PD-BAQ-792

UNCLASSIFIED

613-K-603

ZIMBABWE

FY 1982

COMMODITY IMPORT PROGRAM

UNCLASSIFIED

CLASSIFICATION: UNCLASSIFIED

AID 1120-1 (8-68)

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PAAD

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO.: 613-K-603
2. COUNTRY: Zimbabwe
3. CATEGORY: Commodity Financing -- Standard Procedure
4. DATE:

5. TO: M. Peter McPherson, Administrator, A.I.D.

6. OYB CHANGE NO.:

7. FROM: F. S. Ruddy, Assistant Administrator, Bureau for Africa

8. OYB INCREASE — TO BE TAKEN FROM: ESF Funds FY 1982

9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 50,000,000

10. APPROPRIATION - ALLOTMENT: 72-1121037 GESA-82-31613-KG32 (237-61-698-00-59-21)

11. TYPE FUNDING: ☐ LOAN ☒ GRANT

12. LOCAL CURRENCY ARRANGEMENT: ☒ INFORMAL ☐ FORMAL ☐ NONE

13. ESTIMATED DELIVERY PERIOD: 8/82 - 5/83

14. TRANSACTION ELIGIBILITY DATE: Grant Authorization Date

15. COMMODITIES FINANCED

U.S. goods and manufactures, principally machinery, transportation equipment and other capital goods for replacement of Zimbabwe's capital stock and for the export sub-sector.

16. PERMITTED SOURCE

U.S. only: Grant: $50,000,000
Limited F.W.:
Free World:
Cash:

17. ESTIMATED SOURCE

U.S.: $50,000,000
Industrialized Countries:
Local:
Other:

18. SUMMARY DESCRIPTION

The grant is part of the U.S. pledge at the ZIMCORD conference to help the GOZ in the reconstruction and rehabilitation of rural areas affected by the Rhodesian conflict and in assisting the black population which was disadvantaged under the previous regime. The grant would (1) stimulate the Zimbabwe private sector to play a critical role in the national rebuilding effort; (2) support the development efforts of the GOZ, particulary in the reconstruction of war-damaged areas; and (3) provide short-term balance-of-payments support. The CIP will provide foreign exchange for the importation of U.S. goods and manufactures, particularly for capital equipment.

1. Eighty percent of the foreign exchange provided will be made available to the Zimbabwe private sector.

2. Local currencies will be used on activities to be mutually agreed upon in the areas of education, health, agriculture and small-scale enterprise, particularly in the former Tribal Trust Lands.

3. Procurement will be restricted to AID Geographic Code 000 (U.S. only).

19. CLEARANCES

		DATE
GC, KCKammerer	KCK	3/[illegible]
FM/PAD, RBonnaffon	[illegible]	3/2/82
AAA/AFR/DP, ICoker	[illegible]	3/3/82
AAA/AFR/DR, JWKoehring	[illegible]	3/10/82
AFR/SA, TMorse	[illegible]	3/3/82
GC/AFR, EDragon	[illegible]	[illegible]
COM/ALI, PHagan	(Draft)	1/19/82

20. ACTION: ☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE: [illegible] — DATE: 15 MAR 1982

M. Peter McPherson
Administrator

TITLE

CLASSIFICATION:

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FEB 10 1982

ACTION MEMORANDUM TO THE ASSISTANT ADMINISTRATOR FOR AFRICA

JWKoehring

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

SUBJECT: P.A.A.D. Authorization — Zimbabwe FY 1982 Commodity Import Program Grant

Problem: Your signature is requested for the attached Action Memorandum to the Administrator recommending a grant of $50,000,000 from the Section 531, Economic Support Fund, appropriation to the Government of Zimbabwe (GOZ) for the FY 1982 Commodity Import Program (613-0216). It is planned that the entire authorized amount of $50,000,000 will be obligated in FY 1982.

Discussion: The proposed CIP is part of the U.S. pledge made at the Zimbabwe Conference on Reconstruction and Development to help the GOZ in its national rebuilding effort. The proposed grant would (1) stimulate the Zimbabwe commercial sector to play a critical role in the rebuilding effort through the creation of employment opportunities, and (2) support GOZ reconstruction and rehabilitation efforts, particularly in the war-damaged former Tribal Trust Lands. Eighty percent of the foreign exchange provided by the CIP will be made available to the Zimbabwe private sector. Priority will be given to the replacement of obsolete capital equipment. Local currency generations will be used by the GOZ for mutually agreed upon activities in the areas of education, health, agriculture and small scale enterprise.

Procurement will be restricted to AID Geographic Code 000 (U.S. only) and no waivers are expected. It was determined that this activity is excluded from the requirement for an Initial Environmental Examination. The justification for this categorical exclusion can be found in Annex F of the PAAD. The proposed activity has been thoroughly reviewed by the appropriate committees and the analyses were found to be acceptable in all respects. On January 12, 1982, the ECPR recommended that the project be submitted to the Administrator for authorization.

Recommendation: That you sign the Action Memorandum to the Administrator recommending authorization of the project. Also, please sign the attached PAAD.

Attachments:

Action Memorandum for the Administrator
PAAD

Clearances:

DAA/AFR: WHNorth Date: 2/16/82
AAA/AFR/DP: ICoker Date: 2/3
AFR/DR: NCohen Date:
AFR/SA: TMorse Date: 2/3
SER/COM: PHagen (Draft) Date: 1/19/82
GC/AFR: EDragon EAD Date: 2/12/82
AFR/DR/SA: WWolff Date: 2/12/82
AFR/DR/SA: DKline (Draft) Date: 1/15/82
GC/AFR: TBork Date:

AFR/DR/SA:JPagano:agb:1/28/82:X 28818

3

ACTION MEMORANDUM FOR THE ADMINISTRATOR

FEB 19 1982

THRU: ES

THRU: AA/PPC, Mr. John R. Bolton

FROM: AA/AFR, F. S. Ruddy

Problem: Your approval is requested for a grant of $50,000,000 from the Section 531, Economic Support Fund, appropriation to the Government of Zimbabwe (GOZ) for the FY 1982 Commodity Import Program (613-0216). It is planned that the entire authorized amount of $50,000,000 will be obligated in FY 1982.

Discussion: The proposed CIP grant will provide foreign exchange support for Zimbabwe's national rebuilding effort. The grant will (1) stimulate the productive sector of the Zimbabwean economy to play a critical role in the rebuilding effort; and (2) support GOZ reconstruction and rehabilitation projects, particularly in war-damaged rural areas.

The CIP is part of the U.S. pledge made at the Zimbabwe Conference on Reconstruction and Development (ZIMCORD) to help the GOZ in its reconstruction effort in the wake of the Rhodesian conflict and in its efforts to assist the African population which was disadvantaged under the previous regime. The primary elements of the GOZ's rebuilding strategy are the reconstruction and resettlement of war-torn areas; expansion of government services to the African population, particularly in health and education; and the maintenance of traditional government policies favorable to the largely privately-owned productive sector of the economy so as to encourage expanded production, greater exports and the creation of employment opportunities. The CIP will serve the dual purpose of stimulating economic growth, exports and employment by providing $50 million in vitally needed foreign exchange, and supporting GOZ reconstruction and development projects with local currency generations.

The negotiation of the CIP focussed on involving the commercial sector in the rebuilding effort. The GOZ has agreed that no less than 80% of the foreign exchange provided will be set aside for private sector imports, principally for machinery, capital goods and essential industrial inputs. Priority under the program will be given to the replacement of outdated and obsolete capital equipment, particulary in the areas of transportation, civil engineering and manufacturing, and in the export sub-sector. Zimbabwe's capital stock deteriorated markedly as a result of economic sanctions imposed during the Rhodesian conflict. Present efforts by the private sector to modernize its capital equipment have been impeded by a severe shortage of foreign exchange.

The local currency funds generated by the program will be used by the GOZ for mutually agreed upon activities in the fields of education, health, agriculture and small-scale enterprise, with priority being given to reconstruction and rehabilitation of facilities, especially in the former Tribal Trust Lands. The local currency funds will be managed through the creation of a special account similar to that used for local currencies under the FY 1980 and 1981 program grants ($20 and $24.28 million respectively). The GOZ has established an excellent record in the management of these local currencies and the proposed CIP will continue the use of this flexible mechanism. Some of the local currency may be used for AID Southern Africa regional activities in Zimbabwe. The exact amount has not been determined. Also, one percent of local

Next year can we reduce the CIP with more private sector assistance? Bring up this issue when we review the program.

0032400

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currency generations will be set aside for the USAID/Zimbabwe operating expense account.

This CIP represents two-thirds of the pledge of $75 million in assistance in 1982 made by the U.S. at the ZIMCORD conference.

It has been concluded from the analyses included in the Program Assistance Approval Document (PAAD) that:

(1) the commodity import program grant approach is technically and economically sound;

(2) the timing and funding of the program are appropriately scheduled;

(3) sufficient planning has been done for the implementation, monitoring and evaluation of progress under this activity; and

(4) all statutory criteria have been met.

It was determined that this activity is excluded from the requirement of an Initial Environmental Examination under section 216.2(c)(2)(ix) of AID regulation 16. The determination can be found in Annex F of the PAAD.

The grant agreement will contain the standard conditions precedent and convenants for a CIP. In addition, there is a condition precedent which requires a detailed plan for activities to be financed under the local currency account, and three convenants requiring (1) establishment of a special account for local currency deposits, (2) that not less than 80% of the grant be used for private sector procurement and (3) that the GOZ use its best efforts to ensure additionality for private sector imports equal to at least 50% of the amount of the grant (Annex E).

The authorized source of goods will be AID Geographic Code 000 (U.S. only). No waivers are expected.

The Project Review meeting held on January 8, 1982, and an Executive Committee Project Review held on January 12, recommended approval of the CIP. There were no unresolved issues. The Congressional Notification was submitted on February 19, 1982, and expires on March 5.

The responsible AID officer in USAID/Zimbabwe will be the Mission Director, Roy Stacy, and the AID/W backstop officer will be Douglas Kline, AFR/DR/SA.

There are presently no significant human rights issues in Zimbabwe.

Recommendation: That you sign the attached PAAD, thereby authorizing the proposed activity in the amount of $50 million.

Attachment:

PAAD

Clear ces:

(Acting) General Counsel: KCKammerer KCK Date: 2/15-
AAA/PPC/PDPR: JEriksson JEriksson Date: 2/4/82

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Clearances:

DAA/AFR: WHNorth _____ Date: _____
AAA/AFR/DP: ICoker _____ Date: 2/4/82
AFR/DR: NCohen _____ Date: _____
AFR/SA: TMorse _____ Date: 2/3
SER/COM: PHagan (Draft) Date: 1/19/82
GC/AFR: EDragon _____ Date: 2/02/82
AFR/DR/SA: WWolff _____ Date: 2/3/82
AFR/DR/SA: DKline (Draft) Date: 1/15/82
GC/AFR: TBork _____ Date: 2/4/82

AFR/DR/SA: JPagano:agb:1/28/81 X 28818

ZIMBABWE - CIP

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I. SUMMARY AND RECOMMENDATIONS

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

Activity: Zimbabwe Commodity Import Program

Amount: $50,000,000

Terms: ESF grant funding, with local currency reflows to be deposited in a special account for use in mutually agreed upon reconstruction and development activities. 1% of these reflows will be expressly reserved for use by USAID/Zimbabwe for anticipated local currency requirements.

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

Program Justification: Short-and medium-term financial difficulties encountered by the GOZ, including a balance of payments shortfall and budgetary constraints (see Section III).

Program Description: The objectives of this program are twofold: Initially, to stimulate the Zimbabwe commercial sector to play its critical role in national rebuilding and employment creation tasks by making available AID foreign exchange resources. This will permit the importation of U.S. goods and manufactures, principally by the private sector, but also to a limited extent by the public sector, for use in reconstruction and development. Priority will be assigned to replacement of the country's aging stock of capital goods as well as to the export subsector. An illustrative listing of the types of commodities eligible under this program can be found in Section IV.

The second objective is to support Government reconstruction and development initiatives by using the local currency generated from the commercial sector under the CIP to finance a range of public sector programs and activities in the areas of education, health, agriculture and/or small-scale enterprise. Inasmuch as the GOZ's near-term local currency requirements far exceed the generations available under this program, AID and the GOZ will jointly agree on the allocation of funds. This process has already begun (see Section IV.B for an illustrative list of activities to be funded with local currency generations), and will be formalized prior to first disbursement. On the basis of AID's experience

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with the very similar program grant approach, the mechanism of flexible local currency programming (unavailable in other assistance modes) is desirable and appropriate to the current conditions in Zimbabwe for the following reasons: it is responsive to the financial requirements of the GOZ; it reflects the competent functioning of the Government public sector; and, it is in keeping with the business-like relationship that has characterized AID's dealings with the GOZ to date.

Program Implementation: The proposed program will be implemented by the GOZ Treasury in coordination with the Ministry of Trade and Commerce and the Reserve Bank of Zimbabwe; programming of local currency generations will be the responsibility of the Ministry of Economic Planning and Development. The program will make use of existing allocation, licensing and import procedures, which have been reviewed by the PAAD team and found acceptable. USAID/Zimbabwe will be responsible for program monitoring, with regular assistance provided by REDSO/EA (Supply Management Officer and other personnel as necessary).

Disbursement Period: The PAAD team recommends a period of 12 months for commitment and 18 months for disbursement of all program funds.

Statutory Checklist: Satisfied (See Annex B)

Waivers: None

Issues: None

Recommendation: It is strongly recommended by both USAID/Zimbabwe and REDSO/EA that a commodity import program in the amount of $50,000,000 be authorized for Zimbabwe.

PAAD Committee

Laurence Hausman, Design Officer/Team Leader, REDSO/EA
John Lewis, Management Supply Officer, REDSO/EA
J.M. Wolgin, Economist, AID/W (PPC/PDPR)
Edward Spriggs, Legal Advisor, REDSO/EA

Contributions and Review by:

C. Grader, Director, USAID/Zimbabwe
R. Stacy, Director-designate, USAID/Zimbabwe
A. R. Love, Director, REDSO/EA

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 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 inequities in the social, economic and political sectors. Despite the major resettlement and reconstruction requirements, the exodus of many of the skilled and professional class, and serious foreign exchange and budgetary constraints, Zimbabwe, under the pragmatic leadership of Prime Minister Mugabe, is doing much to allay the fears which many observers expressed at Independence.

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 in the long-term future is to change fundamentally the existing social structure so that the economic benefits to be reaped are more equitably distributed among the entire population.

Zimbabwe possesses numerous and diversified

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resources and has an extensive social and economic infra-structure that has been built up over many years. Notwithstanding these positive features, several massive tasks still confront the government --- repairing and rebuilding substantive war damage (largely to rural infrastructure), resettling the remaining displaced, completing the demobilization and reintegration into society of the various armed forces, stimulating the commercial sector to generate exports and new employment, and expanding basic social services to much larger population groups. 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 March 1981 ZIMCORD went a long way towards achieving the external funding objective, with the U.S. pledge of $75 million for FY 82, followed by similar amounts in the succeeding two years, forming a very significant part of that funding package.

Zimbabwe is a country founded and functioning on democratic principles. There are hopeful signs that a successful, non-racial society will emerge, with the underpinning of a strong mixed economy. Such a success will serve as an important example to other nations, especially South Africa.

It is in the U.S. interest to assist Zimbabwe achieve this success and it has formed the principal rationale behind the substantial U.S. commitment at Zimcord. The proposed $50 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 economic development with equity. More specifically, the local currency is to be directed toward the areas of the highest GOZ priority; namely, resettlement, reconstruction and development activities related thereto.

B. <u>GOZ Strategy</u>

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.

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

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

(2). initiation of a settlement program that will gradually increase the movement of African farmers from the Tribal Trust Lands to underutilized land in the commercial sector;

(3). a program of reconstruction and investment in the Tribal Trust areas; and

(4). a vast expansion of government services to the African population, particularly in the areas of health and education.

