Report No. 13540-ZIM

Zimbabwe
Achieving Shared Growth
Country Economic Memorandum
(In Two Volumes) Volume I: Overview

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Macro, Industry and Finance Division
Southern Africa Department
Africa Region

CURRENCY EQUIVALENT

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ABBREVIATIONS AND ACRONYMS

ADA	Agriculture Development Authority
AFC	Agricultural Finance Corporation
CA	Communal Area
CMB	Cotton Marketing Board
COP	Census of Production
CPI	Consumer Price Index
CSO	Central Statistical Office
CZI	Confederation of Zimbabwe Industries
DDF	District Development Fund
DMB	Dairy Marketing Board
DRC	Domestic Resource Cost
DSR	Department of State Road
ERS	Export Retention Scheme
ERF	Export Revolving Fund
ESAP	Economic Structural Adjustment Program
ESF	Export Support Facility
FCDA	Foreign Currency Denominated Accounts
FAO	Food and Agricultural Organization
GDP	Gross Domestic Product
GMB	Grain Marketing Board
ICES	Income, Consumption and Expenditure Survey
ILO	International Labor Organization
IPR	Inward Processing Rebatge
LSCF	Large-Scale Commercial Farming
MOH	Ministry of Health
MLAWD	Ministry of Lands, Agriculture and Water Department
NDA	Net Domestic Assets
NGO	Non-Government Organizations
NRZ	National Railways of Zimbabwe
NRs	Natural Regions
OGIL	Open General Import License
PTC	Post Telecommunication Corporation
PSIP	Public Sector Investment Program
RA	Resettlement Area
RDC	Rural District Councils
RBZ	Reserve Bank of Zimbabwe
SDA	Social Dimensions of Adjustment
SDF	Social Development Fund
SEDCO	Small Enterprise Development Corporation
SSCF	Small-Scale Commercial Farmers
UDI	Unilateral Declaration of Independence
TFP	Total Factor Productivity
VAT	Value Added Tax
VFR	Visiting Friend and Relatives
ZESA	Zimbabwe Electricity Supply Authority
ZDB	Zimbabwe Developing Bank
ZIC	Zimbabwe Investment Center
ZIMDEF	Zimbabwe Manpower Development Fund
ZISCO	Zimbabwe Iron & Steel Corporation
ZSE	Zimbabwe Stock Exchange

METRIC EQUIVALENTS

1 meter (m)	=	3.28 feet
1 square meter (sq. m)	=	10.76 square feet
1 kilometer (km)	=	0.62 miles
1 square kilometer (sq. k.)	=	0.386 square miles

GOVERNMENT OF ZIMBABWE FISCAL YEAR

July 1 - June 30

ZIMBABWE: ACHIEVING SHARED GROWTH

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Preface

Since the last Zimbabwe Country Economic Memorandum (A Strategy for Sustained Growth) was issues in 1987, Zimbabwe has embarked on a comprehensive structural adjustment program to achieve more rapid growth and employment expansion. While good progress has been made in implementing most aspects of this program since 1991, the supply response has been slower than anticipated. This is partly a result of severe drought exacerbating transitional difficulties, but it raises the question of what else needs to be done to realize Zimbabwe's potential for sustained higher shared growth.

This report documents development achievements to date and explores options for Zimbabwe to attain more rapid growth, expand employment and reduce poverty. While commending many of the initiatives already undertaken to improve human resources and improve the environment for private sector development, it highlights the need for further actions in three key areas:

- more supportive macroeconomic management, with smaller fiscal deficits and zero public enterprise losses,
- improvement to the incentive environment, with particular reference to land use and the competitiveness of exporters; and
- focusing pubic expenditure on human resource investments and other initiatives to support sustained poverty reduction and provide infrastructure needed for growth.

