and Breakdown

According to UNIDO, Zimbabwe's manufacturing output exceeds that of any other sub-Saharan country, with the obvious exception of South Africa. Manufacturing value added (MVA) in 1987 was estimated by UNIDO at US$1.67 billion or 14% of sub-Saharan output (excluding South Africa). If South Africa is included, Zimbabwe's share declines to 5.5%.

The main African manufacturing nations are:

Manufacturing Value Added 1987

	US $ Millions
South Africa	18,300
Zimbabwe	1,674
Nigeria	1,567
Cote d'Ivoire	1,271
Cameroon	865
Sudan	857
Kenya	787
Ethiopia	662
Zambia	437
Others	3,790
TOTAL	30,200

Source: UNIDO

While manufacturing is far and away the major contributor to GDP, accounting for a quarter of national economic activity in recent years, this statistic exaggerates its importance. Its prime function is the processing of locally-produced primary products, which means that it is heavily reliant on the viability and efficiency of domestic agriculture and mining. Its share of total employment is 17% - compared with 24% for agriculture - while its direct contribution to exports is no more than 15%.

Almost all industrial growth over the period 1952 to 1982 was attributable, roughly equally, to import substitution and domestic demand. Exports made a negligible contribution. Manufacturing is dominated by the beverages/tobacco and metals/non-metallic minerals sectors which between them account for 45% of manufacturing value-added (MVA) followed by foodstuffs with 15% and textiles with 13%.

Manufacturing value-added 1987

Sector	Value US$ mlns	Share %
Foodstuffs	256	15
Chemicals/Petroleum	203	12
Beverages/tobacco	412	25
Textiles	214	13
Clothing/footwear	89	5
Wood/furniture	29	2
Paper/printing	101	6
Metals and non-metallic minerals	329	20
Transport Equipment	31	2
Other	10	1
Total	1,674	

Source: UNIDO

Volume production figures give a different picture, with the metals sector accounting for 29% and foodstuffs in second place with 13.5%. Chemicals and petroleum account for 12.5% and both beverages/tobacco and textiles for 10% each. The clothing industry's share is 7%.

3.3.2 Structural Adjustment Plan and Outlook for Manufacturing

Industry is central to the country's Structural Adjustment Plan (SAP). Because it has been so highly protected in the past, it faces a difficult period of restructuring once imports are liberalized. On the credit side, industrialists are confident that given access to new and modern capital equipment as well as increased inputs of raw materials and intermediate goods, they will be able to improve their competitive efficiency.

There is no question of industry facing free competition as the phased withdrawal of import quotas will be matched by the introduction of protective tariffs. Tariff rates will be in the range from zero to 30% while the import surtax of 20% will be phased out during the five-year transitional period.

The broad thrust of the reform program is to force manufacturing industry to become internationally competitive. The timing is vital, since at any time Zimbabwe could face fierce competition -in third markets and in South Africa itself - from South African manufacturers.

Zimbabwe's competitive advantage in manufacturing lies mainly in those items with a high domestic value-added - foodstuffs, textiles, processed tobacco, and the processing of metals and minerals. Its competitive disadvantage arises from high transport costs, ageing and obsolete capital equipment, a narrow domestic market, and an overvalued exchange rate. Continued and possibly more rapid - exchange rate depreciation will be part of SAP and this, along with tariffs, should provide adequate protection for the domestic market.

But the market is probably too small to justify large-scale investments by foreign companies, unless the intention is to export a significant share of output. Accordingly, manufacturing industry faces a period of intensified domestic competition as import quotas are phased out, allied with pressure to seek new markets externally. Those firms that are adding value to domestic resources - as distinct from assembling or processing imported materials - are most likely to be successful in the new environment.

3.4 Construction

Construction accounts for less than 2% of GDP, down from 3% in 1981. Its value- added, at constant prices, virtually halved during the 1980s chiefly reflecting constraints on the availability of materials. These in turn can be traced back to the strategy of import repression followed for much of the period. In early 1991, building industry sources said there were severe shortages of bricks, cement, steel for window and door-frames, and electrical and plumbing equipment.

Building costs have risen steeply, with material costs doubling between 1984 and 1990. While the value of building work completed almost doubled between 1986 and 1989, building material costs rose 50% over the same period, so that the volume increase was much smaller. In the civil engineering sector, the value of output has fallen sharply from a peak of Z$125 million in 1982 to just $60 million in 1989. This reflects the cutback in both private and public sector investment spending.

Total construction output - building and civil engineering - peaked at Z$281 million in 1988 falling to $260 million in 1989. Construction activity can be expected to increase as the import constraint is eased and as some of the major new investments - such as cement industry expansion - improve the availability of building materials.

Demand for residential, commercial and industrial property has sharply outstripped supply, sending property prices soaring by 300% in the last three years. In the Harare central business district there are at present virtually no offices available for lease and few opportunities to purchase existing buildings in the city centre. Space is now normally fully booked even in blocks that are still on developer's drawing boards. There is an acute shortage of housing, especially for lower income groups in high-density areas.

3.5 Tourism

Tourism in Zimbabwe has considerable potential. The country offers superb game-viewing and safari holidays, along with one of the world's great natural wonders, the Victoria Falls. It has an equable climate almost all of the year round, a very well-developed tourism infrastructure and, at current exchange rates, it is an inexpensive holiday venue, though travel costs of getting to the country from Europe or North America are very high. This is bound to constrain the industry's development especially at a time of high and rising energy costs.

A second - and related - drawback is that having travelled great distances at considerable expense, tourists are looking for a holiday of a minimum of two weeks. It is doubtful whether Zimbabwe - on its own - has sufficient to satisfy the 14-day visitor, and the average number of nights spent in the country by tourists in 1989/90 was six. This means that Zimbabwe needs to organize joint-market package tours with its neighbours - Malawi, Zambia, Botswana and - eventually - Mozambique and even South Africa.

Zimbabwe's competitive advantage over its natural rival - Kenya -is lower costs in the country, (though air fares are higher), and relatively unspoiled and uncrowded game parks and safari camps. Its competitive disadvantage is that it cannot offer the unique blend of sand and safari attractions of Kenya, nor does it have the same international reputation.

This suggests that tourism is unlikely to become the same major contributor to foreign exchange earnings as in Kenya or Mauritius, but there is undoubted potential to expand the tourism sector substantially during the 1990s, though the annual number of holiday arrivals is unlikely to much exceed 750,000.

In 1989, Zimbabwe welcomed a record number of 411,000 holiday visitors - up from 227,000 in 1980. Almost 40% came from South Africa and a quarter from Zambia, though this included some 10,000 "cross-border shoppers" who stayed for less than 24 hours. There were 72,000 visitors from Europe (15%) but only 17,000 from North America.

For all its publicity and attention, the industry is not a major contributor to foreign currency earnings. Total recorded spending of visitors in 1989 was Z$92 million, which puts the industry on a par with the sugar or beef exporters in terms of foreign currency earnings. Indeed, its direct contribution to export earnings is no more than 2.5%.

A handful of major new hotels have been built since Independence including the Harare Sheraton and Harare Holiday Inn. A new high-prestige hotel is being built at the Victoria Falls and will open in 1991.

The industry is constrained by the shortage of foreign currency which has precluded tour operators from providing surface transport of the standard required and restricted the activities of car-hire operators. Given these and market-demand constraints, tourist growth is projected at 8% to 10% a year during the early 1990s, taking total arrivals to 750,000 by 1996/7 which is likely to prove a saturation point.

Chapter 4

The State's Role in the Economy

The role of the state in the Zimbabwe economy expanded considerably during the 1980s.

* Government spending rose from 36% of GDP in 1980/1 to 47% in 1989/90, while the tax "take" from wages and salaries more than doubled from 25% in 1980 to 60% in 1990;

* The public sector's share in GDP increased from about a fifth to a third;

* The state took control of a substantial proportion of total exports, through its creation of the MMCZ, which with the gold exports, handled by the Reserve Bank of Zimbabwe, accounts for approximately one half of total exports. In addition, most agricultural exports - tobacco, sugar, horticultural products and tea are exceptions - are handled by the state. In 1987, more than 60% of exports were handled by the state.

* Barter transactions, and the setting up of the State Trading Corporation to engage in the export-import business, meant that an increasing proportion of imports is also handled by government. All liquid fuel imports - at least 20% of total imports - are channelled through a parastatal (NOCZIM).

* State participation in private enterprise has increased dramatically with the purchase of a controlling equity interest in a wide range of industrial and mining activities, including:

    * Wankie Colliery Co
    * Zimbabwe Banking Corporation
    * Astra Holdings
    * Hunyani Holdings
    * Caps Holdings
    * Zimbabwe Newspapers
    * Delta Corporation
    * Cairns Holdings
    * Mhangura Mines

* The creation of joint-ventures including Olivine Industries (with H J Heinz of the US) and the Bank of Credit and Commerce Zimbabwe (with the BCCI international banking group).

* The state has also been active in investing in privately-owned businesses through the Industrial Development Corporation (IDC) and - at arms length - through the ruling party, ZANU-PF, which has built up its own portfolio of business activities.

* Government currently has a battery of direct controls that it can use to influence business decision-making. These include import and exchange controls, price controls, wage controls, labor legislation affecting the hiring and firing of staff; and investment approvals. Many of these controls are being relaxed as part of the recently announced Structural Adjustment Program.

* A number of new parastatals have been created since 1980 - most importantly the MMCZ, but also the Urban Development Corp, the Small Enterprises Development Corp, the Zimbabwe Development Bank, the Zimbabwe Development Corporation (which acts as a holding company for some government investments), the State Trading Corporation, the Zimbabwe Mining Development Corporation (ZMDC) and the Zimbabwe Tourist Development Corporation.

* There is a major state presence in the financial sector through Zimbank (61% state owned), BCCZ (a joint venture company in which the government has effective control), the Agricultural Finance Corp, Zimbabwe Development Bank, SEDCO etc.

The government justifies this increased intervention in the economy on several grounds:

* it is necessary to localize the economy, reducing foreign domination, especially in strategic sectors, such as mining, banking and energy.

* as a means of promoting black Zimbabwean participation in business,

* to counter disinvestment and job losses by foreign shareholders wishing to divest;

* to reduce South African ownership in the economy.

The state dominates the services sector with 100% ownership of the national airline (Air Zimbabwe), the railways (National Railways of Zimbabwe), urban transport (51% stake in Zimbabwe United Passenger Company which runs the main bus services), agricultural marketing, energy and telecommunications.

It exerts a very powerful influence in the mining sector through the MMCZ and its policy of setting a domestic gold price and, at times of depressed prices, subsidizing the gold-mining industry. It uses the ZMDC as an instrument for direct investment in the mining sector.

In the agricultural sector, while production is largely in private hands - though cotton and wheat is produced by ARDA, the main crops and animal products are procured and distributed through five marketing boards or commissions: grain and coffee (Grain Marketing Board); cotton (Cotton Marketing Board); dairying (Dairy Board); beef (Cold Storage Commission); and pork products (Colcom). Tobacco, sugar, tea and horticultural products are not controlled products.

In the manufacturing sector, which prior to Independence was almost wholly in private hands, the government has been an active investor and purchaser. Not only has it bought control from previous shareholders in many major concerns but it also uses the IDC to take an equity stake in existing ventures. The IDC, established in 1968 prefers to take minority holdings only, but has been used to mount rescue operations for ailing companies. In the mid-1980's it became the major interest in F. Issels (heavy engineering), Brentwood (furniture), Delswa (clothing) and Central Film Laboratories.

The IDC's capital was raised tenfold to some Z$100 million in 1988, possibly presaging a more interventionist policy. The IDC is currently investigating a number of projects and investment opportunities, with the major focus being on import substitution and export potential. Existing investments cover enterprises involved in mineral processing and quarrying, service and finance, manufacturing and vehicle assembly.

In 1988 the government established the Zimbabwe Development Corporation (ZDC) to coordinate its holdings in public and private enterprises, to plough back its share of any profits into R&D, to increase use of local raw materials - especially base materials, and to promote job creation in underdeveloped regions known as "growth points". The ZDC serves as a holding company for the IDC and the ZMDC. The most significant and largest government investment held by the ZDC is a 30.56% holding in Delta Corporation, a conglomerate formerly controlled by South African Breweries. Delta is dominant in the brewing, retailing and hotel industries.

The government also owns ZISCO (Zimbabwe Iron and Steel Company) which is the largest industrial enterprise in the country.

The recently announced Structural Adjustment Program, summarized earlier, includes privatization plans for some parastals and the operation of others along more commercial lines.

Chapter 5

The Investment Climate

5.1 The Private Sector

Zimbabwe's private sector is probably the second strongest in sub-Saharan Africa - after South Africa. It falls into three distinct categories:

* a large, powerful multinational sector, dominated by the traditional British multinationals, though with a very strong South African presence, while several leading US and European multinationals also operate in Zimbabwe.

* a strong indigenous business sector with a broad spread of small to medium-sized companies owned and managed by white, Asian and black Zimbabweans.

* a numerically huge informal sector, mainly comprising communal land farmers, but also including large numbers of micro-businesses and informal traders in rural and urban areas.

The formal private sector responsible for two-thirds of GDP and the bulk of the country's directly productive activities is efficient and well-managed. Its main weaknesses are:

* the cumulative effect of years of foreign exchange starvation, which has eroded the capital stock and the competitive edge of business;

* the sense of complacency created by near-monopoly conditions in many sub-sectors. There is no drive to market products in the domestic economy, since demand comfortably exceeds supply. There is little impetus for innovation and entrepreneurship, other than in export markets and in seeking ways of making scarce foreign currency go further and ageing and obsolete equipment last longer;

* scarce managerial, financial and technical skills. Although there is a high level of academic training in Zimbabwe, there is an acute dearth of experienced middle management;

* above all, private enterprise has suffered from years of government criticism and questioning of its legitimacy. Until relatively recently, the government was committed to public sector expansion, seen by the politicians as necessary to redress "inherited inequalities". This has sapped private sector morale to the point where its capability to regain the vigor and enterprise that it demonstrated under sanctions during the 1965-1980 period, is problematical.

The government is understandably anxious to develop a black-dominated private sector. It is sympathetic to those emergent businessmen who claim that they are discriminated against in the workplace by their white employers, by customers and suppliers in the marketplace, and, above all, by bankers, who deny them credit facilities. As a result, the government is committed to black advancement in the private sector, now that virtually all senior public sector posts are held by black Zimbabweans. This is one reason for government ownership of industrial and commercial enterprises which enables it to appoint its own chief executives.

At the same time, everyone is well aware that the formal sector will not create enough jobs to avert an unemployment crisis later in the decade. For this reason, increased emphasis on informal sector and small-scale enterprise development is a top priority.
The private sector is well-served with strong representative organizations of which the most powerful is probably the Commercial Farmers Union. Mining is represented by the Chamber of Mines, manufacturing by the Confederation of Zimbabwe Industries and the distribution sector by the Associated Chambers of Commerce of Zimbabwe.

There are three other important farming representative associations - two representing small-scale and communal land farmers and the Zimbabwe Tobacco Association, representing the country's tobacco growers.

5.2 Investment Performance in the 1980s

The Zimbabwe investment climate has been the topic of several serious research studies, most notably the World Bank's "Private Investment and Government Policy" (May 1989). All such studies have reached basically similar conclusions. Namely that the country's poor domestic and foreign investment record since 1980 can be explained by:

1. Severe supplyside constraints on investment - most importantly the non-availability of imported capital equipment and inputs;

2. The weakness of the capital goods and construction industries - both constrained by scarce foreign exchange allocations and an ageing capital stock;

3. The crowding out of the private sector by the public sector - especially in terms of access to foreign exchange;

4. The highly-restrictive and over-regulated domestic business environment;

5. The incentive framework - a high rate of corporate tax, an overvalued exchange rate, negative real interest rates and restrictions on profit and dividend remittances abroad;

6. The discriminatory treatment of foreign versus domestic investors and the discrimination between post-1979 and pre-1979 investors. Since most of the investors are pre-1979, this has worked to the country's disadvantage.

7. A "relatively" high cost of capital, especially for foreign firms. This is attributed - by the World Bank - to the high risk premium sought by investors, which are the result of uncertainties surrounding dividend remittability on the one hand and the high cost of capital goods in Zimbabwe, on the other.

The World Bank report found that the rate of return on equity in Zimbabwe during the 1980-87 period was "quite reasonable" by international standards. But it noted that foreign investors had suffered from the real depreciation in the exchange rate, thereby being subjected to a capital loss. The after-tax return on equity for local companies on the Zimbabwe Stock Exchange was 22.6% a year while that for foreign-owned firms was 15.8%.

The Bank's main conclusion was that investment in Zimbabwe was not being constrained by inadequate rates of return - though it criticized the price control regulations which depressed profitability - but more by the high cost of capital, attributed to the large risk premium and the high cost of capital equipment.

The Reserve Bank of Zimbabwe estimates that there was a small net outflow of long-term private capital from Zimbabwe during the 1980-1987 period, while IMF projections show negligible direct capital inflows in the early 1990s, more than offset by the steady outflow of portfolio capital, reflecting disinvestment by both companies and individuals.

One of the small handful of new foreign investments was that by the US-based multinational H.J. Heinz Corporation. Heinz has a 51% holding in the soap and cooking oil manufacturer Olivine Industries that it acquired for US$25 million in 1982; the government has the remaining 49%. Heinz says the investment is now worth around US$80 million with exports worth US$8 million a year. It recently announced plans to expand its investment in Zimbabwe to Z$500 million (US$200 million) by 1994. The company is very pleased with its investment and in February 1991 announced plans to establish a $3.5 million canning factory at Chegutu to process produce from smallholder and commercial farms for both the domestic and export markets.

Heinz aside, little new foreign capital has been invested since 1980. In mining, the Rio Tinto Zinc group invested US $10 million soon after Independence, but the British Dalgety group, which came into the market in the early 1980s, disinvested in 1990. In mining, the British-based Cluff Resources has invested in the gold sector, and there are three possible platinum projects under review by international mining groups - British, South African, Australian and American.

5.3 Investment Outlook

The character and attractiveness of investment opportunities in Zimbabwe will be substantially influenced by the success - or otherwise - of the Structural Adjustment Program. Because its full-blooded implementation would mean radical economic reforms, many of which would eventually overcome the existing obstacles to new investment, any assessment of the investment climate depends on the speed and effectiveness of the reform plan.

