UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

1983 COMMODITY IMPORT PROGRAM

613-K-605

TO

THE GOVERNMENT OF ZIMBABWE

ZIMBABWE - CIP 613-K-605

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I. SUMMARY AND RECOMMENDATIONS

The following are the principal features of the proposed commodity import program:

Activity: Zimbabwe CIP 613-K-605

Amount: US$ 37,000,000

Terms and Conditions: ESF grant funding, with local currency reflows to be deposited in a special account for use in jointly agreed upon development activities. Further, one percent of these reflows will be expressly reserved for use by USAID/Zimbabwe and Southern Africa regional program activities in Zimbabwe for anticipated local currency requirements.

Authorized Source: AID Geographic Code 000 (U.S.)

Program Justification: This program will respond to the critical foreign exchange shortage encountered by Zimbabwe's productive sectors, particularly the private sector. In addition, the program will also assist the GOZ to overcome its short and medium-term financial difficulties, particularly in the areas of balance of payments shortfall and budgetary constraints.

Program Description: The dual objectives of this program are generally identical to the first CIP: First, by making available foreign exchange resources we will stimulate further the Zimbabwe industrial and commercial sectors to play their key roles in nation rebuilding and employment creation tasks. As successfully evidenced under the first CIP, this will permit the importation of U.S. goods and manufactures, principally by the private sector (80 percent) but also to a limited extent by the public sector (20 percent), for use in productive, development-related activities. Priority will be assigned to replacement of the country's aging stock of capital goods as well as to the export subsector. An illustrative list of the types of commodities eligible under this program can be found in Section IV.

The second objective is to support Government development initiatives by using the local currency generated from the commercial sector under the CIP to finance a range of public sector investment programs and privately directed activities in the areas of education, health, agriculture and small-scale enterprise. Inasmuch as the GOZ's local currency requirements far exceed the generations available under this program, AID and the GOZ will jointly agree on the optimal allocation of the reflows. To date, this process has worked very effectively. It began with the initial two cash grants, continued under the first CIP and is proposed to be continued under this program, with some minor modifications. Initial discussions have already taken place with the Ministry of Finance, Economic Planning and Development (MFEPD) on an illustrative list of activities to be funded with Zimbabwe dollar generations (see Section IV.3). The list will be formalized prior to disbursement of any of those funds. On the basis of AID's experience with this approach, the mechanism of flexible local currency programming is highly desirable and appropriate to the current conditions in Zimbabwe for the following reasons:

- it is responsive to the near term development and financial requirements of the GOZ;
- it reflects the competent functioning of the Government public sector;
- it is in keeping with the business-like relationship that has characterized AID's dealings with the GOZ to date;
- the AID program in Zimbabwe has been recognized by both the GOZ and other donors as having achieved a rapid rate of implementation largely due to the non-project mode selected.

<u>Program Implementation</u>: The proposed program will be implemented by MFEPD in coordination with the Ministry of Trade and Commerce and the Reserve Bank of Zimbabwe. On the use of foreign exchange, Treasury determines the global level of foreign exchange to be allocated each quarter and an inter-ministerial committee, chaired by the Minister of MFEPD, will allocate that amount among 32 sectoral groups. In turn, committees within each group will reallocate the sectoral amount among individual public and private entities who have applied for foreign exchange. Existing licensing and import procedures will be used. These procedures have been used under the first CIP; the design team has reviewed them and found them fully acceptable.

On the use of local currency generations, MFEPD will be responsible for programming funds, in coordination within relevant operating Ministries, and with the concurrence of the Mission. These procedures have also been reviewed and judged acceptable.

USAID/Zimbabwe will be responsible for program monitoring; the Mission backstop officer is John Lewis, Supply Management Officer. As necessary, assistance will be provided by the RLA/SA and REDSO/ESA.

Status of First (1982) CIP: Over $49 million of the $50 million of the 1982 CIP resources have been allocated by the GOZ. Over $25 million in letters of credit have been opened, with additional credits being opened daily at a brisk pace. Many of the items being financed under the CIP have already arrived in Zimbabwe. This can in part be attributed to the fact that 80%, or $40 million, of the CIP has been set aside for the private sector importers, who have been extremely efficient in utilizing the funds.

In view of the performance to date, it is expected that the CIP will be disbursed within the 18-month disbursement period.

Disbursement Period: The PAAD team recommends a period of 12 months for commitment and 18 months for disbursement of all foreign exchange resources and 36 months for disbursement of all local currency proceeds.

Statutory Checklist: Satisfied (See Annex C)

Waivers: None

Issues: None

Negotiating Status and Conditions/Covenants

The PAAD design team has held numerous discussions with interested ministries and public and private entities and organizations to evaluate the allocation procedure of the first CIP to obtain feedback from various principles in the process and to resolve all substantive issues involving CIP 613-K-605

The consensus was that the objectives of the program were being met and the mechanism was functioning well, notwithstanding some initial delay in approvals of allocations at the Ministry of Trade and Commerce. Despite initial misgivings by groups within the Government about the emphasis on assistance to the private sector under the first CIP, there is now a better appreciation of the need to sustain and strengthen the country's industrial and commercial base so as to help stimulate growth in the social sectors. Agreement has been reached to continue the 80-20 split among private/public sector imports.

Given the experience of the first CIP and the Government's familiarity with AID procurement procedures and regulations and barring any unforeseen changes, we are confident that the implementation of CIP II 613-K-605 will proceed smoothly.

In addition to the standard conditions, the following additional conditions are proposed (similar to those in the first CIP):

1. An implementation plan (a) outlining the procedures to be used for allocating foreign exchange to importers, and (b) providing an illustrative list of items to be financed, including, in the case of public sector procurement, a description of the commodities to be procured, their anticipated use and the end user of the commodities.

2. A plan detailing the activities to be financed with local currency generations, in order of priority and with projected starting dates.

The design team foresees no difficulty in negotiating and signing this $37 million proposal by April 1983, assuming advice of authorization is received in timely fashion.

Recommendation: It is recommended by both USAID/Zimbabwe and REDSO/ESA that a grant commodity import program in the amount of $37,000,000 be authorized for Zimbabwe.

PAAD Committee

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II. BACKGROUND

A. Political Background and U.S. Objectives

Beginning in 1976, the United States Government became actively involved in the search for a negotiated settlement to the Rhodesian conflict. Successive attempts at internationally sponsored negotiations were unsuccessful until the Lancaster House Conference of late 1979. A consistent element in each of the settlement efforts was a pledge by the United States Government to provide substantial financial assistance to the new Government of Zimbabwe, if created as a result of a negotiated settlement. The assistance provided to Zimbabwe by the USG in FY 1980 and 1981 and pledged for FY 82-84 at the March 1981 ZIMCORD can therefore be seen as consistent with these prior commitments.

A politically stable and economically dynamic Zimbabwe is key to the stability of the larger southern Africa region. Zimbabwe achieved independence on April 18, 1980. The new government came to power with an agenda aimed at correcting the extraordinary economic and social dualism that had grown up over ninety years of minority rule. To date reconstruction has been successful with most war damage to schools, health clinics, roads etc. largely rebuilt. The government's policies of reconciliation toward whites and pragmatism in maintaining the structure of the economy have been praised by many observers.

1. U.S. Objectives

The U.S. supports GOZ initiatives to deal with economic and social problems that have resulted from the war and several decades of neglect and exploitation of the black population. The job that the GOZ has set for itself over the long-term is to change fundamentally the existing social structure so that the economic benefits are more equitably distributed among the entire population. Without such an adjustment there will be no lasting peace and no certain future for the large and prosperous private sector that has grown up over the years.

Zimbabwe possesses numerous and diversified resources and has an extensive social and economic infrastructure -- an essential base for broadening the distribution of development. Notwithstanding these positive features, several massive tasks still confront the government; resettling many landless people, stimulating the commercial sector to generate exports and new employment, expanding education and health care to much larger population groups, opening the agricultural sector to small farmers and curbing population growth. To finance these tasks will require not only the bulk of the GOZ's internal resources but substantial infusions of external assistance as well. The U.S. pledge of $75 million for FY 83 is critical if these objectives are to be realized.

Zimbabwe is a country founded and functioning on democratic principles. There are hopeful signs that Prime Minister Mugabe's goal of a successful non-racial society will be realized. Many observers also believe that such a society will be underpinned by a strong mixed economy with a successful agriculture sector and a large element of private enterprise. Such a success will serve as an important example to other nations, especially South Africa.

It is in the U.S. interest that Zimbabwe succeed and it has formed the principal rationale behind the substantial U.S. commitment at Zimcord. The proposed $37 million of U.S. commodity assistance is designed to provide Zimbabwe with critically needed foreign exchange and to assure that the local currency generated thereunder will contribute to the many development projects in the country's capital budget that would otherwise go unfunded.

B. GOZ Strategy

With the coming of majority rule the Government faced a number of severe problems -- primarily national reconstruction, the integration of the liberation armies into both the National Army and the civilian economy; the resettlement of displaced persons and refugees; the fears of whites that they would be excluded from the new order; and the need to maintain the vitality of the modern economy while at the same time moving quickly to a more equitable distribution of incomes and assets. To date they have succeeded in many of these tasks, others are still in doubt and will require time, resources and political acumen.

The strategy adopted by the Mugabe government to deal with these problems is essentially fourfold:

(1) the continuation of growth policies toward the modern economy, which involves stimulating the private sector to expand production, create additional employment and exports;

(2) initiation of a settlement program that will gradually increase the movement of African farmers from communal lands to underutilized land in the commercial sector without affecting the productivity of commercial farming;

(3) a program of investment in small farmers and small businesses; and

(4) an expansion of services to the African population, particularly in the areas of health and education and family planning.

By moving on all fronts at once, the GOZ hopes to maintain growth, increase the share of income going to African workers, to increase production and incomes in the communal lands. The GOZ also hopes to begin to address to some degree, the understandable land hunger of the African population, and, through the provision of health and education, to meet the aspirations of the majority population for a better quality of life. It is a program to redistribute opportunity and income while avoiding the more radical proposals to redistribute assets. The GOZ strategy is one the U.S. can support, it is balanced and moderate and designed to promote growth, exports and, most important, improvement in human capital.

C. U.S. Assistance Strategy

1. General Statement of Goals

The reader is referred to USAID/Zimbabwe's second Country Development Strategy Statement (CDSS), prepared in June 1982, for a comprehensive discussion of the Mission's goals, objectives and proposed assistance levels. However, it will be useful for background purposes to restate the three major goals of U.S. assistance:

> "(a) To help create a multiracial, democratic state which will provide stability in the Southern African region, and to support the present government's attempt to bring about such a society in a pragmatic and modern fashion;
>
> (b) To improve the quality of life for the poor, black majority; and,
>
> (c) To assist the GOZ to achieve self-sustained, equitable growth, thus insuring that both of the above objectives are met in the long term."

In addition to these political and equity goals, there are strong U.S. economic interests in Zimbabwe, both from the perspective of a trading partner and as a result of U.S. investments in the country.

The programming of U.S. assistance to support these goals has taken into account the political and economic fluidity in Zimbabwe. Although the GOZ has already spelled out many of its major policies, in the Transitional Development Plan and elsewhere, it is only now beginning to translate these into specific courses of action. These moves, in turn, are exposing the pulls and tugs inherent in reconciling two occasionally conflicting concerns: (i) Government must act in such a way as to bring to the black population tangible and immediate evidence that their economic situation is being improved; and (ii) it must also act in such a way as to sustain the productivity of the largely white, modern economy. To this, Government has added a rhetoric, meant for its black constituency, which points to a distant, ultimately socialist future and decries the exploitation of the underclass by the settler economy which was largely capitalist and resulted in great differences in income distribution and social dualism.

Despite this rhetoric, however, the policy framework has thus far been marked by continuity rather than radical change, and by pragmatism rather than ideological posturing. The recent 20% devaluation and sharp reductions in maize and edible oil subsidies and increases in consumer prices for both commodities are clear indicators of policies designed to favor growth. Nevertheless, it would be a serious mistake to expect this pragmatism to lead to the establishment of a laissez-faire market economy. The present government seems serious about creating some form of socialism, although it will maintain some form of mixed economy with considerable scope for private initiative. 1/

What has guided the U.S. response to date is that Zimbabwe's political structure is still broadly democratic and oriented toward equitable growth objectives. What has structured our modalities of assistance to date is the recognition that the central administration of the GOZ is probably the most capable and most efficient in black Africa. Therefore USAID strategy is to rely heavily on GOZ capabilities for planning and implementing their own development program. The FY 80 and FY 81 program grants were structured with this concept of flexibility and responsiveness in mind. The same theme runs [illegible] the first CIP and the Zimbabwe Agricultural Sector [illegible]ce (ZASA) program as well as CIP II and the upcoming [illegible]an resources sector program.

2. Program Relationship to CDSS

As spelled out in Section III of the FY 84 CDSS, the proposed follow-on CIP with its private sector orientation, is consonant with several of the Mission's strategy themes, particularly:

-- expanding the productive capacity of the modern sector by provision of foreign exchange channelled largely through the private sector;

-- expanding employment both in the modern and rural sector, with special emphasis on assisting emerging Zimbabwe private sector entrepreneurs.