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ZIMBABWE: ACHIEVING SHARED GROWTH

OVERVIEW

1. Introduction.

1. In an effort to rapidly improve equity following independence in 1980, Zimbabwe gave priority to human resource investments and support for smallholder agriculture. As a direct consequence of these initiatives, smallholder agriculture expanded rapidly during the first half of the 1980s and social indicators improved quickly. For example, between 1980 and 1990 child malnutrition fell from 22 percent to 12 percent and life expectancy increased from 56 to 64. By 1990, Zimbabwe had a lower infant mortality rate, higher adult literacy and higher school enrollment rate than the average for developing countries (see Table 1). However, this success in improving social indicators was not matched by economic growth, and hence expectations for rising living standards have only partially been fulfilled. Since independence, economic growth (averaging 2.5 percent per annum) has not kept pace with population growth, and employment growth has not been adequate to absorb the number of new entrants to the work force. Moreover, the earlier gains in smallholder agriculture have not been sustained.

Table 1 Selected Key Social Indicators

	Zimbabwe		Sub-Saharan Africa	All Developing Countries
	1980	1990	1990	1990
Life expectancy (years)	56	62	52	63
Infant mortality (per 1000 births)	86	49	104	71
Under 5 mortality (per 1000 births)	128	58	175	106
Immunization (%)	25	80	49	84
School enrollment- primary (%)	83	117	68	104
- secondary (%)	8	50	17	61
Adult literacy (%)	..	67	50	64
Access to potable water- urban (%)	..	99	68	88
- rural (%)	..	14	26	68

2. By the beginning of the 1990s, there was widespread awareness that the economy was not fulfilling its potential, and a comprehensive policy reform program to accelerate growth and expand employment was initiated in 1991. This reform program is making the policy environment much more market-oriented, but the supply response

to date has been small and uneven, albeit interrupted by a major drought. Hence, it seems natural to ask where the sources of shared growth (i.e. growth that expands employment and reduces poverty) in Zimbabwe could be, and what further actions are needed to realize the potential for such growth. The ideal would be rapid labor intensive growth by dynamic outward-looking enterprises. Increased labor intensity is needed to utilize the most abundant resource in the economy more fully (i.e. labor), while outward-orientation is needed to relieve constraints on demand. Fortunately, the prospects for shared growth are bright for a number of agricultural, industrial and service subsectors, if remaining constraints are removed. However, large segments of the population, including most smallholder farmers and small scale enterprises, find themselves in a vulnerable position with limited capacity to respond to evolving market opportunities. This is due to their limited access to natural, technical and financial resources, to the contraction of many public services for smallholder agriculture, and to their still nascent links with larger scale enterprises.

3. Zimbabwe's experience since independence underscores a lesson emerging from around the developing world, especially the high-performing economies of East Asia. Broad-based development requires the pursuit of certain key objectives which, much like the pistons in an engine, work in tandem to drive an economy toward sustained growth and poverty reduction. Four objectives are central: more rapid growth, the nature of growth (labor-absorbing and outward-oriented), the development of assets held by the poor (e.g. human resources and land), and a social safety net. None alone is adequate, because all are mutually reinforcing. To achieve these objectives, Government has three primary instruments at its disposal, which also act in concert: supportive *macro management*, a *market incentive framework*, and socially productive *public expenditures*. Improvements in these three areas will not eliminate the adverse effects of exogenous shocks but will strengthen the economy's ability to cope with such shocks. At any given time during the past 15 years, Zimbabwe has employed one or two of these instruments well, but never all three simultaneously. Consequently, overall development results have been partial -- good social outcomes but little employment growth in one period; renewed investment but sluggish growth and little new employment in another.

4. Moving the economy to its full potential for shared growth will require concurrent use of all three tools. Specifically, it will call for the completion of fundamental changes Government has already initiated regarding the economic role of the public sector, and greater integration of what is still a dualistic structure in industry and agriculture. This does not only mean completing the move to a market-oriented policy environment and improving macroeconomic management. It also means continuing human resource investments and establishing sustainable ways for the public and private sectors to jointly deliver services to complement the efforts of the relatively poor and to support indigenous participation.