Three other generalizations can be made:

* In the 1990s, investment in Southern Africa - as indeed has long been the case elsewhere in the world - will depend on the potential investors' assessment of the entire regional market, rather than any single, national market. In other words, the investment environment to be assessed is not that of Zimbabwe alone, but of the entire sub-region, including South Africa.

* The economic reform program implies a major shift in incentives in favor of export-oriented and labor-intensive activities, utilizing local resources and raw materials.

* Zimbabwe's main attraction is likely to continue to be in the field of location-specific, raw material, resource-intensive investments - agriculture and mining. There will also be opportunities for downstream investments in the processing and beneficiation of primary materials.

The implications of political reform in South Africa have already been discussed. The conclusions from that discussion bear repeating, namely :

* If the reform process achieves a relatively smooth transition to a majority-rule administration, then most manufacturing investments, where scale economy and cost advantages are crucial, are likely to be located in South Africa rather than in any of the smaller regional markets.

* Should the reform process collapse into a "Lebanon scenario", such will be the disruption to and destabilization of the entire region, that foreign investment in any country, including Zimbabwe, will be discouraged.

5.4 Investment Opportunities

These considerations suggest that main investment opportunities are likely to arise in the extractive sectors of the economy, including agriculture and including downstream processing activities. But such a generalization is in no way exclusive and there exists a broad range of other investment opportunities, mainly, though not wholly, for the smaller or medium-sized US enterprise.

(i) **Textiles and clothing:** Zimbabwe already has a sophisticated garments industry, with a high degree of backwards integration. High quality cotton is produced locally and relatively cheap and well-educated labor is available. The likely shift of incentives in favor of export-oriented industries will encourage investment - perhaps for quota-jumping purposes in the EC and North American markets - in this sector.

(ii) **Horticulture and fruit:** Zimbabwe is developing an international reputation as a supplier of flowers and fruit all the year around. There is scope for investment in direct production and in related activities - processing and above all, packaging.

(iii) **Tourism:** the industry is poised for strong expansion for much of the 1990s. As supplyside constraints - vehicles, building materials - are eased, so there will be scope for new investment in hotels and the tour operations business.

(iv) **Capital goods:** Zimbabwe has an embryonic capital goods sector. With its iron and steel industry and existing capacity to export heavy equipment, there will be opportunities, especially with a more favourable macroeconomic environment, to export to other African countries. However, this will be an area of intense competition, not just from South Africa but also from Asian suppliers.

(v) **Food processing:** as a significant food producer and exporter, there will be opportunities for export-oriented food processing activities.

(vi) **Location-specific mining** - platinum, diamonds, gold, expansion of the ferrochrome sector, asbestos products etc.,

(vii) **Services:** with its diversified financial sector, Zimbabwe is well-placed to become the regional center for a banking and financial services industry, though here too, severe competition from South Africa and possibly also Botswana must be anticipated.

(viii) **Infrastructural activities:** heavy investment will be needed in tl infrastructure - especially transport - during the 1990s. Opportunities will arise for the production of local inputs, with the prospect of exporting to other African countries whose infrastructure needs rehabilitation - Malawi, Mozambique, Angola, Zambia and Tanzania.

(ix) **Privatization:** the reform program includes plans to commercialize and privatize parastatals. Accordingly, there will be opportunities for foreign capital to participate, albeit on a limited scale.

(x) **Industrial inputs**: the Industrial Development Corporation is currently investigating a range of investment opportunities in the industrial sector, including: the production of hydrogen peroxide, wood chemicals, lace fabric, ammonium paratungsgate, building and construction materials, tractor and vehicle spare parts, ball bearings and industrial magnets.

(xi) **Tobacco packaging and processing:** The tobacco sector is on the threshold of a period of new expansion and there will be investment openings, not just in the production end of the industry but also in processing, packaging and marketing (currently a monopoly).

(xii) **Service activities:** banking, consultancy, healthcare, education and training. All of these are areas where important - if small - investment opportunities are likely to arise in the 1990s.

Investors can also take advantage of Zimbabwe's preferential access to international markets. Her participation in the Lomé Convention gives her preferential access to the markets of the member states of the EC. The Preferential Trade Area for Eastern and Southern Africa (PTA) gives access to 16 countries in the region. As a developing country Zimbabwe benefits from the General System of Preferences offered by industrialized countries.There are also bilateral trade agreements with Botswana, Malawi and South Africa.

5.5 Investment Register

In 1988 the government published an investment register which contains most of its high priority projects. There are 68 projects in the register although a third of them are infrastructural and candidates for loan finance rather than direct investment. A second drawback is that the vast majority of the projects are public sector/parastatal schemes. The register includes:

* A coal gasification project to produce ammonia for fertilizer;

* expansion of the ethanol industry;

* a large-scale pulp and paper project; and

* a polyethylene/polyvinyl chloride plant.

In the industrial sector there have been several recent announcements about major investment plans:

A Z$70 million project to build a tar-benzole refinery using waste products from the Zimbabwe Iron and Steel Company (ZISCO) and Wankie coke plants was given the go ahead at the end of September 1989. The technology, plant construction and commissioning are to be provided by the UK group Otto Simon Carves. Various refined products will be produced, saving Z$15 million a year in imports;

A Z$100 million joint venture between O Conolly and General Motors of Canada to manufacture locomotives;

An Z$84 million five year expansion and upgrading programme by textile manufacturer David Whitehead;

A Z$60 million expansion project by Central African Cables;

A Z$46 million project to replace maize mills at National Foods, raising throughput to 1,000 tons a day.

The viability and profitability of new foreign investments will depend, according to both government officials and local business leaders, on the ability of the foreign investor and the local partner to make a joint venture work. The Zimbabwean government strongly favors joint ventures and will go out of its way to make them work.

Chapter 6

The Regulation of Foreign Investment

6.1 Government Policy

In April 1989, the government announced a new regime for the governance of local and foreign investment in Zimbabwe. A document called "The Promotion of Investment: Policy and Regulations" covers the government's objectives, priorities, economic and legal incentives as well as administrative arrangements. This policy statement replaces the 1982 "Foreign Investment : Policy Guidelines". An updated document was released in October 1990.

A vital aspect of the new investment policy is the establishment of the Zimbabwe Investment Center (ZIC), as a one-stop investment agency. It acts as a "single window" facility once it is fully operational. The center is intended to be the focal point in government for the co-ordination and promotion of private investment in Zimbabwe. The definition of a foreign investor has been changed and is now defined as:

a) any company at least 25% of whose shares are owned by non-Zimbabweans (previously it was 15%); or

b) any partnership at least 25% of whose capital is owned by non-Zimbabweans; or

c) as defined under Exchange Controls Regulations.

Similarly, a local investor is defined as a company or partnership at least 75% of whose shares or capital are owned by Zimbabweans or otherwise defined by Exchange Control.

All proposals for investment in Zimbabwe requiring foreign exchange must be submitted to the center. These include:

a) all proposals to establish a new business or project;

b) all proposals to expand an existing business which has a foreign exchange component;

c) any proposal to acquire or issue shares which would result in, or increase, a foreign interest in an existing company incorporated in Zimbabwe;

d) any proposal to acquire the whole or any portion of a Zimbabwean business by the purchase of the assets in the business; and

e) any proposal for the transfer of the shareholdings in a Zimbabwean company between foreign owners.

In providing a "single window" service for investors, the center will provide them with all relevant government forms that need to be completed. It will then review the completed documentation, examine the proposal, and assist the investor to get all the necessary clearances from government. Also, the center will assist foreign investors to get all necessary permits and licenses such as work and residence permits, building permits and import and business licenses.

The center has the authority to approve investment projects where the investment does not exceed Z$10 million. Projects exceeding this can only be approved after examination by the Senior Minister of Finance, Economic Planning and Development. A decision will then be communicated to the potential investor within 90 days of application. Additional approvals will also be obtained from:

* the relevant sector ministry e.g. approvals of the Industrial Projects Committee for a manufacturing project;

* Exchange Control regarding the project's venture capital status, the percentage of net after tax profit which can be remitted immediately, and the approval for hiring expatriate staff; and

* the External Loans Coordinating Committee in the event that financing of the project includes an external loan in addition to foreign equity.

6.2 Investment Protection

In addition to the protection afforded to investors under the 1980 constitution, Zimbabwe has joined both the World Bank's Multilateral Investment Guarantee Agency (MIGA), and the U.S. Overseas Private Investment Corporation. A bilateral investment protection agreement is under discussion with the UK.

The government has agreed to international arbitration of any disputes which may arise between it and foreign investors. To this end, the government is to accede to the 965 Convention on the Settlement of Investment Disputes between States and Nationals of Other States and to the 1958 New York Convention on the Recognition and Enforcement of Arbitration Awards. In addition to arbitration under the former of these two Conventions, the government will agree alternatively to submit disputes for arbitration under the rules and procedures of the United Nations Commission on International Trade Law (UNCITRAL) or the International Chamber of Commerce.

6.3 Limitations on Foreign Investment

Sectors where new foreign investment is not encouraged include commercial farming and services such as banking, consultancy, retailing and wholesaling. The main criteria for approval are those projects that:

a) bring substantial socio-economic benefits to rural areas;

b) enable the transfer of advance technologies and provide training opportunities for Zimbabweans;

c) provide access to scarce managerial resources and to foreign markets;

d) generate substantial employment opportunities;

e) achieve balance of payments benefits through the production of new exports or by import substitution;

f) make more intensive use of local raw materials and processed inputs;

g) use labor intensive technology, in particular technology that is adaptable to Zimbabwe's needs;

h) increase productivity and improve the end product by the injection of additional foreign capital or technology; or

i) involve substantial research and development expenditures.

The Zimbabwean government strongly prefers majority Zimbabwean participation in new foreign investment projects. The extent of local control, ownership and management following the implementation of projects is a major factor in the screening of new projects. While the government is prepared to allow up to 100% foreign ownership of some high priority projects, it much prefers joint ventures and encourages arrangements to be negotiated for the eventual transfer of majority ownership to Zimbabweans; it wants these arrangements to be negotiated at the time of investment, or after a stipulated period of time.

In practice, any transfer in the ownership of foreign investment has only taken place when a foreign-owned company has either decided to disinvest from Zimbabwe or share the risks for expanding an existing operation.

6.4 Acquisition of real estate

Foreign investors are able to purchase industrial and commercial real estate. Building permits are required. The government provides tax incentives for certain kinds of real estate development in non-urban areas. Investors should note that the property market in and around Harare is extremely tight with office space and building sites virtually unavailable.

6.5 Establishing a Business

The forms in which business can be conducted are:

public companies
private companies
branches of foreign corporations
cooperatives
partnerships
sole proprietorships

The most usual form adopted by foreign investors is a company, which is governed by the Companies Act of 1951. The Act is based on the UK Companies Act of 1948 and the South African Companies Act of 1926.

A company is registered by filing the following documents with the Registrar of Companies:

1) Memorandum of Association (Articles of Incorporation)

2) Articles of Association (Bylaws)

Non-residents setting up a company require the approval of the Investment Centre which can be obtained in one working week. There are no minimum capital requirements contained in the Companies Act.

A company incorporated outside Zimbabwe is permitted in terms of the Companies Act to establish a place of business and carry on its activities in Zimbabwe without having to form a separate locally registered company, but prior approval of the Investment Center and the Registrar of Companies is required.

Within one month of a foreign company having established a place of business in Zimbabwe as a branch, the following must be lodged with the Registrar of Companies:

a) Certified copy of its memorandum and articles of association, and a certified translation if not in English.

b) Particulars of directors resident in Zimbabwe and of the person responsible for the management of the business.

c) The address of its principal place of business

The incorporation of a local subsidiary is often preferable to the establishment of a branch of a foreign company, for the reasons that follow:

a) In the case of a branch, copies of the annual financial statement, including group accounts if applicable, must be filed with the Registrar of Companies. No such filing is required in the case of a locally incorporated private company unless one or more of its shareholders is a public company or a subsidiary of a public company.

b) Annual tax is payable on the issued share capital of the foreign company and may be substantially higher than the issued share capital of the local subsidiary.

c) In addition to income tax, a branch tax is payable on profits whether or not remitted outside the country, whereas nonresident shareholders' tax is only payable on dividends declared by a locally incorporated company.

d) It may be considered by the authorities that a locally incorporated subsidiary has a more enduring investment in the country's economic development than a branch.

6.6 Local Content Requirements

While there are no fixed requirements for local content in the production of goods and services, the government has indicated that local content is a key factor in the selection and approval of projects.

6.7 Competition Rules

No legislation currently exists to prohibit monopoly or anti-trust situations. However, the fixing of prices by cartels and groups of industries to the detriment of the general public is not acceptable. Between 70-75% of the goods and commodities sold in Zimbabwe, are sold by one or two companies and price controls have, in the past, been used to prevent monopolistic exploitation.

There is no regulation by government of acquisitions or mergers except for the impact of exchange controls on foreign investors. The Zimbabwe Stock Exchange has issued instructions, but these are to ensure that adequate disclosure is made to shareholders Other than exchange control regulations, there are no rules or formalities in connectioi with the acquisition by foreign companies of local publicly held enterprises, but permissioi of the Exchange Control authorities is required before scrip registered locally can b(transferred into the name of a foreign-based enterprise.

Chapter 7

Infrastructure

Zimbabwe's physical and service infrastructure is well-developed by sub-Saharan standards. Being a land locked country, the efficiency of the transport system is a crucial determinant of economic performance, and was, in fact, a major constraint on the economy throughout the 1980s.

7.1 Transport

Zimbabwe's transport network has crucial regional as well as national significance. Zambia, Zaire, Botswana and Malawi all make substantial use of its railways and roads. Securing access to the ports for Zimbabwe and its land-locked neighbors requires a coordinated regional program and this has been undertaken with some success by the SADCC entity, the Southern Africa Transport and Communications Commission (SATCC). High priority has been given by SATCC and the donor community to rehabilitation of the Mozambique transport system - railroads and ports.

7.1.1 Railroads

The two shortest rail routes to the sea transit neighboring Mozambique - a country that has been at civil war since the late 1970s. Both lines - to Beira and to Maputo - were seriously damaged during the Zimbabwe liberation war and subsequently as a result of repeated sabotage by the Renamo rebels fighting the Frelimo Government in Mozambique. Zimbabwe has maintained a strong military presence - some 10,000 men - in Mozambique since the early 1980s to protect its rail lifelines to the sea. As a result of the partial ceasefire in Mozambique agreed in December 1990, the Zimbabwean forces are restricted to a defensive role in the two transport "corridors" - the Beira Corridor and the Limpopo Corridor.

Because the Limpopo line - which used to handle bulk traffics, such as ferrochrome, steel and sugar - has been effectively out of action since 1976 and because the Beira line has a limited capacity and the port is not suitable for bulk traffics, Zimbabwe became increasingly reliant on the longer and more costly rail routes through South Africa. There are two railways to South Africa - the direct link via Beitbridge to the northern Transvaal and the line through Botswana to the ports of Cape Town, Port Elizabeth and Durban.

There are 2,753 kilometers of railway of which 335 kilometers are electrified. The main line runs from the Botswana border to Bulawayo, before branching into three limbs:

* one heads north via the Victoria Falls to Zambia;

* one goes east via Gweru and Harare to the Mozambique border at Mutare; and

* the third heads south-east via Somabhula to the Mozambique port of Maputo. It subdivides into a separate line, running from Rutenga to the border with South Africa at Beitbridge.

The National Railways of Zimbabwe was nationalised in the 1940s; today it is the largest single employer in the country with more than 17,000 employees. At the end of 1989, its motive power fleet consisted of 30 electric, 80 steam and 285 diesel locomotives. Of these only 188 - 136 diesels, 22 electric and 30 steam were available for service in 1989 - less than 50% of the total. Poor maintenance, an acute shortage of spares and a serious scarcity of relevant skills account for this unhappy situation. There were 12,150 wagons, more than half of which are more than 40 years old and due for replacement.

The striking feature of the NRZ's operating performance is the sharp decline in productivity during the post-independence period. Locomotive utilization, which averaged 420 engine kilometers before 1980 had fallen by a third to 290 engine kilometers by 1988. NRZ collects detailed statistics on operating conditions and all of these show a deteriorating trend in asset utilization.

National Railways of Zimbabwe
Financial Performance
Z$ millions

Item	1984/5	1988/9	% Change
Revenue	203	269	+ 32.5
Operating costs	221	304	+ 38
Debt service	50	79	+58
Financial requirement	61	112	+ 83.6
Subsidy	50	120	+ 140%

Source: NRZ

The system incurred operating losses of Z$230 million in the five years to June 1989, during which period government financial support totalled Z$460 million. In November 1989, faced with the collapse of NRZ operations due to serious congestion, a Task Force was appointed under the Vice-President to propose long-term remedies. Sweeping changes were recommended and these are being introduced. A World Bank project loan ($US $38.6 million) was agreed to help finance the purchase of 68 new locomotives, 50 passenger coaches and more than 1,000 wagons. A further 27 kilometres of track will be electrified and there will be considerable investment in plant and equipment.

The total cost of the project is US $263 million of which 61% will represent foreign currency spending. It is being co-financed by USAID, Danida, KfW, Finnida, Austria and Switzerland. The project implementation period is six years and will be accompanied by a major financial restructuring. This has already started with major increases in freight rates having been imposed in 1989/90.

The NRZ has been set a financial goal of a 4% rate of return on capital employed from July 1991. The government subsidy is to be eliminated by 1995. To achieve this substantial increases in fares and rates will be needed along with cost reductions and efficiency improvements.

7.1.2 Roads

Zimbabwe has 85,000 kilometers of roads, of which about 15% are tarred and 54% gravelled. One fifth are state roads linking provincial and district centers, a quarter are rural council roads serving the commercial farming areas, 7% are municipal roads in urban areas and the balance of 46% are district roads serving the communal lands. The condition of the latter is generally poor to very poor. In recent years the condition of some of the state and rural council roads has suffered due to inadequate maintenance funding. The World Bank is providing assistance for maintenance of state roads while Kreditanstalt fur Wiederaubau (KfW) of Germany and the African Development Bank (ADB) are active with other donors in financing improvements to the district road network.

Zimbabwe has a trucking fleet (vehicle payload greater than 2.3 tonnes) of 32,000 vehicles - the largest in the region outside South Africa. Commercial haulage firms account for 10% to 15% of the trucking fleet and about 10% of freight transport is by road. The balance is accounted for by manufacturing and commercial firms using their own vehicles.