"The CIP, started in 1982, will remain the primary vehicle for this portion of our strategy, i.e., expanding the productive capacity of the modern sector by channelling foreign exchange largely through the private sector...CIPs in FY 83 and 84 will be similarly directed at import gaps for capital goods, spare parts and raw materials,

1/ See Zimbabwe FY 1984 CDSS, discussion of major policy issues (pp. 57-58).

particularly in industry, export manufacturing and areas where employment generation is most likely."

Furthermore, the Zimbabwe dollars generated under the program will be used to support a range of Government programs for development purposes in the education, health, agriculture and/or small-scale enterprise sectors. As tentatively programmed, these funds will alleviate GOZ funding constraints and permit increased support for activities that will directly increase agricultural incomes, generate new employment and expand basic social services. In addition, a portion of the local currency generations may be used to support activities of benefit to Zimbabwe that will also impact on the region as a whole.

3. Policy Performance and USAID/GOZ Dialogue

Over the next several years we can expect to see government policies that will at times appear ambiguous, vacillating between short-term and long-run objectives and veering between economic rationality and political demands of a large poor population with high expectations. The path forward can only be crossed on a tightrope, subject to the tugs of two strong, often competing, interest groups. Thus far, for the most part, Government has been moving in the right direction. Given extremely difficult political and economic conditions, it is taking steps that are as appropriate as possible under the circumstances.

The decisions to devalue by 20% and to raise consumer prices on maize meal and edible oils were politically difficult and yet were taken all within a weeks' time of each other. There are indications that wage restraint has been accepted and there is now an active examination of further reductions in food and transport subsidies. The government has moderated its education policies by moving to local community management and reinstituting forms of school fees. Similar changes in fees for health care are pending. These should act to reduce recurrent budget costs for social services.

Zimbabwe is intent on avoiding the policy pitfalls of inappropriate food pricing and import subsidies that have plagued many African nations. Price increases are being passed on to consumers. Agricultural prices provide perhaps the best set of production incentives in Africa. They are adjusted regularly and generally reflect opportunity costs. The fact that there has been an increase in the number of white commercial farmers since Independence and small African farmers are demonstrating an unanticipated response to price increases for cotton and maize, give some tangible evidence to the growth oriented agricultural policies.

The GOZ has not yet concluded an agreement with the IMF after drawing its first tranche standby ($37.F ''lion) in mid-1981. However the IMF has been gene pleased with Zimbabwe's conservative monetary and t...al policies. The country raised interest rates and reduced its budget deficit from a high of 13% of GNP to 6% in 1981. Projections for 1982 suggest that the deficit will go up again but in recent weeks the GOZ has asked all ministries for their proposals for a 25% reduction in their already approved budget. This austerity move is not unusual as the Ministry of Finance forced "spending Ministries" to underspend by 12% in 1982. The new austerity move is designed to make the devaluation more effective and to hold the line on inflation (now 15-17%). If as we expect, the GOZ also restricts wage increases, this should pave the way for an early IMF agreement. The GOZ had been after a three year extended fund facility (EFF), however it is believed that the IMF is offering a compromise 18 month standby.

Export performance has been extremely difficult due to world recession, the lack of foreign exchange in Zimbabwe's nearby markets, transport difficulties through Mozambique and until the recent devaluation, an overvalued exchange rate. The Government has just instituted a series of export incentive measures and has concluded a $70 million export loan with the World Bank. Under the circumstances we would have to conclude that export promotion policies are moving in the right direction and that Zimbabwe should be in a favorable position to benefit from recovery in the western industrial countries when that begins.

Another important potential source of foreign exchange, i.e., from private investment flows, has been lacking. Government policy has been unclear but with the recent publication of a Foreign Investment Code prospects might improve. However political uncertainties, high interest rates in the west and the absence of OPIC-type agreements are likely to mean limited private flows for some time. This is an area where U.S. policy dialogue will continue.

In sum, the U.S. policy dialogue with the GOZ has had much demonstrable success in the last year; in food pricing, in reducing subsidies, in reinstituting school fees and in cutting back deficit spending. Devaluation has been taken and the currency floated to limit future overvaluation. There are no apparent policy obstacles to a much needed IMF arrangement. The relationship between foreign exchange availability, investment and job creation in the Zimbabwe economy is clear and the policy environment appropriate for a second private sector oriented CIP.

D. Status of Related U.S. Assistance Efforts

1. Program Grants

AID has provided two program grants to the GOZ as cash transfers. The first grant of $20 million was disbursed in two tranches of $13 million and $7 million immediately after obligation in July and September, 1980, respectively. The second grant of $24,280,000 was disbursed in tranches of $20 million and $4.28 million shortly after obligation in January and September 1981, respectively. The foreign exchange under both grants was estimated to have been utilized by the GOZ within 30 days after its receipt from the U.S. The government has provided confirmation that all foreign exchange was utilized for priority imports in accordance with each of the agreements.

The GOZ deposited the local currency equivalent of the cash transfers (Z$28,365,457) into a special account in the Reserve Bank. These funds in the special account have been allocated for projects identified and proposed by the GOZ, and agreed to by USAID. The final expenditures of local currency were made in December 1982. The final report from the GOZ on these funds is due February 15, 1983.

Approved projects have been diversified and benefitted a large number of people throughout the country. The emphasis of the projects has shifted and the complexity has increased as the country regained its feet after the war. Initial projects, such as the feeding program for refugees (Z$1,249,400) and crop packs for new settlers (Z$3,210,845), were highly successful and quickly completed. Reconstruction of roads, bridges and water supplies (Z$2,640,000) and schools and clinics (Z$7,158,962) began early, but has taken longer to complete. In addition, amounts have been spent on construction undertaken through Cooperatives (Z$3,500,000), the Belvedere Teachers College (Z$3,856,872) and numerous smaller projects.

The Ministry of Finance, Economic Planning and Development has been the co-ordinating agent for allocations and reports on the local currency use. The systems used for tracking allocations and accumulating data have been improved during the last two years as the GOZ gained familiarity with AID's requirements and now appear adequate. Given the obstacles faced and the diversified nature of the activities being financed, the Mission believes that the GOZ's implementation of the selected projects provides a formidable record of accomplishment and attests to the GOZ's capacity to effectively absorb and channel substantial funds for a variety of activities throughout Zimbabwe.

2. <u>1982 Commodity Import Program (613-K-603)</u>

The CIP Agreement No. 613-K-603 in the amount of $50,000,000 was signed on April 7, 1982. By June 10, 1982, all conditions precedent to disbursement had been met and financing requests totalling $50 million had been issued. Two bank letters of commitment of $25 million each were opened on June 16, 1982.

The grant agreement required that a minimum of 80 percent of the funds be allocated to private sector importers, with the balance being set aside for public sector imports. All allocations under the $10 million public sector portion were made by June 10, 1982, since this was one of the conditions precedent to disbursement. The allocations under the $40 million private sector portion did not commence until July of 1982. The delay in starting the allocations was due to procedural problems within the GOZ. As these problems have now been resolved, it is not anticipated that there will be a similar delay in implementing the 1983 CIP.

By mid-June of 1982, orders had been placed for approximately $1.3 million of data processing equipment under the public sector portion; by the end of July the items were arriving in Zimbabwe by air freight. As of December 31, 1982, orders had been placed for an additional $4.3 million of goods under the public sector portion.

As of December 15, 1982, the GOZ's Ministry of Trade and Commerce had allocated approximately $39 million of the private sector $40 million. The following table provides details on the allocation of funds.

ALLOCATION OF FUNDS BY GOZ UNDER CIP 613-K-603

Commodity	Amount	Percentage of CIP
Finished Goods:		
Construction Equipment	US$12,356,964	25
Agricultural Tractors	5,329,262	11
Cotton Ginning Equipment	3,385,000	7
Data Processing Equipment	5,916,929	12
Heavy Lift Equipment	1,208,198	2
Manufacturing Equipment	7,068,855	14
Other	473,076	0.9
Semi-finished Goods	400,634	0.8
Raw Materials	12,865,227	26
Unallocated	995,866	2

Letters of credit valued at approximately $25 million had been opened as of December 31, 1982, and are continuing to be opened daily at a brisk pace by the local banks in Zimbabwe. It is expected that by mid-April 1983, letters of credit will have been opened for all items for which allocations have been made. As of January 10, 1983, disbursements under the letters of credit totalled approximately $4.5 million.

As with most Commodity Import Programs, it has taken the Government of Zimbabwe and the private sector importers a while to learn the details of the program and how it operates. Although the implementation of the CIP has progressed at a satisfactory rate, it is expected that the CIP covered by this PAAD will be implemented at a more accelerated pace.

The PAAD for the 1982 CIP required that the GOZ use its best efforts to ensure that an amount of United States dollars at least equal to 50 percent of the grant be made available to the private sector in addition to the amount that would have been made available absent the grant. The GOZ took the position that the 1982 CIP, as well as funds made available by other donors for similar purposes, would be 100 percent additional. While this has been the case, the total amount of foreign exchange made available to the private sector has not been increased. In June 1981, the "quarterly global allocation of foreign exchange" was Z$220 million. This amount has been dropping steadily for each subsequent quarter due to the decline in export earnings. By the first quarter of 1983, the global allocation had dropped to Z$147.5 million. Thus, while the CIP has not increased the foreign exchange going to the private sector, it has to a certain extent offset a portion of the decreases.

3. ZASA (613-K-604)

The Zimbabwe Agricultural Sector Assistance (ZASA) grant, a three-year, $45 million activity, was authorized and signed in September 1982. A major component of the program was the identification of $30 million of local currency requirements to be used in support of mutually agreed upon priority activities in the agriculture sector. The mechanism developed for generating the necessary Zimbabwean dollars was a CIP, which replicated the principal feature of the first CIP, namely, an 80-20 split of the AID resources for private-public sector imports of U.S. commodities. These are destined for the agriculture sector. The local currency equivalent is to be deposited in a special account and applied against budgetary line items in the agriculture sector. The program is still in its start-up phase and no foreign exchange allocations have yet been made.

E. Other Donors

As an outcome of the March 1981 ZIMCORD meetings, 36 bilateral and multilateral donors committed varying amounts of resources to Zimbabwe. Among that group thirteen are providing CIP type assistance as a form of balance of payments support. The World Bank is the single largest donor, including a $65 million loan/credit for manufacturing rehabilitation already expanded and a $70 million loan/credit directed at export industries just recently concluded. The U.S. is the second largest donor. In addition, the EEC, U.K., France, Sweden, Netherlands, Norway, Denmark, Australia, Belgium, W.Germany and Canada are all providing a variety of program assistance credits, mostly to the public sector. Of the donors, eight are providing loans and/or mixed credits and five are providing granc assistance. With a rapidly rising debt-service ratio and, according to one informed sources, a freeze on new commercial credits maturing before 1987, there is increasing reluctance by Government to utilize the more expensive commercial credits being offered.

Donor coordination is reasonable and in many respects the assistance provided is complementary. To date there have been few instances of overlapping effort. Given the GOZ's financial requirements plus an efficient Government apparatus to undertake and support development programs, the PAAD team concluded that even substantial, additional donor support is unlikely to cause any serious concerns about donor coordination or absorbtive capacity.

III. ECONOMIC SETTING AND PROGRAM JUSTIFICATION

A. Summary and Conclusions

Following a euphoric, short-lived, high growth rate period after independence in April, 1980, the Zimbabwean economy was soon buffetted by internal pressures and the world economic downturn. The Government of Zimbabwe presently finds itself in a difficult economic situation characterized by growing budget deficits, balance of payments problems and a debt service requirement consuming 15 to 18 per cent of export earnings.

Recent government policy changes, however, reflect a strong commitment to reversing these economic trends, and are consistent with what is emerging as a comprehensive program of economic policy adjustments. Within a one-week period before Christmas, 1982, the GOZ announced: (1) a 20 per cent devaluation accompanied by wage restraints (until July 1983) and reduced government expenditures, and (2) an increase of up to 38 per cent in the consumer price of basic maize meal and up to 70 per cent for highly refined meal. Also, the ex-Factory price of maize meal to wholesalers was increased by up to 49 per cent plus allowance for recovery of most related transport costs. Although a cut in subsidies was announced in early November, millers were prohibited from raising prices. This recent Government action--a policitically difficult and unpopular measure--serves to pass along to consumers most of the costs associated with reducing maize meal subsidies. These two actions are consistent with what is emerging as a comprehensive program of economic policy adjustments.

One of the most critical results of the recent economic downturn is the reduction of import levels to reflect reduced foreign exchange availability. These reductions are likely to depress further the productive sectors of the economy (primarily the private commercial/manufacturing sector), and to reduce the GDP growth rate and overall employment within the economy. A survey of representative Zimbabwean businesses in November, 1982, indicated that reduced foreign exchange allocations are already causing reduced outputs for about 66 per cent of the firms surveyed. At the time the first CIP was written, quarterly import allocations were Z$220 million; these have since been reduced to Z$147.5 million. At the earlier level, the FY82 CIP was essentially fully committed within six months.

With an even greater need for imports at this time and a reduced FY83 CIP level (U.S.$37 million versus U.S.$50 million), the likelihood of equally rapid commitment of AID resources is great.

There are three economic rationales which justify the proposed CIP: (1) a desire to assist the largely private-owned production sectors with critically required imports; (2) assistance to the GOZ for balance of payments support; and (3) budgetary assistance to the GOZ for important development activities.