By moving on all these fronts at once, the GOZ hopes to generate economic growth and thus increase the share of income going to African workers, to increase production and incomes in the TTLs, to assuage, 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.

Within the next few months, the GOZ will have produced a comprehensive Three-Year Plan, which will detail the medium and long-term development goals of the GOZ. In the interim, the GOZ prepared a summary document outlining a policy overview, sector strategies and financial requirements. This document served as a framework for donors at the Zimbabwe Conference on Reconstruction and Development (ZIMCORD) in March, 1981. The conference was an unquestioned success and new donor pledges totalling over $1.3 billion were received in support of government and private sector reconstruction and development activities.

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C. U.S. Assistance Strategy

1. General Statement

The reader is referred to USAID/Zimbabwe's first Country Development Strategy Statement (CDSS), prepared in February, 1981, for a comprehensive discussion of the Mission's goals, objectives and proposed assistance levels. However, it will be useful for background purposes to summarize the major points here. The threefold goals of U.S. assistance are:

> (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 moderate 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 and strategies, it has been understandably slower in translating these into specific courses of action. What has guided U.S. actions to date is the fact that Zimbabwe's "political structure is broadly democratic and oriented toward the same equitable growth objectives that form the basis of AID's 'New Directions.'" The GOZ has adopted a generally pragmatic, free market approach to achieving those objectives, and this approach has had the full support of the USAID.

A major determining factor has been our recognition that the central administration of the GOZ is probably the most capable and most efficient in Africa. For this reason, "the USAID strategy is to rely heavily

on GOZ capabilities for planning and implementation of their own development program." This was evidenced in the FY 80 and FY 81 program grants, which offered the GOZ great flexibility in the programming of local currency generations in sectors of mutual concern. It is also the theme which runs through the USAID strategy for programming future U.S. assistance.

2. Program Relationship to CDSS

The three principal objectives towards which USAID/Zimbabwe assistance will be directed are: increasing agricultural incomes, employment generation and expanding social service delivery systems. These three principal objectives match the stated objectives of the GOZ as expressed in the ZIMCORD documentation.

The proposed CIP will be responsive to each of the above objectives either directly or indirectly. The program will be a vehicle for strengthening the productive sector by making additional imported commodities available for procurement by private and public entities and enabling them to play a more active role in national reconstruction/rehabilitation and development tasks. Particular emphasis will be given to equipment and transport constraints and to the export subsector, including agriculture, industry and services.

In turn, the Zimbabwe dollars generated under the program will be used to support a range of Government programs for reconstruction and 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 would be used to support activities of benefit to Zimbabwe that will also impact on the region as a whole. This is consistent with the CDSS strategy, which discusses the ultimate aim of integrating the regional economy to relieve current dependencies on South Africa. The U.S. has already agreed to provide substantial assistance to the regional development program (road rehabilitation and strategic grain storage construction) and "with Zimbabwe likely to be the keystone of a future regional system, as both a food exporter and a manufacturing center, regional development is of great importance to Zimbabwe's future.

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One additional factor that supports this CIP and is in consonance with Mission strategy is the speed and flexibility of disbursements. In a situation where few other donors have even defined their programs, AID has been extremely responsive to GOZ funding requirements. We have moved quickly and flexibly with two substantial cash grants, and the proposed CIP would continue in this mode of assistance. The demand for commercial imports is very strong and the GOZ's local currency requirements are substantial; the CIP vehicle will satisfy both objectives in a timely and appropriate manner.

D. Status of AID Program Grants

AID has made two program (cash) grants available to the GOZ to date. 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.

In a manner similar to that proposed in this CIP, the program grant agreements required the GOZ to establish counterpart local currency accounts for use in funding agreed-upon activities. As of June 1981, just over 80 percent of all local currency proceeds under the first program grant were expended. This implementation record is excellent when compared with other AID recipient countries, although it has fallen slightly behind the original target of full local currency disbursement within 12 months. Some of the important and originally unanticipated implementation problems that have been encountered include: (1) the continuing shortage of transport (mainly trucks), heavy equipment and some building materials; 1/ (2) unusually heavy rains; (3) shortage in certain ministries of administrative staff to process program documentation; and (4) a growing shortage of skilled workers in certain construction trades.

1/ "The lack of reliable vehicles will continue to be a major restraint on the reconstruction work during dry weather." Ministry of Works progress report, 5 May, 1981.

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Local currency expenditures under the second program grant (613-K-602) are now disbursing at an acceptable pace, given a two-month delay in program start-up. As of July 1, 1981, approximately 15 percent ($3 million) has been disbursed, which represents approximately 10 weeks of expenditures. The obstacles to more rapid implementation involved the same shortages mentioned above. A complicating factor is that the kinds of activities which are being financed require more detailed preparation than earlier reconstruction efforts. For example, new school construction entails site surveys, title transfers, drawing up plans and specifications, etc., and because Government's procedures are thorough, the process takes more time. Given the obstacles faced the nature of activities being assisted and the differing implementation strengths of institutions using the funds, the Mission believes that the performance to date 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.

E. Other Donors

The March, 1981 Zimcord resulted in several donors provisionally committing funds for commodity import-type assistance (see Annex D Table XI). To date, among the major donors, only the U.K. and the World Bank are significantly active in this general area; the larger of these is the World Bank. In April, 1981, the GOZ entered into an agreement with the World Bank/AID for a loan and credit to support a proposed Manufacturing Rehabilitation Imports Program ($50 million loan and $15 million credit). The program's structure is similar to the proposed AID CIP except that the focus is on the manufacturing sector for priority imports of raw materials, spare parts, components and balancing equipment. Also, Bank disbursements are made on a reimbursement basis. Otherwise, the program contains the same general provision for creating a special account with the local currency equivalent generations. These funds are available to finance development projects in the GOZ budget. As of 1 July 1981, approximately $11 million was disbursed.

Given the GOZ's financial requirements plus the efficient Government apparatus to support reconstruction and 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.

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III. ECONOMIC BACKGROUND AND PROGRAM JUSTIFICATION

A. General Economic Background

1. Macro-Economic Setting

The basic data on the Zimbabwe economy are presented in the Statistical Annex. While a small, lower middle income country by international standards (per capita GNP was U.S. $694 in 1980), the economy is the largest in Southern Africa after South Africa, in terms of total GDP, equal to the total of Mozambique and Angola combined. It is a highly diversified economy with important agricultural (12.9% of GDP), manufacturing (25.8% of GDP), and mining (8.6% of GDP) sectors.

Each of these sectors, in turn, is divided into a variety of sub-sectors. The major agricultural crops are tobacco, cotton, maize, sugar and wheat, plus beef and dairy products. The mining industry produces a number of products including gold, asbestos, nickel, copper and chrome. The main manufacturing industries are iron, steel, and metal fabrication (26%), chemicals and petro-chemicals (14%), food processing (14%) beverages and tobacco (11%), and textiles (19%). Although the primary sectors, agriculture and mining, together only produce about 21% of GDP, they provide about 57% of Zimbabwe's export earnings. On the other hand and not unsurprisingly, while manufacturing accounts for the remaining 43% of merchandise exports, the sector as a whole is a net user of foreign exchange because of the very large inputs of capital equipment and industrial raw materials.

The economy is well endowed with infrastructure -- a rail system connecting all major economic centers as well as four links to ports in South Africa and Mozambique, 10,000 kilometers of road, and widespread telecommunications system. With the expected completion of a major thermal electric complex at Wankie in 1985, the country will be self-sufficient in electricity generation. Similary, Zimbabwe has a much more sophisticated financial structure than is typically the case in an economy of this size, due in part to the restrictions sanctions placed on access to international capital markets.

Gross Domestic Income in 1980 amounted to $5.0 billion, which was roughly shared between wage and salary earners and investors on a 2:1 basis. Thus, corporations, unincorporated enterprises (mostry private farms) and parastatals had gross operating profits of approximately 1.65 billion. However, investment expenditures in the private sector were very low, about $375 million in 1980, or 8 % of GDP. Consumption expenditures have averaged approximately 60 % of GDP over the latter half of the 1970s, while government non-capital expenditures have increased throughout the period, reaching 23% in 1980.

While per capita income is high by African standards, the economy is highly dualistic with sharp, perhaps unequaled, disparities in income between the white and black populations. Per capita income for the white population is probably around U.S. $10,000, while for the black population it may be as low as $150 per year. In other words, the white 4% of the population earns about 65% of the pre-tax income. The immediate reasons for this striking inequality are obvious. Probably two-thirds of the African labor force depend on the traditional economy for their income, and yet this economy produces no more than 4% of total GDP.

Of those 900,000 Africans who have wage-paying jobs in the modern economy, about 48% are employed in the low-paying agricultural and domestic service sectors. The average white/black wage differential is eleven to one ($12,350/$1,100), due partly to differential stocks of skills. Added to the wage difference is the fact that probably 90% of profits are earned by white Zimbabweans.

Many of these inequalities are the result of discrimination practiced by the various white-dominated governments of the pre-majority rule period. The clearest instance of this is the division of the country's land into commercial areas (largely, though not solely reserved for whites), and Tribal Trust Lands (TTLs) reserved for blacks. The land was divided approximately in half, which meant that black farms in the TTLs averaged five hectares of arable land while white commercial farms averaged 100 hectares. Equally important, the best lands were reserved for whites, who own 72% of the land in Regions I and II, the most productive areas.

These inequalities were reinforced by conscious government policy of allocating resources to the white sectors. For example, marketing structures and institutions, which are fully developed to serve the commercial farm sector, are almost non-existent in the TTLs. Similarly, agricultural research is geared almost exclusively to service the needs of the commercial sector, and while there is approximately one extension agent to every 60 farmers in the commercial sector, there is only one to every 800 farmers in the TTLs. Education and health services were equally skewed. Per pupil expenditures in white schools were ten times per pupil expenditures in black schools, and while virtually all white students graduated from Form IV (roughly junior high), only 4% of the black students were able to do so.

The other side of this disquieting picture is that in many ways the black population is better prepared for rapid development and entree into the modern sector than is the case in most other African countries. African university graduates number around 11,000, a stock of high level manpower which is unprecedented for a newly independent African country. Moreover, the share of the labor force employed in the modern sector is large and with the right mix of investment programs, black incomes can be expected to rise rather quickly in the future.

While Zimbabwe does have a thriving and highly productive private market economy, the role of government is pervasive, though less so than in many other African countries. Foreign exchange controls are very stringent both in the area of import licensing and repatriation of capital. Almost all of the marketing in the commercial farm sector is controlled by a government agency, the Agricultural Marketing Agency; the marketing of minerals is currently done by the private sector. There are minimum wage laws (recently raised) and controlled and increasingly subsidized prices for important consumer commodities.

The primary task facing the present government is to redress the inequities inherent in the economy without at the same time eroding the vitality of the modern sector, which offers the best hope for increasing African standards of living in the future and for meeting the demand for non-South African source of food and manufactures within the region.

2. Recent Economic Trends

Beginning in late 1978 - early 1979, the economy has shown progress - in signs of recovery from an earlier, severe recession. Indeed, by the end of 1979, real per capita income was only three Zimbabwe dollars greater than per capita income in 1964. In real terms private consumption fell by 12.4% and gross fixed capital formation by 50.2%, whereas net government expenditures, fueled by the war, rose by 34.3%.

The decline was caused by a number of factors. In the first instance the impact on the economy of the international recession following the 1975 oil crisis was severe. The decline in Zimbabwe's terms of trade, coupled with the closing of ports to Rhodesian trade in Mozambique following Mozambique's independence, caused a severe deterioration in the balance of payments. In order to restore equilibrium there was a substantial cutback in non-petroleum product imports. The volume of total imports by the end of 1979 was only 67% of 1964 levels. Restrictions in the importation of raw materials slowed manufacturing output, which declined by 14%. Agricultural output, due to weather conditions and the increased violence in the countryside, declined 28.5%. The declines in output in the goods sector (17.6%) led to equivalent declines in the services industries - - particularly construction and distribution. Finally, the recession was caused by lack of confidence in the business community due to the unstable political situation. This uncertainty is evidenced by the profound decline in investment expenditures to 11.2% of GDP. However, with the Lancaster House settlement and the ending of sanctions , there was a substantial recovery on almost every economic front in 1980. Real GNP rose by 13.5% and per capital income by over 10%, while inflation was held to 8.6%. The recovery was led by the major goods sectors--agriculture, mining and manufacturing -- with output increases in nominal terms of 30.2%, 32.7% and 29.2% respectively. Similarly, the distribution sector, fueled by increased demands and increased availability of goods, had a nominal growth of output of 34.8%. Import volumes increase by 37.6% over 1979, and by the end of 1980 had reached the pre-U.D.I. level. Despite this impressive record there are indications that the near-term prospects are not as bright. While agriculture, manufacturing and distribution are likely to continue bouyant, and there is likely to be an upsurge in construction and government services, the mining sector is beginning to be affected by declining commodity prices.

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There are four areas of concern: employment, private investment, balance of payments, and the government budget. The first two areas are discussed in this section, while the latter two will be discussed in the following section.

(a). Employment - Critical to the future of Zimbabwe is a rapid expansion in wage employment. Given the growing pressures on arable land, a rapid rate of population growth and the slow pace of settlement, the economy must provide 50,000 new jobs per year, or an increase of about 5% in the labor force. In 1980, despite the high rate of real growth, employment in the modern economy increased by an average of only 21,000, or 2.2%, and by December, 1980, employment was only 6,000 above the December, 1979 level.

This situation is not quite as distressing as it first seems. In the first place it is normal for firms to maintain employment levels in the midst of a recession. Thus, during the 1974-197- recession, while real output fell by 12.5%, employment fell only 5.2%. The recovery in 1980 was relatively easy due to the substantial excess capacity that existed in the economy, not only in terms of capital but also in terms of labor. As the recovery proceeds, one will expect that capacity limitations will be met in terms of existing labor force and employment will grow at a much faster rate.

Secondly, in line with its concerns for equity, the government substantially raised minimum wages in all sectors of the economy. These increases led to large increases in the average wages in most sectors, ranging from 16% in manufacturing to 30% in domestic service. (There are no data yet available on agricultural wages). Future employment growth is likely to be more substantial if this wage adjustment is not followed by similar increases in the future.

Lastly, the main culprit in the failure of the economy to provide jobs in 1980 was the agricultural sector. Non-agricultural employment increased by 4.6%, while agricultural employment actually declined despite the enormous increase in value added. However, much of this increase was due to two factors -- a change in relative prices which favored agriculture and a shift from tobacco to maize plantings. Real output in volume terms, recovery to 1978-1979 levels, and only in the case of tobacco was output significantly above historical levels. Most of the 1980 tobacco output represents previous year plantings. With high producer prices for maize and declining tobacco prices there was a large shift to maize production which is much less labor intensive. With the recovery of tobacco prices

farmers may begin moving back toward tobacco with the accompanying employment generation benefits.

(b) Investment - The recovery of 1980 was led by increased government expenditures and increased consumption spending, due in part to rising wage levels for Africans. As the economy begins to reach full capacity, investment will have to pick up or a prolonged period of inflation and slow real growth lies ahead. Investment in 1980 was approximately 15% of GDP, about the same level as in previous years, despite a substantial increase in government capital expenditures in the reconstruction of damaged infrastructure. Private investment was about 30% of gross operating profits, indicating that investment was not constrained by lack of financial resources. In fact, excess liquidity in financial institutions rose to 28.6% of total liabilities at the end of 1980, up from 15% in 1979. Interest rates remain very low and for most financial assets are negative in real terms, with nominal rates ranging from 7.5% for commercial banks to 11-17% for consumer credit. Short-term bills had interest rates of under 4%.