The commercial haulage industry is dominated by 15 firms but there are a further 200 small-scale operators using one or a few trucks. The industry is regulated by a system of road permits controlled by the government. A few large operators have permits to operate countrywide while the Road Motor Services (a subsidiary of the state-owned NRZ) is exempt from permit requirements. Road hauliers must charge comparable rates with the

NRZ where they operate in direct competition.

The inter-urban and commercial farming routes are well-served by commercial operators but the communal sector is neglected. This is partly the result of low levels of traffic but also high operating costs due to poor roads and long distances.

The trucking fleet needs substantial replacement investment with at least half of the fleet is described as obsolete by industry experts. An aid and loan agreement with Britain worth US $140 million was announced in January 1991 for the supply of 2,440 trucks over the next year.

7.1.3 Air Transport

Zimbabwe has eight airports with Harare, Bulawayo and Victoria Falls classed as international. Facilities at Harare airport are seriously inadequate and there are plans to build a new terminal before the Commonwealth Heads of State meeting in September 1991. However, this timetable looks to be unrealistic.

Air Zimbabwe (AZ) is a parastatal and the sole provider of domestic services, though charter services are also available. AZ operates an international service to London, Athens and Frankfurt, and shares a service with Quantas to Australia, though this is operated by the Australian airline.

The most frequent flights are those linking Harare and Bulawayo with Johannesburg in South Africa. All the Southern African airlines operate services to Zimbabwe as does Ghana Airways, Air Mauritius and Kenya Airways. Major international airlines landing in Harare include British Airways, Luthansa, and TAP.

AZ operates a fleet of five Boeings 707-320 Bs, three recently-acquired B737-200s, a BAe 146-200 and two Viscount 800s. Two new B767-200s have been acquired in the past year. While the airline's operating capacity has increased since 1980, its efficiency has been constrained by an aged fleet, which is fuel-inefficient and has high maintenance costs. The airline's financial performance has deteriorated and government financial support is necessary.

Affretair Limited, a subsidiary of AZ, is the national freight carrier, operating in the air cargo business for many years. There is a highly specialized cargo handling area at Harare airport.

7.1.4 Transport Policy

The main objectives of government transport policy are:

* to improve and expand the road network in the communal areas and to maintain the main truck roads;

* to reduce dependence on the longer and more costly railway lines to the sea through South Africa;

* to reform the regulation of road transport so as to improve the supply of trucking services in the communal areas; and

* to improve the operating and financial performance of the transport parastatals thereby eliminating subsidies.

7.2 Energy

The country has a policy of energy self-sufficiency. Zimbabwe's principal sources of energy are coal, hydroelectric power and fuelwood. Liquid fuels are imported and there is growing investment in and utilization of solar energy.

The sole electricity generating and distributing authority is the government-owned Zimbabwe Electricity Supply Authority (ZESA). The bulk of thermal electricity is produced at the Hwange power station where four units of 120 MW each and two units of 220 MW each were commissioned in 1986/7. Hydroelectric power is generated at Kariba on the Zambezi river, which is jointly owned by the Zambian and Zimbabwe governments. There are plans to increase power generation by 440 MW at Hwange and 300 MW at Kariba South.

Petroleum imports are handled by the parastatal National Oil Company of Zimbabwe (NOCZIM), while distribution is undertaken by five international oil companies. Noczim's sales in 1987 were 255 million liters.

Ethanol is produced at the Triangle Sugar Estate for blending with gasoline. Triangle is currently operating close to capacity producing some 40 million liters annually which sustains a blend ratio of ethanol to gasoline of 13%. The ethanol plant is to be expanded to lift the blend ratio to 20%.

Fuelwood is the main source of energy for the rural population and the authorities lay great emphasis on tree-planting and woodlots to ensure continuity of supply. Other energy sources - coal, biogas and solar - are also being promoted in an effort to conserve wood.

There are no known deposits of oil, but in December, 1989, Mobil Corporation signed a four-year exploration agreement with the government. The agreement, the first in the history of the country, covers exploration for hydrocarbons over two large basins on the southern side of the Zambezi river - a total of three million hectares. Mobil is to assume 100% of the investment risk and will initially spend US$6 million. If early exploration results are encouraging, Mobil will spend a further US$30 million.

Electricity Production
millions of kilowatt hours

Years	Kariba	Hwange	Others	Zambia*	Total
1980	4,008	-	552	2,748	7,308
1985	3,097	1,602	324	3,057	8,080
1988	2,659	4,594	772	996	9,021

* refers to power drawn from the Zambian network. Zimbabwe uses a substantial portion of Zambia's share of Kariba power because Zambia's share normally exceeds its requirements.

Source: Central Statistical Office

In 1988 electricity usage totalled 8,500 million Kwh.; manufacturing, transport and construction use half the power consumed while mining accounts for 18%, agriculture 9% and domestic consumers 16%.

7.3 Communications

There were 240,000 telephones and 1,900 telex stations in operation in 1985; the service is good by developing country standards, although it is in the process of urgently needed rehabilitation and expansion. There has been an internal STD service, linked to the South African network for some time and, with the opening in 1984 of a new satellite link, there is now a workable international direct dialling facility. Purchase of telecommunications equipment such as facsimile machines can be difficult.

Chapter 8

Foreign Trade and the Balance of Payments

8.1 Recent Performance

Since Independence Zimbabwe has relied on a visible trade surplus to finance the deficit on invisible account arising chiefly from net spending on services (transport, freight, foreign travel) and investment income (interest and dividends). In all but two years, the trade account - including gold exports - has been in strong surplus, but the current account after reaching rough balance in the 1986/88 period is now in substantial - and growing - deficit.

The external payments situation deteriorated dramatically in the immediate post-independence years when the current account deficit averaged US $530 million a year during the 1981/3 period. The authorities responded in March 1984 by cutting imports and tightening exchange controls to reduce dividend and profit outflows. As a result, the current account deficit was reduced to only $4 million in 1987. But the trade balance fell steeply from a peak of $400 million in 1988 to only $130 million in 1990 as imports increased and exports fell.

As a result, the overall payments situation which was in surplus between 1985 and 1988, began to deteriorate and a deficit of $70 million is estimated for 1990.

Two problems bedeviled the external payments situation during the 1980s:

* sluggish export growth; and

* a heavy debt-servicing burden, caused by over-borrowing in the immediate post-independence period.

The remedies adopted achieved short-term success, reducing the debt-service ratio from 33% in 1987 to 22% in 1990 and allowing reserves to be rebuilt. But the cost of this import-repression strategy in terms of low investment, rising unemployment and sluggish growth proved unacceptable and in 1990, the authorities changed direction and agreed to implement a World Bank/IMF structural adjustment plan.

The Balance of Payments 1988 -1990 - millions of SDRs

Years	1988	1989	1990*
Exports	1,185	1,232	1,134
Imports	882	1,032	1,038
Trade surplus	303	200	96
Services			
Transport	-84	-102	-109
Other	-64	-69	-65
Investment:			
Interest	-108	-102	-99
Other	-62	-64	-71
Transfers	-3	-15	-13
Current Account Deficit	-18	-152	-261
CAPITAL ACCOUNT			
Official Transfers	49	61	60
Direct Investment	3	-8	-5
Portfolio Investment	-45	-29	-23
Medium and Long-term capital	69	72	157
Short-term Capital	16	29	21
Capital Account Balance	92	125	210
Overall Balance	74	-27	-51

Notes: Short-term capital includes unrecorded flows. Portfolio disinvestment refers to amortization of government disinvestment bonds.
* = estimated
Source: IMF October 1990

8.2 Exports

The most recent detailed foreign trade figures (1987) show that three products - gold, tobacco and ferrochrome - account for almost 50% of merchandise exports. Because leaf prices were depressed in 1987, the tobacco industry lost its traditional position as top exporter to gold. However, with gold prices subdued since 1989, tobacco is once again the country's largest export with 1990 exports estimated at Z$850 million and forecast to exceed Z$1 billion in 1991.

Top Ten Exports 1987
Z $ millions

Item	Z $ millions	Share
Gold	440	18.6
Tobacco	431	18.2
Ferrochrome	250	10.5
Cotton	121	5.1
Nickel	93	3.9
Steel	92	3.8
Asbestos	92	3.8
Meat/hides	83	3.5
Sugar	79	3.3
Maize	66	2.8
Total	1,747	73.5

Source: Central Statistical Office 1990.

The relative importance and value of these exports fluctuates in line with domestic climatic conditions and world market conditions. Thus in 1988 nickel exports increased sharply, while in 1989/90 meat exports fell steeply due to the outbreak of foot-and-mouth disease and the temporary loss of the industry's EC quota. Tobacco exports increased strongly in 1989/90 reflecting buoyant world market demand and prices while gold, nickel and ferrochrome sales were adversely affected by the fall in metal prices. Cotton exports plummeted in 1990 because of low domestic producer prices and contaminated seed.

However, Zimbabwe is fortunate in having a broad export-base and - by African standards - a low export concentration ratio. When metal prices are slack as in 1990/91, tobacco, maize and other agricultural exports have come to the country's rescue.

Exports by Sector 1987

	Z $ Mlns	Share
Mining (including gold, ferrochrome and steel)	1,080	46%
Agriculture (including cotton lint)	935	40%
Manufactures	300	14%

Estimates of manufactured exports vary with definitions. Thus the Confederation of Zimbabwe Industries (CZI) classifies cotton lint, steel and ferrochrome exports as "manufactures". When these are - more appropriately - listed as primary exports, the dominance of agriculture and mining is obvious. Manufactures accounted for 14% of the total, with clothing, textiles, footwear and leather goods valued at Z$115 million, or almost 5% of total exports, and sales of engineering goods worth Z$70 million or 3% of total exports.

8.3 Imports

With imports subject to tight licensing regulations, few consumer goods are exported to Zimbabwe where there are acute shortages of consumer durables - automobiles, refrigerators, color TVs etc.

The import pattern is dominated by machinery and transport equipment, chemicals, fuels and electricity and industrial inputs. Because Zimbabwe imports its entire liquid fuel requirement, (apart from a 15% element of petrol which is derived from ethanol) it has been hard hit by the rise in oil prices which is estimated will cost the country an extra US$200 million in 1991, taking the fuel import bill to US $350 million. Food imports are negligible.

Main Imports 1987

Item	Value Z $ Millions	%
Fuels/electricity	240	14.0
Foodstuffs	25	1.5
Chemicals	310	18.0
Packaging Materials	80	4.5
Machinery/Transport equipment	335	19.0
Vehicles and spares	53	3.0
Aircraft and spares	144	8.3
Industrial inputs (nes)	215	12.3
Consumer goods	100	6.0
Raw Materials	110	6.3

8.4 Direction of Trade

Trade direction data are similarly dated. In 1987, Zimbabwe's main trading partners were:

Direction of Trade

Country	% of totals Exports %	Imports %
South Africa	9.8	20.8
U.K	12.9	11.5
Germany	10.2	8.8
USA	6.9	9.4
Botswana	5.5	5.7
Japan	5.0	4.0

Source: Central Statistical Office, Harare

Direction of trade figures require careful interpretation. The South African figures substantially understate the level of South African imports into Zimbabwe because indirect imports (especially via Botswana) are excluded, but much more importantly because cross-border trade by individuals is not covered. The same is also true of Botswana and especially since late 1989 when individuals were allowed to import up to Z$5,000 of goods without an import license. The steep rise in the number of Zimbabwe visitors to Botswana and South Africa after this liberalization implies far higher levels of trade between these two countries and Zimbabwe than in 1987. Indeed, it is likely that South Africa accounts for close on a quarter of Zimbabwe's total imports. The Botswana figures are distorted also by the cross-border traffic in copper-nickel matte, sent from Botswana to Zimbabwe for refining before re-export.

US exports to Zimbabwe have stabilized at around US$ 50 million a year while US imports have grown over the past few years. The figures from 1986 are:

US trade with Zimbabwe
US $ mlns

Years	US Exports	US Imports
1986	53.5	73.5
1987	75.4	74.5
1988	34.3	126.7
1989	50.0	110.0

8.5 Exchange Rate Policy

For most of the period since Independence Zimbabwe has operated an active exchange rate policy allowing the Zimbabwe dollar to depreciate gradually against major world trading currencies. The exchange rate is determined by the Reserve Bank using an undisclosed formula involving a basket of currencies of Zimbabwe's main trading partners. The intervention currency is the US dollar. The spread applied by the Central Bank (Reserve Bank of Zimbabwe) between the buying and selling rates is 0.8% for major currencies and 1% for other currencies. An additional 0.25% on either side of the central rate may be charged by authorized dealers (commercial and merchant banks).

There has been only one formal currency adjustment since 1980 -the 20% devaluation against major currencies in December 1982. (Appendix Two shows the long-term trends for the Zimbabwe dollar against its major trading currencies).

Trade-Weighted Index
Zimbabwe Dollar
December 1984 = 100

Year-end	
1980	121
1981	128
1982	111
1983	105
1984	100
1985	90
1986	77
1987	67
1988	65
1989	57
1990	47

Source: Standard Chartered Bank, Harare

The nominal exchange rate for the Zimbabwe dollar was allowed to appreciate immediately after Independence, reaching a peak in mid-1982. It was devalued by 20% in December 1982 and has since declined a further 60%.

8.6 Currency Outlook

The near-term outlook is for continued depreciation of the Zimbabwe currency. In parallel markets, the Zimbabwe dollar trades at a substantial discount below the official rate. In January 1991, the parallel market rate for the US dollar was five to one as against an official rate of 2.7, while for sterling it was ten to one against an official rate of five. In October 1990, the IMF noted that despite the substantial depreciation of the currency in 1989/90, the existence of multiple currency practices demonstrated that the exchange rate remained significantly overvalued. The Fund urged the Zimbabwean authorities to undertake a "large upfront devaluation" as part of the planned trade liberalization program. Whether or not this advice is heeded when the Structural Adjustment Program is implemented, it is clear that the Zimbabwe dollar will continue to depreciate at an annual rate of at least 20% in 1991/2, especially as inflation will accelerate at a time when world prices for many of Zimbabwe's exports - excluding tobacco - are depressed and its balance of payments is experiencing marked deterioration. In the medium term, the Zimbabwe dollar will continue to weaken because domestic inflation can be expected to significantly outpace that in its main OECD trading partners.

8.7 The Trade and Payments System

Zimbabwe operates a highly restrictive external payments system. Although the government has been committed to the use of the tariff as an instrument of industrial protection and revenue generation since 1980, it has relied on blanket import controls, first imposed in October 1965, as the chief instrument of external payments management.

All foreign payments are subject to exchange controls administered by the commercial and merchant banks as authorized dealers on behalf of the Reserve Bank of Zimbabwe (RBZ). With the exception of a few products covered by Open General License (OGIL) - the list was widened in October 1989 to include eight new items - all imports are subject to licensing requirements. Indeed, the OGIL arrangement stops well short of allowing free imports. Importers must be registered with the RBZ - as well as with the Ministry of Commerce and Industry - and ceilings have ben applied to the so-called "open license" system. The amount of trade covered by OGIL is negligible. In January 1991, the Minister of Commerce and Industry said Z$75 million had been set aside for OGIL imports in the first half of 1991 - implying that for the year as a whole OGIL will apply to no more than 5% of imports. However, full implementation of the reform program will mean that 30% of imports will be placed on OGIL by the end of 1991.

In December, 1989, the government began to relax some of its import regulations; individuals may now import goods valued at Z$5000 per month (Z$500 previously) without an import license under OGIL. However, the new regulations require that all goods imported must be for the use of the importer and cannot be sold within a year.
Import licenses are issued only against a certificate of foreign exchange allocation. Global allocations are decided by an inter-ministerial committee chaired by the Minister of Finance, Economic Planning and Development. Products are grouped into five categories, ranging from basic essentials to non-essentials.

Manufacturers receive allocations for raw materials for the domestic and export markets. In the case of the domestic market, allocations are determined by priority and the availability of foreign exchange. For export sales, allocations are determined on the basis of past performance. Industrial exporters may also receive supplementary allocations, determined on the basis of the increase in their exports. Export-oriented mining and agricultural producers may obtain additional allocations under the export promotion program.

The normal validity of import licenses is 12 months from the end of the month of issue, but in certain circumstances validity can be extended. Licenses are normally issued without geographical restriction though certain licenses - such as those for PTA imports - are restricted to a group of countries. Licenses are issued on an FOB basis and do not cover the invisible element of the transactions.

The customs duty regime consists mainly of ad valorem duties which range up to 35% of the CIF value, and specific duties on a number of products. In addition, most imports are subject to an additional tax of either 12.5% or 20% - equivalent to the rate of sales tax imposed on the same goods sold domestically. Most imports are also subject to a 20% surtax.

The government is prepared to consider requests for protection not only from industries already established but also from local and external investors who are proposing new projects.

8.8 Exports and export proceeds

Licenses are required for certain exports - petroleum products, jute and hessian bags, road or rail tankers for moving liquids, wild animals and wild animal producers and any ore, concentrate or other manufactured product of chrome, copper, lithium, nickel, tin or tungsten. Payments for exports must be received :

* in a denominated currency; or
* in Zimbabwe currency from a nonresident account; or
* in the case of Botswana or Malawi, checks drawn in Botswana Pula or Malawi Kwacha;

* under the PTA arrangements, member countries can use national currencies in the settlement of payments during a two-month transaction period, with net balances settled thereafter in convertible currencies.

Hitherto, all export proceeds have had to be sold to authorized dealers. In October 1990, an export retention scheme was announced to take effect from 1991.

8.9 Payments for and receipts from invisibles

Foreign exchange to pay for invisibles is provided by the commercial banks under delegated authority from the Central Bank. There is a basic holiday allowance of Z$450 per person per annum; the allowance may be accumulated for three years, but is not available in advance. Children under ten years of age are entitled to a half-allowance. There is a basic foreign exchange allowance for business travel. Foreign exchange is also made available, on application, for education abroad - after the secondary school level, and for medical treatment.

Receipts from invisibles must similarly be sold to authorized dealers within a reasonable period of time. Residents performing services abroad are not entitled to retain earnings abroad.

Non-residents must pay hotel bills in foreign exchange and travellers may bring in Zimbabwe currency to a maximum of Z$20.