The availability of imported goods and materials is vital to the private sector for both domestic production and export. In turn, the vitality of the private sector is critical to the Zimbabwe economy in terms of its contribution to GDP growth, employment, the availability of goods domestically, the government budget, and balance of payments through export promotion. Thus, the proposed CIP will provide scarce foreign exchange to the productive sectors of the economy in order to maintain their productivity. This constitutes the single, greatest foreign exchange requirement facing the Zimbabwe economy at the present time.

The CIP will also provide direct balance of payments support to the Government of Zimbabwe through the provision of foreign exchange to finance imports. Finally, local currency generations of both private and public sector imports will be deposited in a special account, the proceeds of which will provide budgetary support for priority development activities.

B. Macro-Economic Setting [1]

Zimbabwe is a middle-income country with the largest and most developed economy in a majority-ruled southern Africa. With a per capita GDP of about $775 in 1981, Zimbabwe's economy is characterized by its sophistication and diversity. Exports are evenly divided between agricultural produce, manufactured goods and minerals. Manufacturing constitutes the largest sectoral component of GDP, with 23% of the total, followed by agriculture (18%0; public administration, including education and health (16%); and trade, hotels and restaurants (14%).

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[1] The reader is referred to the 1984 CDSS for Zimbabwe and the FY 82 CIP for additional economic background covering the advent of independence.

The range of products produced in Zimbabwe includes twelve major agricultural crops, ten minerals, and over 6,200 distinct manufactured goods. Major agricultural crops include maize, wheat, tobacco, cotton, sugar, beef and dairy products as well as groundnuts, tea and coffee. Mineral production includes gold (30%), asbestos (23%), nickel(13%), coal (8%), copper (7%), silver (6%), and chrome (5%). Manufacturing industries include iron, steel and metals (26%), textiles (19%), chemicals and petro-chemicals (14%), food processing (14%) and beverages and tobacco (11%).

Zimbabwe's land-locked position constitutes a continuing financial and political burden. Although well-endowed with infrastructure, including rail links connecting all major economic centers with four ports in Mozambique and South Africa, 10,000 kilometers of road and a widespread telecommunications system, Zimbabwe nonetheless suffers from international transport problems. The oil pipeline from Beira has been interrupted recently, as it was last year, by dissident elements in Mozambique. Owing to port inefficiencies in Mozambique, about three-quarters of imports and exports are shipped through South Africa, even though the ports at Beira and Maputo are about one-third to one-half as far away. Thus, domestic and foreign exchange resources expended for transport are greater than necessary. These expenses provide a large measure of natural protection to the domestic market, which is reinforced by artificial protection through tariffs and tight foreign exchange allocation for imports.

Excepting petroleum, Zimbabwe is endowed with significant energy production capacity. The hydro-electric complex at Lake Kariba meets a significant proportion of energy consumption needs. With the completion of the Hwange thermal (coal-fired) electric complex in 1985, Zimbabwe will be self-sufficient in electricity generation. Petroleum is entirely imported, however, constituting about 25 per cent of imports in 1982. A domestic ethanol plant, relying on sugar cane as a base, provides about 20 per cent of gasoline consumption.

Although per capita income is high by African standards, the economy is sharply dualistic. The modern sector which accounts for 96 percent of GDP, is dominated by whites and by foreign investors, with about 70 percent of all industrial, financial and commercial assets foreign-owned. As a result, income per capita in the modern economy is estimated at 28 times that of the traditional economy.

Of the approximately one million African wage-earners in 1981, about 40 percent are employed in the low-paying agriculture and domestic service sectors. Another 40 percent are employed in mining, manufacturing and services, with another 16 percent in public services.

The private sector continues to pervade the modern economy in manufacturing, mining, commerce and finance. However, the government is conscious of its social objectives in terms of improved income distribution. Thus, price controls, inherited from the UDI government, remain in force. Minimum and maximum wage rates have also been established, with higher incomes frozen at current levels since 1980. Minimum wages increased by 63 percent between 1980 and 1982, and lay-offs are not permitted without Government approval.These regulations, in addition to strict controls on foreign imports and repatriation of profits, are causing increasing hardship to the private sector. Compounded by a large increase in government spending in 1981/2 and an austerity program announced in December, 1982, to complement the 20 percent devaluation, the next year will almost certainly be a difficult one for the private sector, as indeed for the entire Zimbabwe economy.

The challenge which continues to lie at the core of the GOZ's concern is now to achieve growth with equity, or how to redress the inequities of the existing economic structure without eroding the dynamism of the modern, private sector. While the socialist ideological orientation of many GOZ officials remains strong, Government as a whole appears to be increasingly cognizant of the importance of the private sector's contribution to maintaining economic growth, stimulating new employment and providing a strong revenue base for the government.

1. Gross Domestic Product

During the first two years of independence, Zimbabwe's economy grew at an impressive rate. Real GDP growth during 1980 is established at about 11%, while real growth during 1981 is estimated at 7% (IMF) and 12% (GOZ Central Statistics Office). (See Table 1, below; The significant difference for the 1981 growth rate is attributable to difference in the GDP deflator and to the provisional nature, after several revisions, of national account data for 1981).

Table 1: Key GDP Indicators

	1978	1979	1980	1981 Est.	1982 Proj.
GDP (at current prices)					
Total (in millions of Z$)	2,300	2,770	3,480	4,240	5,088
Agriculture (per cent of GDP)	14	12	14	18	17
Mining (per cent of GDP)	7	7	8	6	6
Manufacturing (per cent of GDP)	23	24	23	23	24
Government (per cent of GDP)	11	10	9	9	8
Annual real rate of growth (per cent)	-3.4	7.4	11.4	7.0	3.5
Investment as per cent of GDP	15	15	17	16	...
Prices (per cent change)					
GDP deflator	9.0	13.0	14.2	14.8	16.5
Cost of living index	6.6	11.3	9.2	14.6	17.0

Source: IMF, Zimbabwe: Recent Economic Trends, September, 1982.

Per capita income increased by 12% to 15% in real terms during 1980 and 1981. This impressive economic recovery, reflecting the end of civil and military strife and the removal of sanctions, was fueled by increased wages and improved income distribution which increased demand in all sectors. The recovery was also fueled by substantial (34%) improvement in the terms of trade and a bumper agricultural crop in 1981. The recovery was eased by considerable underutilized capacity within the economy, and was rather remarkable in view of world-wide recessionary conditions.

Growth prospects for 1982 and 1983 are far less optimistic. Real growth is informally estimated at 2% to 3%, or below the population growth rate. Some observers believe that a zero growth rate is likely. While the 1982 growth rate will probably be disappointing, it is nonetheless likely that the level of production achieved during the previous two years will be maintained without significant erosion.

The reasons for declining growth are numerous. First, the excess capacity which was available in 1980-81 has been largely re-activated and additional investment is required before further industrial capacity is generated. Second, foreign exchange availabilities for imports are more limited than in prior years, when significant short-term official borrowings were required to finance balance of payments deficits. The GOZ presently has a large near-term external debt to finance, and must limit commercial credits until the situation improves. Third, business confidence in the investment climate is not sufficiently strong to atttract significant additional investment, owing to difficulties related to price controls, wage increases and labor regulations, and confused signals with respect to new investments. Finally, world-wide recessionary conditions have affected lower prices for mineral and manufactured exports, and have limited the amounts of external capital foreign companies have to invest.

A sectoral breakdown of GDP is set forth in Annex B, Table 1. This table illustrates the sources of the phenomenal growth rates experienced during the first two years after independence. In current prices, agriculture expanded by over 100 percent during this period, manufacturing by 42 percent and construction by 53 percent.

Gross Domestic Income in 1981 amounted to about $5.4 billion, which was roughly shared between wage earners and investors on a 2:1 basis. (see Annex B, Table 2.) Private Consumption rose from 60 percent to 66 percent of GDP from 1980 to 1981. Gross fixed capital formation decreased slightly from 17 percent to 16 percent of GDP, of which Government expended about 20 percent in 1980. Private consumption expenditures increased from 64 percent to 66 percent of GDP, while net government recurrent expenditures increased from 64 percent to 66 percent of GDP, while net government recurrent expenditures remained stable at 19 percent of GDP.

2. Development in Main Economic Sectors

a. Agriculture

Marketed agricultural production by crop is set forth in Annex B, Table 3. While 1981/82 was reported as a drought year in parts of the country, preliminary production statistics show increases for four major crops (wheat, soya beans, tobacco and sugar). Given the bumper harvest of 1981, a decline to normal production could be anticipated, but production should not fall below 1980 levels.

In 1981, the most dramatic increase occurred in the maize crop, which increased by 246 percent, largely due to good weather and price incentives. Estimates for 1982 are about 1.4 million tons, or over 50 percent higher than in 1980. However, not all of this increase in marketed production reflects a real growth in output. Maize prices have remained high relative to other crops. At these prices, producers have an incentive to sell all their production including their auto-consumption. With subsidized consumer prices it is cheaper to purchase milled maize than fresh maize. This price distortion results in milled maize being purchased for cattle feed as well. Government stocks of maize presently total nearly one year's of consumption, and are being stored at high cost. Although significant maize has been exported, some of it at an economic loss, maize reserves remain at high levels. Recent price increases for maize are expected to rectify these distortions in 1983.

Marketed wheat and soya bean production increased in 1982 by 5 percent and 30 percent respectively. Tobacco production is also expected to increase by about 27 percent, and sugar production is estimated to be a record 98.6m. tons in 1982, up 13 percent. Thus, of the six most important crops, maize and cotton alone registered significant declines in 1982.

Since production in value terms registered a 58 percent increase in 1981, a bumper crop year, the agriculture sector should be expected to decline somewhat in 1982.

This decline will be exacerbated by low world tobacco and sugar prices, although some Zimbabwe sugar will be sold at preferential rates in the U.S. and Europe. Foreign exchange earnings from sugar increased by 4 percent during the first five months of 1982. Agriculture production declines are expected to be affected by drought conditions in some parts of the country in 1982, as well as increased labor costs. However, preliminary estimates show that production declines are not uniform, and that production will still show significant increases over 1980 levels.

b. Minerals

Mineral production, set forth in Annex B, Table 4, remained stable in real terms during 1981, but declined in current prices owing to depressed world prices. This decline of 5 percent follows a growth of 36 percent in 1980. Prospects for 1982 are disappointing owing to sustained low world prices. However, higher local prices for coal and iron (30 percent and 32 percent respectively) in June should help to revive production declines experienced early 1982.

c. Manufacturing

Manufacturing output, after a combined increase of over 40 percent in 1980 and 1981, is expected to stagnate in 1982. (See Annex B, Table 5). However the stagnation is not uniform. While overall growth in the sector during the first half of 1982 fell to zero, output of foodstuffs increased by 15 percent, textiles and ginning by 11 percent, and transport equipment by 24 percent during that period. The paper/printing industry expanded production until March, when reduced imports caused production cuts and an 8 percent decline by June 1982.

The decline in manufacturing is primarily attributable to reduced import levels for capital equipment and raw materials. Import allocations were cut three times during 1982, reflecting a 40 percent decline since 1981. However, the stagnation also reflects a decline in domestic and export demand owing to high inflation and reduced purchasing power. Price controls have also resulted in profit-squeezes and low business confidence. Following on the heels of significant wages increases and high inflation, the GOZ's slow approval process (up to six months or more) for price increases has affected many businesses adversely.

The limited availability of skilled manpower appears to be less significant than foreign exchange shortages, price controls and labor legislation for the manufacturing sector. In part, demand for skilled labor has been lower because production levels are declining. However, there are also reports that existing labor (primarily African) are sufficiently qualified to maintain operations after skilled technicians depart. Under the present circumstances, therefore, skilled labor does not represent as significant a production constraint as the other factors cited above, as was indicated in business surveys in 1981.

In a November, 1982, survey of the manufacturing sector, over 71 percent of respondents cited reduced import allocations as a factor constraining production, while 52 percent cited declining domestic demand and 30 percent cited declining export demand. Related to import allocations, 41 percent of businesses cited a shortage to raw materials. Only 33 percent of businesses cited skilled labor as a constraint.

The gravity of the import allocation constraint is further reflected inthe production outlook. Owing to reduced import allocations, 34 percent of firms reported anticipated declines in production of 20 percent or more, while only 25 percent of firms indicated that production would not decline for this reason. Based on this assessment, it is clear that the proposed program is providing assistance in the area of greatest need for the private sector.

3. Employment

Employment and wage earnings are presented in Table 6 of Annex B. Employment peaked in June 1981, with 1,056,900 persons employed at that date. This represents a 7 percent increase over 1979, and a 0.6 percent increase over 1975, the peak employment year of the previous decade. Since June 1981, employment has decreased by about 12,000 persons during each quarter.

Wage earning showed significant increases of 22 percent and 24 percent, respectively, in 1980 and 1981. While wages are up slightly in 1982, employment levels have fallen. Hence wage earnings are not expected to increase in 1982.

4. Public Finance

The public sector in Zimbabwe consists of the central government, local governments and several statutory (parastatal) organizations, covering the railways, Air Zimbabwe, Post and Telecommunication, electricity supply and several marketing boards.

Budgetary development in recent years reflect rapid growth in both revenues and expenditures, as the economy shifted from war-time to recovery and rehabilitation, and social and economic services were expanded to the majority of the population. These budgetary developments are set forth in Table 7 of Annex B.