There are two factors limiting a resurgence of private investment. The first is a limited availability of foreign exchange. Despite a record increase in import volumes, and despite a careful channeling of import licences into raw materials and capital goods (61% of all imports, including petroleum products), there is a very real shortage of foreign exchange. It is estimated that there are three times as many requests for foreign exchange licences as are granted. Secondly, investor confidence remains unsettled, as private corporations continue to read the Zimbabwe tea leaves. This is especially true of multinational corporations, Despite substantial interest there has been little capital inflow to date in terms of direct private investment.

In late 1981, a new surge in private investment is likely to begin, reaching even higher levels in 1982 and beyond. The evidence for this is the dramatic increase (24%) in building permits approved in 1980 over 1979. The total of $227 million was 36% higher than the previous peak in 1973. Industrial building plans are of particular interest, and the $47 million approved in this category was over three times the 1979 level, and 35% above the 1974 peak. The significance of these figures is that an upsurge in building plans has been in the past associated with an upsurge in construction, lagged about two years. Similarly, increases in investment in buildings

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and civil engineering are associated with an increase in investments of all types.

B. Economic Program Justification

1. Balance of Payments

On the surface, Zimbabwe's balance of payments has been relatively strong throughout the second half of the decade of the 1970's. Between 1975 and 1980, reserves have increased by U.S.$212 million, with most of this change occuring since 1978. By December 1980, the Reserve Bank of Zimbabwe held U.S. $270 million, while the banking system held an additional U.S.$59 million, sufficient to cover three months of imports at 1980 levels, a rate somewhat higher than the average middle income country. Since that time, reserves have fallen by U.S.$106 million to the present level of U.S.$213 million, less than two months import cover. Even this balance of payments picture is largely due to very stringent foreign exchange controls in the importation of goods and in the movement of capital. There are no hard estimates on the effect upon the deficit of removing exchange controls, but guesses range from U.S.$1,000 million to upwards of U.S.$2,000 million. This conservative policy towards imports has been partly responsible for the recent recession and continued controls are likely to limit the expected recovery.

(a) Current Account - While the trade balance has been positive throughout the period, ranging from U.S.$76 million in 1975 to a peak of U.S.$270 million in 1978, this surplus has rarely been sufficient to overcome deficits in other current account items. The main problems in the goods accounts have been the severe downturn in the terms of trade, which by the end of 1979 stood at 56.4, with 1964 = 100. There are a number of factors responsible for this downturn, although the inflation of import prices, primarily due to the increase in oil prices, was predominant. Import prices in 1980 were 2.1 times their 1975 level. While mineral prices rose in 1980 tobacco prices were weak, and consequently export prices stood at only 1.7 times their 1975 level. In addition, the closing of the Mozambique border and the imposition of sanctions probably raised import prices by 5% and lowered export prices by 15-20%.

The terms of trade improved by 24% in 1980, to 69.1, with import prices increasing by only 7% while export prices increased by 32.5%. However, this trend is not expected to continue through 1981, despite a

strengthening of tobacco prices, due to a softening of mineral prices. In fact, current estimates call for negative trade balances of U.S. $198 million in 1981 and U.S. $108 million in 1982. In addition to the decline in the terms of trade, transport problems, due to both port congestion and shortages of locomotives and trained manpower, are likely to constrain exports in the near future. In fact transport constraints are likely to be critical in inhibiting the growth of exports.

The service balance has been substantially in deficity throughout the period, due largely to freight and insurance charges, but also to a negative tourism and travel account. This deficity reached U.S. $196 million in 1980 and is likely to continue to increase in 1981 and 1982.

The government has strict restrictions on repatriation of profits, allowing foreign corporations to remit no more than 50% of after tax profits. Because of sanctions,repatriation of profits to firms in the U.S., U.K., and Canada were totally blocked during the UDI period. Consequently, net flows of investment income have averaged about negative U.S. $40 million per year. The unblocking of U.S. and U.K. assets will lead to increased dividend outflows which are expected to reach U.S. $104 million by 1982.

The transfer balance has remained negative despite aid flows. Partly this is due to the emmigration of whites together with their goods, the payment of pensions, and other remittances. These negative flows of approximately U.S. $255 million dwarf projected grant assistance until 1982, when disbursements from Zimcord are expected to reach levels of U.S. $150 million.

Overall the balance of payments on current account was in deficit by U.S. $260 million in 1980 and is expected to balloon to U.S. $591 million in 1981 before declining to manageable proportions in 1983 and 1984.

(b) Capital Account - Major capital flows during the next few years are expected to come from several sources asshown in the table below:

TABLE I

Capital Account (1980-1984) (U.S.$ Million)

Net Government	1980	1981	1982	1983	1984
Air Force Line of Credit	-	-22.4	64.7	-10.2	-10.2
External Bonds	3.3	-49.2	-50.4	-50.4	-60.3
Reconstruction Loans	0.8	21.8	4.8	-	-
Zimcord	-	69.0	190.5	205.5	375.0
Other	-36.5	32.4	-35.8	-38.7	-34.7
Total Government	-32.4	51.6	173.8	106.2	269.8
Public Authorities					
Air Zimbabwe	-	9.9	-2.3	-2.3	-2.3
Railways	-3.5	119.4	61.5	-31.5	-26.0
Wankie Thermal Station	-	41.9	129.0	2.6	-49.5
Other	1.0	-3.7	-6.0	25.3	1.9
Total Public Authorities	-4.5	167.6	182.3	-9.0	-75.9
Other Capital Transactions					
IMF Credit Tranche	-	46.5	-46.5	-	-
Private Investment	22.7	30.0	38.3	45.0	51.0
Repatriation of Capital	-21.2	-24.0	-27.0	-30.0	-33.0
Other	3.2	53.9	18.1	-4.0	-24.0
Total Other Transactions	-3.2	106.4	17.1	11.0	-6.0
Total Capital Transactions	-31.9	325.6	373.2	108.2	187.9

The Zimcord agreements of almost U.S.$2 billion will be very slow in disbursing. By 1984, the GOZ estimates that 70% of the amount pledged will have been disbursed, with some 42% of that amount, or 30% of the total being expended in 1984. Thus the critical years for Zimbabwe, 1981 and 1982, will not see large aid flows (about U.S.$195 million in loans and U.S.$290 million in grants). Nor is it expected that direct private investment will be substantially positive through 1984. As of now, the major source of external capital flows, aside from foreign assistance, will be commercial borrowing by public corporations for major infrastructure projects. Excluding Zimcord loans, the government is expected to make larger repayments than borrowings. However, whether these plans will be actualized is a serious question. It well may be that drawdowns of foreign assets along with substantial domestic budgetary financing needs may force the GOZ to enter international capital markets to a much larger extent than is currently planned. Otherwise reserves will fall to levels below any safe margin -- less than two weeks of imports.

An element in the balance of payments picture that remains unclear is Zimbabwe's relationship with the IMF. Early in 1981, the IMF gave Zimbabwe a stand-by of U.S.$46.5 million. Negotiations are currently taking place for a further U.S.$100 million standby to be concluded in September. There is, in addition, some talk of an EFF for calendar years 1982-84, although these discussions are very preliminary. To the extent that funds are forthcoming from the IMF, the GOZ can avoid entering commercial markets to meet foreign exchange and budgetary gaps.

2. Government Budget

A consolidated expenditures account for the fiscal years 1979/80 and 1980/81 is presented in Table II on the following page. Total expenditures in 1980/81 are projected to increase by 23.8% over 1979/80, while revenues are projected to increase by 28.0%. Thus, the government deficit, which was 40.8% of total expenditures in 1979/80 would decline to 35.8% of total expenditures in 1980/81. However, current estimates of expenditures show that the original budget erred by $150 million on the conservative side, and that, therefore the budget deficit will be closer to 40%. More disturbing however, are projections for the future. The fiscal year 1981/82 could see extremely large government deficits with attendant problems of monetary growth, inflation, and the "crowding out" of private investment. Recent indications, however, point to a relatively severe budget with the deficit held to $900 million, some

TABLE II 19A

EXPENDITURES BY MAJOR CATEGORY*
(thousands Zimbabwe dollars)

	(1) 1979/80	(2) 1980/81 (original estimate)	(3) 1980/81 (revised estimate)	(4) Ratio Column (3) to column (1)	1980/81 revised sha of budget
1. National Security	384,655	315,985	362,985	0.94	23.6
2. Settlement	2,521	8,301	8,301	3.58	0.5
3. Reconstruction and Investment in TTLs	9,180	42,487	42,487	4.63	2.8
4. Education	120,437	194,494	236,494	1.96	15.4
5. Health	54,226	91,795	91,795	1.69	6.0
6. Food Subsidies	37,729	68,700	68,700	1.82	4.5
7. General Administration	111,495	124,083	124,083	1.11	8.1
8. Economic Ministries	108,238	128,695	128,695	1.19	8.4
9. Other Capital Budget	52,886	55,760	55,760	1.05	3.6
10. Relatively Uncontrollable Outlays	250,523	305,964	305,964	1.22	19.9
11. Other	30,383	103,720	114,720	3.78	7.4
12. TOTAL	1,162,073	1,439,984	1,539,984	1.33	100.0

* Table II does not include the $114 million of grant assistance that has been earmarked for reconstruction and emergency feeding of refugees. These funds are placed in a special account and do not enter either the revenue or expenditure accounts.

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$150 million over the deficit of 1980/81. Equally important the expected budgetary cuts in the areas of defense and subsidies mean that the structure of government expenditures is being changed and that future years should see a return to reasonable balance.

(a) Expenditures

The high rate of growth of expenditures has been forced upon the new government by the political situation in which it finds itself. It must make moves toward equity and the provision of the basic services without substantially discomfitting the white economy. In order to do so it has used the main lever at its disposal, government expenditures. Table II lumps expenditures into categories appropriate for analyzing government policy.

Because of the need to integrate the liberation armies into the National army, the government was unable to enjoy a dividend due to the end of the war, and the security forces accounted for 38% of current expenditures on goods and services. The first six categories of Table I represent important political priorities. In these categories expenditures increased between 1979/80 and 1980/81 by $300 million. If we add the change in uncontrollable outlays to the top six categories, then these represent 68% of the increase in expenditures. Thus, given the political pressures on the government, it is going to be very difficult to reduce the growth of expenditures.

In recent days the Government has announced in general terms two measures which are politically difficult, but financially necessary--a reduction of the National Army to a full time strenth of 40,000, effectively cutting the army by 50%, and a reduction in subsidy levels which will raise the cost of living of the urban consumer.

(b) Resources

Probably more than 90% of tax revenues is derived from the white-dominated modern economy. For the 1980/81 budget year, 58% of tax revenues came from income and profits taxes and another 40% from indirect taxes. Since food and rent are excluded from indirect taxation, and since income taxes are only levied on families with incomes in excess of $4,500, the tax structure is probably progressive on the whole. Non-tax revenues account for about 25% of total resources and are divided between payments for services and use of property (40%) and a

variety of miscellaneous transfers.

Since a very high proportion of tax revenue is functionally related to income, it should not be surprising that real revenues fell between 1977 and 1979 by about 12% at the same time that real income fell by 3%. In 1980, however, real revenues are expected to exceed 1977 levels, and be 22% higher than in 1979. At the present time, taxes represent 22.5% of the total national income. Given the rise in expenditures, the government is giving serious consideration to raising tax levels. However, there are serious problems attached to increasing the rates of direct taxation, which are 49.5% on corporations and probably average 35% on personal income. Early in 1980, the government instituted new sales and excise taxes in order to reduce the deficit in fiscal year 1980/81. These taxes fell disproportionately on the poorer segments of the population as can be seen from the fact that the low-income consumer price index increased at twice the rate the high income consumer price indeed increased. This rapid rise in prices facing the low-income consumer was mainly due to the very large increase in the prices of tobacco and beverages due to new excise taxes.

(c) Financing the Government Deficit

Clearly, the most difficult financial problem facing the Government of Zimbabwe is financing the very large deficit to be incurred in fiscal year 1980/81, and the even larger deficit expected in 1981/82. With expenditures on the order of $2,160 million and revenues of $1,390 million, the total deficit in 1980/81 is on the order of $775 million, or 14% of projected GDP during the 1980/81 fiscal year. In the past the government has largely relied on the domestic market to finance its deficits, borrowing a total of $1,650 million over the past five years, including $1,407 million in fiscal year 1979/80. Consequently, total domestic debt by June, 1980 reached $1,950 million, approximately half of GDP.

Domestic borrowings of this magnitude were possible in the past because of the highly liquid nature of the private sector. With low investor confidence, coupled with strict foreign exchange controls, the private sector has savings substantially in excess of investment requirements. Much of these savings were in the form of liquid assets in the banking system, which by the end of 1980 were approximately $300 million above required liquidity needs. Consequently, even with substantial government borrowing, interest rates

have remained at low levels ranging from 4-1/2% for 3 month bills to 10-1/4% for commercial mortgages. The average yield on local stocks was 10-12% while government stock yield ranged from 4.05% on one year certificates to 9.75% on 30-year certificates. Given the underlying inflation rate of 8-10%, almost all of these returns were negative in real terms.

While the recession is over, and the economy is recovering, primarily due to a revitalized foreign sector and heavy government expenditures, private investment is still lagging. Consequently, the government should be able to borrow from the private sector on the order of $420 to $450 million during the present fiscal year, without exerting any inflationary pressure. This would finance about 60% of the 1980/81 deficit. Probably another $150 million can be financed through a variety of means including greater tax collection ($30 million), underspending ($30 million), loans from building societies to finance housing construction ($30 million), disinvestment bonds ($30 million), and miscellaneous revenues ($30 million). This leaves another $170 million to be financed from external sources of which approximately $45 million is budgeted to come from aid flows.

The government's reconstruction and refugee program is financed out of a separate fund which does not appear in budget estimates. Total spending in these accounts amounted to $45 million for refugees, and $75 million for reconstruction. Approximately 90% of these monies came from foreign grants. Without these aid flows these critical programs would have had to be funded from domestic sources, thus increasing the budgetary deficit by a further $106 million.

For fiscal year 1981/82, the Government will be facing a somewhat larger deficit of $900 million. With the expected resurgence in private investment, government borrowing from the domestic economy will probably be limited to some $450 million. This implies the need for external financing of a like amount to keep inflationary pressures in reasonable check. The GOZ expects to sign a further standby agreement with the I.M.F. for 90 million SDRs. If aid inflows are anything close to what is projected, the GOZ should be able to finance its deficit without recourse to large levels of commercial borrowing. Much depends on whether such assistance will be tied to increased levels of government programs or whether it can be used to substitute

for allocations already programmed.

There are some indications that the government budget problem, which seemed so unmanageable several months ago, is now coming increasingly under control. Decisions taken for FY 81/82 will have profound implications for future years. If the GOZ can control both its defense budget and its subsidy program, as well as moderately reduce the rate of expansion of social services, the budgetary gap is likely to be a less important constraint than the balance of payments problem.

C. CONCLUSIONS

1. Future Prospects

The problems facing Zimbabwe must be viewed from two perspectives - one looking over the near term (one to three years), and the other over a longer horizon (ten to twenty years). In the near term the government of Zimbabwe must instill a feeling of confidence in two separate constituencies: the commercial and business community, both domestic and foreign; and the African majority, both peasants and wage-earners.

The long-term problem, restructuring the economy so as to provide growth with equity, can be dealt with if a firm base is provided, both politically and economically over the next few years. Zimbabwe can become a regional economic growth pole for all of Southern Africa if transport constraints are overcome and if the economy is managed correctly. If the near-term problems are overcome the future should see substantial private capital inflows which will generate employment and provide savings for rural development. But the critical period is the next two years.

The business community must be given a clear set of guidelines: labor relations, the degree of government intervention in the economy, guidelines for the role of foreign investment, tax policies, etc. It must also have confidence that the government can handle the short-term problems that face it and lay the groundwork for sustained growth. The African majority must see the development of greater equity, of a larger share in the fruits of growth. The government's task is to balance these often conflicting goals.