8.10 Capital Transactions

Inward transfers of capital through normal banking channels are not restricted. All outward capital transfers are controlled although under the Structural Adjustment Program these will be considerably liberalized by 1995.

Foreign investments, after September 1, 1979, undertaken through normal banking channels, qualify for repatriation after two years, less any amounts repatriated in the interim as dividends or profits. The repatriation of capital invested before September 1979 is forbidden, but shareholders may sell shares to local residents and apply to remit the proceeds. Where such permission is granted, the capital must be invested in external governments bonds ("divestment bonds") bearing interest at 4% a year with a maturity of 12 years in the case of individuals and 20 years for companies. The capital may be repatriated in six equal annual amounts from year seven in the case of individuals and from year eleven in ten instalments by companies.

Since March 1984 former residents and new emigrants have been allowed to invest their funds in Zimbabwe Govt 12-year 4% external bonds, and repatriated from year seven. The remittability of Zimbabwe pensions is guaranteed under the Constitution. All other outward capital transfers are subject to Reserve Bank approval.

Anti-dumping legislation is enforced. The following types of dumping are covered in the Customs and Excise Act: ordinary dumping, bounty dumping, freight dumping, exchange dumping, and surcharge dumping.

8.11 Regional and International Organizations

8.11.1 The Preferential Trade Area (PTA)

Zimbabwe is a member of the Preferential Trade Area for Eastern and Southern Africa whose aim is to increase regional trade and establish an African common market by the year 2000. To date membership of the PTA stands at 16 countries namely:

Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Rwanda, Somalia, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe. The progressive liberalization of intra-PTA trade began in 1984 with the adoption of a common list comprising 209 items. A Multilateral Clearing Facility, operated by the Reserve Bank of Zimbabwe (RBZ), also began operations in 1984. A PTA monetary unit of account called the "Uapta" is used to settle inter-state debts every two months, with the balance payable in US dollars. Uapta traveller's cheques were introduced in September, 1988. According to the PTA secretariat US$ 178 million worth of trade passed through the clearing house in January to November 1988 and was settled in Uapta. A slightly larger amount was settled in hard currency.

The practical impact of the PTA has been severely constrained by the "rules of origin" which stipulate that preferential treatment can only be accorded to goods produced by companies managed by, and in which over 51 % of the equity is held by, nationals of the member state. Kenya and Zimbabwe argued very strongly against this rule, and in May 1986 the organization agreed to a sliding scale of tariff reductions, to be applied over a five-year grace period. Companies which are 40-50% locally owned now qualify for a 60% tariff reduction and those that are 30-40% locally-owned for a 30% reduction. This concession means that many export oriented firms in Kenya and Zimbabwe would qualify for some preferential agreement.

The agreed schedule for removing customs barriers has been frequently revised. The PTA summit in Kampala in December 1987 approved a new timetable of 10% tariff reductions every two years from 1988 to 1996, with the balance to be eliminated in two steps of 20% and 30% respectively in 1998 and the year 2000. By the time of the December 1988 summit only Mauritius, Zambia and Zimbabwe had met the 1988 deadline.

Intra-PTA trade is dominated by Zimbabwe and Kenya, because of their more developed industrial sectors, with Mauritius becoming an increasingly powerful competitor. This has resulted in Zimbabwe having a positive trade balance with most member states, and the target of criticism that it is interested only in exporting and not importing from member countries. In 1989/90 Zimbabwe increased its allocations for PTA imports in an attempt to reduce the positive trade balance.

8.11.2 The Southern Africa Development Coordination Conference (SADCC)

SADCC was established in 1980 with the objective of increasing regional cooperation, reducing external economic dependence and, specifically, reducing dependence on South Africa. Zimbabwe became the ninth member, joining Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania and Zambia. Namibia became the tenth member in 1990.

In practice SADCC acts to mobilize support for national and regional projects and attract international backing from donors. By mid-1988 SADCC had approved 589 projects valued at US$ 7.4 billion, and many had been completed, especially in the transport and communications sectors, with backing of foreign donors. By mid-1988 this donor support amounted to a total of US$ 3.7 billion disbursed, committed or under negotiation - exactly half the value of all projects. Its transport secretariat, the Southern African Transport and

Communications Commission has assumed special importance due to the launching of major railway and port rehabilitation projects.

8.11.3 The General Agreement on Tariffs and Trade (GATT)

Zimbabwe is a member of GATT and has been an active participant in the Uruguay Round negotiations on the reduction of trade barriers. Zimbabwe's main interest lies in securing improved access for its agricultural and semi-processed exports in international markets and especially the EC.

8.11.4 The Lomé Convention

Formally the Africa Caribbean Pacific (ACP)/European Economic Convention, the Lomé convention is a trade and aid agreement between the EEC and 66 ACP states, including 45 African states, which guarantees duty free entry to the EEC for some commodities produced by the ACP. (Appendix Four).

In terms of the agreement :

1) All manufactured products originating in Zimbabwe have free access into the EC market.

2) Most of Zimbabwe's exports of agricultural products are admitted into the EC market free of customs duties.

3) Zimbabwe's exports of sugar and beef to the EC are governed by quotas and her tobacco exports are presently being monitored.

8.11.5 General System of Preferences (GSP)

The GSP are schemes whereby the industrialized countries (preference-giving countries) accord global preferential tariff treatment to products originating from developing countries (preference receiving countries). There are at present 16 schemes of preferences. To benefit exporters and officials in developing countries must be conversant with the individual schemes especially the "rules of origin". The schemes of Australia, Canada, Japan, New Zealand, the European Free Trade Area, and the US are summarized in Appendix Five.

Chapter 9

External Debt and Aid

9.1 Debt

At the end of 1989, Zimbabwe's external debt was US$3,087 million or $323 per capita. On a per capita basis, Zimbabwe has the lowest debt exposure of middle-income sub-Saharan countries. Its aggregate foreign debt is the 13th-largest for the region as a whole.

At Independence, the country had an external debt of SDR 520 million or 16.5% of GDP. This rose steeply as Zimbabwe borrowed heavily to finance its payments deficits during the 1982-84 period, to SDR 2.3 billions in 1983. It has subsequently fallen to SDR 1.9 billion at the end of 1989 (43% of GDP). The bulk of the debt represents borrowings by central government, which account for 70% of the total, with parastatal borrowings representing a further 27% and the private sector only 3%.

The bulk of Zimbabwe's foreign debt represents bilateral loans from governments and lending by multilateral agencies which between them account for 58% of the total. The balance of 42% is borrowing from commercial institutions.

Debt-Service Ratio
% of exports of goods and services

1981	9.5
1982	16.3
1983	24.6
1984	27.0
1985	29.4
1986	29.4
1987	33.3
1988	27.5
1989	22.6
1990*	21.6
1991*	25.4
1992*	23.9
1993*	22.0
1994*	18.5
1995*	16.9

* = estimated or projected
Source: Reserve Bank of Zimbabwe and IMF

IMF projections suggest a sharp rebound in the debt-service ratio in 1991 to more than 25%, but thereafter it is assumed to decline. But the resort to substantial foreign borrowing - loans from the IFC, ADB and most recently commercial banks to finance vehicle imports, point to a more severe deterioration in the debt-service ratio than the IMF's forecast. Indeed, present indications suggest that the ratio could return to the 30% level in 1992/3 before resuming its decline. Much will depend on the extent of donor support for, and success of, the Structural Adjustment Program.

9.2 Foreign Aid

Net official development assistance (ODA) to Zimbabwe from all sources averaged US $265 million annually during the 1986-89 period, according to OECD data. Aid flows are calculated differently by different agencies and the more detailed figures compiled by the UNDP put the 1988 inflow at US $183 million (OECD: US $273 million).

On UNDP figures, the total value of Technical Cooperation, Capital Assistance and Commodity Aid disbursements in Zimbabwe in 1988 was US$183 million, 52% more than in 1987. The large percentage increase is due to the fact that a few donors (i.e. Canada, Denmark, Austria, USSR) who did not provide data for the 1987 Report did so for 1988. Other donors like the Netherlands, the EEC and the UK had evidently under-reported the value of their 1987 activities.

Total aid flows in 1987 and 1988
US $ 000

Years	**1987**	**1988**
UNDP	3,730	3,229
FAO	1,381	1,457
ITU	384	449
IAEA	17	189
WHO	809	1,548
UNICEF	1,574	2,254
UNESCO	-	428
UNV	-	48
UNFPA	293	254
WFP	2,501	2,872
UNHCR	767	2,252
Other Multilateral	5,541	13,877
<u>Bilateral</u>		
Austria	-	355
Bulgaria	1,089	654
Canada	148	12,891
Denmark	-	9,974
Egypt	503	1,348
Finland	6,652	3,550
France	2,185	-
Germany	5,707	2,169
Italy	27,550	8,398
Japan	-	5,931
Netherlands	2,096	26,137
New Zealand	346	209
Norway	15,335	19,077
Spain	139	59
Sweden	19,447	26,999
Switzerland	1,912	2,134
UK	7,524	12,988
US	12,703	12,524
USSR	-	8,754
<u>TOTALS</u>		
Bilateral	103,536	154,151
Multilateral	16,997	28,857
Total All Sources	120,953	183,008

Source: UNDP

Chapter 10

Labor

10.1 Employment and Unemployment

The Zimbabwe Central Statistics Office recently published the main results of its first national labor force survey, which was conducted during 1986 and 1987. According to the report, the population aged 15 years and above is estimated at 4.3 million, of which 77% or 3.3 million are considered economically active. This includes an estimated 1.5 million communal farmers - 55% of the total labor force.

Formal Sector Employment

Years	Agriculture	Non-Agriculture
1970	298,000	555,000
1975	364,000	686,000
1980	327,000	683,000
1985	276,000	780,000
1989*	285,000	900,000

* = estimated

Source: Central Statistical Office

Formal sector employment - that is excluding self-employed and the 1.5 million communal land farmers - increased by 175,000 between 1980 and 1989 from just over one million in 1980 to 1,175,000.

Employment grew most in the services sector, especially education where 60,000 new jobs were created, followed by public administration (24,000) and "other" services (24,000). Primary sector employment fell - with a loss of 10,000 jobs in mining and more than 40,000 in agriculture. Employment in manufacturing increased 40,000 and there was a 28,000 rise in construction sector employment, and one of 22,000 in distribution and tourism.

Formal Sector Employment Growth 1980 -1989

Sector	1989	Share of Total	Change 1980-89
Agriculture	285,000	24	- 42,000
Mining	56,000	5	- 10,000
Manufacturing	20,000	17	+ 40,000
Construction	70,000	6	+ 28,000
Distribution/Hotels	92,000	8	+ 22,000
Economic Svcs*	78,000	7	+ 13,000
Education	102,000	9	+ 60,000
Public Admin	95,000	8	+ 24,000
Health	23,000	2	+ 8,000
Other Svcs#	171,000	14	+ 20,000

* = Electricity and water, transport, finance and real estate

including private domestics

Source: Central Statistical Office

There is no reliable unemployment data, but with the rate of annual school-leaver entry to the workforce rising from 30,000 in 1980 to an estimated 300,000 in the 1990s, crude estimates suggest that unemployment has grown from approximately 200,000 at Independence to 1.2 million in 1990. On present trends - of 17,000 new formal sector jobs annually - and after making allowance for workforce mortality and retirements, unemployment is set to rise by at least 200,000 a year, doubling by 1995 and exceeding three million by the turn of the century.

By regional standards the labor force is well-trained, though the educational bias in favour of "white collar" education has had two adverse repercussions:

* there is an acute shortage of blue collar personnel - mechanics, plumbers, bricklayers, electricians etc.; and

* well-educated school-leavers are reluctant to seek employment in the rural/informal economy, where the job-generation potential is greatest.

A manpower skills survey conducted immediately after Independence indicated the following for the respective industrial sectors in Zimbabwe:

a) Agriculture - Labor force is predominantly unskilled with only 2% skilled in commercial agriculture. There is no apparent shortage of skilled manpower.

b) Mining - Relatively skill-intensive. Has suffered from loss of skilled labor. Priority training areas are in engineering and mining technology.

c) Manufacturing - Varies with industrial groups. Skills have been lost through emigration. Training and short-term recruitment of expatriates is required.

d) Construction - Labor force is semi-skilled, but there is a heavy dependence on architects and civil engineers, who are in short supply. Artisans are reasonably well supplied.

e) Transport and Communications - serious skills shortage. Considerable training required.

f) Electricity and Water - Highly skill intensive but showing growing shortages.

10.2 Incomes Policy

The main objectives of incomes policy since 1980 have been:

* to narrow income differentials;
* to raise the standard living of the low-paid; and
* to contain inflationary pressures.

In pursuit of these objectives the authorities have used two main policy instruments:

* statutory minimum wages; and
* controls over wage and salary increases.

Controls over wage and salaries are exercised by the government in consultation with Employment Boards and Councils, which include employer and worker representatives. The same provisions are applied nationally, with no differentiation between sectors and firms. Between 1982 and 1985, the controls took the form of a scale of permissable increases, with higher increases permitted at the bottom of the salary scale than at the top.

In July 1986 across-the-board mandatory salary increases were stipulated, also on a graduated scale. There was a second wage freeze in June 1987 - the first was in 1983/4 - which was dismantled in 1988/9. The authorities planned to establish a prices and incomes board but this was overtaken by the Economic Policy Statement (July 1990) setting out plans to liberalize controls.

Some decentralization of wage bargaining was allowed in 1989/90 but statutory minimum wages centrally-established "indicative guidelines" were retained. As part of its move towards economic liberalization, the government announced in February 1990 that it favored a return to free collective bargaining between workers and employers. In future, it said, it would only "monitor, vet and register" agreements.

In effect, public service wage awards tend to set a minimum for the private sector, which offers significantly higher salaries especially when fringe benefits are taken into account. While the private sector was able to circumvent government ceilings on salary awards - by resort to promotion, reclassification, fringe benefits etc - parastatals and the civil service were not. The result has been a serious drain of skills from the public sector mirrored in an increasingly inefficient public sector.

Average Earnings 1980-89

Sector	1980	1989	% Change
Agriculture			
Nominal	460	1,022 (1987)	+ 122%
Real	460	400 (1987)	- 13%
Manufacturing			
Nominal	2,520	7,000	+ 177%
Real	2,520	2,314	- 8%
All Non-Farm			
Nominal	2,530	6,275	+ 148%
Real	2,530	2,075	- 18%

Note: Figures for agriculture refer to 1987 - the latest statistics available.
Source: Central Statistical Office

Immediately after Independence, the government sought to improve the pattern of income distribution by raising minimum wage levels and putting a ceiling on salary increases for the better-paid. Nominal and real wages for the lower-paid increased sharply, but this policy was reversed in 1983 and nominal wages have since failed to keep pace with inflation.

As a result, ten years after Independence, average real earnings - in all sectors - are lower than in 1980. The fact that during the 1980s employment growth averaged a mere 1.8% a year despite falling real wages, underscores the seriousness of the unemployment challenge facing Zimbabwe in the next decade.

10.3 Labor Unions

The trade union movement in Zimbabwe is weak, poorly-organized and inadequately-financed. Organized labor accounts for 17% of the work force although a much smaller percentage is actively unionized, with some estimates suggesting that as few as 4% of the work force are really represented by unions. The unions are non-racial and in the industries where they are authorized to represent workers they operate on a "vertical" basis - "one industry one union". This vertical structure has arguably contributed to the weak state of the unions.

Organized labor's main aim is to increase the minimum wage to a "living wage" - which means doubling the existing minimum wage. But the economic reform program and escalating unemployment will between them ensure that real wages continue to fall while the gap between skilled and unskilled remuneration will widen. The government is not close to the unions and the labor movement has, in fact, been outspoken in its criticism of some recent government policies. Government supporters see the unions as a threat to the government's authority and credibility.

The Labour Relations Act of 1985 controls both hiring/firing and the conditions under which strike action is permissable. Effectively, no worker can be fired and no worker can be retrenched without an application to government. Early in 1989, troubled gold producer Falcon Mines faced a critical cash-flow situation after the Labour Ministry refused to approve plans to retrench 500 employees, despite successful negotiations on voluntary redundancy. Legislation requiring employers to obtain ministerial approval before dismissing workers, remain a source of contention between government and the private sector.

The government retains strong powers to prohibit strikes in industries considered "essential" to the national economy and to national security. It has used these powers - and those under emergency regulations until mid-1990 - to take action against strikers, including government school-teachers. Labor unions can appeal to the courts against rulings declaring industrial action to be illegal.

10.4 Workers' Councils

There has been rapid progress since Independence in the involvement of liaison and worker's committees, the formation of which is encouraged by government. The worker committees now have about 70,000 elected officers throughout industry. These committees provide a basis for two-way communication between management and labor and provide a forum for expression. They are highly democratic with major decisions taken by secret ballot. They are a useful channel for informing employees about the business and its aims. They are also seen by the unions as a rival to their shopfloor influence.

10.5 Employment of expatriates

Since it is a key policy of the government to localize industry and to bring black Zimbabweans into senior and skilled positions, in general terms, employment of non-Zimbabweans is discouraged. Permits for skilled expatriates may be obtained for a two-year period on the understanding that a Zimbabwean will be trained during that period to fill the position at the end of the expatriate contract. In exceptional cases, permits have been extended on the understanding a local recruit be trained within a maximum of five years. The employer must demonstrate that no Zimbabwean is available to do the job before approval can be considered. Foreign nationals are not permitted to take a job without a permit, and where a permit is granted, no change of employer is allowed without approval from the Minister of Labor. Families of expatriate workers are normally given residence permits.

Curbs on expatriate employment are a minor constraint on foreign investment in Zimbabwe. Several major multinationals, including Barclays Bank and Anglo American Corporation, have been forced by the regulations to appoint chief executives other than the originally-preferred choice. At lower levels there is concern too that the country is cutting itself off from the most recent technological advances by placing obstacles in the way of the employment of skilled expatriates.

10.6 Expatriate Living Conditions

Living conditions in Zimbabwe are amongst the best in the world; the climate is superb - warm without being oppressive, with four to ten hours of bright sunshine daily all year round. Zimbabwe's altitude moderates the tropical temperatures that might be expected by its latitude, while being land-locked humidity levels are low.

English, which is the official language and that used throughout business, is widely spoken. Newspapers, radio and television programs are also available in English. Housing, health and educational facilities are readily available, though there has been a marked deterioration in the standards of public education. There are a number of private schools but these are expensive - one such school raised its 1991 fees by 50% - and places are at a premium.