Increases in revenue reflect the significant growth of the post-independence economy, as well as the introduction of a wide range of new tax measures. Total revenue as a proportion of GDP increased from 23 percent in 1978/79 to 30 percent in 1981/82. Although projected to increase to 34 percent of GDP during the current fiscal year (July 1982-June 1983), the increase in absolute terms is likely to be significantly lower owing to a lower revenue base. For example, revenue from customs duties increased nearly threefold during each of the two fiscal years after independenc This increase reflects primarily volume, as well as the doubling of duty on petrol products and a 5 percent surtax on all goods of revenue will also decline. Nonetheless, several new revenue measures introduced in the 1982/83 budget are expected to yield an additional Z$235 million.

Government expenditures have also increased since independence, as the new government introduced programs for recovery, rehabilitation and reconstruction, expanded public services in education and health, and increased wage rates. In the meanwhile, defense outlays decreased only slightly from wartime expenditures, owing to the high cost of demobilization and integration of three separate armies.

Aside from the cost of expanding social programs, agricultural producer, consumer and railway subsidies have risen continously since independence, reacning Z$140 million, or about 3.5 percent of GDP in 1981/2, and accounting for almost half of the overall budget deficit. Presently, the GOZ is making serious efforts to reduce subsidies. The full impact of these measures has not yet been analyzed.

Government budget deficits, while significant during the 1970's, have increased since independence. The new government inherited a gross public debt of Z$1.48 billion as of late 1979. By June 1982, this debt increased to Z$2.23 billion. About 30 percent of this debt is external.

The budgetary deficit as a proportion of GDP has declined from 13.1 percent in 1979/80 to 8.4 percent in 1980/81 and 8.1 percent in 1982/83. While the budgeted deficit for the 1983 fiscal year was still high, equal to 10.7 percent of projected GDP, recent pronouncements and private communications indicated the GOZ has decided to make a determined effort to reduce recurrent expenditures below planned levels. Ministries are currently under instruction to revise downward their 1982/83 budgets.

In 1981/82, the GOZ underspent its budget estimate by Z$150 million, both on current and capital accounts. (See Table 7 in Annex B). Government budgets in the Transitional Development Plan project deficits of Z$375 million in 1982/83, declining to Z$291 million by 1984/5. If local government budgets are included, the overall deficit over the three-year plan increases by 33 percent.

In the move to reduce budget deficits, social policies such as free primary education are being reviewed. At a press release announing a 20 percent devaluation, the Finance Minister stated that "because of recession and lower economic activity, revenues are going to be below target." Rather than mortgaging the future through external borrowings, "it is better to discipline ourselves now.....Hence Government will carefully scrutinize expenditures with a view to effecting savings."

Subsidies constitutes an area of significant potential savings for the GOZ. As shown in Table 8 of Annex B, subsidies accounted for 8.8 percent of budget resources in 1981/82. These figures would be expected to increase over current projections owing to increased consumption of meat, milk and bread products, as consumption has been stimulated by subsidized prices. It is reported that GOZ officials agree they should phase out the subsidies over the next few years. The subsidy on oils and fats was eliminated and the one on maize meal was twice reduced in March and November 1982. Consumer prices were raised by up to 38 percent for basic maize meal and up to 70 percent for highly refined maize meal in December 1982, to cover these reductions in subsidy.

While producer and consumer subsidies affect only a small part of the economy (mostly beef, dairy products, maize meal, bakers' flour and edible oils), together with railway transport subsidies they comprise a significant drain on government resources that could be more productively utilized elsewhere.

It should be noted, however, that the GOZ has been careful to maintain producer prices close to import or export parity in order to provide adequate production incentives. Food subsidies amount to an income transfer accuing (through lower prices) to all urban consumers, although they benefit disproportionately the low-income consumer. They do not benefit significantly the poor rural population for whom these items are not generally available. Political expectations of a more equitable distribution of income following independence make the increase of basic food retail prices a sensitive issue, despite their budgetary and economic implication. Because of this, eliminating the subsidies through higher consumer prices could be a gradual process.

5. Balance of Payments

Zimbabwe's balance of payments position weakened in 1980, and deteriorated sharply in 1981, as the current account deficit more than doubled to about 12 percent of GDP. (See Table 9 in Annex B). In 1980, the substantial deficit (7 percent of GDP) was largely offset through official transfer and private capital. However, in 1981, significant external borrowings were not sufficient to offset a large, negative overall balance.

Although Zimbabwe possesses a diversified export base (See Table 10, Annex B), exports in 1981 increased by only 6 percent (in SDR terms). The slow growth of exports can be attributed to a number of factors, including severe transportation problems, depressed commodity export prices, recessionary world market demand, loss of competitiveness because of increased wage costs and an effective revaluation of the Zimbabwe dollar against the South African rand. As noted in Table II of Annex B, Zimbabwe's primary trade partner is South Africa, followed by the United Kingdom, United States and Germany. Imports increased by over 20 percent in 1981, primarily due to industrial needs for raw materials and intermediate goods. Thus, Zimbabwe had a trade deficit for the first time in many years. The services account was also in deficit for all components. The deficit in investment income is expected to increase as profits are repatriated. Private transfers are also a growing deficit item owing to migration. Finally, government debt service payments are expected to increase significantly from U.S.$100 million in 1981 to $236 million in 1985. Presently, the debt service ratio is around 15 per cent, although some sources indicate it may be as high as 18 percent.

The outlook for the balance of payments situation in the near term is varied. According to the GOZ Transitional Development Plan, trade deficits are expected to average about $2,250 million per year through 1984/85. However, the recent devaluation is expected to reduce imports and, hopefully, to expand exports, although the extent of expansion is uncertain given the make-up of Zimbabwean exports. The devaluation is accompanied by a series of measures including a flexible exchange rate adjustment mechanism, government spending cuts, wage restraint and deferral of some government investments until the economic outlook is brighter. If these measures are implemented, the balance of payments situation should also improve.

Recently revised estimates for the 1983 balance of payments demonstrate strong GOZ commitment to an improved external account. These revisions show a 37 percent decrease in imports, to Z$737 million, resulting in a trade surplus of Z$330 million. Even with this significant improvement, however, a Z$74 million decline in overall reserves is anticipated. These projections include major donor projects currently under discussion. However, they do not take into account the recent 20 percent devaluation. Nonetheless, the trend is much improved. The most worrisome aspect of the projection is the squeeze on private sector imports which could result in further decline of the productive sectors of the economy. The FY 83 CIP is directed at helping to correct this trend.

C. Status of IMF Stand-by Arrangements

In April 1981, the IMF entered into a first credit tranche, one-year stand-by arrangement with the GOZ, even though the GOZ preferred a longer term agreement on the basis of providing longer term growth impetus to the economy. The GOZ performed well under the targets mutually established with the IMF. The budget deficit, established at a ceiling of 11.4 percent for 1981/82, was maintained (based on preliminary data) at 8.1 percent, compared to 9.4 percent and 13.1 percent in the previous two years. Domestic credits were maintained within the ceiling in March 1981, exceeded it by 2 percent in June, 1981, and were well within the ceiling for the remainder of the year. External borrowing performed even better, averaging 30 percent under established ceilings.

Thus the GOZ performed well in all respects, in terms of observing IMF financial targets. However, the balance of payments positioned weakened unexpectedly owing to only a slight (6 percent) increase in exports, whereas earlier projections anticipated a 27 percent increase. Thus the current account deficit rose to 12 percent of GDP instead of the predicted 4 percent, and the overall deficit was SDR 148 million instead of SDR 14 million.

Presently the IMF is considering an 18-months stand-by arrangement at 150 percent over quota, or about $200 million. This agreement could be signed imminently, in view of recent GOZ steps to reduce subsidies, reduce the budget deficit and improve the balance of payments through devaluation.

The GOZ has also taken other significant measures to improve economic performance, including increases in interest rates to market levels, a devaluation of the exchange rate and the establishment of a flexible exchange rate mechanism in the future, and further reductions in government budget and balance of payments deficits. The GOZ is also showing increased awareness for the benefits of private sector participation in the economy. The design team has seen several important examples of how the GOZ is moving in the right direction to redress present economic problems.

D. Economic Program Justification

1. Private Sector Support

An important design feature of the FY 82 CIP was the provision that 80% of its funds would be used to finance intermediate and capital goods required by private sector producers. The GOZ was initially reluctant to agree, preferring to support public sector imports through the CIP mechanism. In retrospect, however, the GOZ has been pleased with the impact and rapid commitment of the grant. In recent months the GOZ also agreed to a similar private sector orientation of the CIP component of the Zimbabwe Agricultural Sector Assitance (ZASA) Project. This emphasis is also proposed for the Human Resources Sector Grant, planned for FY 83. A similar 80-20 split among private/public sector imports is proposed for the FY 83 CIP.

At independence Zimbabwe faced a serious foreign exchange constraint following years of sanctions and wartime disruption. Most industries were operating at far less than full capacity for lack of imported spare parts, replacement machinery, and other supplies. In a November, 1982, business opinion survey conducted by the Department of Business Studies, University of Zimbabwe, 71 percent of the respondents said that reduced import allocations were adversely affecting production. Reserving substantial amounts of foreign exchange for private sector requirements has been instrumental in maintaining more vibrant private enterprise during the initial years of independence, when the GOZ was inclined to emphasize public sector activity.

Because of the positive experience with private enterprise which the proposed CIP II hopes to expand, the GOZ has been more pragmatic in its recent policy decisions regarding the private sector.

There has been some concern that the investment incentives structure in Zimbabwe has been directing investment resources toward more capital-intensive production processes than is socially desirable in a labor-surplus economy. Substantial increases in real wage rates during the last two years, as part of the Government's attempts to redress the disparity between the upper income and wage-earning groups, significantly reduced the competitiveness of Zimbabwe exports and caused a marked reduction in employment, particularly in the commercial agriculture and domestic service sectors. These higher wage rates, combined with effective subsidies on capital inputs resulting from an overvalued exchange rate, preferential tariff treatment, and negative real interest rates on capital loans, have distorted investment away from labor-intensive and toward more capital-intensive activities.

The Zimbabwe authorities have recognized the serious implications of these distortions, however, and are beginning to restructure factor prices toward more appropriate levels. The prime interest rate was raised to 13% in September 1981, pushing other rates still higher. The Zimbabwe dollar was devalued by 20% on December 9, 1982, and the foreign exchange system was placed on a more flexible footing to prevent overvaluation in the future. In the press release announcing the devaluation, the government acknowledged the importance of supporting it with other policy measures "to moderate...demand for goods and services and...expectations for increases in wages, salaries and other income..." The statement called for wage restraint until the second half of 1983, and indicated the government will "carefully scrutinize" its own expenditure plans. The announcement of wage restraint is particularly significant in light of the widespread expectation of additional increases in the minimum wage level before Christmas.

It thus appears that the government is not only willing to sustain an active private sector, but is also orienting its incentive structure in this direction.

2. Balance of Payments

The balance of current account deteriorated significantly in 1981 due to a number of factors discussed in Section III.B.5 above.

The GOZ has responded to this deterioration by devaluing the exchange rate, which should make exports more competitive and streamline the demand for imports, and by imposing strict quantitative controls on foreign exchange allocations for imports. Since final consumer goods comprise only about 10% of all imports, the other 90% being raw materials and intermediate and capital goods, the necessity of exchange rationing will seriously constrain the utilization of existing industrial capacity, and similarly constrain additional growth.

In this context the foreign exchange to be made available under the proposed FY 83 CIP will permit the private sector to continue to produce as close to current levels as possible while the government considers other export promotion and competitive substitution measures.

Initial steps have been taken recently to devise an effective investment and export incentive program. The September, 1982, publication of an official paper detailing GOZ policy, guidelines and procedures for foreign investment has helped to clarify these matters. In the successful negotiations with the Heinz multinational food processing corporation involving a substantial operation in Zimbabwe, the GOZ authorities proved to be flexible and pragmatic, granting Heinz majority ownership. The CIP will help provide the necessary breathing space for consideration of further steps along these lines.

3. Government Budget and Financial Account

The serious budgetary situation confronting the GOZ is analyzed in detail in Section III.B.3 above. The local currency generations of the CIP constitute a significant resource for the government to fund critical development activities without creating additional stress on budgetary resources.

E. Policy Issues

Since USAID is actively involved in a policy dialogue on several sets of issues related to different AID activities in Zimbabwe, the design team elected to pursue policy issues directly related to the successful implementation of the proposed Commodity Import Program. These issues, discussed below, relate primarily to the vitality of the private sector, although some issues also touch upon macro-economic issues, such as the budget and balance of payments deficits. While not treated as conditions to the proposed program, USAID intends to monitor progress on these issues as an intergral part of implementing the program.

1. Price Policy

Inherited from the UDI government, the GOZ has continued to impose strict price controls on the private sector. The primary rationale for these controls is to avoid excessive price increases and profiteering, and to maintain the purchasing power of the poorer elements of the population. While justified on the basis of social objectives and limited competition within the economy, price controls are presently demonstrating a significant adverse effect on output performance. While the prices of some essential commodities are actually fixed by the GOZ, other commodity prices are controlled through the establishment of fixed mark-ups. Even after subsidies are reduced at the food processing stage, the GOZ has often lagged in approving higher retail prices (for maize and vegetable oil). Time lags for approval of revised prices appear to average several months, although some responses require more than a year. During this lag period, producers are forced to absorb losses.