In the near-term several problems loom large. Growth in 1980 has been demand led, largely due to increased

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private consumption and government expenditures. So far the economy has been able to supply the goods demanded, because the economy had substantial excess capacity. However, three supply constraints are likely to become increasingly binding in the near-term - capital goods, skilled labor and imports. Demand is likely to continue at high levels despite government attempts to check its spending, as the private economy begins to increase investment expenditures. The critical question is whether supply can keep up with demand.

The skilled labor constraint is being dealt with through a number of activities, including several USAID initiatives. Private investment is likely to be sufficiently bouyant to expand productive capacity if imports can be increased. Import levels, in turn, are directly dependent on the level of exports, the terms of trade, and the size of capital inflows. The terms of trade outlook is not particularly sanguine, although there is some hope for a rise in gold prices. At the present time export levels are clearly limited by transport difficulties, both to the coast and north to Zambia, Malawi, Zaire and beyond. While there is some room for increased commercial borrowing, the expected high level of capital inflows due to Zimcord is not likely to materialize until late in the planning horizon, and even then, may be so tied to development projects as to be ineffective in raising the availability of foreign exchange to the modern economy.

At the same time African aspirations for a greater share of national income must be met in the near term, or the political situation could become increasingly unstable. The critical time for Zimbabwe, both economically and politically is the near term.

2. <u>AID's Response</u>

The Zimbabwe CDSS described the following strategies for aiding Zimbabwe in achieving its national goals:

(1) providing substantial, flexible, and immediate assistance so as to help Zimbabwe overcome its macroeconomic problems.

(2) to provide assistance to directly raise the incomes of the poor through increased agricultural productivity, increased employment, and increased provision of social services.

(2) direct assistance to alleviating transport and manpower constraints.

Projects in the USAID portfolio deal directly with many of these concerns. The current project has a twofold objective-the provision of fast-disbursing foreign exchange that can be used to import critical capital goods for the private sector, and the programming of local currencies for training, development of the TTL's and better services delivery. Thus, we can contribute to both growth and equity.

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D. IMPORT MARKET ANALYSIS

1. Composition of Import Market

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 and materials, are the greatest users of imported equipment and materials. Import levels relate directly to the amounts of foreign exchange allocated to each sector and current allocations of foreign exchange (totalling approximately $1.35 billion for 1981) are split roughly as follows:

One-quarter each for industry and trade/commerce, with the remaining one-half divided among all other sectors (public and private).

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. It is quite possible that the proposed CIP (and similar programs in the future) will provide additional inducement to companies contemplating such a move.

2. U.S. Trade Statistics.

The trade statistics for U.S. imports are not reliable for the years before mid-1980. Many items were not properly recorded or were listed as being of South African origin to circumvent sanctions. Beginning in August 1980, accurate figures are available (see annex C) and U.S. imports for August-December amounted to approximately U.S. $44.5 million.

Imports climbed in the first quarter of 1981, to Z$21.9 million, or U.S.$32.8 million. Extrapolating that figure through 1981 would result in annualized imports of over $130 million, putting U.S. imports almost on par with U.K. imports, or third largest overall.

Disaggregating first quarter figures, the major portion of imports was in the category of machinery and spare parts (59 per cent) and industrial chemicals and fertilizers (20 per cent). Even excluding commercial aircraft purchases, imports of machinery and spare parts still amounted to $10.2 million/quarter, or $40.8 on an annualized basis.

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 is also 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 manufactures 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 highly recommends the proposed CIP approach.

IV. PROGRAM DESCRIPTION

A. Commodity Procurement

The proposed CIP will respond to the requirements of the Zimbabwean commercial sector for foreign exchange to increase imports of capital goods and manufactures, particularly for replacement of old and outdated capital equipment in the transport, civil engineering and manufacturing sectors. The PAAD team foresees that most of these commodities will be imported by commercial dealers and representatives for resale. The bulk of the commodities will be made available for private sector use, although a small but unspecified amount would be available for public sector procurement from commercial sources. Public sector participation in this program will be limited to government entities that have counterpart local currencies available for deposit in the special account at the time the foreign exchange allocation is made. The rationale for this is to maximize the local currency generations that will become available to support government programs, as explained in the following section.

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The reason for directing most of the foreign exchange towards the private sector is the GOZ recognition that the bulk of the resources promised at ZIMCORD will be channelled for public sector use, 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, the proposed CIP is fully consonant with GOZ goals and objectives.

Furthermore, the enormous national rebuilding, reconstruction and development tasks that face Zimbabwe are dependent in large measure upon the active participation of the private sector. For example, even though almost all of the reconstruction and development of rural infrastructure (roads, schools, water supplies, etc.) will be done under various GOZ ministry auspices, much of the actual work itself will be contracted out to private construction firms.* The ability of those firms to carry out their tasks will depend to a large degree upon an injection of foreign exchange to permit procurement of additional new plant and equipment. Much of the existing machinery and equipment is 10 years old or older and replacement is urgently required. This program will respond to that need.

Regarding the concept of additionality, it is understood, based on discussions with the GOZ, that the GOZ will use its best efforts to assure that an amount equal to 50 percent of the CIP, or $25 million, will be made available to the commercial sector in addition to the amount that would have been made available absent this grant.

Discussions with the Ministry of Trade and Commerce, Treasury, Ministry of Economic Planning and Development and the Associated Chambers of Commerce of Zimbabwe have enabled the PAAD team to draw up a tentative list of U.S. commodities for which commercial demand exists. These commodities also meet several informal criteria as discussed with the GOZ, namely, emphasis on the export subsector, emphasis on employment generation, where possible, and exclusion of consumer goods.

The commodity list includes but is not limited to the following items (see Section V.B.): earthmoving and road building equipment; forklift trucks/cranes; transport equipment (principally heavy duty trucks); machine tools; industrial machinery; mining equipment; business and accounting machines; mini and micro-computers; farm tractors/combines; pumps; well drilling equipment; electronic switching gear; industrial chemicals and resins; iron and steel plates/sheets. Both original equipment and spare parts will be eligible.

The procurement of commodities under this program will utilize the existing Government mechanism for foreign exchange allocation and licensing established within the Ministry of Trade and Commerce.

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*"It is expected that the private sector will devote a significant level of investment to the rural sector to take advantage of opportunities from the Government's integrated rural programmes," p. 18 ZIMCORD Conference Documentation.

B. Use of Local Currency Generations

1. GOZ Local Currency Requirements

During the preparatory phase of this document, numerous discussions were held with Economic Planning and Development, the coordinating GOZ ministry for all ZIMCORD related assistance. These talks highlighted the overall short-term financial requirements of the Government, which do not differ significantly from those identified in the ZIMCORD document, even though delays have been experienced in the start-up of some activities identified for 1980/81 funding. Capital requirements for public sector programs which could be undertaken during the current GOZ fiscal year (1 July 1981 to 30 June 1982) amount to over Z$204 million (US$294 million). These programs are in the areas of refugee assistance, reconstruction and land settlement and rural/agricultural development. Even if activities under these programs are not all implemented on schedule, the damand for external financial resources is still formidable and exceeds the available funding from all interested donors.

Before discussing the local currency counterpart fund mechanism and reviewing an illustrative list of program activities which local currency generations may support, one major point is worth noting. Thus far, the principal mode of AID assistance has taken the form of program grants. These have had a disproportionately beneficial impact by making local currency proceeds available to GOZ operating ministries both rapidly and in a very flexible fashion. The decisive factors in the policy decision on the most appropriate assistance mode for Zimbabwe were first, the acknowledged ability of the Zimbabwe Government to move funds quickly and well, and second, the desire of the USG to be as responsive as possible to the newly independent Government. As discussed previously, measured by any objective criteria, AID assistance has been successful.

The same underlying factors hold true for the proposed CIP. The GOZ continues to demonstrate an ability to move funds rapidly and into activities that are consonant with national goals and priorities. Also, evidence of the U.S. commitment to this country was underscored at the March, 1981 ZIMCORD pledging session. These factors, together with the mature relationship that characterizes U.S. GOZ dealings, argue strongly for a continued measure of flexibility in the way AID funds are programmed and monitored here. The joint programming of local currency generations under this program would accomplish that Mission objective.

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2. Areas of Concentration for Counterpart Fund Use

In consultation with EPD, the PAAD team identified program activities whose financial requirements exceed $74 million for 1981/82 and which are also compatible with mutual GOZ and USG objectives. These activities fall within sectors of interest to AID -- education, health, agriculture and smallscale enterprise. Within these broad sectors, high priority program activities have been identified for possible assistance, including but not limited to: reconstruction/education facilities; secondary schools construction; rural roads construction; regional trunk roads construction/rehabilitation; grain storage facilities; water supplies; small-scale industry/enterprise assistance; physically handicapped facilities; pilot livestock and irrigation programs.

There may be additonal (or substitute) activities which EPD also considers to be of high priority; EPD will maintain a dialogue with the responsible ministries to determine the most appropriate mix. of activities to be submitted for financing from the $49.5 million counterpart fund. GOZ submission of a list of proposed uses will be sought prior to first disbursement.

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 were within the previously mentioned sectors of interest to AID and received prior USAID/Zimbabwe concurrence.

The concensus reached between USAID/Zimbabwe and the GOZ is that the focus of AID assistance will be in the areas of construction, reconstruction, domestic training, materials and equipment for facilities and related supporting development activities as the most appropriate way to address critical sector contraints.

The above activities not only address key equity and development constraints which the PAAD team believe are of critical importance, but they are also the same activities to which the GOZ gives highest priority. There are additional advantages.

We believe these activities can be implemented in relatively short order and that funds for these activities will be quickly disbursed. The activities -- most of which should principally affect the TTLs -- have "high visibility" in the sense that Zimbabweans will perceive that the GOZ is taking concrete action to address the question of equity -- and will thereby contribute to the maintenance of political stability. Finally, in support of AID's longer term development strategy in Zimbabwe, the sectoral studies which the Mission discussed in its CDSS and which it plans to undertake are expected to shed additional light on key constraints in these areas. This will enable the GOZ to 'fine focus' its own actions and remedies, using both U.S. and other donor financial assistance.

Discussions with the Ministry of Economic Planning and Development indicate that the potential demand for CIP funds may be larger than the $50 million proposed. Any decision to request an expansion of the program, however, would await the initial reactions to this CIP.

3. AID Counterpart Fund Use

As may have been noted above, the Zimbabwe dollar equivalent of $500,000 (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. purchase of housing, regional promotion of Zimbabwe products/services.

V. PROGRAM IMPLEMENTATION

A. Implementation Responsibilities

1. Government of Zimbabwe

Although the Grant Agreement will be signed by the Ministry of Economic Planning and Development, in accordance with GOZ procedures concerning donor grants, primary responsibility for implementation of the U.S. dollar aspects of the program, including reporting requirements, will rest with the Ministry of Finance will delegate the responsibility for allocating the foreign exchange made available by the grant to the Ministry of Trade and Commerce. The Ministry of Trade and Commerce, in turn, has dual responsibilites first, to allocate quarterly all foreign exchange among both public and private sector applicants,* and second, to allocate again that portion of the foreign exchange made available for commerce and trade among the individual applicants, ie businesses.

Once individual allocations are made, commercial representatives participating in this program will deposit the Zimbabwe dollar equivalent of the foreign exchange they have been allocated into a special account in accordance with a schedule to be agreed upon.

*This will entail consultation with EPD under this Program.

XA1

The special account will be established in the Reserve Bank of Zimbabwe in favor of Treasury. The funds in this account will be monitored by Treasury but responsibility for programming them will rest with EPD, with the concurrence authority of USAID/Zimbabwe. A similar procedure is already in practice for the World Bank loan/credit and for the existing AID program grants, and no special problems in implementation are anticipated.

2. A.I.D.

USAID/Zimbabwe will have primary responsibility for the administration of the Grant, with regular assistance being provided by the REDSO/EA Supply Management Officer, including special attention during the early implementation stage. The REDSO/EA Regional Legal Advisor will provide guidance and assistance to the USAID in the drafting and negotiation of a CIP Grant Agreement.

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 grant. After having reviewed the GOZ's foreign exchange allocation and import licensing procedures, it is not expected that these A.I.D. procedures will place an undue burden on the system.

2. Eligible Commodities and Related Services

While all items listed as eligible in the A.I.D.Commodity Eligibility Listing - 1981 Edition will be eligible for financing under the Grant, it is anticipated that the initial Commodity Procurement Instruction will limit eligible items to those included in Schedule 4 (Chemicals and Related Products) and Schedule 6 (Metals and Metal Products, Machinery and Transportation Equipment) of the Eligibility Listing. Foreign exchange costs for transportation, marine insurance and banking charges on letters of credit will, of course, be eligible for financing. Preliminary discussions have indicated that the GOZ may wish to cover the cost of inland transportation from the ocean ports of discharge to Zimbabwe with their own resources.

3. Authorized Source 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).

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4. Value of Transactions

The minimum value of transactions under the Grant will be set at $10,000; 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

Since it is planned that all funds under the grant will be allocated to private sector importers, the A.I.D. bank letter of commitment/letter of credit method of financing will be used. In the event an allocation is made to a public sector entity, the direct letter of commitment method of financing will be used.

6. Disbursement Period

Although there is tremendous, pent-up demand for foreign exchange in Zimbabwe, it is felt that since this is AID's first commodity import program in Zimbabwe, 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 procedures, which have been reviewed by REDSO/EA personnel and determined to be fair and equitable. Accordingly, the funds made available by the Grant will be integrated into the normal allocations and licensing procedures.

1/ 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 project limitation if the case in question warrants.

XA3

D. Port Clearance and Inland Transportation

Status of Ports used by Zimbabwe Importers

Zimbabwe importers are currently using the ports of Beira and Maputo in Mozambique and Durban and Port Elizabeth in South Africa. With regard to the ports in Mozambique, they are being used at considerably less than capacity due to requirements for equipment and technical personnel. Although the ports in Mozambique are closer to Zimbabwe, the larger percentage of imports are currently being moved through the South African ports. Cargo arriving at these ports are discharged efficiently and quickly by the vessel; however, the principal problem in using these ports is transportation to Zimbabwe. From either port it can take as long as two months for cargo to be transported to Zimbabwe after off-loading in South Africa. The primary problem in moving cargo from the ports in Mozambique to Zimbabwe is the shortages of locomotives. However, by the time the commodities being financed under the CIP commence arriving, it is likely that this problem will be lessened to a certain extent by the delivery of 25 General Motors locomotives, which are scheduled to start arriving in October of this year. Also, the World Bank is involved in a project which will, inter alia, provide approximately 200 technicians from India to work with the railways and port authorities.

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 irregulaties.

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.