Relations between expatriates and Zimbabweans are good and most visitors find Zimbabweans to be friendly and open. Nevertheless, with rising unemployment and rapid urbanization, crime levels - especially the theft of consumer durables, notably automobiles - are rising rapidly. Expatriates and wealthier Zimbabweans have been forced to take precautions to protect the security of their property.

Housing is increasingly difficult to find and although inexpensive by international standards, it absorbs a growing proportion of family incomes. Most homes are well-served with water, electricity and telephones. Religious services for most Western religions are available.

Chapter 11

The Financial Sector

Zimbabwe has the most sophisticated and diverse financial sector in sub-Saharan Africa, with the exception of South Africa. It consists of :

* The Reserve Bank of Zimbabwe, which is the central bank;
* five commercial banks: a sixth has just been licensed;
* four accepting houses/merchant banks;
* two discount houses modelled on London institutions. A third has just been approved.
* five finance houses handling leasing and hire purchase finance;
* three building societies providing mortgage finance; and
* the Post Office Savings Bank (POSB).

11.1 Banks

The commercial banks offer the traditional range of bank services. Two of them - Standard Chartered (the largest) and Barclays Bank, have broad branch networks covering the country, while the third largest commercial bank, the state-owned Zimbabwe Banking Corporation, has a smaller branch network in the main urban areas with some rural branches. ANZ Grindlays operates a few mainly urban branches as does the Bank of Credit and Commerce, Zimbabwe, which is a joint venture between the BCCI group and the Zimbabwe government. Meridien International is the new bank which is likely to be granted a license in 1991.

The four merchant banks specialize in providing services to corporate customers, mainly in the form of trade-related finance, project funding and corporate finance advice. Two of the merchant banks are part of commercial banking groups - Syfrets Merchant Bank which is a subsidiary of Zimbank and Standard Chartered Merchant Bank. First Merchant Bank (formerly Rhodesian Acceptances) is part of the Anglo-American group and the Merchant Bank of Central Africa (MBCA) has a broad spread of international banking shareholders.

The finance houses provide hire purchase credit, leasing finance and medium term loans. The largest is UDC, part of the international group, while two others - Standard Finance and Scotfin are part of the Standard Chartered and Zimbank groups.

The two discount houses - a third is to be established in 1991 -have overseas equity links. They accept call money from the commercial banks, finance houses and building societies, investing these funds in a wide range of securities, mainly with short maturities.

The three building societies provide mortgage finance for residential and commercial building construction and the purchase of existing homes and buildings. They make loans to the government for high-density housing projects.

The POSB, a statutory corporation, accepts fixed and savings deposits providing a nationwide savings network. The interest on deposits with the POSB - and some building society deposits - is tax-free.

11.2 Nonbank Financial Institutions

There are also a number of nonbank financial institutions designed to channel funds to agriculture, small business and industry. The two most important of these are the Agricultural Finance Corporation, a parastatal making loans to farmers for seasonal working capital and also for long-term investment, and the Industrial Development Corporation, also state-controlled which invests in new and existing industrial and mining projects.

Both these institutions predate Independence but the Zimbabwe Development Bank and the Small Enterprises Development Corporation (SEDCO) are both post-Independence parastatals created to channel funds to small business (SEDCO) and to make loans, including foreign currency loans, for development projects.

11.3 Institutional Investors

There is also an extremely important institutional investment industry, dominated by the country's largest life assurance group, the South African-owned Old Mutual. It has assets of more than Z$3 billion, compared with only Z $322 million in 1980. Institutional investors - pension and provident funds, life insurance companies - dominate the domestic capital market, funding much of the government's domestic borrowing requirement and investing heavily in real estate and also on the Zimbabwe Stock Exchange. Between 1986 and 1989, the Zimbabwe government raised Z$3.4 billion in domestic loan stock issues of which 45% ($1.6 billion) was subscribed by pension funds and insurance companies.

11.4 Capital markets

Zimbabwe has a small stock exchange controlled by a modern and sophisticated Act. Dealings are limited to local stocks. There are 58 Zimbabwe-based firms listed on the exchange. Share prices on the Zimbabwe Stock Exchange have risen strongly after reaching a 25-year low in 1984. The main reasons for this are:

* the scarcity of investment opportunities in an excessively liquid capital market. The main alternatives to equity investment are government stock, on which yields for most of the post-Independence period have been negative in real terms; and property, whose attraction as an investment has been undermined by rent controls.

* strong profit and dividend growth have boosted share prices. Pre-tax profits of listed industrial companies doubled between 1985 and 1988, increasing 50% in constant dollar terms. Over the same term, dividends went up 120%, or almost 60% when adjusted for inflation.

* share prices have been rising to reflect the inflationary revaluation - in local currency terms - of real assets. This effect has been particularly marked in 1989/90.

Industrial share prices rose 160% in 1990 despite a large increase in the volume of new capital raised through the market. Institutional investors have played the dominant role in driving prices up. While a substantial volume of institutional money has been invested through the secondary market in quoted equities, very little has been channelled through new issues into the private sector. Until 1990, pension funds and life assurance companies were required to hold 60% of total assets in prescribed investments (government, local authority, and parastatal), thereby reducing the flow of funds into equity issues.

ZSE Industrial Share Price Index
Jan 1967 = 100

Year end	
1980	405
1981	325
1982	171
1983	135
1984	115
1985	228
1986	274
1987	338
1988	553
1989	869
1990	2,283

Between 1980 and 1989 less than US$100 million was raised in new private sector equity issues, though there have also been a number of privately-placed debenture issues. But there was a substantial increase in activity last year when US $100 million of new capital was raised and four major new companies - including the foreign-controlled Cluff Resources - came to the Zimbabwe market. A heavy program of new flotations is expected during 1991.

11.5 Monetary Policy

The basic objectives of monetary policy have been :

* ensuring non-inflationary funding of the public sector deficit;
* containing inflation; and
* protecting the balance of payments.

Tight exchange and import controls gave rise to a build-up of excess market liquidity forcing the authorities to use a variety of instruments to sterilize idle cash balances. These include variations in reserve and liquidity ratios, administered interest rates, funding the state-owned Agricultural Marketing Authority and issuing Reserve Bank Bills to mop up excess liquidity. Little use has been made of interest rate policy with the authorities preferring direct controls to regulate the monetary aggregates.

In October 1989, a new system of (administered) interest rate determination was introduced centered on a Base Lending Rate (BLR), fixed by the RBZ, in place of the minimum overdraft rate. For "productive" loans, banks were allowed to charge a maximum rate of 2.5% above the BLR. In December 1989, BLR was lowered to 11.5% from 13% for banks and set at 14% for the finance houses (with a maximum addition of 2% for productive lending).

With monetary expansion accelerating in 1990, the RBZ announced marginal increases in BLR to 12% for the banks and 14.5% for finance houses. Minimum lending rates of 17% were set for "nonproductive" lending.

Growth Rates of Bank Lending

Annual percentage change in bank credit to:

Years	Govt %	Para-statals %	Private Sector %	Total %
1985	- 5.0	14.0	1.7	10.7
1986	- 0.3	3.7	10.3	13.6
1987	13.5	- 6.6	10.5	17.4
1988	- 0.5	- 0.7	19.3	18.1
1989	5.1	6.5	17.1	28.6
1990 (June)	3.7	4.2	29.9	37.8

The rate of credit expansion accelerated sharply in 1989/90 from 18% in 1988 to 38% by mid-1990. This was largely the result of the growth in private sector borrowing which increased 75% in the 18 months to June 1990. The bulk of this occurred in the first half of 1990 when economic growth was slowing. Unfortunately, much of the rapid monetary growth reflects lending to the productive sectors to cover increased production costs and finance working capital requirements, swollen by rapid inflation, rather than increased levels of fixed investment.

Because public sector borrowing from the banks declined during the 1988/1990 period, the share of bank credit going to the private sector rose from 45% in 1985 to 71% in June 1990, while that of parastatals fell from 39% to 15% and of central government from 16% to 14%.

Excessive credit expansion in 1990, allied with escalating inflation and a deteriorating external payments situation, must result in a substantial tightening of monetary policy during 1991. Indeed, in February 1991, new monetary measures were introduced and interest rates raised. Further increases are likely before the end of the year.

Chapter 12

Inflation and Price Controls

12.1 Inflation

Because of the prevalence of price controls until 1990, the official inflation figures understate the real rate of price increases. Indeed, the official price index has been described by one minister as little more than "an index of controlled prices". The average inflation rate on both the higher and lower income group indices, for the 1980-1990 period is 14%. The annual rate has fluctuated from a high of 18% in 1990 to a low of 7% in 1988.

Annual Inflation Rates

Years	Average Rate of Price Change Low and high income groups
1980	8.0
1981	14.0
1982	16.2
1983	17.0
1984	16.8
1985	9.4
1986	14.6
1987	11.5
1988	7.1
1989	11.8
1990*	16.0

Source: Central Statistical Office

The explosive growth of credit in 1989/90 and the phasing out of price and wage controls in 1988/9, along with faster depreciation of the Zimbabwe dollar, explain the increased inflation rate during 1990. The price freeze, imposed in June 1987, was lifted in two stages in June 1989 and January 1990 and a gradual decentralization of wage determination began, also in 1989.

12.2 Price Controls

Price controls have been used in Zimbabwe since the mid-1960s, though their scope and rigor was substantially widened after Independence. The authorities justify price control on three main counts:

* Tight import controls and the scarcity of many imported items and items with a high import content;

* the fact that more than half domestic industrial production is undertaken by monopolies or near-monopoly producers, and

* the need to protect the vulnerable, low-income family from exploitation by manufacturers and retailers.

The authorities accept that price control has been counter-productive. Not only did it fail to keep inflation in single figures, but it also was a contributor to low levels of investment and job creation. Accordingly, the price control machinery has been reformed and there are now three key categories of items:

(i) A small group of basic essentials, mainly foodstuffs, whose prices can only be increased with Cabinet approval. These include maize-meal, sugar, bread, meat, cooking oil, matches, petroleum, and fertilizer. The government also sets prices for locally-assembled motor vehicles.

(ii) A second small group, which now includes beer, wines and spirits, tobacco products and other luxury items, whose prices have been totally decontrolled.

(iii) The vast bulk of goods whose retail prices are regulated through the application of government-determined mark-ups. Prices can be raised automatically as costs increase provided the seller does not exceed the maximum stipulated mark-up.

Consumer groups are encouraged to report breaches of either the regulated prices or specified mark-ups, though the latter are extremely difficult to monitor. The Ministry of Commerce and Industry employs price control inspectors whose task it is to monitor the working of the policy.

Chapter 13

Public Finance

Since Independence, Zimbabwe has incurred a large budget deficit, averaging 10.5% of GDP over the last five years. This has had to be financed by heaving domestic borrowings, largely from non-bank sources. As a result, the government's total debt - internal and external - increased fivefold from Z$2 billion (58% of GDP) in 1980, to Z$10.5 billion (75% of GDP) in mid-1990.

13.1 Public Expenditure

The chief cause of the deficit is rapid growth in current spending which currently absorbs some 40% of GDP, and exceeds total revenues, excluding foreign grants.

Public spending is dominated by four main items:

* education, absorbing 19% of the budget;
* defence. which accounts for 12.5%;
* interest payments whose share is 14%; and
* subsidies, which take 8%.

These four elements between them account for almost 54% of total public expenditure, and any phased program of deficit reduction, such as that promised by the Zimbabwe authorities who say the deficit will be cut to no more than 5% of GDP by 1995, implies severe spending restraint. High on the agenda is the virtual elimination of subsidies, currently Z$650 million annually, by 1995. This has already meant sharply-higher railroad freight rates, and fuel prices. It will also mean increased food prices as farm subsidies are cut, higher air fares and almost certainly major retrenchment at the state-owned ZISCO steel complex which is losing Z$120 million annually.

Summary of Central Government Operations

Years	1989/90	1990/91*
Revenue		
Tax	4,637	5,906
Nontax	532	615
Total	5,169	6,521
Expenditure		
Current	5,271	6,594
Capital	601	825
Lending	573	783
Total	6,445	8,202
Deficit	1,276	1,680
Foreign Grants	138	250
Financing External	202	117
Domestic	937	1,313
Deficit as % of GDP	9.2	9.9

Source: IMF

13.2 Tax Revenues

There is little scope for increased taxation. Taxes currently absorb 35% of GDP while the tax "take" from total income (that is personal income tax, customs and excise duties and sales tax) has risen from 25% in the early 1980s to 60% in 1990. Indeed, far from increasing taxes, the proposed SAP aims to cut the corporate tax rate to 30% from 45% in 1991/92 and the top personal tax rate to 40% from the existing 60% level. One obvious and important source of increased tax revenue will be customs revenue as import controls are dismantled and replaced by an active tariff policy.

The main sources of government revenue in fiscal year 1989/90 were:

Income Tax	**Z $ mlns**	**% of total Revenue**
Individuals	1,404	27.2
Companies	836	16.2
Non-Res Shareholders and Interest tax	28	
Capital Gains	22	
Sales Tax	928	18.0
Customs/Excise	1,294	25.0
Miscellaneous Taxes	124	
Investment and Property Income	204	4.0
Fees etc	75	
Miscellaneous	253	
TOTAL	5,168	

Source: Financial Statements, 1980

Personal income tax is the main source of government revenue contributing 27%, followed by customs and excise duties (25%), sales tax (18%) and corporate income tax (16%). These four sources between them account for 82%.

Tax Rates

Year end Mar 31	1988 %	1989 %	1990 %	1991 %
Corp Income Tax	52.875	50	50	50
Capital Gains Tax	30	30	30	30
Foreign Dividends Tax	20	20	20	20
Personal Income Tax (max)	60	60	60	60

13.3 Sales Tax

The basic rate of sales tax until July 1990 was 12.5% with a 20% rate applied to consumer durables such as automobiles, electrical appliances and furniture. From August 1990, the basic rate was reduced to 10% (including household furniture, freezers and cookers), the consumer durable rate was reduced to 15% and a luxury rate of 20% was applied to perfumes, paintings and jewellery. Exempt goods include basic foodstuffs (meat, milk, maize-meal, bread, fruit and vegetables etc), paraffin and prescribed drugs and items on which excise duty is collected - tobacco products and alcoholic drinks.

But the plan to cut taxes will mean that the burden of deficit adjustment must fall on expenditure reduction and cost recovery. This program has already started with higher utility tariffs but the proposal to impose school fees from January 1991 at primary level has already run into difficulties and been postponed until a later, as yet unspecified, date. Expenditure reduction plans also include the retrenchment of one quarter of the public sector workforce over the next few years.

Chapter 14

Taxation

14.1 Main Taxes

Taxes are imposed by the central government - the main exception being property rates, a levy by municipal and other local authorities and based on property values.

The principal taxes are:

a) Taxes on income:

Income Tax
Branch Profits Tax
Resident shareholders' tax
Nonresident shareholders' tax
Nonresidents' tax on interest
Nonresidents' taxes on fees and remittances

b) Taxes on transactions:

Sales Tax
Customs and excise taxes
Import Tax
Estate Tax (inheritance tax)
Transfer Tax (stamp tax on real estate transfers)
Stamp Tax (stamp tax on stock exchange transactions and insurance policies)
Capital Gains Tax

c) Taxes on Property

Rates are levied by local authorities

d) Other Taxes

Betting taxes and other measures of a minor nature. There are no gift or wealth taxes.

14.2 Taxable Income

Income tax is levied on taxable income, which is arrived at on the basis of a formula. The starting point in the formula is to determine the amount of gross income, which refers to all amounts received or accrued from sources within or deemed to be within Zimbabwe, excluding capital receipts and accruals. Various capital items are specifically excluded in gross income. There are various exemptions from income tax. The next step in the formula deducts the exempt items to arrive at income. Finally, allowable deductions, which generally comprise revenue expenditure and various capital allowances, are deducted to arrive at taxable income. The broad result of the application of the formula, excluding the effect of allowances on capital assets, is that the taxable income equates to business profits and the net aggregate of other income, such as interest, rent, royalties, salaries, and other remuneration for services, pensions and annuities. For all practical purposes, dividends are exempt from taxable income, and, accordingly, expenditure attributable to dividends is not deductible in the determination of taxable income.

Tax is either payable:

a) within 30 days from the date of issue of an assessment; or

b) on a system of provisional tax payments. Under this system, where annual payment dates are allocated, the tax is payable in three instalments which must fall within a period of fifteen months following the end of the year of assessment. The first annual payment date on which 50% of the estimated tax liability is payable is 31 May for all taxpayers. A period of four months is allowed between the second and third annual payment dates (on each of which 25% of the estimated tax liability is payable). All second annual payment dates fall between 1 August to 31 December. An example of annual payment dates that might apply for the year ended 31 March 1989 would be 31 May 1989, 15 October 1989, and 15 February 1989.

14.3 Corporate Income Tax

Tax is payable on taxable income which is determined by assessing all income derived from a business source within Zimbabwe and allowing the deduction of expenditure and losses (other than those of a capital nature) incurred in the production of income or for the purpose of trade.

As a general rule income and expenditure of a capital nature are either included in gross income nor allowed as a deduction; however, there are specific depreciation allowances.

In the July 1990 budget the corporate tax rate was fixed at 50% for the tax years ending

March 31, 1990 and 1991, but the rate will be reduced to 45% for the tax year ending March 31, 1992.

In the determination of taxable income a variety of deductions are allowed. The following are likely to be the main ones of interest to investors:

(i) Depreciation allowances for buildings, articles, implements, machinery and utensils in respect of industrial, agricultural, hotel and mining activities. From April 1991, the special initial allowance (SIA) of 100% is being withdrawn and replaced by a combination of an SIA of 50% and a wear and tear allowance of 50% on diminishing balance. The wear and tear allowance will continue until the total cost of the asset has been deducted or the asset ceases to be used for business purposes.

The taxpayer may elect to deduct wear and tear allowances as an alternative to the Special Initial Allowance above, at rates varying between 2.5% on a straightline basis (for commercial buildings) and 33.3%. The rate for passenger vehicles is 20% (diminishing balance) and for implements and machinery 10%. On industrial buildings the depreciation rate is 5% (straight line).