The GOZ shares AID's concern on this point, and has recently taken measures to approve price increases at the level of the Ministry of Trade and Industry, rather than at the Cabinet level. This procedure should reduce time required for processing requests. In the long-term, however, the GOZ should seek to allow market forces, through competition from domestic producers and importers, to determine appropriate price levels. This approach would minimize distortions in supply and demand generated from artificial price controls.

2. Labor Policy

While recent labor policies to raise minimum wages and to freeze higher wages are understandable in view of GOZ social commitments to improve income distribution, these policies inevitably result in distortions in the labor market. At the lower end of the spectrum, increased minimum wages have reduced the demand for labor in the agricultural and unskilled or semi-skilled sectors of the economy. At the higher end of the spectrum, wage freezes have encouraged the movement of professionals among competing businesses, since wage increases could be offered only with changes in employment. The restrictions have also had the effect of increasing hidden fringe benefits, which do not generate income tax revenue for the government. Finally, these restrictions encourage the flight of skilled labor and professionals from Zimbabwe.

Another restriction imposed by the GOZ relates to the dismissal of redundant labor, which is not permitted without special permission. This restriction decreases the cost-efficiency of production, ultimately increasing consumer prices and decreasing taxable revenue. It also reduces employment during periods of expansion, because companies are reluctant to hire labor which may not be required at normal production levels. Finally, this restriction distorts labor relationships within the economy, and does not allow labor to move into areas of greatest productivity. Thus the GOZ should take steps to minimize restrictions within the labor market so that maximum efficiency and employment can be attained through market forces.

3. Foreign Exchange Allocations

The level of economic activity in the manufacturing and agricultural sectors is directly related to the availability of imports. During 1980 and 1981, when import controls were relaxed, these sectors demonstrated excellent growth potential, with many attendant benefits to the economy, including GDP growth, employment, expanded government revenue and increased exports. While government efforts to minimize balance of payments deficits are laudable, the economic costs of restricting domestic production through reduced import allocations to the private sector are very great.

The GOZ should make efforts to increase import allocations to the productive elements of the economy. The recent devaluation constitutes a valuable tool for allocating imports to the productive areas with the highest rates of return; however, devaluation without adequate access to foreign exchange will not provide the desired stimulus to the private sector. While the benefits of foreign exchange allocations for the export producers are obvious, the requirements of domestic producers should not be short-shifted: given GOZ priorities for more equitable income distribution, the increased demands for the poorer segments of the population must be met through adequate local products.

4. Investment Incentives

Although the GOZ places high priority on the contribution of the private sector for development, to date few incentives have been offered to new investors, both domestic and foreign. Caution is understandable, since about 70 percent of businesses in Zimbabwe are foreign-owned. However, there are reportedly numerous potential businesses which have been discouraged through slow processing of applications or even non-response after numerous initiatives. These experiences are creating negative perceptions on the part of potential investors. The GOZ should make efforts to improve the efficiency of processing investment applications. Devaluation clearly increases the attractiveness of investing in Zimbabwe. Progress related to price controls and labor policies would also improve business confidence, as would increased access to essential imports.

5. Subsidies

Subsidies are discussed in terms of their impact on the government budget in Section III.A.3 above. However, subsidies also affect the productive sector, because they are linked to controlled prices. The complete elimination of subsidies, accompanied by an appropriate price adjustment, would improve the utilization of milled maize (presently fed to cattle owing to its low price), meat and milk. It should be noted in particular that subsidies on meat and milk affect primarily urban dwellers, not the poor rural majority. Meat in particular is a high income food, consumed disproportionately by the richest elements of the population. The elimination of subsidies would thus improve the economic allocation of scarce resources, as well as reduce the government deficit.

IV PROGRAM DESCRIPTION

A. Commodity Procurement

In very much the same manner as the first CIP, this follow-on effort will respond principally to the foreign exchange requirements of Zimbabwe's commercial and industrial sector. The major share of imports (80%, or about US$30 million) will be made available for private sector use, with the balance (20%, or almost US$7 million) to be used by the public sector. The situation that prevailed during the preparation of the first CIP is similarly applicable today. The needs, if anything, are greater. As discussed earlier, the downturn in the economy and management of the country's foreign exchange resources has resulted in short cuts in import allocations. In mid-1981, quarterly allocations were over Z$200 million; most recently, that figure was less than Z$150 million. Consequently, there is still a large backlog of old and outdated capital equipment in the manufacturing, transport and civil engineering sectors in need of replacement. Raw materials and semi-manufactured goods are also in short supply.

The design team foresees that most of these commodities will be imported by commercial dealers and representatives for resale. Even in the case of public sector transactions, several imports under the first CIP were handled through commercial importers. Public sector participation in this program will be limited to those government entities that have local currency available for deposit in the special account at the time foreign exchange allocations are made. This is to ensure that we maximize the local currency generations necessary to support selected government programs, as discussed in the following section.

The reasoning behind directing most of the foreign exchange towards the private sector is the same as that indicated in the first CIP -- that the bulk of ZIMCORD resources is directed at public sector activities, leaving comparatively little for the private sector. Given that stimulation of the private sector is a key element in the GOZ strategy for promoting greater equity, by means of expanding production, increasing exports and creating additional employment and tax revenue, the proposed CIP is fully consonant with GOZ goals and objectives set forth in the new Transitional Development Plan.

Furthermore, the enormous development tasks that face Zimbabwe are dependent in large measure upon the active participation of the private sector. Government contracting of private sector firms to carry out development tasks (construction and maintenance are two critical areas) is common. That system can only work efficiently if foreign exchange resources are available to permit procurement of new plant and equipment. Since much of this equipment is 10 years old or older, replacement is urgently required. This CIP, as did the previous one, will respond to that need.

We have discussed the concept of additionality with Government and we understand the GOZ will use its best efforts to assure that an amount equal to 50 percent of the CIP, or US$ 18.5 million, will be allocated for imports by the private sector in addition to what would have been made available absent this grant. In practice, given that external donor resources for imports are made available outside the regular allocation levels, considerably more additionality than 50 percent is assured.

We have reached agreement with Government on applying several informal criteria to commodities imported under this program. These include: emphasis on the export sector; emphasis on employment generation, where feasible; and exclusion of consumer items.

In drawing up a list of U.S. commodities for which commercial demand exists, we have relied to some extent on the commodities imported under the first CIP. In addition, we have solicited the views of the Ministries of Trade and Commerce, Industry and Energy, and Finance, Economic Planning and Development as well as numerous private sector entities.

The commodity list will include but not be limited to the following items (see Section V.B.):

Earthmoving and road building equipment	Farm tractors & combines
Forklift trucks/cranes	Well drilling equipment
Transport equipment	Data processing equipment
Machine tools	Industrial chemicals and resins
Industrial machinery	Specialty steel
Business and accounting machines	Other raw materials

The first CIP utilized an existing Government mechanism for foreign exchange allocations and licensing established within the Ministry of Trade and Commerce. Despite some early delays caused by that Ministry, USAID/Zimbabwe was generally pleased with the functioning of the system. The design team has been advised that a new feature will be introduced, involving the creation of an inter-ministerial committee (chaired by MFEPD) to decide on allocations among the 32 sectoral groups requiring foreign exchange. This task was formerly the sole responsibility of Trade and Commerce. In the future, we understand the inter-ministerial committee will be relying on the staff work to be performed by Trade and Commerce in making allocation decisions. The Mission will be monitoring this new procedure to ensure that decisions are still reached in timely fashion.

B. Import Market Analysis

1. Composition of Imports

While the Public Sector forms a considerable part of the market for imported commodities and is likely to increase its share of imports in the future to facilitate the projected growth in government services, the Private Sector, composed of commercial agricultural, mining manufacturing and civil engineering/construction, are the users of imported equipment and materials. Import levels relate directly to the amounts of foreign exchange allocated to each sector.

There are a considerable number of U.S. companies already represented in Zimbabwe, including numerous capital equipment suppliers, with others soon expected to establish local representation.

2. Zimbabwe's Trade With U.S.

The trade statistics for U.S. imports are not reliable for the years before mid-1980, since many items were not properly recorded or were listed as being of South African origin in order to circumvent sanctions. From August to December of 1980, imports from the U.S.A. are shown as Z$27,825,000 (US$41,737,500). For the year 1981 imports from the U.S.A. were Z$74,423,000 (US$104,192,200). From January to July 1982, imports from the U.S. totaled Z$71,136,000 (US$92,476,800). As can be seen from these figures, the imports from the U.S. for the first six months of 1982 are just below the total imports from the U.S. for the year 1981.

3. Absorbtive Capacity

From all indications, including discussions with public and private sector representatives, there are no doubts concerning Zimbabwean requirements and capacity to absorb at least five times the amount of the proposed program in the form of selected U.S. imports. In addition to the demand expressed in the figures mentioned above, there continues to be a very substantial backlog of applications for foreign exchange. These exceed current allocations by a factor of three. This is largely due to the circumstances of the past decade. As a result of the war and economic sanctions the need arose to develop a more self-reliant economy, with the consequence that a rather sophisticated and diversified manufacturing sector evolved. While this enabled much of the modern economy to make-do for several years, it only delayed the longer term effects on plant and equipment. For example, the 1978 foreign allocation for industrial users averaged only 55 percent of its 1974 levels. Capital goods replacements were reduced to such an extent that many companies experienced difficulties in maintaining production levels or expanding product ranges to meet demand. Other manufacturers found it impossible to adopt new production processes or to keep up with changing techniques. In the construction industry, for example, the average age of heavy equipment is said to be 12 years. There are construction contractors who are requesting foreign exchange to replace their entire fleets of equipment. Given this situation of pent-up demand and the opportunities it presents for a significant response by the U.S., the PAAD team does not foresee any problems in the Zimbabwean economy absorbing the funds being made available under the CIP.

C. Use of Local Currency Generations

1. GOZ Local Currency Requirements

Before discussing local currency requirements, it would be beneficial to the reader to repeat one major point that was made in the first CIP and that is equally applicable now. Thus far, U.S. assistance to Zimbabwe has had a very beneficial impact, out of proportion even to the amounts provided (substantial though they have been) by reason that the assistance has been timely and that funds have moved quickly because of the flexible manner in which they have been programmed. This was possible only in an environment in which Government has continued to make a consistent, sustained effort to utilize funds rapidly and well, in consonance with national goals and priorities.

That environment, along with our desire to be as resposive as possible to this newly independent nation, argues strongly for continued flexibility in the way AID funds are programmed and monitored here. The joint programming of local currencies generated under CIP II in support of mutually agreed upon activities would further the Mission objective.

In that regard, the Mission maintains a regular dialogue with MFEPD on allocation of AID-generated local currencies under the two early program grants, the first CIP and, now, CIP II. As projected in the Transitional Development Plan, gross capital requirements for public sector investment programs planned for the next two fiscal years (July 1, 1983 to June 30, 1985), which is the period when local currency generations would be available, amount to Z$1,047 million. This is equivalent to US$1,150-1,175 million, if the recent develuation is taken into account, and is an investment figure that is unlikely to be met. However, even if these requirements were cut by one-third and one excluded investments in sectors in which AID has no interest, the demand for resources is still formidable and far exceeds the funding available from all interested donors. Using the most conservative projections, the

Mission estimates that requirement in the sectors which have the highest priority for AID (agriculture, health, education and small business development) and which are not already programmed against under other AID programs is US$65 million. This requirement is sufficiently large to ensure that, even if changes are made or other donor assistance becomes available for specific activities, AID-generated local currencies can be effectively and promptly utilized.

2. Areas of Concentration for Counterpart Fund Use

The previous section identified requirements for mutually acceptable program activities in excess of $65 million for the two year period beginning in July 1983. Within the general areas of agriculture, health, education and small business development, the following priority activities have been identified: bulk storage development, credit to farmers on communal lands, research stations, agriculture training institutions, cooperative development, small enterprise development (SEDCO), road maintenance, farm-to-market road construction, health care delivery assistance, in-service manpower training facilities (emphasizing administration), and a national household survey.

It is further anticipated that at least some of the local currency generations will be used to support program activities that are not only of priority interest to the GOZ but that also have regional significance and represent a GOZ response to Southern Africa Development and Coordination Conference (SADCC) initiatives. Neither the Mission nor the PAAD team have reservations concerning such proposed uses, provided that the programs are within sectors of interest to AID and receive prior USAID/Zimbabwe concurrence.

There may be additional (or substitute) activities which MFEPD also considers to be of high priority; MFEPD will maintain a dialogue with the responsible ministries to determine the most appropriate mix of activities to be submitted for financing from the $36 million plus counterpart fund. GOZ submission of a list of proposed uses will be sought prior to first disbursement.

One refinement in allocation of local currency proceeds will be implemented, based on the Mission's experience with the first two program grants. Funds were sometimes earmarked for activities that had an uncommonly long start-up phase. To ensure that those qualified activities that are most urgently in need of funds receive them in timely fashion, all activities will be assigned a projected starting date and a grace period. Projects not begun by conclusion of the grace period will be dropped from the current list and substituted for by other projects more likely to utilize funds quickly. The dropped projects will be able to reenter the competitive list for funding at a later date. The design team endorses this modification as a way to avoid tying-up funds on slow starting activities.