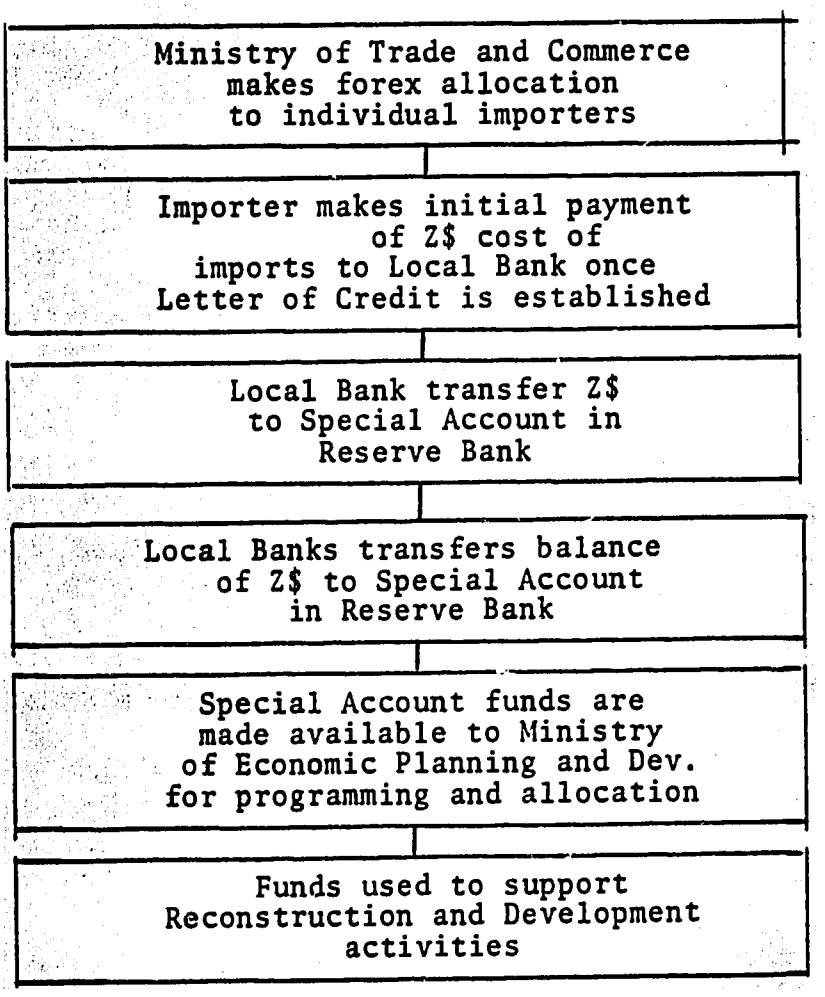
F. Implementation Schedule

The following implementation schedule assumes that the Grant will have been authorized by mid-November.

Grant Agreement signed ..... Late January 1982
CPs Satisfied ..... Mid-February 1982

AA

Implementation Path



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Bank L/Com(s) issued by AID	February 1982
Initial foreign exchange allocation to private sector importers	March 1982
Importers commence placing orders	Early April 1982
Importers commence establishing letters of credit	Early April 1982
First shipments from U.S.	Early July 1982
Imports commence arriving in Zimbabwe.....	Late August 1982
Terminal date for requesting disbursing authorizations	December 1982
Final shipments from U.S.	May 1983
Grant is fully disbursed	June 1983
Local currency generations fully disbursed	December 1983

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

The short-run impact of this program on the U.S. balance of payments position will be minimal and will depend on the types of commodities imported.

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In the longrun, U.S. exporters are likely to establish or, in some cases, re-establish market positions in Zimbabwe. Competition will come from traditional suppliers in the R.S.A., U.K. and West Germany and more recent initiatives from suppliers in Japan. Utilization of the grant for imports by U.S. firms already operating in Zimbabwe could result in some minor substitution for commercial U.S. exports, but any substitution should be minimal given the tight foreign exchange situation. Imports by agents of U.S. firms will enable them to maintain or expand the market position of U.S. equipment suppliers. Additionally, U.S. equipment purchased under the loan will result in follow-up orders for U.S. spare parts. In sum, the overall impact of the program will be clearly favorable.

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 Credits

The EXIM Bank has recently concluded two agreements, totalling approximately $35 million, to finance mining equipment for the Wankie Colliery and to guarantee a private bank line of credit. Possible EXIM Bank financing may also be requested for the future procurement of additional locomotives.

The EXIM Bank has not expressed any objections to the proposed AID grant. However, AID will coordinate closely with EXIM Bank and the American Embassy/Salisbury to assure that the AID grant does not finance items which the EXIM has already agreed to finance, or to coordinate actions in those instances where it may be appropriate.

D. Relation to OPIC Program

Although prelimiary 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 to approval, 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 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 section216.2(c)(2)(ix) of AID Regulation 16.

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VII. NEGOTIATING STATUS AND COVENANTS

The PAAD team has held numerous discussions with interested ministries and organizations and all substantive issues have been resolved.

One area of discussion involved public sector participation in the program. For reasons elaborated upon earlier, the PAAD team, the Mission and the Embassy all believe that the thrust of the program should continue to be directed at the private sector. However, so as not to preclude procurement by the public sector through commercial channels of select, priority commodities, a small but unspecified amount of public sector procurement will be permitted. Conceptually, this has been agreed to by the Government, although a ceiling or similar limitation remains to be negotiated. Given the magnitude of ZIMCORD pledges to the public sector, the PAAD team recommends a ceiling of 20 percent, or $10 million, for such public sector procurement.

The AID experience under the FY 80 and FY 81 program grants has demonstrated that the GOZ readily grasps AID prodcedures and has utilized those funds satisfactorily. Given that many of the same features are included in the proposed CIP, no unusual problems of implementation are anticipated.

The Grant Agreement is being prepared by the REDSO/EA RLA. The PAAD team foresees no difficulty in negotiating and signing this $50 million proposal by mid-November, assuming advice of authorization is received in a timely fashion, or in late FY 81, if such funds become available.

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ACTION AID-35

ACTION OFFICE AFSA-03
INFO AAAF-01 AFEA-03 AFDR-06 PPCE-01 PDPR-01 PPPB-03 GC-01
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AFDA-01 TRSY-05 RELO-01 MAST-01 AFPM-01 /039 A4 82

INFO OCT-09 INR-10 AF-10 EB-08 L-03 AMAD-01 /067 W
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LIMITED OFFICIAL USE SECTION 1 OF 4 SALISBURY 6023

AIDAC

NAIROBI FOR REDSO

E.O. 12065: N/A

SUBJ: FY 1982 COMMODITY IMPORT PROGRAM

1. (U) ON NOV. 18 USAID/SALISBURY RECEIVED FORMAL GOZ REQUEST (FROM MINISTRY OF ECONOMIC PLANNING AND DEVELOPMENT PERMSEC MSWAKA) TO PROCEED WITH A DOLS 50 MILLION COMMODITY IMPORT PROGRAM FOR FY 1982. THE TEXT OF THE GOVERNMENT'S REQUEST IS AS FOLLOWS:
BEGIN QUOTE
COMMODITY IMPORT PROGRAMME
ON BEHALF OF THE GOVERNMENT OF ZIMBABWE, I WOULD LIKE TO CONVEY OUR AGREEMENT THAT THE SIZE OF THE COMMODITY IMPORT PROGRAMME FOR THE PERIOD 1981/82 BE USDOLS 50 MILLION INSTEAD OF OUR ORIGINAL SUGGESTION OF USDOLS 20 MILLION.
IT IS THE INTENTION OF THE GOVERNMENT OF ZIMBABWE TO UTILIZE THE FOREIGN EXCHANGE AVAILABLE ESSENTIALLY TO MEET FOREIGN EXCHANGE REQUIREMENTS OF THE PRIVATE SECTOR WHERE THE DEMANDS ARE SUCH THAT IT IS NOT POSSIBLE TO SATISFY THEM WITHOUT SUCH FACILITY. SUBSTANTIAL DISCUSSIONS HAVE TAKEN PLACE IN GOVERNMENT WHERE IT HAS NOW GENERALLY BEEN AGREED THAT THE APPLICATION OF THESE RESOURCES SHOULD BE CONFINED TO THREE MAIN AREAS:
(1) NEW INDUSTRIAL PROJECT
(2) REPLACEMENT OF MACHINERY AND EQUIPMENT
(3) ESSENTIAL INDUSTRIAL INPUTS
IN ALL OF THE THREE AREAS THE AIM IS TO MEET THE NEEDS OF THE PRIVATE SECTOR WHILE NOT EXCLUDING THOSE OF THE PUBLIC SECTOR. THE MECHANISM OF OPERATIONS AS DESCRIBED IN THE DOCUMENT DRAFT "ZIMBABWE - CIP" WHICH YOU TRANSMITTED TO THIS MINISTRY, ARE ACCEPTABLE AS BASIS FOR FURTHER DISCUSSIONS LEADING TO A FINALISATION OF HOW THE MECHANISM IS TO WORK. HOWEVER, THE ISSUES WHICH WE ARE PARTICULARLY INTERESTED TO DISCUSS RELATE TO THE AMOUNT OF THE DEPOSIT BY THE IMPORTER AS WELL AS THE SIZE OF THE MINIMUM TRANSACTION. IT IS MY SUGGESTION THAT WE BE ABLE TO MEET AS SOON AS POSSIBLE AND THAT THIS MEETING SHOULD INVOLVE THE FOLLOWING MINISTRIES:
INDUSTRY AND ENERGY DEVELOPMENT
TRADE AND COMMERCE
TREASURY
ECONOMIC PLANNING AND DEVELOPMENT
I SUGGEST THAT WE BE ABLE TO MEET DURING THE WEEK BEGINNING 23RD NOVEMBER, 1981. I AM COPYING THIS LETTER TO THE MINISTRIES NAMED ABOVE FOR THEIR INFORMATION AND TO ALERT THEM OF THE SUGGESTED MEETING.
END QUOTE.

Annex B

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

CROSS-REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec 653(b)

   (a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;

   Congressional notification on proposed FY 81 assistance program has been submitted to Congress.

   (b) Is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%)?

   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, 619. 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. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?

   No

4. FAA Sec. 601(a); (and Sec. 201(f) for 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 FX and proposed uses LC under this program will finance key industrial inputs, assist rural infrastructure reconstruction and assist education and agriculture sectors. Program clearly will: increase flow of international trade, foster private initiative and competition in Zimbabwe's private sect -oriented ecomony, 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

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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 reconstruction, 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

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Security Supporting Assistance

a. FAA Sec. 531. How will this assistance support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?

This assistance will permit the new GOZ to fulfill commitments made to the expectant majority regarding resettlement, training, reconstruction, 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 stability.

2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

N/A

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [Include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to sources of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.]

B2b

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;

(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which assistance gives attention to interrelationship between (A) population growth and (B) development and overall improvement in living standards in developing countries. Is activity designed to build motivation for small families in programs such as education in and out of school, maternal and child health services, agriculture production, rural development, and assistance to urban poor?

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(a) to help alleviate energy problem;

(b) reconstruction after natural or manmade disaster;

(c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(d) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

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c. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on: (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.

d. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

e. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives?

f. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.

3. Nonproject Criteria for Development Assistance (Loans only) N/A

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.

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b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and United States) of lending and relending terms of the loan.

c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

d. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources?

4. Additional Criteria for Alliance for Progress — N/A

[Note: Alliance for Progress assistance should add the following two items to a nonproject checklist.]

a. FAA Sec. 251(b)(1)-(8). Does assistance take into account principles of the Act of Bogota and Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America?

b. FAA Sec. 251(b)(8); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities?

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3A(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 users 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?	No agricultural commodities are anticipated under this CIP grant.
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). 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?	See answer to A.4. above
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 use of letters of credit and letters of commitment.

A

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 requirement 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 — Yes

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?

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 vehicle manufactured outside the United States? — Yes

3. Will arrangement preclude use of financing:

a. FAA Sec. 114. to pay for performance of abortions or involuntary sterilizations or to motivate or coerce persons to practice abortions? to pay for performance of involuntary sterilizations as method of family planning or to coerce or provide any financial incentive to any person to practice sterilizations? — 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.

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e. App. Sec. 103. to pay pensions, etc., for military personnel? — Yes.

f. App. Sec. 106. to pay U.N. assessments? — Yes.

g. App. Sec. 107. to carry out provisions of FAA Sections 209(d) and 251(h)? (transfer to multilateral organization for lending). — Yes.

4. FAA Sec. 201(d). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter. Can the country borrower service the loan on harder than standard development loan terms? — N/A.

ZIMBABWE IMPORTS BY COMMODITY (DETAIL - MINIMUM $50 000) FROM U.S.A.

SITC		1980 AUG-DEC Quantity*	1980 AUG-DEC $000	1981 JAN-MARCH Quantity*	1981 JAN-MARCH $000
0	Maize grain	15 000	1 166		
	Beans	203	85		
	Other foods and live animals	-	61		
	Total food and live animals		1 312		206
1	Total drinks and tobacco		1		16
2	Crude rubber	154	80		
	Synthetic rubber	293	186	305	168
	Rough sawn lumber	302	65		
	Wood pulp	252	112		
	Acrylic fibre	452	447	183	173
	Other synthetic fibres	320	167	494	131
	Borax, natural	156	66	138	84
	Other crude materials		177	-	147
	Total		1 300		703
3	Anti-friction and lubrication greases	-	-	50	62
	petroleum jelly	-	-	148	91
	Total petroleum products		70	-	153
4	Animal Tallow	5 160	1 522	1 535	431
5	Glycerine distilled	43	51		
	Anhydrous Ammonium	9 442	1 959	5 600	1 135
	Vitreous alumino silicates			22	80
	Antitoxins, seras etc.			-	163
	Other Pharmaceutical products	-	557	-	113
	Cleaning materials, chemicals	-	64	-	45
	Super phosphates			2 908	309
	Ammonium phosphate			160	31
	Urea	24 935	2 959		
	Other fertilizers	70	19	10 333	1 432
	Artificial resins and plastic materials not coloured	94	50	171	129
	Artificial resins and synthetic plastic materials inprimary form		253	408	265
	Insecticides and similar preparations	742	1 571	140	366
	Other chemical ~~mat~~ materials	-	230	-	214
	Total chemicals	-	7 713	-	4 333

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SITC		1980 AUG-DEC Quantity*	1980 AUG-DEC $000	1981 JAN-MARCH Quantity*	1981 JAN-MARCH $000
6	Rubber sheeting	14	94		
	Rubber washers	16	116		
	Plain or composite paper	113	69	104	69
	Cardboard and similar	993	403	923	275
	Cuttons, and boxes, cardboard	1 200	443		
	Rayon, dyed		86		
	Synthetic fibres and other piece goods		679	-	427
	Pipe fittings, iron and steel	6	63	7	81
	Aluminium bar and rod etc.	193	210		
	Aluminium sheet	154	220		
	Bolts, nuts and rivets	11	67	51	57
	Artisans non-electric tools	23	194	14	123
	Other manufactured goods classified mainly by material	-	685	-	977
	Total goods classified by material		3 329	-	2 010
7	Clutches, gear boxes and similar equipment	23	265	15	170
	I C Engine parts	120	1 158	54	549
	Agricultural reapers etc.	(No.) 7	117	-	-
	Diesel tractors	(No.) 18	451	(No.) 19	394
	Tractor parts	74	367	35	179
	Other agricultural machinery	-	132	42	192
	Accounting machines	(No) 10	360	(No.) 89	94
	Parts for accounting machines	10	444	13	414
	Textile machinery	-	-	93	227
	Printing machinery	3	130	-	-
	Paper making machinery	-	-	9	64
	Excavators and mechanical loaders	(No) 35	1 232	(No) 19	591
	Excavator parts	35	293	30	291
	Road making machinery	80	381	21	62
	Road scrapers and graders	-	-	(No.) 2	196
	Mining machinery n.e.s.	24	134	-	-
	Air conditioning machinery	14	55		
	Pumps	-	106	-	-
	Cranes, winches etc.	95	713		
	Lifting jacks	6	65		
	Rock drill spares	26	150		
	Ball and Roller bearings	23	171	13	89
	Compressors	43	301	8	63
	Industrial machinery	52	503		
	Cocks and valves	4	57		
	Bull dozers	3	214		
	Other machinery	-	510	-	943
	Switchgear	4	72		
	Television, radio and gram parts	-	-	(KG) 1 115	150
	Other radio apparatus kg	852	117	-	-
	Telephone and radar apparatus kg	3 043	286	(KG) 3 992	330
	Refrigerator units	36	139	34	122
	Other electrical machinery	-	45	-	265
	Parts of Railway locomotives	9	58	5	122
	Motor vehicle parts and accessories	21	209		
	Truck bus chassis N	-	-	18	138
	Aircraft N	8	187	4	6 097
	Aircraft spares	16	959	19	1 199
	Other machinery and transport equipment	-	413	-	35
	Total machinery and transport equipment		10 859	-	13 100

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SITC		1980 AUG-DEC Quantity*	1980 AUG-DEC $000	1981 JAN-MARCH Quantity*	1981 JAN-MARCH $000
8	Photographic apparatus	-	92	-	77
	Surgical, medical instruments and appliances	-	113	-	-
	Scientific instruments for record and control	-	536	-	256
	Photographic paper	-	125	-	-
	Books, newspapers and similar	-	178	-	134
	Other miscellaneous manufactured articles	-	724	-	401
	Total	-	1 768	-	868
9	Military Aircraft spares	-	120	-	-
	Miscellaneous	-	-	-	25
	Total miscellaneous transactions	-	120	-	25
	Total U.S.A. Imports		27 925	-	21 921

* Quantities are in tonnes unless otherwise specified as N for number and KG for kilogrammes.