In addition to the main deductions above there are a number of special deductions for:

Farming - including an extra 50% allowance for herds restocked as a result of drought or forced sales:

Mining - including a depletion allowance of 5% of the gross sales value of mineral production;

Growth Point Areas - commercial and industrial operations carried on in these designated areas are entitled to the usual allowances plus an extra investment allowance of 15% of the cost of construction of commercial and industrial buildings (including staff housing, new and unused articles, implements, machinery and utensils (other than road vehicles). To date more than 80 "growth point areas" have been designated for tax purposes, some 34 of which relate to mines.

Training - an investment allowance of 50% of the cost of buildings erected and equipment purchased exclusively for the training of employees.

The amount of any assessed loss may be carried forward indefinitely to future years to be set off against taxable income arising in those years.

14.4 Withholding Taxes

Withholding taxes are levied at source on the following incomes from a Zimbabwean source payable to persons not resident in Zimbabwe:

* Dividends (Non-Resident Shareholders' Tax) 20%

* Interest (Non-Residents' Tax on Interest) 10%

* Fees (Non-Residents' Tax on Fees) 20%

* Royalties (Non-Residents' Tax on Royalties) 20%

A Resident Shareholders' Tax (also at 20%) is deducted at source from dividends declared by Zimbabwean companies payable to shareholders (other than companies) resident in Zimbabwe.

A Branch Profits Tax at the rate of 15% of 56% of the taxable income of a foreign company from Zimbabwean sources is also chargeable.

A Non-Resident's Remittance Tax (at 20%) is withheld on remittances from Zimbabwe effected by nonresident persons in respect of allocatable expenditure incurred outside Zimbabwe in connection with the carrying on of trade in Zimbabwe.

In most cases where Double Taxation Treaties are in force (see below) the rate of tax on the following withholding taxes are reduced from the usual rate of 20% to between 10-15%:

Non-Resident Shareholders' Tax
Non-Residents' Tax on Fees
Non-Residents' Tax on Royalties

14.5 Capital Gains Tax

A Capital Gains Tax of 30% is imposed on assessed capital gains from a Zimbabwean source on the sale or other disposal of immovable property and marketable securities. The deductions which are allowed in the determination of a capital gain are the cost of the asset, the cost of any additions, alterations or improvements to the asset after its acquisition and a 5% inflationary allowance on such costs for each tax year from the date of acquisition or addition, alteration or improvement to the date of sale; Capital losses can also be offset.

14.6 Customs Duties and Import Tax

Customs Duties range from zero to 50% (for cars), with most items of interest to investors being in the range 5-20%. Surtax is normally 20% but some industrial, agricultural and mining equipment qualifies for a 15% rate. Rates of Import Tax range from 12.5-20%.

Many raw materials and components are either imported duty free or at rebated rates of duty. Similarly, as an incentive to the export sector, a system of industrial drawbacks allows full remission of duty on those imported raw materials and components contained in exported goods. Duty free import (or duty rebate) of some plant and equipment (e.g. agricultural equipment) is also possible.

Import Tax on imports of capital equipment may be waived in the case of approved new projects which are:

(i) Priority projects, i.e. they involve exports or create an appreciable number of job opportunities or introduce new technology; and/or

(ii) Of any type but are located in a designated "growth point area".

(Projects falling into this category must normally be completely new ones: normal replacement or expansion of existing businesses will only qualify if the replacement/expansion is large scale and appreciably assists the stated objectives).

14.7 Sales Tax

This is levied on the purchase of most goods and services within Zimbabwe. A three-tier system applies:

(a) Consumer durables, luxury items and office machinery: 20%
(b) Motor vehicles and domestic appliances: 15%
(c) All other items, including furniture and cookers: 10%

Basic essentials - meat, bread, milk, etc are exempt.

14.8 Export Incentives

Payments under the export incentive scheme are exempt from income tax. The scheme provides for a tax-free payment equal to 7% of the f.o.b. value of qualifying goods plus 5 % of the value of export performance within a period over and above the performance registered for the same period over the previous year. Virtually all manufactured goods of secondary industry containing a minimum of 25 % Zimbabwe content qualify for this scheme, but the main primary products, i.e., agricultural goods and mineral products and some goods produced primarily for the export market are excluded. Apart from this indirect benefit there are no export incentives within the tax system.

14.9 Personal Income Tax

14.9.1 Eligibility for payment

The Zimbabwean income tax system operates mainly on a territorial basis, and income is, as a general rule, taxable in Zimbabwe if the source is within Zimbabwe. Individuals who are not ordinarily resident are taxable only on income from sources within Zimbabwe. Individuals who are regarded as ordinarily resident in Zimbabwe are subject to tax on employment income earned during temporary absences from Zimbabwe (up to 183 days in a tax year) and on foreign investment income. Income for services performed outside Zimbabwe is deemed to be from a Zimbabwean source if the services are incidental to employment in Zimbabwe.

There is no definition of "ordinary resident" in the legislation and there are no hard and fast rules for determining whether a person is ordinarily resident in Zimbabwe. The question has to be determined on the particular circumstances of each case. Domicile and citizenship are factors that can have a bearing on the question whether a taxpayer is ordinarily resident in Zimbabwe but do not of themselves affect income tax liability.

14.9.2 Personal tax rates

A unified system of separate taxation for all individuals, including husband and wife, commenced on 1 April 1988. The bands of income and tax rates for the year ending March 31, 1991 are:

Bands of Income Z$	Rate of Tax %	Cumulative Z$
1 - 2000	0	0
2001 - 5000	20	600
5001 - 11000	30	2400
11001 - 16000	40	4400
16001 - 28000	50	10400
28001 - 40000	55	17000
40000 and above	60	

Income tax payable is calculated by deducting from the tax chargeable as indicated above, the income tax credits applicable in each case. There are no surcharges. Credits are claimable for most middle income tax payers. Deductions on pension contributions of up to Z$4500 can also be claimed.

14.10 Appeals

A system, including a special income tax appeals court, exists for the resolution of tax disputes with the right, ultimately, to refer disputes to the High Court in Zimbabwe. The costs of successful appeals are tax deductible.

14.11 Double Taxation Treaties

Double taxation treaties have been signed with the United Kingdom, Federal Republic of Germany (FRG), South Africa, Bulgaria, Norway and Sweden. It is expected that treaties will shortly be concluded with the Netherlands, Sweden and Canada.

14.12 Minor Taxes

A stamp tax at varying rates is payable on checks, brokers' notes in respect of the purchase and sale of securities, insurance policies, and mortgage bonds.

There is an airport tax of US $10 payable upon international departures from Zimbabwe.

Further Details

Comprehensive and detailed information can be obtained from:

The Commissioner of Taxes

P.O. Box 8126
Causeway
Harare Zimbabwe

The Director of Customs and Excise

Private Bag 7715
Causeway
Harare Zimbabwe

Chapter 15

Patents, Trademarks and Copyrights

Copyrights, industrial designs, patents and trademarks are regulated by separate Acts, which carry these titles (e.g., Copyright Act).

15.1 Patents

Regulations governing patents are contained in the Patents Act, as amended at November 1, 1984, probably one of the most up to date in existence. Patents now granted operate for a period of twenty years from the date of lodging of the complete specification at the Patent Office; the patent lapses if it is not renewed.

15.2 Trademarks

The Trademarks Act of 1975 is well designed and considered to be years ahead of most comparable (UK) legislation. For instance, a law applicable to service marks and container marks has been in place in Zimbabwe since 1975. Registered trademarks are valid for ten years but may be renewed from time to time. The Patent and Trademark Office in Harare is widely regarded as one of the most efficient in the world. Furthermore, the capital is also the headquarters of the African Regional Intellectual Property Organization.

15.3 Copyrights

In Zimbabwe, copyrights for literary, dramatic and musical works operate for the lifetime of an author and for fifty years after the end of the calendar year of the author's death. In the case of photographs and sound recordings, films, broadcasts and published editions of works, the length of copyright if for fifty years from first publication. For industrial designs, copyright operates for a period of fifteen years from the date of registration. A new Copyright Act is being drafted at present and will cover such problem areas as computer software and microchips.

Appendices

Appendix One

EXCHANGE CONTROL REGULATIONS

Exchange Controls were first imposed in February 1961 and have been progressively tightened over the last 30 years though trade transactions are to be liberalized from 1991. The regulations are administered by the Exchange Control Department of the Reserve Bank of Zimbabwe (RBZ), but business people cannot deal with the authorities direct and must make approaches through their commercial or merchant bank. The regulations and practices are subject to periodic changes and accordingly advice should be taken from a bank or firm of auditors before entering into any specific transaction. A foreign controlled company is defined as one where non-residents own at least 25% of the equity.

For investment purposes an important distinction is made between investment made in Zimbabwe before 1st September 1979 ("old investment") and investment made after that date ("new investment"). These dates relate to the time at which the investment funds arrived in Zimbabwe and not to the date on which a business was established.

Dividends and Blocked Funds

Remittances of dividends on old investment were suspended on March 31, 1984 but were subsequently restored. New investment was not affected. Since June 1, 1987, the remittance of dividends, branch and partnership profits on old investment has been limited to 25% of current, net after-tax profits. Amounts declared in excess of this 25% ceiling are placed into a blocked account in the name of the non-resident beneficiary. Such blocked funds may be invested in 12 to 20 year 4% External (divestment) Bonds. On new investment the dividend remittance ceiling is 50%.

Within the limits of actual dividends declared, current dividends payable to shareholders who are individuals who have never been resident in Zimbabwe may be remitted in full.

Foreign shareholders are also permitted to reinvest blocked funds in approved projects. Previously, such reinvestment had to be matched by inflows of new investment - i.e. for every dollar of blocked funds invested, one dollar of new foreign capital had to be brought in to the country. This requirement has since been relaxed and depending on the nature of the project (its contribution to exports, import saving and employment) the ratio can vary between zero and 50% of the approved reinvestment project. Such joint funds are accorded Venture Capital status, which means that they must remained invested for a minimum of five years and as such qualify for the 50% dividend rights enjoyed by new investment.

Investors, both foreign and domestic, may apply to utilize blocked funds on a switch basis (i.e. a form of debt swap). The non-resident owner of the blocked funds is paid externally by the new investor at a discounted price agreed between the parties and approved by the RBZ. As a general rule, a maximum of 50% of such blocked funds would qualify for Venture Capital status, but this percentage could be increased to 100% by an equal and matching inflow of new foreign capital. Capital repatriation - disinvestment - from an investment using switched blocked funds would only be permitted after a period of ten years from the date of the Exchange Control approval of the swap transaction.

In the case of investors with both old and new investments the Exchange Control Department will determine an average (pro-rata) percentage of their net after tax profits eligible for remittance.

Mining company dividends may exceed 25% and 50% of net-after tax profits in respect of old and new investments respectively, subject to each case being approved on its merits by Exchange Control.

Surplus Funds

The undeclared portion of after-tax profits held in liquid asset form by a non-resident company, is classified as surplus funds. These may only be invested with commercial and merchant banks in savings account deposits or short-term fixed deposits. The maximum rate of interest payable on such surplus funds is 5%.

In order to channel such surplus funds into productive investment, the RBZ will issue non-negotiable certificates of deposit with a 12-month maturity carrying interest at 7%, payable on maturity. These CDs will be issued in amounts of not less than $100,000.

Surplus funds may not be used for any other purpose without the approval of the RBZ, but applications will be considered for export, import replacement or employment generating projects, projects that use local raw materials or are located at rural growth points. By way of illustration only, a mining project - where almost all of the output will be expected - is likely to qualify for an enhanced remittance percentage.

No Currency Involved Import Licenses

Companies that have declared 25% dividends may, instead of remitting the dividends abroad, utilize these funds to purchase essential imports. In this event, both the withholding tax and all import duties would be waived. Such procedures require Exchange Control approval.

New Export Projects

New incentives for export-oriented projects were announced in October 1990. An export-oriented project is defined as one that exports at least 75% of total output, or a project that has a foreign exchange payback period of up to three years and is able to earn over five years double the foreign exchange provided by the Zimbabwe government for imports of machinery and other capital goods and raw materials.

Projects meeting these criteria may qualify for:

(i) Where the project is domestically owned (defined as companies owned at least 75% by residents), the definition of an export-oriented project will be that the project earn at least 75% and 1.5 times the foreign exchange used by the project over a period of three and five years respectively. Such projects will get automatic approval of all foreign exchange required for the project.

(ii) In the case of joint ventures, where the foreign partner brings in his share of equity in foreign funds, the foreign exchange will be provided to the local partner equivalent to his share in the equity in proportion to the foreign currency requirements of the project. The shareholders will be encouraged to bring in foreign long term loans and a gearing ratio of one to one will normally apply. There will also be a significant relaxation in local borrowing rules. Such a firm will be guaranteed full dividend repatriation rights in respect of dividends declared to the foreign shareholder.

(iii) Where the firm is 100% foreign-owned, it should bring in all its foreign exchange requirements. Such a company will be guaranteed full repatriation rights of all dividends provided it meets the export orientation criteria.

(iv) New regulations also apply where blocked/surplus funds are used. A company that injects 70% of new equity in the form of foreign funds and 30% in switched blocked funds or surplus funds will qualify for dividend remittability of 70% of after tax profits for five years after which the ratio will rise to 100%.

(v) For mining projects, a 100% foreign firm that uses foreign funds will be entitled to 100% dividend repatriation provided it meets the export-oriented criteria. Various different regulations apply where the mining firm uses a combination of blocked funds, surplus funds and new external finance.

Disinvestment

For old investment, the regulations require an 85% participation by Zimbabwe residents, a purchase price related to projected dividends over the next six years and remittance of the proceeds via the 4% External Bonds. 75% of the equity in the company may only be taken up by approved local investors. To the extent that employees share trusts are involved on the purchase side, it is government's policy to now promote a relatively high percentage.

If the purchase price is heavily discounted - i.e. the foreign investor sells his foreign investment at a substantial discount - or if a substantial portion of the sale proceeds is donated to the Government-operated Zimbabwe Development Trust, capital repatriation may be accelerated over a shorter-period than the normal 12 to 20 years bonds. Where this is permitted:

(a) The release of blocked funds of up to S5 million requires a donation of 80% of such funds. The remittable 20% will be released over a short period.

(b) The release of blocked funds in excess of S5 million but less than S10 million requires a donation of 85% of such funds. The remittable 15% will be released over a short period.

(c) The release of blocked funds in excess of ZS10 million requires a donation of 90% of such funds with the balance being remitted over a short period.

When disinvestment is permitted, the purchase price in Zimbabwe dollar terms must be based on the net asset value of the company as reflected in its latest balance sheet. The sale price can only be remitted to the vendors on the following terms:

(a) Sale at net asset value without any discount only qualifies for overseas remittance via the 20 year or 12 year 4% External Bonds for corporate (20 years) or individual (12 years) vendors respectively.

(b) Where the sale price is based on discounts ranging from a minimum of 33 1/3% up to 80% of the net asset value the proceeds will qualify for remittance via six-year External Bonds. These Bonds allow the capital sum to be remitted in six equal annual installments and a tax free interest of 4% is payable.

(c) A discount of 80% for a total purchase consideration in excess of S5 million or less will qualify for an accelerated remittance over a short period.

(d) A discount of 85% for a total purchase consideration in excess of S5 million but less than S10 million will qualify for an accelerated remittance over a short period.

(e) A discount of at least 90% for a consideration in excess of S10 million will also qualify for an accelerated remittance over a short period.

No single remittable tranche may exceed S5 million. Amounts in excess of this and subsequent tranches will be held in a blocked non-interest-bearing account awaiting remittance, the amount and frequency of which will be determined by Exchange Control.

New investments (after September 1979) are classified as New Venture Capital provided the funds arrived in foreign exchange through normal banking channels. Such investments may be repatriated after two years, less any dividends paid abroad during that two year period. The latter amount may be remitted on the same basis as blocked dividends.

With exceptions (annuities, pensions, etc) emigrants are required to sell their assets and repatriate funds through the medium of the 4% external bonds. These are redeemable over a 12 years period in six annual tranches, starting in the seventh year after emigration.

Foreign firms wishing to divest may do so by means of 20-year 4% external bonds, with redemption in ten annual tranches starting in the eleventh year after the bonds were purchased.

Blocked Funds Investments

Where blocked funds have been reinvested in Zimbabwe the capital must remain invested for a minimum period of five years in order to quality for the same disinvestment conditions as those applicable to new venture equity capital. Blocked funds investments qualify for the 50% dividend and profit remittability rights.

Similarly, where dividends or other profits which otherwise could have been remitted have instead been invested in Zimbabwe, these qualify for the same disinvestment conditions.

Venture capital status may be accorded to equity brought into Zimbabwe in the form of approved plant and equipment provided this meets the necessary Exchange Control requirements. Normally, however, for venture capital status to be granted the Exchange Control requires equity to be transferred to Zimbabwe in the form of cash before any subsequent purchase of capital goods takes place.

In addition, the Exchange Control grants "Customs Clearance Only Licences" to companies with external shareholders or parent companies who are prepared to make funds available in respect of capital goods and equipment or raw materials, either as gifts or against the issue of equity.

Export Retention Scheme

From January 1991, an export retention scheme was introduced of 5% for agricultural and mining exports (including beef, cotton lint, steel and ferro-alloys) and 7.5% for manufactured goods, tourism, road haulage and horticulture. Export earnings retained can be used to import raw materials and capital goods.

Export Bonus Scheme

Exporters receive a 30% bonus import allocation on their incremental exports. **The bonus is linked to the SDR value of exports and not their Zimbabwe dollar value.**

Borrowing Powers

Since December 1981, access to local credit facilities by companies with a foreign shareholding of more than 15% has been regulated. However, Authorised Dealers in Zimbabwe are now allowed to grant local credit facilities to such companies up to a limit determined by the following formula and without any further restriction being placed on dividend and profit remittances:

25% of A + (B X 25% OF A)
(C)

A = shareholders' funds (including shareholders' loans)
B = percentage of local interest
C = percentage of non-resident shareholding

The effect of this formula is that such companies may borrow locally at least the equivalent of 25% of their shareholders' funds and that increased local borrowing by such companies depends upon the extent of the Zimbabwean shareholding in the company. In the case of mining companies the 25% in the formula is replaced by 35%.

If the percentage of non-resident shareholding in a company is less than 25% then no limit is placed on the amount that can be borrowed locally unless it is apparent that a single non-resident shareholder exercises control.