3. AID Counterpart Fund Use

The GOZ and USAID/Zimbabwe are in agreement that the Zimbabwe dollar equivalent of $370,000 (or one percent of the grant) will be withheld from the funds available for reprogramming. These funds will be set aside in a separate special account maintained for use by USAID/Zimbabwe for anticipated local currency expenditures, e.g. regional promotion of Zimbabwe products/services, support for Southern Africa regional activities in Zimbabwe, assistance to MFEPD for monitoring program funds, purchase of housing.

V. PROGRAM IMPLEMENTATION

A. Implementation Responsibilities

1. Government of Zimbabwe

The Grant Agreement will be signed with MFEPD, which will also have primary responsibility for program monitoring, including reporting requirements. In accordance with the procedures developed for the 1982 CIP, the allocation of funds under the public sector portion of the program will be coordinated by Economic Planning and Development. The Ministry of Finance, Economic Planning and Development will delegate the responsibility for the allocation of the private sector portion of funds under the program to the Ministry of Trade and Commerce, who will coordinate their efforts with the Ministry of Industry and Energy.

Upon notification by the U.S. Letter of Commitment bank to the local bank that a disbursement has been made under the program, the local bank will collect from the importer the equivalent amount in Zimbabwe dollars, using the exchange rate on the date of disbursement, and remit it to the Treasury. Using a schedule agreed to by the U.S.A.I.D., the Treasury will deposit the funds in the special account established in the Reserve Bank of Zimbabwe, in favor of Treasury. The Treasury will monitor and report on the status of the funds.

For the local currency counterpart use, MFEPD will assign funds to activities mutually agreed upon between the GOZ and AID, and in coordination with the participating action ministries. Status of the progress on these activities will be the subject of quarterly review meetings between MFEPD and USAID/Zimbabwe. The Mission's regular field visits to monitor the activities will continue. Similar procedures are already in place for the program grant and the first 1982 CIP. For that reason, and judging from the nature of coordination to date, the design team envisions no special implementation problems.

2. A.I.D.

USAID/Zimbabwe will have primary responsibility for the administration of the CIP. A project committee, chaired by the Supply Management Officer and including the Controller, the Human Resources Officer and the Agricultural Development Officer, will monitor the program. Special assistance will be provided by the Southern Africa RLA and REDSO/EA, as necessary.

B. Applicable A.I.D. Regulations and Procedures

1. A.I.D. Regulation 1

A.I.D.'s standard financing procedures, applying the A.I.D. Regulation 1 in its entirety, will be applicable to all foreign exchange transactions under the program. After having reviewed the GOZ's foreign exchange allocation and import licensing procedures, and from experience with the 1982 CIP, it is not expected that these A.I.D. procedures will place an undue burden on the system.

2. Eligible Commodities

All items lsited as eligible in the A.I.D. Commodity Eligibility Listing - 1981 Edition will be eligible for financing under the program. Foreign exchange costs for transportation, marine insurance and banking charges on letters of credit will, of course, be eligible for financing.

3. Authorized Sources of Procurement

In accordance with the policy set forth in the A.I.D. Handbook 1, Supplement B, for Economic

Support Fund Grants, the authorized source of procurement for commodities and services will be the A.I.D. Geographic Code 000 (U.S. only).

4. Value of Transactions

The minimum value of transactions under the Grant will be set at $10,000, 3/ however, for purposes of efficiency in management and disbursement, the GOZ will be encouraged, to the extent practicable, to use a $100,000 minimum for foreign exchange allocations. Should there be any serious difficulty in holding to these amounts, they will be subject to negotiation. It is proposed that prior USAID concurrence be required for individual transactions greater than 20 percent of the grant.

5. Methods of Financing

Following the procedures developed under the 1982 CIP, the letter of credit/letter of commitment method of financing will be used for private and public sector imports.

6. Disbursement Period

On the basis of experience with the 1982 CIP and the continuing pent-up demand for goods, the GOZ should be given 18 months from the date of signing the agreement to complete disbursement of the Grant. Additionally, the GOZ should be allowed up to 12 months after signing the agreement to request disbursing authorizations.

C. Government of Zimbabwe Import Procedures

Import controls were introduced by the Government in 1965 for the purpose of preserving the country's balance of payments position and insuring that the limited foreign exchange available was utilized in the best interests of the country. The Ministry of Trade and Commerce is charged with the responsibility of allocating foreign exchange and issuing import licenses. Both functions are carried out in accordance with established

3/ In the event smaller transactions are requested, down to AID's statutory limit of $5,000, AID will consider a grouping of such small transactions or the waiver of the $10,000 limitation, if the case in question warrants.

procedures, which have been reviewed by the design team and determined to be fair and equitable. Accordingly, the funds made available by the program will be integrated into normal allocation and licensing procedures.

D. Port Clearance and Inland Transportation

Zimbabwean importers are currently using the ports of Beira and Maputo in Mozambique and Durban and Port Elizabeth in South Africa. Although the ports in Mozambique are closer to Zimbawe and are less expensive to use, the larger percentage of imports, including the commodities being financed under the 1982 CIP, are moving through the South African ports. This is due primarily to the much shorter transit time. The following is a brief summary of the above mentioned ports.

(1) Durban

There is no congestion at Durban and import + export cargo is being handled freely with minimal delays. There are adequate rail trucks available and the approximate transit time from Durban to Harare is 15-20 days.

(2) Port Elizabeth

There is also no congestion at Port Elizabeth and the port is working very well. As with Durban, adequate rail trucks are available + the approximate transit time from Port Elizabeth to Harare is 21-28 days.

(3) Maputo

There is a continual labour shortage in the CFM and Port Authorities, particularly at middle management level. The Mozambique authorities have introduced a training school for railway personnel, which should improve the situation in the near future. Maputo is still experiencing a shortage of rail trucks, and the approximate transit time on imported cargo via Maputo is 6-9 weeks. The communications with Maputo is also a problem and at the present moment it is only possible to communicate on the telex. Containers can be handled freely at Maputo and the roll-on-roll off vessels are calling regularly. Seventy percent of the wharf cranes are in operation and the remainder are under repair.

(4) Beira

The situation at Beira is much the same as in Maputo and the port is only about 40% utilized. The city itself is suffering from a lack of water and electricity and this has a definite affect on general movements to and from the port. There is a continuing shortage of rail wagons, but again, as with Maputo, if sufficient pre-planning is arranged cargo can be moved without too much problem. Subject to the security situation, the approximate transit time from Beira to Harare is 4-6 weeks.

E. Commodity Arrival and Disposition

The Ministry of Trade and Commerce has an established system for monitoring the arrival of goods in country for which import licenses are issued. When clearing their goods the importers must present their import license to the customs officials, who note on the license that the goods have been received. The importer then sends a photocopy of the license to the Ministry of Trade and Commerce. The Ministry has an Investigative Branch to follow up on any irregularities.

It is anticipated that the importers of the AID-financed goods will promptly clear the items from customs, satisfying AID's standard requirements, and sell or utilize the goods within one year after they arrive in Zimbabwe.

F. Implementation Schedule

The following implementation schedule assumes that the program will have been authorized by mid-March.

Grant Agreement signed	Late March 1983
CPs Satisfied	Mid-April 1983
Bank L/Com(s) issued by Aid	Late April 1983
Initial foreign exchange allocation to private sector importers	Early May 1983
Importers commence placing orders	June 1983
Importers commence establishing letters of credit	June 1983
First shipments from US	August 1983
Imports commence arriving in Zimbabwe	September 1983
Terminal date for requesting disbursing authorizations	March 1984
Final shipments from US	August 1984
Grant is fully disbursed	September 1984
Local Currency generations fully disbursed	March 1985

G. Program Monitoring

AID will monitor the progress of both elements of the program -- drawdowns on the CIP and progress on the use of local currency generations -- through financial reports containing the following information, as will be more specifically described in an Implementation Letter:

1. CIP:
   a. monthly report on letters of credit opened;
   b. monthly report on disbursements.

2. Local Currency Generations
   a. quarterly and cumulative disbursements by the Treasury from the Special Account;
   b. for each program or activity funded from the Special Account, the amount budgeted for the activity, disbursements made during the quarter and cumulative disbursements; and
   c. a general description of activities, goods, services, structures and/or facilities, etc., financed during the quarter.

AID will, of course retain the right to audit and inspect activities financed under the CIP.

VI. OTHER CONSIDERATIONS

A. Impact on U.S. Balance of Payments

We anticipate that the net impact of this program will be favorable. Over the short-term the outflow of U.S. resources will be matched by the procurement of commodities under the CIP, all of which will have their sources ana origin in the U.S. Over the longer term, however, a favorable impact on the U.S. BOP is highly likely. Repeat orders and procurement of spare parts will stimulate additional trade with the U.S. In addition, the availability of U.S. goods under this program will strengthen the market position of distributors and suppliers of U.S. goods vis a vis dealers handling commodities from other traditional sources of imports, i.e. South Africa, U.K., Germany, and more recently, Japan. Also, once Zimbabwean firms ahve first-hand experience with American manufactured goods it is likely that many U.S. producers and Zimbabwean consumers will develop a business relationship that will continue well beyond our provision of future CIP assistance.

B. Use of U.S. Government Excess Property

Given the nature of the items the Zimbabweans are interested in purchasing, it is unlikely that U.S. government excess property would be appropriate for financing under this program. However, A.I.D. will review the possibilities for financing such items where appropriate.

C. Relation to Export-Import Bank Activity

Although the EXIM Bank concluded several agreements more than a year ago, no new agreements have been negotiated since then. A general freeze on short-term credits has been pursued by the Reserve Bank of Zimbabwe. However, the Mission will coordinate closely with the American Embassy/Harare in those instances where it would be more appropriate.

D. Relation to OPIC Program

Although preliminary negotiations have taken place, there is currently no OPIC country agreement in force in Zimbabwe.

E. Environmental Statement

The assistance herein provided is in the form of a Commodity Import Program Grant under which AID will not have prior knowledge of the specific commodities to be financed. Additionally, the objective in furnishing this CIP assistance requires neither AID's knowledge at the time of the authorization, nor its control during implementation, of the commodities or their use in the host country. Accordingly, the Mission Director and design team have determined that this project is categorically excluded from the requirement for an Initial Environmental Examination, EA or EIS, in accordance with section 16.2(c)(2)(ix) of AID Regulation 16.

ANNEX A

Reference: B76 | 744

Telegrams: "ECONPLAN"
Telex: 2141
Telephone: 794571
Private Bag 7752, Causeway.

ZIMBABWE

MINISTRY OF ECONOMIC PLANNING AND DEVELOPMENT,
MILTON BUILDING,
SAMORA MACHEL AVENUE,
HARARE.

17th March, 1983.

Mr Roy Stacy
Director
United States Agency for International Development
1 Pascoe Avenue
P.O. Box HG81
HARARE

Dear Mr Stacy,

SUBJECT: USAID 1983 COMMODITY IMPORT PROGRAMME 613 - K - 605

Please refer to your letter dated February, 7th 1983 on the above subject.

Thank you very much for the copy of the Commodity Import Programme (CIP) Project Paper 613 - K - 605 I have received. I note that the Paper is essentially a repeat of last year's Programme with respect to terms and conditions and I am happy to say that the Government of Zimbabwe has no difficult with it and accepts the offer of US$37 million.

This letter is therefore an official request for assistance through the Commodity Import Programme for the Fiscal Year 1983.

Yours sincerely,

T.E. MSWAKA
SECRETARY FOR FINANCE, ECONOMIC PLANNING AND DEVELOPMENT

CTK/LPM

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STATISTICAL ANNEX

Table 1. Zimbabwe: Gross Domestic Product at Factor Cost, by Industrial Origin, 1978-1981 1/

(In millions of Zimbabwe dollars: at current prices)

	1978	1979	1980	1981 2/	1980 Annual Percentage Increases	1981 Annual Percentage Increases
Agriculture and forestry	305	316	469	740	48	58
Mining and quarrying	158	188	264	225	40	-15
Manufacturing	514	649	796	950	23	19
Electricity and water	64	71	87	100	22	15
Construction	68	75	96	120	28	25
Finance and insurance	109	159	159	180	-	13
Real estate	45	44	45	50	2	11
Distribution, hotels and restaurants	296	367	466	560	27	20
Transport and communication	191	211	257	300	22	17
Public administration 3/	241	266	287)		8)	
Education	86	103	169)	660	64)	25
Health	54	63	73)		16)	
Domestic services	54	58	65	75	12	15
Other services 4/	51	70	79	90	13	14
GDP (at factor cost, current prices)	2,236	2,640	3,312	4,050	25	22

Sources: Central Statistical Office, Monthly Digest of Statistics, data provided by the Zimbabwean authorities, and staff estimates

1/ Estimates. Starting in 1979, data are not fully comparable with previous years
2/ Preliminary estimates.
3/ Includes defense.
4/ Less imputed banking service charges.

Source: IMF, Zimbabwe, Recent Economic Developments. SM/82/193, September 22, 1982.