Please note that the 1980 values do not add to the total owing to small corrections not affected in this table.

TABLE II

U.S. EXPORTS TO ZIMBABWE

I. Annualized Flow of U.S. Exports to Zimbabwe Compared to Other Major Exports (million US $)

	Value (a)	Rank (b)
Belgium	15.9	12
Botswana	19.1	11
France	33.8	7
Italy	23.7	10
Japan	67.7	5
Malawi	22.7	11
Netherlands	25.1	9
South Africa	379.3	1
Switzerland	27.8	8
United States	120.4	3
West Germany	94.0	4
Zambia	40.5	6
United Kingdom	126.0	2

(a) Based o Aug - Dec, 1980, Jan - Mar, 1981

(b) Excluding oil exports

II. Commodity Composition of U.S. Exports to Zimbabwe - Major Capital Goods and Selected Raw Materials (thousand US $)

Vehicles and vehicle parts	3,628
Agricultural machinery	2,876
Electronic Data Processing equipment & parts/office equipment	2,515
Earthmoving equipment	5,192
Textile machinery	397
Other Industrial machinery	4,972
T.V. and Radio parts	313
Telecommunications equipment	1,267
Other electrical equipment	452
Fertilizers	2,743
Insecticides	623
Resins and plastic	578

Source: Central Statistics Office

Best Available Document

Item	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Wages and salaries	625	699	781	904	1 049	1 154	1 249	1 335	[illegible]	[illegible]
Rent										
Imputed for owner-occupied dwellings	17	19	21	22	22	23	24	22	21	35
Central and local government	11	12	14	15	17	19	21	22	23	23
Total	28	31	35	37	39	42	45	44	44	59
Gross operating profit 1)										
Unincorporated enterprises	166	189	159	247	225	246	238	216	248	274
Companies (non-financial)	286	315	419	532	532	546	479	513	605	704
Financial institutions	17	24	27	34	42	44	43	54	58	75
Public corporations (non-financial	51	60	41	70	62	63	72	123	67	42 2/
Central and local government enterprises (non-financial)	13	19	21	19	19	18	20	21	25	32
Less imputed banking service charges	-23	-30	-33	-42	-52	-56	-65	-79	-77	-85
Total	515	606	634	850	828	884	793	837	947	1 142
Gross domestic income (factor cost)	1 167	1 336	1 453	1 741	1 916	2 077	2 037	2 235	2 [illegible]	3 [illegible]
Plus indirect taxes	98	107	118	129	137	170	203	233	262	283
Less subsidies	-22	-24	-15	-59	[illegible]	-68	[illegible]	-135	[illegible]	[illegible]
Gross domestic income (market prices)	1 243	1 419	1 553	1 851	2 012	2 179	2 215	2 339	2 [illegible]	3 752
Less net investment income paid abroad 3/	-30	-35	-30	-40	-31	-43	-33	-45	[illegible]	-45
Gross national income (market prices)	1 213	1 384	1 524	1 811	[illegible]	2 136	2 196	[illegible]	[illegible]	[illegible]
Gross national income at 1975 prices	[illegible]	[illegible]	[illegible]	1 537	[illegible]	1 335	[illegible]	[illegible]	[illegible]	[illegible]

1) Before receipt or payment of interest and dividends and before allowing for depreciation.

2) The steep drop in profits is accounted for through changes in payments for railway subsidies which until July 1979 were paid yearly; but thereafter are paid monthly.

3) As from 1975 figures include : a) Income from Botswana railway operations
b) Migrants income remitted abroad.

TABLE 2.- GROSS DOM. TIC P DUCT AT FACTOR COST BY INDUSTRY OF ORIGIN

Item	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Agriculture and forestry	200	254	215	215	323	355	[illegible]	305	[illegible]	317
Mining and quarrying	72	70	104	136	[illegible]	152	[illegible]	[illegible]	[illegible]	[illegible]
Manufacturing	252	247	343	421	447	480	[illegible]	514	616	[illegible]
Electricity and water	24	32	41	42	53	57	[illegible]	[illegible]	[illegible]	87
Construction	53	74	81	82	94	83	54	63	82	96
Financial and insurance	41	53	50	73	56	92	[illegible]	[illegible]	[illegible]	[illegible]
Real estate	35	39	43	46	44	47	[illegible]	[illegible]	44	[illegible]
Distribution, hotels and restaurants	171	192	[illegible]	251	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	331
Transport, communications and storage	103	114	102	133	159	172	[illegible]	[illegible]	[illegible]	[illegible]
Public administration	71	79	93	[illegible]	[illegible]	163	[illegible]	[illegible]	[illegible]	[illegible]
Education	40	43	42	55	65	73	76	85	[illegible]	[illegible]
Health	25	27	28	53	33	43	45	54	[illegible]	[illegible]
Domestic service	[illegible]	33	[illegible]	[illegible]	45	49	52	53	53	[illegible]
Other services, nec	[illegible]	65	[illegible]	95	99	105	[illegible]	121	[illegible]	[illegible]
Less imputed banking service charges	-23	-30	[illegible]	-42	-52	-56	-65	[illegible]	[illegible]	-85
Gross domestic income (factor cost)	1 167	1 336	[illegible]	1 741	1 916	2 077	2 037	2 235	[illegible]	[illegible]

Table III

PERCENTAGE DISTRIBUTION OF DOMESTIC PRODUCT BY INDUSTRY

	1975	1976	1977	1978	1979	1980
Subsistence Agriculture	4.4	4.7	4.6	3.8	2.9	12.9
Commercial Agriculture	12.4	12.2	11.4	9.9	9.5	
Mining and Quarrying	6.6	7.2	7.0	7.0	7.9	8.6
Manufacturing	23.5	22.9	22.0	23.0	24.8	25.8
Electricity and Water	2.6	2.7	2.7	2.8	2.8	2.8
Construction	4.9	4.3	4.0	3.1	3.3	3.1
Finance, Insurance, Real Estate	6.8	6.7	7.2	6.9	6.6	6.0
Distribution	13.5	12.7	11.6	13.3	11.8	12.7
Transportation and Communication	8.3	8.3	8.8	8.6	8.5	7.3
Public Administration & Defense	6.8	7.9	9.8	10.8	11.0	10.4
Education	3.4	3.5	3.7	3.9	3.9	3.7
Other Serv	6.7	6.8	7.2	7.1	7.0	6.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Reserve Bank of Zimbabwe, Quarterly Economic and Statistical Review (Sept. 1980)

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Table IV

EXPENDITURE ON GROSS DOMESTIC PRODUCT AT CURRENT PRICES : $ MILLION

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Government Final Expenditure	143	157	180	214	256	326	387	454	594	742
Private Final Expenditure	844	926	961	1 108	1 197	1 306	1 327	1 468	1 681	2 101
Gross Fixed Capital Formation	222	256	331	422	467	403	368	330	337	421
Increase in Stocks	56	40	51	128	114	69	50	13	55	69
Net Export of Goods and Services	-22	40	30	-11	-22	75	44	74	-22	-81
EXPENDITURE ON G.D.P.	1 243	1 419	1 553	1 861	2 012	2 179	2 216	2 339	2 645	3 252

Source: Central Statistics Office, Government of Zimbabwe

Table V

HISTORICAL TRANDS IN THE ZIMBABWE ECONOMY
(1965 Z$ Million)

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

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

X(E)

Table VI

WAGE EMPLOYMENT BY SECTOR
(thousand)

	1964	1966	1968	1970	1972	1974	1976	1978	1980
Agriculture	299.5	278.4	288.6	297.8	342.3	365.6	356.1	341.4	327.0
Mining	44.4	48.5	51.7	57.2	58.4	62.0	63.8	58.1	65.8
Manufacturing	76.7	80.5	95.8	114.7	130.7	151.3	153.6	139.3	159.2
Electricity, Water	4.9	5.1	5.5	5.6	6.1	6.9	6.7	6.5	6.7
Construction	26.9	27.8	34.2	42.4	49.5	64.3	51.6	40.9	42.1
Finance, Insurance &Real Estate	7.6	7.9	8.2	9.0	10.4	11.6	12.1	12.0	12.5
Distribution	61.5	56.1	61.8	65.6	72.1	76.2	74.7	69.1	70.3
Transport	33.3	35.8	36.2	36.5	41.0	43.8	45.7	44.0	45.5
Public Administration	26.7	31.8	35.5	39.0	40.1	43.4	53.8	68.3	70.8
Education	27.8	30.2	30.2	31.0	31.9	34.7	36.9	34.9	41.6
Health	8.8	9.4	10.2	10.7	12.1	13.0	13.5	14.7	15.3
Private Domestic	93.7	95.7	102.0	109.3	119.4	124.4	122.8	115.9	105.1
Other Service	24.5	27.8	30.1	34.5	38.9	42.7	42.1	41.1	43.9
Total	736.0	735.0	790.0	853.0	953.0	1040.0	1033.0	966.0	1005.8

Source: Government of Zimbabwe, Central Statistics Office, Supplement to the Monthly Digest of Statistics, April, 1981

Table VII

ZIMBABWE - REAL WAGES OF AFRICAN WORKERS, 1965 AND 1970-78 /a

(Z$ per annum in 1964 prices)

	1965	1970	1971	1972	1973	1974	1975	1976	1977	1978
Agriculture & Forestry	120	113	114	112	117	121	125	130	129	126
Mining and Quarrying	291	307	305	302	315	333	352	357	366	365
Manufacturing	406	429	417	446	463	484	503	505	510	526
Electrifying and Water	369	350	421	430	433	458	472	493	497	572
Construction	352	359	408	426	392	419	456	426	411	414
Finance, Insurance & Real Estate	511	630	656	653	702	764	817	882	959	979
Distribution, Restaurants & Hotels	336	382	408	402	405	419	449	446	450	472
Transport and Communications	608	583	635	613	635	661	667	669	665	680
Public Administration	336	401	449	511	550	584	592	621	613	628
Education	456	584	654	644	670	697	724	728	707	810
Health	427	510	535	563	568	599	649	669	660	733
Private Domestic Service	218	246	250	248	246	245	247	244	236	227
Other Services	310	379	364	364	383	390	402	412	414	420
All Services	240	272	282	284	292	307	322	326	327	336

a/ Deflated by Index numbers of consumer prices: low income group.

Source: Table 1.04, Average Earnings, and Monthly Digest of Statistics, July 1980, Central Statistical Office, Salisbury, p.5

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Table VIII

CONSOLIDATED CENTRAL GOVERNMENT ACCOUNTS
(ZS million)

	1976/77	1977/78	1978/79	1979/80	1980/81
		Actual			Estimate
Revenue					
Taxes on Income and Profits	280	288	261	316	407
Taxes on Goods and Services	165	199	208	238	282
Miscellaneous Taxes	5	5	6	8	11
Total Taxes	450	492	475	562	700
Revenues from Investments & Property	41	44	44	48	58
Fees	12	13	15	17	14
Other	27	61	46	48	91
Total Revenue	531	610	580	674	863
Expenditure					
Recurrent Expenditure	523	685	806	972	1,245
Goods and Services	311	411	482	601	721
Salaries, wages, allowances	190	229	274	316	379
Other	121	183	208	285	342
Transfers	212	274	324	372	524
Interest	37	42	54	70	107
Subsidies	68	119	123	78	115
Public Corporations	3	3	2	62	80
Pensions	29	40	56	48	63
Grants and Transfers	75	70	84	114	159
Capital Expenditure	68	60	54	55	82
Total Expenditure	591	745	860	1,027	,327
Budget Account Deficit(+)/ Surplus(-)	+60	+135	+280	+353	+460
Repayments of Borrowings	86	61	55	87	127
Long Term Loans and Investments	38	38	28	30	60
Short Term Loans (net increase (+) or decrease (-)	33	-3	-6	7	13
Contributions to Sinking Funds	7	7	8	10	12
Total Financing Requirements	223	238	365	490	672
Financed by					
Domestic Borrowing	177	172	236	397	300
Treasury Bills	45	36	26	40	n/a
Refinancing of Mature Debt	37	19	33	36	50
Stock and Bond Issues	95	147	177	321	n/a
Foreign Loans	-	70	129	97	101
Extraordinary Income	-	-	-	-	49
International aid	-	-	-	-	30
Other	25	-22	-14	-17	50
Loan Recoveries	22	18	13	23	[illegible]
Total	224	238	365	490	672

Table IX

ZIMBABWE: CENTRAL AND LOCAL GOVERNMENT DEBT
(Z$ million)

Year End Dec. 31	Domestic Debt of Local Government	Domestic Debt Central Government	Total Domestic Debt	Foreign Debt	Total Debt	Debt GDP	Foreign Debt/ GDP
1964	49	244	293	178	471	.69	.26
1965	47	259	306	174	480	.65	.24
1966	44	344	388	172	560	.76	.23
1967	40	416	456	148	604	.75	.18
1968	44	412	456	144	600	.71	.17
1969	45	426	471	137	608	.61	.14
1970	47	480	527	125	652	.61	.12
1971	51	481	531	121	652	.52	.10
1972	59	513	572	119	691	.49	.08
1973	73	551	624	100	724	.47	.06
1974	94	600	694	95	789	.42	.05
1975	108	597	705	74	799	.40	.04
1976	125	706	831	78	909	.42	.04
1977	139	776	915	89	1,004	.45	.04
1978	153	923	1,076	224	1,300	.56	.10
1979	168	1,126	1,294	353	1,647	.67	.14
1980	185	1,429	1,614	415	2,029	.62	.12

Source: Central Statistical Office, Supplement to the Monthly Digest of Statistics, April, 1981

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ANNEX D

Table X

BALANCE OF PAYMENTS ACCOUNTS CURRENT AND CAPITAL TRANSACTIONS

(U.S. $ million)

	Actual						Forecast			
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Current Account										
Goods	76.4	248.2	222.8	270.0	206.3	95.6	-198.0	-107.7	261.3	104.6
Imports	-791.4	-672.0	-651.1	-656.6	-882.4	-1314.1	-1749.0	-2041.1	-1855.5	-2167.1
Exports	7.8	920.2	873.9	926.6	1088.7	1409.7	1551.0	1933.4	2116.8	2271.7
Services	-134.2	-169.0	-164.6	-159.7	-187.9	-243.9	-345.0	-359.9	-353.1	-372.8
Freight	- 48.0	- 55.1	- 55.3	- 56.2	- 57.4	- 93.4	-123.3	-146.1	-130.2	-155.1
Investment income	- 49.4	- 63.8	- 46.8	- 36.3	- 37.2	- 36.6	-114.0	-115.1	-136.2	-129.6
Other	- 36.8	- 45.1	- 63.5	- 67.2	- 93.3	-113.9	-107.7	- 98.7	- 86.7	- 88.1
Transfers	- 55.9	- 54.0	- 60.4	- 63.9	-126.4	-111.8	- 48.2	40.1	18.3	107.1
Private	- 55.9	- 54.0	- 60.4	- 63.9	-126.4	-170.6	-186.1	-142.9	-118.2	-117.9
Official	-	-	-	-	-	58.8	137.9	183.9	136.5	225.0
of which Zimcord	-	-	-	-	-	-	63.0	147.0	136.5	225.0
Balance on Current Account	-113.6	25.2	- 2.2	46.4	-108.0	-260.1	-591.2	-427.5	- 73.5	-161.1
Net Capital Transactions	112.3	- 6.1	- 6.5	34.2	256.0	131.8	325.5	373.2	108.2	188.0
Government	- 6.2	- 6.6	- 8.6	179.9	175.0	- 34.2	51.6	173.9	106.2	269.9
of which Zimcord	-	-	-	-	-	-	69.0	190.5	205.5	375.0
Public Authorities	- 3.8	4.8	- 2.6	- 6.2	- 9.5	- 4.8	167.6	182.3	- 9.0	- 75.9
Other*	102.3	- 4.3	- 4.7	-139.5	90.5	170.8	106.3	17.0	11.0	- 6.0
Total Capital + Current Transactions equals net change in Reserves	- 1.3	19.1	- 8.6	80.6	148.0	-128.3	-265.7	- 54.3	34.7	26.9