If a company with more than a 25% non-resident shareholding wishes to borrow more than the above formula allows, it may do so, but only with the approval of the Reserve Bank. Furthermore, it is likely that additional restrictions will be placed on that company's remittance of dividends or profits.

The local borrowing formula was relaxed in October 1990 to 100% of total shareholders funds of an export project plus offshore borrowing with a minimum maturity of five years.

Exchange Control will nevertheless permit export generating enterprises freer access to the local credit markets without restrictions on dividend and profit remittances where local borrowings in excess of the formula limit are being utilized.

Both domestic and foreign companies are encouraged to use long-term foreign loans on favorable terms. Equity to debt gearing ratios have been relaxed from two-to-one to one-to-one for export-oriented projects.

All external loans still require prior Exchange Control approval and, in addition, loans in excess of Z$2.5 million require the approval of the External Loans Coordinating Committee.

Appendix Two

FOREIGN EXCHANGE RATES

Middle rates foreign currency units per Zimbabwe dollar for spot transactions

End of Year	U.S. dollar	Sterling	Rand
1975	1,6013	0,791313	1,3400
1976	1,6158	0,949413	1,3400
1977	1,5440	0,803008	1,3000
1978	1,4818	0,728088	1,2400
1979	1,4833	0,665120	1,2400
1980	1,5859	0,664081	1,1835
1981	1,3944	0,730052	1,3386
1982*	1,0876	0,671047	1,1670
1983	0,9046	0,622574	1,1017
1984	0,6656	0,571085	1,3163
1985	0,6093	0,422684	1,5777
1986	0,5959	0,405512	1,3144
1987	0,6013	0,323366	1,1611
1988	0,5147	0,287446	1,2268
1989	0,4405	0,27445	1,1172
1990	0,3793	0,196783	0.9727

* Zimbabwe dollar devalued by 20% on the 9th December 1982.

Appendix Three

PTA PREFERENTIAL TRADE ARRANGEMENTS AND THE CLEARING HOUSE

The Preferential Trade Area (PTA) is an economic cooperation arrangement amongst the countries of Eastern and Southern Africa. It is a sub-regional grouping which provides for cooperation in all major sectors embracing trade, industrial cooperation, transport, communications, agriculture, financial and other arrangements.

Objective

The principle objective of the PTA is to promote trade and cooperation in other fields of economic activity, so as to raise the standard of living of the people in the region and foster closer relations among the member countries i.e. with the ultimate objective of becoming a common market and eventually an economic community by the turn of the century. The objectives of the PTA as set out in Article 3 and 28 of the Treaty are as follows:-

(a) To promote cooperation in the fields of trade, customs, industry, transport, communications, agriculture, natural resources and monetary affairs.

(b) To promote the establishment of inter alia appropriate machinery for the exchange of agricultural products, minerals, metals, manufactures and semi-manufactures as well as the establishment of common training programmes and institutions in various fields which would assist in the development of the manpower required by the PTA Member States.

In particular where trade is concerned the PTA aims at:

(a) The gradual reduction and ultimate elimination of customs duties in respect of imports of commodities produced within the PTA.

(b) Establishment of common rules of origin with respect to products that shall be eligible for preferential treatment.

(c) Establishment of appropriate payment and clearing arrangements that would facilitate trade in goods and services.

(d) Fostering cooperation in the fields of transport and communications with a view of facilitating trade in goods and services.

(e) Establishment of conditions regulating the re-export of products within the PTA.

(f) Promulgation of regulations for facilitating transit trade within the PTA.

(g) Simplication and harmonization of trade documents and procedures.

(h) Cooperation in customs matters.

(i) Standardization of the manufactures and quality of goods produced and traded within the PTA.

(j) Relaxation or abolition of quantitative and administrative restrictions on trade among members.

(k) Promoting the establishment of direct contacts between and regulating the exchange of information among their commercial organisations such as Chambers of Commerce, association of businessmen and trade information and publicly centres.

(l) Ensuring the application of the Most Favoured Nation Clause to each other.

(m) Progressively adapting the members' commercial policies in accordance with the provisions of the PTA Treaty.

Membership

The organisation comprises sixteen member countries Burundi, Comoro Islands, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Rwanda. Somalia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

PTA COMMON LIST

The PTA Common List comprises a list of selected commodities/products which are to be accorded lower customs duties and equivalent charges when traded amongst the member states. These are commodities and products of import and export interest to member states. The list is revised periodically to include more goods of import and export interest to the member countries. Negotiations (revisions) are undertaken every two years and the main consideration is matching of import or export interests for a product to be included in the Common List. The last revision was done in June 1987.

The list is in six categories and the initial reductions in tariffs are as follows:-

Group	Description	Initial Percentage Tariff Reduction
I.	Food items (excluding luxury items)	30%
II.	Raw materials: A. agricultural	50%
	B. non-agricultural	60%
III.	Intermediate goods	65%
IV.	Manufactured consumer goods (excl. luxury items):	
	A. Durable consumer goods (excl. (IVc) and (IVd))	40%
	B. Non-durable consumer goods (excl. (IVc) and (IVd))	35%
	C. Highly Competing Consumer goods	30%
	D. Consumer goods of particular importance to economic development	70%
V.	Capital goods (incl. transport equip't)	70%
VI.	Luxury goods	10%

At its 10th Meeting the Council of Minsters approved the formula for further lowering of tariff and non-tariff barriers to intra-PTA trade according to the provisions of the Treaty. The target year for reducing customs duties was extended from 1992 to 1996. In this respect, 5 rounds of tariff reductions at a discount rate of 10 per cent each time will be effected in 1988, 1990, 1992, 1994 and 1996. This is to allow member states sufficient time to carry out the necessary structural adjustment to strengthen their economies, and to spread their revenue losses. Subject to review of the entire situation in 1996 the remaining 50 per cent may be eliminated in two steps.

Eligibility Requirements for Preferential Treatment

Goods traded amongst the member states will only receive preferential treatment if they meet the following requirements:-

(i) Qualify under or satisfy the PTA Rules of Origin.

(ii) The products or goods should be in the PTA Common List which compromises commodities and products of import and export interest to member states.

(iii) Local content of 45% i.e. the local value added resulting from the process of production should account for at least 45% of the ex-factory cost.

P.T.A. Rules of Origin:

The requirements of the Rules of Origin state that

(i) -goods must be consigned directly from a member state to a consignee in another member state.

(ii) -must be produced by enterprises in the member countries 51% owned by nationals of member states, their government institutions, agencies or corporations. Besides the above two, they must satisfy any one of the following requirements to qualify as originating in a PTA Member State.

(a) The products must have been produced in a member state and the value of materials imported from outside PTA and used at any one stage of production should not exceed 60% of the total cost of materials used in production of goods.

OR

(b) They are produced in a member state and CIF value added resulting from the process of production accounts for at least 45% of the ex-factory cost.

(c) They have, through a process of production been substantially transformed out of material imported from NON-PTA countries.

In May 1986 the PTA Authority meeting in Bujumburu Burundi suspended the PTA Rules of Origin (Rule 2-1 (a) for five years. The application of it was found too restrictive and therefore a stumbling block to trade amongst the member countries. During this period the following sliding scale preferential formula applies.

(i) Goods from enterprises 51% and above owned by nationals will enjoy 100% preferential treatment.

(ii) Goods from enterprises 41% up to 50% owned by nationals will enjoy 60% preferential treatment.

(iii) Goods from enterprises 30% up to 40% owned by nationals will enjoy 30% preferential treatment.

In respect of countries that are already enjoying derogations under the Treaty, it was decided that the sliding scale preferential treatment formula would apply on a pro-rata basis. In the case of the BLS countries the sliding scale is as follows:

(i) Enterprises with 30% and above ownership by nationals from or nationals from PTA member states will enjoy 100% preferential treatment.

(ii) Above 24% and below 30% ownership by nationals will enjoy 60% preferential treatment.

(iii) 18% up to 24% ownership by nationals will enjoy 30% preferential treatment.

As per the BLS Protocol the derogation i.e. that of reducing the 51% equity holding to 30% was for a period of five years as from 30th September, 1982, after which the percentage is to be reconsidered. This process is under way.

Clearing House Payment Arrangement

The PTA Multilateral Clearing House was established under the PTA Treaty mainly to facilitate and promote easy flow of traded goods and services under an agreed payment scheme. The member states (countries) are allowed to use their national currencies as a means of settling their day to day payments. A Committee on Clearing and Payments Arrangement was established under the Protocol on Clearing and Payments. This Committee consist of Governors of monetary authorities or central banks of signatory countries. It is charged with the responsibility of promoting trade in goods and services within the PTA by:

(i) encouraging the use of national currencies in the settlement of transactions between member countries.

(ii) establishing adequate machinery for the settlement of payments amongst themselves.

(iii) reducing as much as possible the use of foreign exchange by member states in intra-regional settlements.

It is this Committee which adopted rules and regulations for the establishment of the multilateral clearing facility commonly known as the CLEARING HOUSE and based in Harare, Zimbabwe.

The Committee has adopted the unit of account of PTA (UAPTA) as its currency and is currently pegged to the International Monetary Fund (IMF) "Special Drawing Right" (SDR). Payments are settled at the exchange rate of the day of payment. The basic objective is to facilitate and encourage the use of national currencies in settlement and payment of intra-PTA trade transactions and other services, and in the process reduce the use of convertible foreign exchange. With the introduction of the PTA Clearing House all trade transactions in the sub-region could be effected through the account of the member country at the Clearing House. There is an established transaction period of two calendar months after which net balances are settled in convertible currency between Central Banks. The balance in such an account at the end of a transaction period is in effect therefore the net trade balance with the member countries for the trade and other payments routed through the account. It means that during a transaction period export proceeds from other members are automatically applied to pay for imports from other member states. This is an advantage over other payment arrangements as it reduces settlements in convertible currencies to only once after each transaction period for trade among the members. During this two calendar months transaction period members are not charged interest on any debit balances. Thus a free credit is given to them during the two months transaction period.

Operations of the Clearing House

Operations may be divided into two transactions.

1. The transactions between the exporter, importer and their commercial bankers.

2. The transactions between the member countries central banks and the Clearing House.

Each of the PTA Member Central Bank operates an UAPTA account with the Clearing House and these monetary authorities are also required to operate reciprocal accounts among themselves. The same is required of the commercial banks. A trader's commercial bank in Zimbabwe should have necessarily established correspondent arrangements with one of the commercial banks in the other member country with which it is intended to do business. When an importer requires the currency of another member country he would go to his commercial bank which in turn would go its Central Bank. The Central Bank will purchase the required currency from the Central Bank of the exporting member country in exchange for UAPTA. The Clearing House would then debit the importer's Central bank and credit the exporter's Central Bank with the UAPTA equivalent. The currency bought is then paid to the account of the exporter's bank in the exporter's country and the exporter is the paid in local currency. The Clearing House can be used for payments of all trade transactions and services.

The introduction of the Clearing House payment arrangement has not resulted in any variations or upsets to the already existing settlement procedures. As already stated the PTA Clearing House Payments System provides a mechanism for minimizing the use of foreign exchange in the settlement of intra PTA trade and other transactions.

The role of commercial banks in the system is secondary to that of central banks which are directly involved in the PTA payments and settlement framework. Commercial banks do however have a very important function in the PTA payment arrangements. They make it possible for the business community to pay in local currencies for imports and to receive export proceeds through the correspondent accounts or agency relationship with their counterparts in PTA member countries. Participation by commercial banks in the system commences only after the exporter and the importer in the member countries have entered into a valid contract, placed firm orders based on authorised imports with each other and clearly defined the method of payment.

Certain Popular Misconceptions Regarding PTA Arrangements

(a) The PTA is only for trade in products and commodities in common list.

    This impression is incorrect. The member states of the PTA can exchange any commodity/product produced in their countries within the normal tariff structure and the existing rules and procedures governing trade. If preferential tariffs under the PTA Treaty are required to be availed of, the commodities to be bought or sold should be in the common list and conform to the rules of origin requirements.

(b) The PTA Clearing House Payment Mechanism can only be used for trading in commodities in the Common List.

This is also erroneous. The Clearing House Payment Mechanism is open for use for trade in commodities and services produced in member countries. Such commodities do not have to be in the Common List or even to conform to the rules of origin requirements. Services can also be paid for through the Clearing House.

Advantages to Zimbabwe

Of particular advantage and interest to Zimbabwean exporters is the Protocol on Clearing and Payments Arrangements under which the Clearing House was established. The basic objective under this Protocol is to facilitate and encourage the use of national currencies in settlement and payment of intra-PTA transactions, and in the process reduce the use of convertible FOREX. In effect the problem of availability of FOREX which has been a serious constraint with most of PTA Member States, is shifted from the business community to the national monetary authorities. For the Zimbabwe exporters even the exchange risk is minimised when trading through Clearing House. Currently there is no forward exchange market for PTA currencies. The importers therefore cannot avoid the exchange risk when importing from the region since the exporter will invariably invoice in his own currency. On the other hand, the exporter by demanding payment in his own currency eliminates the risk.

Appendix Four

LOME CONVENTION PREFERENTIAL TRADE ARRANGEMENTS

The Lomé Convention is a co-operation agreement between the European Community (EC) and the African, Caribbean and Pacific Group of States (ACP). The former has twelve member states and the latter comprise sixty-six. This convention was concluded in order to promote and expedite the economic, cultural and social development of the ACP States through trade, financial and technical assistance.

Under this convention the chapter on Trade Co-operation has as its object to promote trade between the ACP States and the Community by improving the conditions of access for their products to the community market.

2. Products originating in the ACP States shall be imported into the community free of Customs duties and charges having equivalent effect.

   The following products shall be considered as products originating in an ACP State.

   (a) products wholly obtained in one or more ACP States.

   (b) products obtained in one or more ACP States in the manufacture of which products other than those referred to in (a) are used, provided that the said products have undergone sufficient working or processing.

Sufficient working or processing means that the goods obtained receive a classification under a different tariff heading from that covering each of the products worked or processed. The incorporation of non-originating materials and parts in a given product obtained shall only make such products lose their originating status if the value of the said materials and parts incorporated exceeds 5% of the value of the finished product.

When products wholly obtained in the community (EC) or in their overseas territories or ACP States undergo working or processing in one or more ACP States, they shall be considered as having been wholly produced in that or those ACP States, provided that the products have been transported directly - direct consignment rule.

Eligible products shall be accompanied by evidence of originating status, the movement certificate EURI.

However, products which fall under a common organisation of the treaty establishing the European Communities or are subject on import into the community, to specific rules introduced as a result of the implementation of the Common Agricultural Policy (CAP) may be excluded or subject to quantitative restrictions or the safeguard clause.

The following products shall be considered as wholly obtained either in one or more ACP States or in the community.

(a) Mineral products extracted from their soil or from their seabed;

(b) Vegetable products harvested therein;

(c) live animals born and raised therein;

(d) products from live animals raised therein;

(e) products obtained by hunting or fishing conducted therein;

(f) products of sea fishing and other products taken from the sea by their vessels;

(g) products made abroad their factory ships exclusively from products referred to in subparagraph (f);

(h) used articles collected there fit only for the recovery of raw materials;

(i) waste and scrap resulting from manufacturing operations conducted therein;

(j) goods produced there exclusively from the products specified in subparagraphs (a) to (i).

For the purpose of para.2(b) the following shall always be considered as insufficient working or processing, whether or not there is a change of tariff heading:

(a) operations to ensure the preservation of merchandise in good condition during transport and storage;

(b) simple operations consisting of removal of dust, sifting or screening, sorting, classifying, matching, washing, painting cutting-up;

(c) (i) changes of packaging and breaking up and assembly of consignments;

(ii) simple placing of bottles, flasks, bags cases, boxes, fixing on cards or boards.

(d) affixing marks, labels and other like distinguishing signs on products or their packaging.

(e) (i) simple mixing of products of the same kind where one or more components of the mixture do not meet the conditions as a originating product.

(ii) simple mixing of products of different kinds unless one or more components of the mixture do not meet the conditions as a originating product.

(f) simple assembly of parts of articles to constitute a complete article;

(g) a combination of two or more operations specified in subparagraph (a) to (f)

(h) slaughter of animals.

In defining the concept of originating products, Protocol I of the Lomé III Convention gives a list of working or processing operations carried out on non-originating materials which result in a change of tariff heading without conferring the status of "originating products" on the products resulting from such operations.

The Lomé Convention has a provision for financial assistance in trade promotion so that exporters from any ACP country may participate in trade fairs and exhibitions.

Appendix Five

GENERAL SCHEME OF PREFERENCES

1. The Generalized Systems of Preferences (GSP) are schemes whereby the industrialized countries (preference-giving countries) accord global preferential tariff treatment to products originating from developing countries (preference receiving countries). There are at present 16 schemes of preferences.

2. Zimbabwe exporters may benefit from the GSP Schemes by way of tariff rate cuts below a general rate or the Most Favored Nation (MFN) rate (preferential margin) applied by that particular preference-giving country.

A. The Scheme of Australia

(i) TARIFF PREFERENCE MARGIN

Australia applies a 5% tariff preference margin to all tariff items except to about 20 tariff lines where excise duties are provided for.

(ii) QUANTITATIVE RESTRICTIONS

There are no general quota provisions. However, on eight Textile, Clothing and Footwear (TCF) products the limitation on the value of these products eligible for preference will continue until 31 December 1988. However, a safeguard clause or the escape clause is applied for all products covered by the scheme, when market disruption is caused by the preferential imports.

(iii) RULES OF ORIGIN

In order to qualify for preferential treatment, goods must meet the following requirements:-

(a) the final process of manufacture must be carried out in the country claiming preference and

(b) at least half (50%) of the total factory or works cost of the goods must consist of the value of labour and/or materials of

-the exporting developing country or
-the exporting developing country and Australia; or
-the exporting developing and one or more other developing countries; or
-the exporting developing country and one or more other developing countries and Australia.

B. The Scheme of Canada

(i) AGRICULTURAL PRODUCTS

Canada grants preferences for selected agricultural products falling under more than 100 tariff lines of the Canadian Customs Tariffs (CCT). More than half of the tariff items receive duty-free treatment.

(ii) INDUSTRIAL PRODUCTS

Canada grants preferences for all industrial products including primary commodities, with the exception of selected tariff items including certain products of the chemical, plastics and allied industries, certain textile products, footwear and electronic tubes.
Products covered by the scheme are admitted at GSP rates which are equal to the British Preferential Tariff generally applied to products from countries which are members of the Commonwealth or the MFN rate less one-third which ever is the lower.