Table 2. Zimbabwe: Expenditure on Gross National Product, 1978-81[1/]

(In millions of Zimbabwe Dollars: at current prices)

	1978	1979	1980	1981[2/]	1979	1980	1981
					Ratio to GDP		
Domestic Expenditure	2,245	2,805	3,600	4,520	101	103	107
Consumption	1,865	2,265	2,934	3,670	81	84	86
Private Households	(1,377)	(1,703)	(2,220)	(2,800)	(61)	(64)	(66)
Nonprofit Bodies	(34)	(38)	(47)	(50)	(1)	(1)	(1)
Government	(454)	(524)	(667)	(820)	(19)	(19)	(19)
Gross Fixed Capital Formation	350	420	600	700	15	17	16
Stocks[3/]	30	105	66	155	4	2	4
Net Exports of Goods and Services	55	-20	-120	-285	-1	-3	-7
Gross Domestic Product	2,300	2,770	3,480	4,240	100	100	100
Net Investment Income	-25	-25	-22	-85	-1	-1	-2
Gross National Product	2,275	2,745	3,458	4,155	99	99	98

Sources: Central Statistical Office, Monthly Digest of Statistics, data provided by the Zimbabwean authorities; and staff estimates.

1/ Estimates. Starting in 1979, data are not fully comparable with previous years.

2/ Preliminary estimates.

3/ Including errors and omissions.

Table 3. Zimbabwe: Volume and Value of Marketed Agricultural Products, 1976/77-1981/82[1/]

	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82
			(Volume - in thousands of tons)			
Maize	958.5	941.1	877.0	511.9	819.2	2,013.8
Cotton	131.6	148.0	173.9	166.8	182.0	199.6
Wheat	147.9	171.1	208.0	158.9	163.0	200.9
Tobacco	112.7	85.1	85.1	114.5	125.1	71.8
Flue-cured	(110.5)	(83.4)	(83.0)	(111.7)	(122.6)	(69.8)
Burley	(2.2)	(1.7)	(2.1)	(2.8)	(2.5)	(2.0)
Soya beans	44.8	44.1	69.7	81.0	93.6	65.3
Sorghum	14.6	14.0	16.7	19.9	17.8	30.4
Groundnuts	38.7	13.5	17.7	12.7	17.4	13.1
Coffee	5.1	3.2	5.1	4.1	5.6	4.9
Sugarcane	2,112.0	3,087.0	2,635.0	2,725.0	-	-
			(Value - in millions of Zimbabwe dollars)			
Maize	51.7	48.6	45.6	30.9	72.1	239.8
Cotton	46.8	50.0	53.3	54.9	70.5	76.8
Wheat	17.6	20.8	22.5	18.1	22.1	34.7
Tobacco	80.3	69.3	84.0	94.2	99.5	130.7
Flue-cured	(79.1)	(68.0)	(82.0)	(92.0)	(97.4)	(127.5)
Burley	(1.2)	(1.3)	(2.0)	(2.2)	(2.1)	(3.2)
Soya beans	4.6	5.9	9.7	11.9	14.9	11.1
Sorghum	0.7	1.0	1.2	1.5	1.7	3.2
Groundnuts	7.3	2.8	3.6	3.4	4.5	5.3
Coffee	9.3	8.7	9.4	10.6	12.4	7.4
Sugar	36.2	29.0	28.3	33.5	76.6	82.4
Total	254.5	236.1	257.6	259.0	374.3	591.4

Source: Central Statistical Office, Monthly Digest of Statistics, and data provided by the Zimbabwean authorities.

Table 4. Zimbabwe: Volume and Value of Mineral Production, 1976-1981

	1976	1977	1978	1979	1980	1981
			(Volume)			
Asbestos ('000 tons)	281.4	273.2	248.9	259.6	250.9	247.6
Chrome ('000 tons)	863.9	677.8	477.8	541.8	553.5	536.1
Coal ('000 tons)	3,593.0	3,029.0	3,065.0	3,188.0	3,134.0	2,867.0
Copper ('000 tons)	41.3	34.8	33.8	29.6	27.0	24.6
Iron ore ('000 tons)	1,353.0	1,176.0	1,123.0	1,201.0	1,622.0	1,096.0
Nickel ('000 tons)	14.6	16.7	15.7	14.6	15.1	13.0
Cobalt (tons)	-	-	17.0	205.0	115.0	94.0
Tin metal (tons)	915.0	920.0	945.0	967.0	934.0	1,157.0
Gold ('000 fine ounces)	387.0	402.0	399.0	386.0	367.0	371.0
Silver ('000 fine ounces)	200.0	207.0	1,109.0	977.0	949.0	857.0
Overall volume index (1964=100)	205.8	196.3	186.2	185.3	181.4	172.2
		(Value - in millions of Zimbabwe dollars)				
Asbestos	61.1	67.0	67.0	65.9	70.2	91.3
Chrome	26.9	19.9	13.5	16.1	18.4	20.4
Coal	23.3	21.0	23.7	25.8	28.0	29.5
Copper	29.5	22.0	23.0	35.1	35.4	27.9
Iron ore	5.8	6.8	7.9	7.4	14.8	14.8
Nickel	35.2	42.8	39.5	45.1	55.6	51.7
Cobalt	-	-	0.1	5.2	2.7	1.4
Tin metal	4.9	6.1	8.2	9.9	9.9	11.3
Gold	30.1	37.2	51.9	80.9	144.9	117.4
Silver	0.5	0.6	4.0	7.3	13.0	6.0
Other 1/	13.1	13.9	13.5	16.0	21.9	21.8
Total	230.5	237.5	252.2	314.8	414.8	393.5
Unit value index (1964=100)	209.3	226.1	253.2	314.2	428.9	427.1

Sources: Central Statistical Office, Monthly Digest of Statistics; and data provided by the Zimbabwean authorites.

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

Table 5. Zimbabwe: Value and Volume of Manufacturing Output, 1976-81

	1976	1977	1978	1979	1980	1981
	(In millions of Zimbabwe dollars)					
Value						
Foodstuffs	295.8	327.4	351.3	415.7	...	...
Drink and tobacco	103.1	105.0	121.2	132.5	...	...
Textiles and cotton grinning	151.2	156.6	165.0	197.8	...	...
Clothing and footwear	85.2	79.9	80.8	107.2	...	...
Wood and furniture	37.4	33.6	37.2	55.0	...	...
Paper, printing and publishing	65.2	65.8	71.9	84.0	...	...
Chemical and petroleum products	181.8	192.1	205.7	235.7	...	...
Nonmetallic mineral products	45.1	41.5	38.3	46.6	...	...
Metals and metal products	326.4	306.2	338.7	427.6	...	...
Transport equipment	45.1	46.7	42.9	47.9	...	...
Other manufacturing	13.8	14.8	17.0	21.6	...	...
Total	1,350.8	1,369.6	1,470.0	1,771.6	...	...
	(1964=100)					
Volume						
Foodstuffs and stockfeeds	224.3	244.7	234.7	252.3	267.6	292.9
Drink and tobacco	169.2	158.2	159.8	165.7	196.9	182.5
Textiles and cotton grinning	257.1	259.1	252.6	274.1	320.2	363.0
Clothing and footwear	142.8	137.4	124.8	138.8	163.9	211.4
Wood and furniture	169.9	143.8	141.9	177.1	222.9	236.6
Paper, printing and publishing	162.1	152.6	162.1	181.7	212.1	242.0
Chemical and petroleum products	194.5	192.0	192.8	199.0	239.7	278.9
Nonmetallic mineral products	238.9	194.1	155.3	193.7	225.8	272.4
Metals and metal products	281.6	244.1	241.4	277.4	307.9	323.9
Transport equipment	101.2	96.2	83.9	95.8	117.8	159.0
Other manufacturing	180.9	192.3	191.1	206.0	268.9	247.9
Overall volume index (1964=100)	199.1	187.4	182.5	202.1	232.2	255.2

Sources: Central Statistical Office, Monthly Digest of Statistics; and data provided by the Zimbabwean authorities.

Table 6. Zimbabwe: Employment and Average Annual Wage Rates, 1976-81

	1976	1977	1978	1979	1980	1981
Employment (in thousands) 1/						
Agriculture and forestry	356.1	348.2	341.4	335.2	327.0	294.3
Mining and quarrying	63.8	61.6	58.1	59.5	66.2	68.7
Manufacturing	153.6	145.1	139.3	144.7	159.4	173.2
Electricity and water	6.7	6.6	6.5	6.6	6.7	6.6
Construction	51.6	46.7	40.9	40.6	42.2	47.1
Finance, insurance and real estate	12.1	12.2	12.0	12.1	12.5	13.8
Distribution, restaurant, etc.	74.7	72.5	69.1	67.6	70.3	75.0
Transport and communcations	45.7	45.5	44.0	43.4	45.6	49.1
Other services	269.1	274.0	274.9	275.0	280.0	310.5
Of which: public administration	(53.8)	(60.6)	(68.3)	(73.7)	(71.1)	(83.2)
education	(36.9)	(36.6)	(34.9)	(33.8)	(41.9)	(59.1)
health	(13.5)	(14.5)	(14.7)	(14.8)	(15.2)	(16.3)
domestics	(122.8)	(120.0)	(115.9)	(110.4)	(108.0)	(104.6)
Total	1,033.4	1,012.2	986.2	984.7	1,009.9	1,038.0
Wage rate (in Zimbabwe dollars) 2/						
Agriculture and forestry	289.8	322.2	351.8	411.1	457.8	744.5
Mining and quarrying	1,029.8	1,159.1	1,249.6	1,435.2	1,756.8	2,304.2
Manufacturing	1,594.4	1,747.1	1,916.7	2,121.6	2,520.7	3,117.2
Electricity and water	2,537.3	2,833.3	3,184.6	3,348.5	3,910.4	4,545,5
Construction	1,224.8	1,322.6	1,413.2	1,578.8	1.843.6	2,242.0
Finance, insurance and real estate	4,223.1	4,524.6	4,783.3	5,314.0	6,280.0	7,195.7
Distribution, restaurant, etc.	1,745.6	1,873.1	1,998.5	2,257.4	2,668.6	3,272.0
Transport and communications	2,658.6	2,813.2	3,038.6	3,405.4	4,138.2	4,843.2
Other services	1,325.9	1,489.2	1,678.5	1,875.2	2,337.1	2,448.3
Of which: public administration	2,611.5	2,971.9	3,152.3	3,303.9	3,703.2	3,375.0
education	1,956.6	2,076.5	2,458.4	2,890.5	4,014.3	3,656.5
health	2,022.2	2,103.4	2,367.3	2,635.1	3,197.4	3,417.2
domestics	395.0	423.6	450.6	487.3	599.1	690.2
Overall average	1,116.5	1,232.6	1,351.7	1,525.2	1,862.6	2,307.5

Sources: Central Statistical Office, Monthly Digest of Statistics; and data provided by the Zimbabwean authorities.
1/ Annual figures are averages of end-of-quarter figures.
2/ Earnings over the period divided by employment.

Table 7. Zimbabwe: Summary of Overall Fiscal Operations of the Central Government, 1978/79-1982/83

	1978/79	1979/80	1980/81	1981/82	1981/82	1982/83
		Actual		Budget estimate	Prelim. actuals	Budget estimate
	(In millions of Zimbabwe dollars)					
Total revenue and grants	580.2	675.9	949.1	1,365.6	1,334.8	1,948.2
Total revenue	580.2	675.9	949.1	1,321.0	1,329.4	1,884.9
Tax revenue	(474.9)	(562.7)	(777.2)	(1,165.8)	(1,206.1)	(1,727.7)
Nontax revenue	(105.3)	(114.2)	(171.9)	(155.2)	(123.3)	(157.2)
Grants	--	--	--	44.6	5.4	63.3
Total expenditure and net lending	868.9	1,050.8	1,283.9	1,830.3	1,680.1	2,537.6
Current	805.5	971.4	1,137.9	1,515.8	1,449.0	1,847.9
Capital and net lending	63.4	79.4	146.0	314.5	231.1	689.7
Overall deficit (-)	-288.7	-374.9	-334.8	-464.7	-345.3	-589.4
Financing	288.7	374.9	334.8	464.7	345.3	589.4
External (net)	122.9	70.2	83.5	206.0	226.6	315.5
Domestic (net)	165.8	304.7	251.3	258.7	118.7	273.9
Nonbank	(121.1)	(167.2)	(114.9)	(144.7)	(131.8)	(150.9)
Banking system	(44.7)	(137.5)	(136.4)	(114.0)	(-13.1)	(123.0)
	(As per cent of GDP)					
Memorandum items						
Total revenue	22.9	22.2	25.7	29.5	29.7	34.3
Tax revenue	18.7	18.5	21.1	26.0	26.9	31.4
Total expenditure and net lending	34.3	34.6	34.8	40.9	37.5	46.1
Current	31.8	31.9	30.8	33.8	32.3	33.6
Capital and net lending	2.5	2.6	4.0	7.0	5.2	2.5
Overall deficit (-)	-11.4	-12.3	-9.1	-10.4	-7.7	-10.7
Bank financing	1.8	4.5	3.7	2.7	-0.5	2.2

Sources: Report of the Comptroller and Auditor General; Financial Statements; and data provided by the Ministry of Finance.