Source: Ministry of Finance, Government of Zimbabwe

*Includes net errors and omissions for 1975 - 1980

ANNEX D

(26 March 1981)

Donor	Total Original Curr 000	Exch Rate	Gross Total Z$000	Grant	Soft Loan	Comml Loan	Confirmation	New Pledge	Non-ZIMCORD: Pre-ZIMCORD R & R	Pre-ZIMCORD Other	Post ZIM	Natl Infra	Comml Imports	Total Non-ZIM	ZIMCORD: R & R	Land & Rur Dev	Trg & Tech Asst	Unspecified	Total
Afr Dev Bk	AUA 54 000	1,358	39 763		39 763	-	-	39 763	-	-	-	-	-	-	-	19 125	-	20 638	39 763
Australia	A$ 21 000	1,438	14 604	14 604	-	-	7 650	6 955	2 433	974	-	-	-	3 407	-	1 453	953	8 791	11 197
BADEA	US$ 50 000	1,600	31 250	-	31 250	-	-	31 250	-	-	-	-	-	-	-	-	-	31 250	31 250
Belgium	BFr 400 000	8,000	8 000	6 000	2 000	-	-	8 000	-	-	-	-	2 000	2 000	-	-	6 000	-	6 000
Canada	C$ 60 000	1,800	33 334	16 667	16 667	-	5 556	27 778	-	-	11 667	-	-	11 667	-	-	-	21 667	21 667
China	Z$ 17 500	-	17 500	-	17 500	-	17 500	-	-	-	-	-	8 750	8 750	-	-	-	8 750	8 750
Denmark	DKr 110 000	8,834	12 452	7 924	4 528	-	9 622	2 830	1 132	-	-	-	-	1 132	-	-	2 830	8 490	11 320
Egypt	US$ 2 000	1,600	1 250	1 250	-	-	-	1 250	-	-	-	-	-	-	-	-	1 250	-	1 250
Eur Ec Com	EUA 137 160	1,143	120 000	96 000	24 000	-	12 139	107 862	12 139	-	26 965	-	-	39 104	-	-	-	80 897	80 897
Finland	FM 31 000	6,000	5 167	167	5 000	-	2 667	2 500	84	-	-	-	2 500	2 584	-	-	-	2 583	2 583
France	FFr 500 000	7,000	71 430	-	28 572	42 858	35 715	35 715	-	-	-	-	62 858	62 858	-	-	-	8 572	8 572
Germany	DM 174 500	2,800	62 321	19 464	42 857	-	30 714	31 607	21 786	8 928	-	-	-	30 714	-	-	6 607	25 000	31 607
Ghana	US$ 100	1,600	63	63	-	-	-	63	-	-	-	-	-	-	-	-	-	63	63
Holy See	US$ 20 000	1,600	12 500	12 500	-	-	8 125	4 375	-	-	-	-	-	-	-	12 500	-	-	12 500
Italy	US$ 37 000	1,600	23 125	8 125	15 000	-	11 250	11 875	-	-	-	-	15 000	15 000	1 250	1 250	1 250	4 375	8 125
Japan	Yen 100 000	375,14	3 080	3 080	-	-	1 960	1 120	1 960	-	-	-	-	1 960	-	1 120	-	-	1 120
Jersey	Z$ 75	-	75	75	-	-		75	-	-	-	-	-	-	-	-	75	-	75
Kuwait	US$ 52 000	1,600	32 500	625	31 875	-	-	32 500	-	-	-	19 375	-	19 375	-	13 125	-	-	13 125
Iraq	US$ 3 000	1,600	1 875	1 875	-	-	1 875	-	1 875	-	-	-	-	1 875	-	-	-	-	-
Ireland	I£ 30	0,6835	45	45	-	-	45	-	45	-	-	-	-	45	-	-	-	-	-
Luxembourg	LFr 94,500	48,500	1 969	1 969	-	-	94	1 875	94	-	-	-	-	94	-	1 875	-	-	1 875
Netherlands	Fl 53 000	3,263	16 233	7 963	8 270	-	6 126	10 107	6 126	-	-	-	-	6 126	-	-	-	10 107	10 107
New Zealand	NZ$ 250	1,438	174	174	-	-	-	174	-	-	-	-	-	-	-	-	174	-	174
Nigeria	Naira 10 733	0,866	12 440	12 440	-	-	12 440	-	562	-	-	-	3 125	3 687	-	-	8 753	-	8 753
Norway	NKr 90 000	8,000	11 250	11 250	-		1 250	10 000	1 250	-	-	-	-	1 250	-	-	-	10 000	10 000
OPEC	US$ 10 000	1,600	6 250	-	6 250	-	-	6 250	-	-	-	6 250	-	6 250	-	-	-	-	-
Saudi Ar	US$ 5 000	1,600	3 125	3 125	-	-	3 125	-	3 125	-	-	-	-	3 125	-	-	-	-	-
Sierra Le	Le 100	1,778	56	56	-	-	-	56	-	-	-	-	-	-	-	-	-	56	56
Sweden	SKr 367 000	6,745	54 411	54 411	-	-	9 933	44 478	2 372	-	-	-	6 672	9 044	-	-	-	45 367	45 367
Switzerland	SFr 42 350	2,603	16 270	8 202	8 068	-	903	15 367	538	365	-	-	-	903	-	3 458	-	11 909	15 367
United Kgd	£ 121 000	0,6835	177 031	114 851	62 180	-	140 454	36 577	11 704	13 168	-	24 872	14 631	64 375	7 315	43 891	38 039	23 411	112 656
United Nats	US$ 42 250	1,600	26 406	26 406	-	-	11 250	15 156	3 750	-	-	-	-	3 750	1 250	1 875	19 531	-	22 656
United Sts	US$ 276 213	1,600	172 633	172 633	-	-	32 008	140 625	18 750	-	-	-	-	18 750	-	12 500	758	140 625	153 883
World Bank	US$ 460 000	1,600	287 500	-	287 500	-	-	287 500	-	-	-	62 500	-	62 500	-	-	-	225 000	225 000
Yugoslavia	Din 135 000	48,000	2 813	2 813	-	-	938	1 875	938	-	-	-	-	938	-	-	-	1 875	1 875
Commonwlth	£ 2 000	0,6835	2 926	2 926	-	-	1 565	1 361	-	1 565	-	-	-	1 565	-	-	1 361	-	1 361
TOTAL			1 281 821	607 683	631 280	42 858	364 904	916 919	90 663	25 000	38 632	112997	115 536	382 828	9 815	112 172	87 581	689 426	898 994

XVI

Table XII

PRICES, INTEREST RATES, AND MONEY SUPPLY
(1970-1981)

	C.P.I. Low-Income (%A)	C.P.I. High Income (%A)	Interest Rates (12 month CO's)	M 1 (%A)	M 2 (%A)
1970	1.7	2.7	4.50	4.1	13.0
1971	3.1	2.9	5.25	12.8	15.4
1972	2.8	4.4	5.50	17.7	13.9
1973	2.9	3.6	5.10	10.6	12.6
1974	6.6	7.6	6.00	17.2	18.5
1975	10.0	7.7	5.25	-0.7	4.9
1976	9.7	7.2	5.15	8.6	17.6
1977	7.6	6.8	4.50	6.4	6.6
1978	9.9	10.6	4.60	10.8	13.3
1979	13.2	10.6	4.85	11.6	13.4
1980	6.3	10.0	5.20	36.6	34.2
1981 (Jan-Apr)	33.5*	17.8	7.50	-6.7**	-4.1**

* Annualized on the basis of data for the first quarter, 1981. The major element in this extraordinary rise is a 50% increase in the prices of drink and tobacco, due to a new excise tax. It is unlikely that the final 1981 rise in consumer prices for low income consumers will approach this figure.

** Money supply normally falls in the first quarter of each calender year.

Source: Central Statistical Office. Monthly Digest of Statistics (May, 1981)

ANNEXED

Table XIII

COMMODITY COMPOSITION OF IMPORTS AND EXPORTS 1975-80
(percentages)

EXPORTS

	1975	1976	1977	1978	1979	1980
Food	28.5	18.3	19.8	19.4	18.3	13.1
of which:						
Sugar (raw and refined)	(9.4)	(4.2)	(2.6)	(2.0)	(3.4)	(6.0)
Maize	(10.4)	(4.3)	(4.5)	(4.7)	(2.8)	(0.9)
Beef (fresh and frozen)	(5.2)	(5.5)	(6.5)	(5.9)	(5.2)	(2.4)
Beverages and Tobacco	14.8	15.9	15.2	18.0	13.6	15.6
of which:						
Tobacco (unmanufactured)	(13.6)	(14.8)	(14.2)	(16.8)	(12.7)	(15.0)
Crude Materials	19.4	23.3	25.6	23.0	24.2	21.6
of which:						
Asbestos	(10.5)	(11.7)	(12.9)	(10.5)	(11.8)	(10.2)
Cotton lint	(4.1)	(7.1)	(7.4)	(7.4)	(7.7)	(7.3)
Metal Products	18.2	23.4	18.5	17.0	18.6	34.0
of which:						
Nickel	(3.4)	(6.1)	(8.2)	(7.3)	(5.4)	(6.7)
Ferrochrome	(8.8)	(11.3)	(5.3)	(4.2)	(7.3)	(11.2)
Oils and fats, mineral fuels and chemicals	2.2	2.9	3.3	3.4	3.5	1.3
Machinery and transport equipment	3.4	2.5	2.4	2.6	2.5	1.9
Other manufactured goods	13.6	13.7	15.1	15.7	19.4	12.5
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

IMPORTS

Food	3.1	1.9	1.7	1.1	1.8	3.5
Beverages and Tobacco	0.3	0.3	0.3	0.3	0.4	0.5
Crude materials	3.7	3.7	3.1	3.3	3.4	3.2
Fuels, Lubricants, Electricity	14.7	20.0	22.6	22.3	29.5	24.1
Oils and Fats	0.5	0.5	0.4	0.1	0.4	0.8
Chemicals	13.4	12.8	12.6	15.1	13.9	10.7
Machinery, Transport vehicles	36.0	31.4	28.4	25.5	23.2	25.8
Other Manufactured Goods	28.2	29.4	29.5	32.2	27.5	31.4
TOTAL	00.0	100.0	100.0	100.0	100.0	100.0

Source: Data provided by Zimbabwean Authorities

Table XIV

ZIMBABWE: EXTERNAL DEBT AND RESERVE POSITION

		Foreign Assets (million US$)	Imports (million US$)	Months of Import Coverage of Reserves	External Debt	External Debt GNP
ACTUAL	1975	116.6	791.4	1.8	118.5	.037
	1976	121.2	672.0	2.2	126.0	.036
	1977	107.5	651.1	2.0	137.4	.040
	1978	185.2	656.6	3.4	331.9	.096
	1979	267.6	882.4	3.6	523.6	.144
	1980	329.2	1314.1	3.6	657.8	.147
PROJECTED	1981	63.5	1749.0	0.4	983.3	.172
	1982	9.2	2041.1	0.1	1356.5	.182
	1983	43.9	1855,5	0.3	1464.7	.151
	1984	70.8	2167.1	0.4	1652.7	.131

Department of State

Annex E

PAGE 01 SALISB 06492 01 OF 02 301000Z 8163 053461 A109093
ACTION AID-35

ACTION OFFICE AFDR-06
INFO AAAF-01 AFEA-03 AFSA-01 PPCE-01 POPR-01 PPPB-03 GC-01
GCAF-01 GCFL-01 FM-02 C-01 CALI-02 CPP-01 CPS-02 CT-01
AFOA-01 RELO-01 MAST-01 AFPM-01 /034 A4 830

INFO OCT-00 AF-10 EB-08 L-03 AMAD-01 /057 W
007473 301119Z /14

P 300830Z DEC 81
FM AMEMBASSY SALISBURY
TO SECSTATE WASHDC PRIORITY 4737
AMEMBASSY NAIROBI
INFO AMEMBASSY MBABANE

UNCLAS SECTION 01 OF 02 SALISBURY 6492
AIDAC

NAIROBI FOR REDSO

E. O: 12065:N/A
SUBJ: ZIMBABWE COMMODITY IMPORT PROGRAM
REF: A. SALISBURY 6023, B. STATE 339508

1. APPRECIATE AID/W EFFORTS TO COMPLETE REVIEW OF SUBJECT PAAD DURING
BUSY HOLIDAY PERIOD. MISSION WAS AWARE THAT WITH GOZ DELAY IN RESPONDING TO DRAFT AND WITH REQUEST HOW DOLS 50 MILLION, SOME MODIFICATIONS WOULD NEED TO BE MADE IN PAAD DOCUMENT BEFORE ECPR MEETING. MOST CHANGES WERE THOUGHT TO BE SUFFICIENTLY SELF-EVIDENT THAT WE COULD DEFER TO AFR/DR JUDGEMENT IN FINALIZING DOCUMENT.

2. PER REF B FOLLOWING IS MISSION RESPONSE PARAGRAPH BY PARAGRAPH.
A. BELIEVE REF A WAS CLEAR. THE REQUESTED GOZ CHANGE IN IMPLEMENTATION PROCEDURE REQUIRES ONE-TIME PAYMENT OF LOCAL CURRENCY BY IMPORTERS
WHEN GOODS ARE SHIPPED. ANY REFERENCE IN PAAD TO 25 PERCENT DEPOSIT BY IMPORTERS SHOULD BE DELETED. THIS IS STANDARD PROCEDURE NOW FOLLOWED
BY GOVERNMENT AND TO BE APPLIED TO ANY OTHER DONORS FINANCING IMPORTS THE LANGUAGE ON MINIMUM TRANSACTIONS PARA 4 PG 33 SHOULD BE SLIGHTLY MODIFIED TO ADD THE FOLLOWING SENTENCE: QUOTE IN THE EVENT SMALLER TRANSACTIONS ARE REQUESTED, DOWN TO AID'S STATUTORY LIMIT
OF DOLS 5,000, AID WILL CONSIDER A GROUPING OF SUCH SMALL TRANSACTIONS
OR THE WAIVER OF THE DOLS 10,000 PROJECT LIMITATION IF THE CASE IN QUESTION WARRANTS UNQUOTE. OUR PURPOSE HERE IS TO LEAVE OPEN THE POSSIBILITY OF ASSISTING SMALL, LEGITIMATE ENTREPRENEURS FOR WHOM A SMALL FOREIGN EXCHANGE ALLOCATION MIGHT BE KEY TO PROGRESS. WE WOULD HANDLE ANY SUCH GROUPING OR WAIVER THROGUH PROJECT IMPLEMENTATION LETTERS.
B. CONDITIONS PRECEDENT. CPS TO DISBURSEMENT CONTAINED IN THE DRAFT GRANT AGREEMENT WILL INCLUDE THE FOLLOWING, SOME STANDARD AND SPECIFICALLY TAILORED FOR THIS CIP: QUOTE.