(iii) QUANTITATIVE RESTRICTIONS

Although Canadian legislation since 1980 includes the possibility of establishing a prior limitation on quantities they have not been applied under the scheme.

(iv) RULES OF ORIGIN

In order to qualify for preferential tariff treatment, eligible goods must,

(a) in principle, be shipped direct to a specified port in Canada without passing through the territory of another country. (Transit through a third country is allowed provided the goods remain under customs control and do not enter into trade there) and must

(b) comply with the origin criteria specified for these goods by Canada. Goods are considered to have originated in a beneficiary country if they are bona fide the growth, produce or manufacture of that country (wholly obtained).

Products which have been manufactured in a beneficiary country wholly or partly from imported material, parts or components (including material of undetermined or of unknown origin), are deemed to be bona fide the growth, produce or manufacture or a beneficiary country, provided the import content does not exceed 40% of the ex-factory price of the products as packed for shipment to Canada.

In calculating the value of the import content, any materials used in the manufacture or production of the goods, originating from any other beneficiary country or from Canada any packing required for the transportation of goods but not including packing in which the goods are ordinarily sold for consumption in the beneficiary country, are considered as originating in the preference-receiving country.

E. The Scheme of Japan

(i) AGRICULTURAL PRODUCTS

Japan grants preferences for selected products in 73 CCCN headings. Various duty reductions, including zero-duty, apply for agricultural products covered by the scheme. For about a third of those tariff items, duty-free entry is granted. For about 20% of the tariff items the duty reduction is more than 50% from the MFN rates.

(ii) INDUSTRIAL PRODUCTS

Japan grants preferences for all dutiable products including primary commodities, with the exception of some products in 17 CCCN headings. Duty-free entry is granted for most industrial products covered by the scheme with the exception of selected products falling within 30 CCN headings for which tariff reductions of 50% from MFN rates are accorded.

(iii) QUANTITATIVE RESTRICTIONS

The scheme of Japan provides for quantitative limitations on preferential imports. A priori limitations apply in respect of industrial products covered by the scheme. Products are divided up into 199 product groups each covering either a full CCN chapter or one or several CCCN headings/subheadings. A ceiling is set in advance for each fiscal year limiting preferential imports of each products group by value or by quantity.

(iv) RULES OF ORIGIN

In order to qualify for preferential treatment, eligible goods

(a) must in principle, be transported direct to Japan without passing through the territory of another country (under certain conditions transit through the territory of third countries is permissible).

(b) are considered to have originated in a beneficiary country if they are wholly obtained in the country. If goods are manufactured wholly or partly from materials, parts or components imported or of unknown origin, the materials parts or components must have sufficient working or processing in the exporting beneficiary and is considered sufficient if the goods obtained are classified under CCCN, heading other than that covering any of the non-originating materials, parts or components used in the manufacture of the final product.

F. The Scheme of New Zealand

New Zealand grants preferences for selected dutiable agricultural products falling within 99 CCCN headings. It also grants preferences for a large number of dutiable industrial products. Selected items falling within 74 CCCN headings are excluded from the scheme.

Margins of preference extended to both the agricultural and industrial products covered by the scheme vary widely. The GSP rate is 80% of MFN rate.

(i) QUANTITATIVE RESTRICTIONS

The New Zealand scheme makes no provision for quantitative limitations on preferential imports.

(ii) Rules of Origin

In order to qualify for preferential treatment eligible goods must meet the following requirements:

(a) In principle, the goods must be transported direct without passing through the territory of another country (transit through a third country is allowed, provided the goods remain under customs control and do not enter into trade there). Nevertheless, the products of one preference - receiving country may enter the commerce of another preference - receiving country without losing entitlement for GSP treatment;

(b) the final process of manufacture must be performed in the exporting preference -receiving country; and

(c) the expenditure on imported materials, parts and components originating in any preference-receiving country and/or in New Zealand and expenditure on other items of ex-factory or works cost represent at least 50% of the ex-factory or works of cost of the product obtained in its finished state.

(ex-factory e.g. cost of materials, excluding duties, manufacturing wages, overhead expenses, cost of containers other than outside packaging)

The Scheme of Austria, Finland, Norway, Sweden and Switzerland (European Free Trade Area -EFTA)

(i) AGRICULTURAL PRODUCTS

AUSTRIA:	Grants preference for 148 selected products in 65 CCCN headings. Selected products are duty-free, while for others various tariff reductions are granted.
FINLAND:	Grants preferences for selected products in 54 CCCN headings. Duty-free entry is granted for all products covered by the scheme.
NORWAY:	Grants preferences for selected agricultural products in 80 CCCN headings. Duty-free entry is granted for all products covered by the scheme.
SWEDEN:	Grants preference for selected agricultural products in 43 CCCN headings. Duty-free entry is granted for all products covered by the scheme.
SWITZERLAND:	Grants preference for selected products in 97 CCCN headings. Duty-free entry is granted in most cases, while substantial reductions are applied in others.

(ii) INDUSTRIAL PRODUCTS

AUSTRIA:	Grants preferences for all MFN dutiable industrial products including primary commodities, with the exception of 11 products. For products covered by the scheme, tariff cuts of 50% from the MFN rate of duty are granted, with the exception of textiles and clothing in CCCN chapters 50 to 62 and 65, for which the reduction from MFN rate is 35%.
FINLAND:	Grants preferences for all MFN dutiable industrial products, except for selected products in 66 CCCN headings. Duty-free entry is granted for all products covered by the scheme.
NORWAY:	Grants preferences for all MFN dutiable industrial products, except for selected products in 23 CCCN headings.
SWEDEN:	Grants preferences for all MFN dutiable industrial products, except for selected products in 19 CCCN headings Duty-free entry is granted for all industrial products covered by the scheme.
SWITZERLAND:	Grants preferences for all MFN dutiable industrial products except for selected products which are subject to fiscal duties in 17 CCCN headings. Duty-free entry is granted for products covered by the scheme, except for textiles, clothing, footwear, umbrellas, unwrought aluminium and primary cells and batteries for which tariff reductions of 50% and 75% from the MFN rate are granted.

(iii) QUANTITATIVE RESTRICTIONS

Under the schemes of the EFTA countries there are no tariff quotas limiting in quantity preferential imports. However, these countries have reserved the right to introduce the necessary safe-guard measures in the event of market disruption.

(iv) RULES OF ORIGIN

(a) DIRECT CONSIGNMENT RULE

In order to qualify for preferential treatment, goods eligible for preference must in general, be transported directly to any of the EFTA countries.

(b) WHOLLY OBTAINED PRODUCTS

In order to qualify for preferential treatment the products must be 'wholly-obtained' in the preference-receiving country.

(c) PRODUCTS WITH IMPORT CONTENT

Products which have been manufactured in a preference - receiving country wholly or partly from imported materials, parts or partly from imported materials, parts or components (including materials etc of unknown origin) are considered as originating in that country if those materials, parts, or components have undergone sufficient working or processing. Imported materials parts or components (inputs) are considered to have undergone sufficient working or processing if the finished product falls under a tariff heading of the CCN at a four-digit level different from that of any of the materials, parts or components used in the process (referred to as a "change in CCCN heading").

List A of the schemes sets out working or processing operations not conferring to the product obtained the status of originating products whilst List B sets out working on processing operations conferring to the products obtained the status of originating products.

Further details in this respect are contained in the individual schemes of the EFTA countries.

II. The Scheme of United States of America

(i) PRODUCTS COVERAGE AND DEPTH OF TARIFF CUTS

The United States grant preference for approximately 3000 agricultural and industrial products under the scheme. Among the products not eligible under the scheme are the following:textiles and articles of apparel subject to multi-fibre textile agreement; certain import sensitive articles such as petroleum products; leather products; most types of footwear; glass, steel and electronic products; watches. Duty free entry is granted for all products eligible under the scheme.

(ii) QUANTITATIVE RESTRICTIONS

Individual beneficiaries may be excluded from GSP treatment in respect of specific products because the competitive need ceilings were exceeded and this is if

-the appraised value (ex-factory price) of its shipments of the product to the USA during the calendar year exceeds 50% of total US imports of this product; or

-the appraised value of its shipments of the product to the United States during the calendar year exceeds a given dollar value.

(iii) RULES OF ORIGIN

In order to qualify for preferential treatment, the goods eligible for preferences

(a) Must, in principle, be shipped direct from a beneficiary developing country to the United States without passing through the territory of any other country; if shipped through the territory of another country the merchandise must not have entered the commerce of that country; if shipped from a beneficiary country to the United States through a Free Trade Zone in a beneficiary country, the goods must not enter into the commerce of the country and must not undergo any operations other than sorting, grading testing, packing, unpacking, changing of packing or repacking, affixing marks, labels or other signs, or operations necessary to ensure the preservation of the merchandise in its condition as introduced into the Free Trade Zone.

(b) For goods to meet the origin criteria under the U.S. scheme, they must meet the 35 per cent value added requirement. Goods are considered as wholly-obtained if they are wholly the growth, produce or manufacture of a beneficiary country or an association of countries treated as one country. To meet the 35 per cent value-added requirement, the following conditions must be met:

(A) The cost or value of materials produced in Zimbabwe.

+

(B) The cost or value of imported materials substantially transformed into new and different materials of which the eligible article is composed.

+

(C) The direct cost of processing performed in Zimbabwe

= No less than 35 per cent of the appraised value of the article at the time of entry into the United States.
Items not included as direct costs of processing are those which are not directly attributable to the merchandise under consideration or which are not "cost" of manufacturing the products. These include profit and general expenses and business overhead such as administrative salaries, casualty and liability insurance, and advertising and salesman's salaries, commissions or expenses.

GSP Certificate or Origin

This certificate, Generalized System of Preference "FORM A" accompanies the goods exported to the preference-giving country certifying that the product is of the exporting country and meets the status of "originating product" as required by the preference-giving country.

Appendix Six

TRADE AGREEMENTS

a) Most Favored Nation Agreements

Most favored nation agreements provide that two countries accord each other most favored nation treatment on a reciprocal basis in relation to the goods and commodities originating from either country. There are no preferences involved. This type of agreement is the same for African and other countries. Zimbabwe has concluded this type of agreement with 27 countries, 11 from Africa (Mozambique, Tanzania, Zambia, Lesotho, Malawi, Kenya, Ethiopia, Nigeria, Angola, Gabon and Mauritius) and 16 other countries (North Korea, Iraq, Romania, Bulgaria, China, India, Yugoslavia, East Germany, Pakistan, Czechoslovakia, Bangladesh, USSR, Portugal, Cuba, Poland and Hungary).

b) Preferential Agreements

Zimbabwe has preferential trade agreements with Botswana and South Africa. The lucrative agreement with Botswana allows certain goods with a predetermined local content percentage to be imported from one country to the other duty free on OGIL.
The South African agreement is managed quietly for political reasons but is highly effective. It is similar to the Botswana agreement.

Export Zones

Zimbabwe does not have any export processing zones although the Minister of Finance has been asked to study the experiences of other developing countries in establishing EPZs. However, it is considered unlikely according to local commentators that the Government will make any serious moves in this direction beyond the incentive schemes already established for firms setting up in the "growth point areas"

Export Incentives

Export-oriented projects are given special access to foreign exchange in order to finance imports through the operation of two incentive schemes. These are:

a) An Export Revolving Fund which has been established with the assistance of the World Bank. Its purpose is to guarantee manufacturing companies producing for export automatic access to foreign exchange in order to import the foreign content of any confirmed export order, providing the import content does not exceed 60 % of the value of the export. Similar facilities for the agriculture and mining sectors have also been recently established. These foreign exchange allocations are not operating on an explicitly revolving basis, although it should be possible to tie the allocations to export orders. The manufacturing fund, established several years ago, operates on a self-financing basis. The agricultural and mining funds were launched with allocations of US$ 13 million each, with the objective of them both becoming self-financing.

b) A Bonus Scheme is in operation whereby exporters who increase their export earnings from one year to the next are allocated 25% of the incremental value of the exports to cover the import of raw materials which could be used in production for the domestic market.

As a further incentive to exporters, all exports which have a minimum local content of 25% are entitled to a tax free cash payment in local currency under the Export Incentive Scheme. Here, exporters receive 9% of the FOB value of exports. At present 52 exports qualify for the scheme.

Export Credit Insurance

The Zimbabwe Export Credit Insurance Corporation protects credit sales abroad and cuts the risks involved in credit transactions to a minimum. Policies cover political and commercial risks. The cover available varies between 70 and 85 % but specifically excludes losses arising from changes in the rate of exchange.

The private banking system operates a limited forward exchange market which is restricted to commercial purposes. Transactions are subject to Government approval. The banks also offer the usual trade and project finance services.

Appendix Seven

PRICE CONTROLS

There regulations are under review. The list below refers to mark-ups stipulated by the authorities in 1990. Price controls are being phased out.

Item	Definition	Maximum % Markup Wholesale	Retail
Shirts	School type	20	30
Shorts, long trousers	Elasticated and belted waist school type	20	30
Socks and stockings		20	30
Pullovers	Long sleeved and sleeveless, school type	20	30
Blazers, jackets and ties, Dresses, skirts smocks and blouses	School type	20	30
Hats, including straw boaters	School type	20	30
Napkins	Infants towelling, cotton	20	30
Feeding bottles	Infants glass and plastic type	20	30
Teats	Infants feeding, rubber	20	30
Yavus	Knitting, acrylic and wool sold by mass in the ball or packet of balls	20	30
Piece goods	Plain dyed cotton and poly cotton including towelling sold by the metre	20	30
Blankets, including babies and infants blankets		20	30
Canvas footwear	Shoes with textile uppers, rubber insoles and rolled soles	20	30
Stoves for domestic use	Cooking fuelled by paraffin wood coal, gas or electrical types	20	30
Sewing machines and knitting machines for domestic use	Manually electrically operated	20	30
Heaters for domestic use	Electrical, elements, radian types	20	30
Light bulbs	Electrical and battery types	20	30
Torches	Battery type	20	30
Radio receivers, including cars radios	Battery and mains electrical supply type	20	30
Televisions	Battery and mains electrical supply type	20	30

Batteries	Dry-cell, round and flat	20	30
Hollow-ware	Plain enamel finish or metal finished types, cups and mugs, pots and pans, including cast-iron utensils, galvanized buckets, basins and bowls	20	30
Wrist-watches	Movements encased in materials other than gold and silver, of a mechanical type and liquid crystal display and light-emitting diode types. Not including fastening and straps	20	30
Stationery	Bound plain and ruled exercise books of school or office type including jotters/pads	20	30
Bicycles	All sizes as determined by diameter of wheels, including statutory safety devices (ie reflectors and brakes) and replacement parts	20	30
Glassware	Domestic plain, decorated and undecorated	20	30
Imported agriculture machinery and implements	Tractors, combines, ground nut harvests, ploughs (disc and mould board), harrows (including disc harrows) rippers, trailers sprayers (tractor mounted back pack) hay bailers (round and square), mowers, hay tedders, earth and dam scoops mower conditioners, fertilizer spreaders		30
Local agricultural machinery and local implements	As above		25
Imported agricultural spares	Bearings, belts, mower blades and fingers, oil and air filters, shafts, torsion bars, tyres tubes, seals, springs, bolts, and any other spares used primary for agricultural machinery and implements	40	25
Local agricultural spares	Belts, oil filters, plough discs, lift arms, reaper points, springs, tyres and tubes, bolts, batteries and any other spares used primarily for agricultural machinery and implements	-	30
Hardware		25	35
Building materials	Including bricks, timber door-frames, window frames and glass	25	35
Cement		10	20

Paints		20	30
Pesticides and insecticide		20	30
Paper & paper products	All types locally produced	20	30
Kitchenware		20	30
Paper board and paper board products	All types, locally produced	20	30
Tea	Packed in packets or bags	10	15
Poultry (chicken)	Dressed	10	15
Salt	Domestic, packed and sold by mass	10	15
Infant foods	Boxed or packed cereals, milk-based formula and diet supplements	10	15
Infant foods	Vitamin-enriched bottled beverages, bottled purees	10	15
Milk powder		10	15
Flour	Packed for household use, including self-raising flour	10	15
Vegetable oils and fats		-	10
Soap and soap powders	Bars, packed flakes and powders	10	15
Candles	Paraffin wax	10	15
Toilet paper	Rolls and packs or rolls	10	15
Petroleum Jelly		10	15
Kapenta		10	15
Toilet soap	Tablets	10	15
Toothpaste		10	15
Tyres and tubes	Tyres and inner tubes for fitting to motor-vehicles	-	10

Appendix Eight

USAID PROJECTS

Title	Date started	Amount: $'000
1. HIV/AIDS Prevention	1988	400
2. Basic education & skills training	1983	45,000
3. Agricultural sector assistance	1982	62,000
4. Manpower development I	1982	13,000
5. Commodity import program	1982	97,000
6. Manpower development II	1986	5,000
7. Family planning	1990	15,000
8. International executive service corps	1990	385
9. Program development and support	1988	550

Appendix Nine

ACRONYMS

ACP	Africa, Caribbean, Pacific
AFC	Agricultural Finance Corp
AMA	Agricultural Marketing Authority
AZ	Air Zimbabwe
BLR	Base Lending Rate
BLS	Botswana, Lesotho, Swaziland
CAP	Common Agricultural Policy (of the EC)
CZI	Confederation of Zimbabwe Industries
EC	European Community
EPZ	Export Processing Zone
FMB	First Merchant Bank
GATT	General Agreement on Tariffs and Trade
IDC	Industrial Development Corporation
NOCZIM	National Oil Company of Zimbabwe
NRZ	National Railways of Zimbabwe
OGIL	Open General Import Licences
OECD	Organization for Economic Cooperation and Development
OSS	One Stop Shop
PTA	Preferential Trading Area
RBZ	Reserve Bank of Zimbabwe
SAP	Structural Adjustment Program
SDR	Special Drawing Rights (IMF)
SEDCO	Small Enterprises Development Corporation
UAPTA	Unit of account of the PTA
ZDB	Zimbabwe Development Bank
ZDC	Zimbabwe Development Corporation
ZESA	Zimbabwe Electricity Supply Authority
ZIC	Zimbabwe Investment Center
Zimbank	Zimbabwe Banking Corp
ZMDC	Zimbabwe Mining Development Corporation
ZISCO	Zimbabwe Iron and Steel Company