Table 8. Zimbabwe: Subsidy Payments, 1978/79-1982/83

	1978/79	1979/80	1980/81	1981/82	1981/82	1982/83
		Actual		Budget estimate	Prelim. actual	Budget estimate
	(In millions of Zimbabwe dollars)					
Agriculture	47.4	36.1	64.5	122.1	102.1	111.9
Paid through the Ministry of Agriculture	43.6	29.8	30.9	42.2	42.2	75.9
Beef	20.5	13.0	9.6	25.7	25.7	33.2
Dairy	3.7	2.1	4.1	10.4	10.4	18.5
Maize	12.8	4.3	9.7	5.1	5.1	22.8
Soya beans	1.5	1.4	1.9	1.0	1.0	1.4
Cotton	5.0	1.4	--	--	--	--
Drought relief	--	6.8	5.6	--	--	--
Other	0.1	0.8	--	--	--	--
Paid through the Ministry of Commerce and Industry	3.8	6.3	33.6	79.9	59.9	36.0
Bakers' flour	--	3.1	6.7	8.5	8.5	--
Maize meal	--	1.9	20.1	64.8	44.8	--
Wheat	3.8	--	--	--	--	--
Sugar	--	1.3	--	--	--	--
Edible oil	--	--	5.8	6.2	6.2	--
Opaque beer	--	--	1.0	0.4	0.4	--
Railway	36.2	29.4	36.0	38.5	38.5	31.0
ZISCO	27.5	10.0	--	--	--	--
Export	9.9	9.1	5.6	--	--	--
Total	121.0	84.6	106.1	160.6	140.6	142.9
	(As per cent of total expenditure and net lending)					
Memorandum items:						
Total subsidies	13.9	8.1	8.3	8.8	8.1	5.6
Agricultural subsidies	5.5	3.4	5.0	6.7	5.9	4.4
Other	8.4	4.6	2.3	2.1	2.2	1.2

Source: Data provided by the Ministry of Finance.

1/ Includes cheese, sorghum, wheat, tallow and fertilizer.

Table 9. Zimbabwe: Summary Balance of Payments, 1977-81

(In millions of SDRs)

	1977	1978	1979	1980	1981 1/
Trade balance	196.8	214.9	158.4	78.4	-95.7
Exports, f.o.b.	771.7	737.4	835.7	1,111.3	1,175.0
Imports, f.o.b.	-574.9	-522.5	-677.3	-1,032.9	-1,270.7
Services (net)	-203.4	-177.7	-208.8	-248.3	-355.3
Freight and insurance	-43.8	-42.6	-40.9	-70.1	-91.7
Fares	-23.9	-20.8	-19.5	-12.6	-14.7
Other transportation	5.7	5.1	3.1	-2.2	-1.2
Foreign travel	-67.1	-61.2	-75.4	-88.6	-96.0
Investment income	-41.3	-28.8	-27.9	-26.8	-102.9
Other	-33.0	-29.4	-48.2	-48.0	-48.8
Private transfers (net)	-13.1	-13.9	-43.3	-90.8	-140.7
Of which: migrants	(-17.4)	(-17.6)	(-14.8)	(-28.2)	(-34.6)
Current balance	-19.7	23.3	-93.7	-260.6	-591.7
Official transfers	--	--	--	43.7	94.2
Capital	2.3	104.5	142.5	157.8	311.9
Government	-7.6	143.1	134.3	-25.8	97.2
Public enterprises	-2.3	-5.0	-7.3	-3.0	120.6
Banks	0.3	-4.8	-20.7	27.3	2.9
Other 2/	11.9	-28.8	36.2	159.3	91.2
SDR allocation	--	--	--	--	10.1
Monetization of gold	...	...	...	45.5	28.0
Overall balance	-17.4	127.8	48.8	-13.6	-147.5
Valuation and exceptional reserve adjustment	--	--	--	122.1 3/	-23.3
Change in reserves (increase -)	17.4	-127.8	-48.8	-54.4	170.8
Gold	3.9	-0.5	-2.7	-77.8	-0.6
Foreign exchange	13.5	-127.3	-46.1	23.4	171.4
Memorandum items:					
Average exchange rate (SDR per Zimbabwe dollar; period average)	1.3635	1.1792	1.1385	1.1964	1.2270

Source: Appendix Table XVI.

1/ Provisional
2/ Including errors and omissions
3/ See footnote 4/, Appendix Table XVI.

Table 10. Zimbabwe: Exports by Principal Products, 1977-81

(In millions of Zimbabwe dollars)

	1977	1978	1979	1980	1981
Food	96.0	105.8	109.8	103.0	134.6
Of which: meat	(36.6)	(37.3)	(37.8)	(18.6)	(8.6)
maize	(22.2)	(25.4)	(17.0)	(7.4)	(34.7)
sugar	(12.9)	(10.9)	(20.6)	(47.4)	(54.8)
Tobacco 1/ and beverages	81.4	102.7	85.6	123.0	224.6
Of which: tobacco 1/	(81.0)	(102.5)	(85.5)	(122.8)	(224.4)
Crude materials	125.8	125.4	145.0	152.2	166.6
Of which: asbestos	(63.2)	(57.3)	(70.5)	(80.1)	(75.9)
cotton lint	(36.4)	(40.1)	(46.4)	(57.2)	(60.3)
Mineral fuels	7.2	7.9	9.5	11.6	10.4
Chemicals	4.3	4.6	5.5	7.7	11.7
Machinery and equipment	11.9	14.0	13.3	15.2	19.2
Other manufactured goods	164.0	198.3	276.7	374.8	323.7
Of which: ferro-alloys	(25.9)	(31.6)	(46.3)	(88.1)	(79.5)
iron/steel	(26.9)	(39.8)	(57.9)	(67.2)	(41.8)
nickel	(40.4)	(36.5)	(37.9)	(52.8)	(45.8)
copper	(19.0)	(26.5)	(31.3)	(24.6)	(18.3)
Gold	45.7	46.1	66.6	115.2	63.9
Total 2/	536.3	604.8	712.0	902.7	954.7

Source: Central Statistical Office, Monthly Digest of Statistics.

1/ Including manufactured tobacco.

2/ Figures may not add up because of rounding.

Table 11. Zimbabwe: Direction of Trade, 1980-81 1/

(In percentages of total trade)

	Exports		Imports	
	1980 Aug.-Dec.	1981	1980 Aug.-Dec.	1981
Industrial countries				
Belgium	4.3	3.7	1.1	1.6
France	2.7	1.7	2.0	3.7
Germany	10.8	8.2	6.7	7.3
Italy	4.6	5.0	1.7	2.1
Japan	3.1	2.8	4.2	6.1
Netherlands	3.0	3.0	1.7	2.3
Portugal	1.5	0.9	*	*
South Africa	17.0	21.6	27.4	27.4
Sweden	1.8	0.7	1.0	0.7
United Kingdom	5.1	6.9	8.4	10.0
United States	3.1	7.9	7.3	7.3
Developing countries				
Botswana	3.4	3.2	1.3	1.7
China, People's Republic	2.5	2.8	*	*
Malawi	1.3	1.6	1.6	1.5
Zaire	1.6	2.2	*	*
Zambia	1.1	4.0	3.1	2.4
Other (petroleum) 2/	-	-	19.5	12.6
Other	31.6	23.8	13.0	13.3
Total	100.0	100.0	100.0	100.0

Source: Central Statistical Office, Monthly Digest of Statistics.

1/ Data for period prior to August 1980 are not available.

2/ Petroleum imports of unknown origin transported through South Africa.

* Less than 1 per cent.

Table 12. Zimbabwe: Service Payments on Government and Government-Guaranteed External Debt 1981-85 1/

(In millions of Zimbabwe dollars)

	1981	1982	1983	1984	1985
Government debt					
Amortization	52.5	42.4	54.4	64.6	71.8
Interest	21.2	26.2	30.1	28.3	25.6
Total	73.7	68.6	84.5	92.9	97.4
Government-guaranteed debt					
Amortization	0.7	2.9	11.6	47.2	53.6
Interest	3.0	9.9	38.1	37.0	30.2
Total	3.7	12.8	49.7	84.2	83.8
Government and Government-guaranteed debt					
Amortization	53.2	45.3	66.0	111.8	125.4
Interest	24.2	36.1	68.2	65.3	55.8
Total	77.4	81.4	134.2	177.1	181.2

Source: Data provided by the Zimbabwean authorities (Treasury).

1/ Projected service payments in 1982-85 are in respect to total external debt outstanding (maturities exceeding one year) at the end of 1981 (Z+947.5 million).

(2) - NONPROJECT ASSISTANCE CHECKLIST

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1982 Appropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the assistance.	(a) Assistance is within FY83 CP.
(b) Is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that amount)?	(b) Yes.

2. FAA Sec. 611(a)(2)

If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance.	N/A. No legislation required.

3. FAA Sec. 209

Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.	No.

4. FAA Sec. 601(a); (development loans)

Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.	Grant of foreign exchange and proposed uses local currency under this program will finance key industrial inputs, assist rural infrastructure and assist education and agriculture sectors. Programs clearly will: increase flow of international trade, foster private initiative and competition in Zimbabwe's private sector-oriented economy, encourage cooperatives and credit institutions, and improve technical efficiency in all assisted sectors. Impact on monopolistic practices and labor unions not clear given general nature of the CIP, but no adverse impacts are anticipated.

A

5. FAA Sec. 601(b)

Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The CIP grant of FX will bolster economy generally and permit increased importation of U.S. goods and services and investment in a stronger, private-sector-oriented Zimbabwe economy. U.S. private business organizations have made visits to Zimbabwe since independence (April 1980) and the U.S. AID program will improve the climate for U.S. business initiatives in that country.

6. FAA Sec. 612(b); Sec. 636(h)

Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

Provisions in the grant agreement will require the country to utilize counterpart local currencies in mutually agreed upon training and supporting development activities, thus assuring that these resources will, to the maximum extent possible, be used to meet the cost of contractual and other services.

7. FAA Sec. 612(d)

Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

No.

8. FY 1982 Appropriation Act Sec. 521

If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity.

Through mission monitoring, this section will be complied with.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

Economic Support Fund Criteria

1. FAA Sec. 531(a)

Will this assistance promote economic or political stability? To what extent possible does it reflect the policy directions of FAA Section 102?

This assistance will permit the GOZ to fulfill commitments made to the expectant majority regarding resettlement, training, education and other areas affecting the quality of life in rural areas. Given Zimbabwe's balance of payment and budgetary shortfalls, and the expectations of the rural, African majority, this program is essential to the country's economic and political

B.

2. FAA Sec. 531(c)

Will assistance under this chapter be used for military, or paramilitary activities.

No.

3. FAA Sec. 534

Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?

No.

4. FAA Sec. 609

If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made.

Yes.

(3) - STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by exclusion (as where certain uses of funds are permitted, but other uses not).

These items are arranged under the general headings of (A) Procurement and (B) Other Restrictions.

A. PROCUREMENT

1. FAA Sec. 602

Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed? Yes

2. FAA Sec. 604(a)

Will all commodity procurement financed be from the United States except as otherwise determined by the President or under delegation from him? Yes

3. FAA Sec. 604(b)

Will all commodities in bulk be purchased at prices no higher than the market price prevailing in the United States at time of purchase? Yes

4. FAA Sec. 604(c)

Will all agricultural commodities available for disposition under the Agricultural Trade Development & Assistance Act of 1954, as amended, be procured in the United States unless they are not available in the United States in sufficient quantities to supply emergency requirements of recipients? Yes

5. FAA Sec. 604(d)

If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed? Yes

6. FAA Sec. 604(e); ISDCA of 1980 Sec 705(a)

If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Except where commodity financed could not reasonably be procured in U.S.) Yes

A.

7. FAA Sec. 604(f)

Are there arrangements whereby a supplier will not receive payment under the commodity import program unless he/she has certified to such information as the Agency by regulation has prescribed?

Yes, through the use of the A.I.D. Forms 11 and 282.

8. FAA Sec. 608(a)

Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?

Yes

9. MMA Sec. 901(b)

(a) Compliance with requirements that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

Yes

10. International Air Transport. Fair Competitive Practices Act, 1974

If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

Yes

B. OTHER RESTRICTIONS

1. FAA Sec. 620(h)

Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-Bloc countries, contrary to the best interests of the United States?

Yes

2. FAA Sec. 636(i)

Is financing prohibited from use, without waiver, for purchase, long-term lease, exchange, or guaranty of sale of motor vehicles manufactured outside the United States?

Yes

3. Will arrangements preclude use of financing:

(a) FAA Sec. 104(f); FY 1982 Appropriation Act Sec. 525:

(1) To pay for performance of abortions as a method of family planning or to

Yes

B.

3. motivate or coerce persons to practice abortions;

(2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; Yes

(3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; Yes

(4) to lobby for abortion? Yes

(b) FAA Sec. 620(g)

To compensate owners for expropriated nationalized property? Yes

(c) FAA Sec. 660

To finance police training or other law enforcement assistance, except for narcotics programs? Yes

(d) FAA Sec. 662

For CIA activities? Yes

(e) FY 1982 Appropriation Act, Sec. 503

To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? Yes

(f) FY 1982 Appropriation Act, Sec. 505

To pay U.N. assessments, arrearages or dues? Yes

(g) FY 1982 Appropriation Act, Sec. 506

To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? Yes

(h) FY 1982 Appropriation Act, Sec. 510

To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? Yes

B.

3. (i) FY 1982 Appropriation Act, Sec.511

For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

Yes

(j) FY 1982 Appropriation Act, Sec. 515

To be used for publicity or propaganda purposes within U.S. not authorized by Congress?

Yes

4. ISDCA of 1981 Sec. 203

Will at least 15% of FY funds for commodity import programs be used in financing the purchase of agricultural commodities and related products of U.S. origin?

Yes, through the Zimbabwean Agricultural Sector Assistance Program Grant CIP element, and through this CIP, FY 83 funds in excess of 15% will be used for financing such purchases.