ARTICLE 2

SECTION 2.1. CONDITIONS PRECEDENT. PRIOR TO THE FIRST DISBURSEMENT UNDER THIS GRANT, OR TO THE ISSUANCE BY AID OF DOCUMENTATION PURSUANT TO WHICH DISBURSEMENT WILL BE MADE, THE GRANTEE WILL, EXCEPT AS THE PARTIES MAY OTHERWISE AGREE IN WRITING, FURNISH TO AID, IN FORM AND SUBSTANCE OF SATISFACTORY TO AID:
(A) AN OPINION OF THE ATTORNEY GENERAL OF ZIMBABWE THAT THIS AGREEMENT
HAS BEEN DULY AUTHORIZED AND/OR RATIFIED BY, AND EXECUTED ON BEHALF OF
THE GRANTEE AND THAT IT CONSTITUTES A VALID AND LEGALLY BINDING OBLIGATION OF THE GRANTEE IN ACCORDANCE WITH ALL OF ITS TERMS;
(B) A STATEMENT REPRESENTING AND WARRANTING THAT THE NAMED PERSON OR PERSONS HAVE THE AUTHORITY TO ACT AS THE REPRESENTATIVE OR REPRESENTATIVES
OF THE GRANTEE PURSUANT TO SECTION 7.2, TOGETHER WITH A SPECIMEN

SALISB 06492 01 OF 02 301000Z 8163 053461 A109093
SIGNATURE OF EACH PERSON CERTIFIED AS TO ITS AUTHENTICITY;
(C) A PROCUREMENT PLAN INCLUDING THE PROCEDURES BY WHICH ALL PROCUREMENT
FINANCED UNDER THIS GRANT WILL BE CARRIED OUT, THE CRITERIA AND PROCEDURES FOR DETERMINING IMPORTER ELIGIBILITY AND FOREIGN EXCHANGE ALLOCATIONS, AND THE MECHANISM FOR PUBLICIZING PROCUREMENT AND MAKING AWARDS; AND
(D) A PLAN DETAILING THE ACTIVITIES TO BE FINANCED, IN ORDER OF PRIORITY WITH LOCAL CURRENCY GENERATIONSUNDER SECTION 5.3.
SECTION 2.2. NOTIFICATION. WHEN AID HAS DETERMINED THAT THE CONDITIONS
PRECEDENT SPECIFIED IN SECTION 2.1 HAVE BEEN MET, IT WILL PROMPTLY NOTIFY THE GRANTEE BY IMPLEMENTATION LETTER ISSUED PURSUANT TO SECTION 7.1 OF THIS AGREEMENT.
SECTION 2.3 TERMINAL DATE FOR MEETING CONDITIONS PRECEDENT. IF ALL THE CONDITIONS SPECIFIED IN SECTION 2.1 HAVE NOT BEEN MET WITHIN (90 NINETY DAYS FROM THE DATE OF THIS AGREEMENT, OR SUCH LATER DATE AS AID
MAY SPECIFY IN WRITING, AID, AT ITS OPTION, MAY TERMINATE THIS AGREEMENT BY WRITTTEN NOTICE TO THE GRANTEE.
COVENANTS. COVENANTS INDLUDED IN THE DRAFT GRANT AGREEMENT ARE ALSO BOTH STANDARD PROVISIONS AND OTHERS ESPECIALLY CRAFTED FOR THIS CIP.

AS DRAFTED THEY ARE AS FOLLOWS: QUOTE

ARTICLE 5 COVENANTS

SECTION 5.1. TAXATION. THIS AGREEMENT AND THE GRANT WILL BE FREE FRO

ANY TAXATION OR FEES IMPOSED UNDER LAWS IN EFFECT IN ZIMBABWE. TO THE
EXTENT THAT ANY COMMODITY PROCUREMENT TRANSACTION FINANCED HEREUNDER IS NOT EXEMPT FROM IDENTIFIABLE TAXES, TARRIFFS, DUTIES, AND OTHER LEVIES
IMPOSED UNDER LAWS IN EFFECT WITHIN ZIMBABWE, THE SAME SHALL NOT BE PAID WITH FUNDS PROVIDED ORDIRECTLY GENERATED UNDER THIS GRANT
SECTION 5.2. REPORTS AND RECORDS. IN ADDITION TO THE REQUIREMENTS IN AID, REGULATION 1, THE GRANTEE WILL
(A) FURNISH AID SUCH REPORTS AND INFORMATION RELATING TO THE GOODS AND SERVICES FINANCED BY THIS GRANT AND THE PERFORMANCE OF GRANTEE'S OBLIGATIONS UNDER THIS AGREEMENT AS AID MAY REASONABLY REQUEST;
(B) MAINTAIN OR CAUSE TO BE MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND PRACTICE CONSISTENTLY APPLIED, SUCH
BOOKS AND RECORDS RELATING TO THIS GRANT AS MAY BE PRESCRIBED IN IMPLE-
MENTATION LETTERS. SUCH BOOKS AND RECORDS MAY BE INSPECTED BY AID OR ANY OF ITS AUTHORIZED REPRESENTATIVES AT ALL TIMES AS AID MAY REAS-
ONABLY REQUIRE, AND SHALL BE MAINTAINED FOR THREE YEARS AFTER THE DATE OF LAST DISBURSEMENT BY AID UNDER THIS GRANT; AND
(C) PERMIT AID OR ANY OF ITS AUTHORIZED REPRESENTATIVES AT ALL REASONABLE TIMES DURING THE THREE-YEAR PERIOD TO INSPECT THE COMMODITIES FINANCED UNDER THIS GRANT AT ANY POINT, INCLUDING THE POINT OF USE.
SECTION 5.3. COMPLETENESS OF INFORMATION. THE GRANTEE CONFIRMS:
(A) THAT THE FACTS AND CIRCUMSTANCES OF WHICH IT HAS INFORMED AID, O

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UNCLASSIFIED

Department of State

Annex E
INCOMING
TELEGRAM

PAGE 01 SALISB 06492 02 OF 02 301025Z 8205 059463 AID9106
ACTION AID-35

ACTION OFFICE AFDR-06
INFO AAAF-01 AFEA-03 AFSA-03 PPCE-01 PDPR-01 PPFB-03 GC-01
GCAF-01 GCFL-01 FM-02 C-01 CALI-02 CPP-01 CPS-02 CT-01
AFDA-01 RELO-01 MAST-01 AFPM-01 /034 A4 838

INFO OCT-00 AF-10 EB-08 L-03 AMAD-01 /057 W
----------086575 301129Z /14 38

P 300830Z DEC 81
FM AMEMBASSY SALISBURY
TO SECSTATE WASHDC PRIORITY 4738
AMEMBASSY NAIROBI
INFO AMEMBASSY MBABANE

UNCLAS SECTION 02 OF 02 SALISBURY 6492

AIDAC NAIROBI FOR REDSO

CAUSED AID TO BE INFORMED, IN THE COURSE OF REACHING AGREEMENT WITH AID ON THE GRANT, ARE ACCURATE AND COMPLETE, AND INCLUDE ALL

FACTS AND CIRCUMSTANCES THAT MIGHT MATERIALLY AFFECT THE GRANT AND THE DISCHARGE OF RESPONSIBILITIES UNDER THIS AGREEMENT; AND
(B) THAT IT WILL INFORM AID IN TIMELY FASHION OF ANY SUBSEQUENT FACTS AND CIRCUMSTANCES THAT MIGHT MATERIALLY AFFECT, OR THAT IT IS REASONABLE TO BELIEVE MIGHT SO AFFECT, THE GRANT OR THE DISCHARGE OF RESPONSIBILITIES UNDER THIS AGREEMENT.
SECTION 5.4. OTHER PAYMENTS. GRANTEE AFFIRMS THAT NO PAYMENTS HAVE BEEN OR WILL BE RECEIVED BY ANY OFFICIAL OF THE GRANTEE IN CONNECTION WITH THE PROCUREMENT OF GOODS OR SERVICES FINANCED UNDER THE GRANT, EXCEPT FEES, TAXES, OR SIMILAR PAYMENTS LEGALLY ESTABLISHED IN THE COUNTRY OF THE GRANTEE.
SECTION 5.5. MINIMUM SIZE OF TRANSACTION. NO FOREIGN EXCHANGE ALLOCATION OR LETTER OF CREDIT ISSUED PURSUANT TO THIS AGREEMENT SHALL BE IN AN AMOUNT LESS THAN TEN THOUSAND UNITED STATES DOLLARS (DOL 10,000), EXCEPT AS AID MAY OTHERWISE AGREE IN WRITING.
SECTION 5.6. PRIVATE SECTOR. THE GRANTEE COVENANTS TO TAKE ALL NECESSARY STEPS TO MAKE AVAILABLE TO THE PRIVATE SECTOR NO LESS THAN (BE)
EIGHTY PERCENT OF THE PROCEEDS OF THE GRANT.
SECTION 5.7. ADDITIONALITY. THE GRANTEE COVENANTS TO USE ITS BEST EFFORTS TO ENSURE THAT AN AMOUNT OF UNITED STATES DOLLARS AT LEAST EQUAL TO FIFTY (50) PERCENT OF THIS GRANT WILL BE MADE AVAILABLE TO THE PRIVATE SECTOR IN ADDITION TO THE AMOUNT THAT WOULD HAVE BEEN AVAILABLE ABSENT THIS GRANT.
SECTION 5.8. GENERATION AND USE OF LOCAL CURRENCY.
(A) THE GRANTEE WILL ESTABLISH A SPECIAL ACCOUNT IN THE RESERVE BANK AT ZIMBABWE AND WILL DEPOSIT THEREIN CURRENCY OF THE GOVERNMENT OF ZIMBABWE IN AMOUNTS EQUAL TO PROCEEDS ACCURING TO THE GRANTEE OR ANY AUTHORIZED AGENCY THEREOF AS A RESULT OF THE SALE OF THE ELIGIBLE ITEMS.
FUNDS IN THE SPECIAL ACCOUNT SHALL BE UTILIZED FOR MUTUALLY AGREED PURPOSES AS SET FORTH IN THE PLAN SUBMITTED BY GRANTEE IN ACCORDANCE WITH SECTION 2.1 (D) OF THIS AGREEMENT AND FOR OTHER MUTUALLY AGREED UPON PURPOSES, PROVIDED THAT SUCH PORTION OF THE FUNDS IN THE SPECIAL ACCOUNT AS MAY BE DESIGNATED BY AID SHALL BE MADE AVAILABLE TO MEET THE REQUIREMENTS OF THE UNITED STATES.
(B) IN THE EVENT THAT ELIGIBLE ITEMS FINANCED UNDER THE GRANT ARE NOT SOLD AND THE PROCEEDS THEREOF DEPOSITED IN ACCORDANCE WITH PARAGRAPH (A) OF THIS SECTION 5.8 GRANTEE WILL, EXCEPT AS AID MAY OTHERWISE AGREE
IN WRITING, DEPOSIT INTO THE SPECIAL ACCOUNT AMOUNTS EQUIVALENT TO THE
US DOLLAR ALLOCATION FOR SUCH UNSOLD ELIGIBLE ITEMS; SUCH DEPOSITS WILL
BE BASED UPON THE EXCHANGE RATES PREVAILLING ON THE DATE OF IMPORTATION
OF THE ELIGIBLE ITEMS WHICH PROVIDES THE LARGEST NUMBER OF ZIMBABWE DOLLAR PER US DOLLAR THAT IS NOT UNLAWFUL IN ZIMBABWE.

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(C) EXCEPT AS AID MAY OTHERWISE AGREE IN WRITING, DEPOSITS TO THE SPECIAL ACCOUNT SHALL BECOME DUE AND PAYABLE QUARTERLY UPON ADVICE FROM AID AS TO DISBURSEMENTS MADE UNDER THE AGREEMENT.
(D) THE GRANTEE WILL PROVIDE AID WITH A DETAILED ACCOUNTING OF THE USE
OF SUCH LOCAL CURRENCY; THE TIMING AND FORMAT FOR SUCH REPORTW WILL BE SPECIFIED IN AN IMPLEMENTATION LETTER.
(E) ANY ENCUMBERED BALANCES OF FUNDS WHICH REMAIN IN THE SPECIAL ACCOUNT UPON TERMINATION OF ASSISTANCE HEREUNDER SHALL BE DISBURSED FOR SUCH PURPOSES AS MAY, SUBJECT TO APPLICABLE LAW, BE AGREED TO BETWEEN GRANTEE AND AID
SECTION 5.9. CONTINUING CONSULTATION. THE GRANTEE AND AID AGREE TO COOPERATE FULLY TO ASSURE THAT THE PURPOSE OF THE GRANT WILL BE ACCOMPLISHED. TO THIS END, THE GRANTEE AND AID SHALL FROM TIME TO TIME, AT THE REQUEST OF EITHER PARTY, EXCHANGE VIEWS THROUGH THEIR REPRESENTATIVES WITH REGARD TO THE GRANTEE'S ECONOMIC DEVELOPMENT A ITS PROGRESS IN ACHIEVING THE OBJECTIVES OF ITS RECONSTRUCTION AND DEVELOPMENT PROGRAM, INCLUDING THE LEVEL OF CURRENT EXPENDITURES AN ITS FOREIGN EXCHANGE POSITION, AND THE PERFORMANCE BY THE GRANTEE O ITS OBLIGATIONS UNDER THIS AGREEMENT, THE PERFORMANCE OF CONSULTANT OR SUPPLIERS UNDER THE GRANT, AND OTHER MATTERS RELATING TO THIS AGREEMENT.
C. US USE LOCAL CURRENCY. ALLOWANCE FOR ONE PER CENT US USE OF LOC CURRENCY HAS ALWAYS BEEN PART OF GRANT PROPOSAL. ONE PER CENT FIGU REMAINS VALID AND DOLS 500,000 WOULD BE THE FIGURE RESERVED FOR US USE.
D. PUBLIC SECTOR PROCUREMENT. THE CEILING OF 20 PERCENT FOR PUBLIC SECTOR PROCUREMENT IS TO BE MAINTAINED. FIGURE ON PG 37 OF DRAFT PAAD SHOULD BE CHANGED TO DOLS 10 MILLION.
E. IMPLEMENTATION SCHEDULE. SEQUENCE AND ESTIMATED TIMING OF IMPLE ATION PLAN IS UNCHANGED. ASSUMING LATE JANUARY APPROVAL AND EARLY FEBRUARY SIGNING OF AGREEMENT, ALL DATES IN IMPLEMENTATION SCHEDULE PG 34-35 SHOULD SIMPLY BE ADVANCED BY THREE MONTHS.

3. IF ADDITIONAL FIELD INPUT OR IMPLEMENTATION DETAILS REQUIRED FO PAAD,
SUGGEST AID/W CONTACT JOHN LEWIS WHO WILL BE PROJECT MANAGER. LEWI IS IN NEARBY VIRGINIA FOR LEAVE PURPOSES UNTIL EARLY JANUARY AND CA BE CONTACTED THROUGH PETE HAGEN IN SER/COM.

4. FOR REDSO: WOULD WELCOME ANY REDSO COMMENTS OR ADDITIONS TO THE ABOVE. KEELEY

UNCLASSIFIED

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Annex F

INITIAL ENVIRONMENTAL EXAMINATION

OR

CATEGORICAL EXCLUSION

Project Country: Zimbabwe

Project Title: Commodity Import Program - 613-0216

Funding: FY (s) 1982 $50,000,000

IEE Prepared by: N/A

Environmental Action Recommended: N/A

Positive Determination _____
Negative Determination _____

Categorical Exclusion:

This activity meets the criteria for Categorical Exclusion in accordance with Section 216.2 (C) and is excluded from further review because:

The subject activity will provide assistance in procuring commodities rather than carrying out specific projects. Since A.I.D. will not have prior knowledge of the commodities procured nor control of their use in the host country, this activity qualifies under section 216.2(c)(2)(ix) of Regulation 16 for a categorical exclusion from the requirement of an Initial Environmental Examination.

APPROVED [illegible]

DISAPPROVED _____

DATE [illegible]

Concurrence:
Bureau Environmental Officer

Clearance: GC/AFR [illegible] Date 1/13/82