5. This Country Economic Memorandum analyzes past achievements and outlines actions to concurrently increase growth, expand employment and reduce poverty, by building on the human resource investments of the past 15 years and economic policy reforms introduced since 1991. This Overview (Volume I) gives an integrated analysis of key aspects of past economic and social achievements and outlines a way of achieving more rapid shared growth. In doing this it highlights initiatives needed to improve macroeconomic management, the incentive environment, and the effectiveness of public expenditure. Volume II supports this Overview with detailed analyses of (i) macroeconomic performance and management, (ii) social dimensions of development, and (iii) agricultural and industrial sector developments. More detailed background papers on Agriculture Sector Development and The Public Sector and Poverty Reduction Options are also available on request.

2. Past Achievements

6. Although Zimbabwe's economy is relatively broad based, with industry accounting for 35 percent of output and agriculture 16 percent, growth has been modest and uneven over time and across subsectors (see Figure 1, Table 2, and the Annex Table on key economic indicators). Moreover, though droughts have contributed to this variability, other factors have been at least as important. Past developments fall into three distinct periods; the immediate post-independence years (1980 to 1985), a recovery in formal sector investment and modest growth from 1986 to 1991, and the years after structural adjustment began (1992 to 1994).

Figure 1. GDP and Formal Sector Employment Indices (1980 = 100)

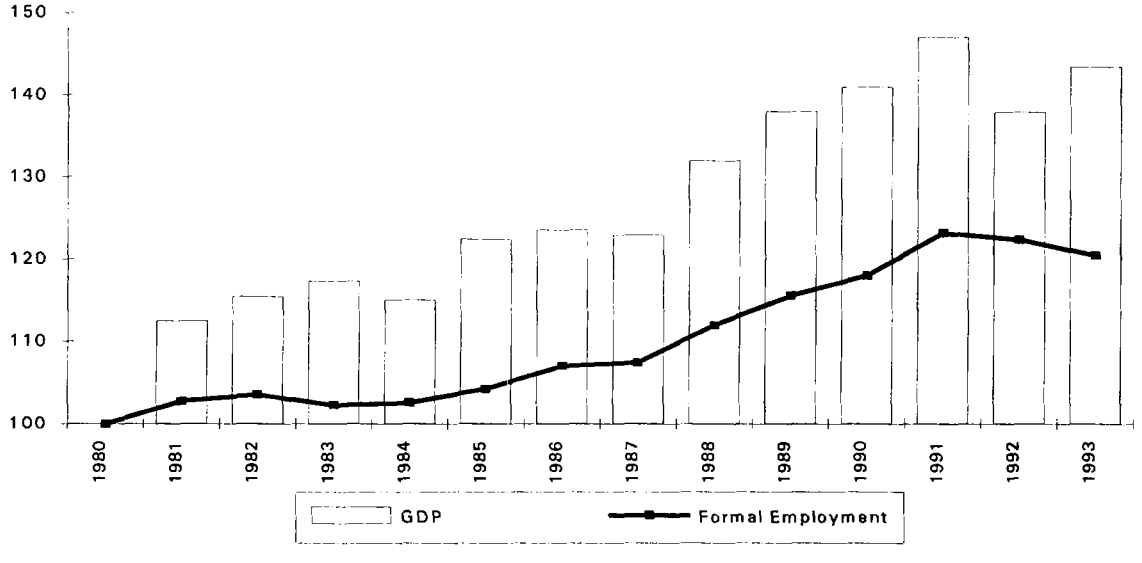


Table 2. Selected Indicators of Economic Performance (average annual percentage change)

	1980-85	1986-91	1980-91	1992 1/	1993 1/
Agriculture					
Agricultural GDP	3.6	1.0	2.2	-24.4	48.5
Marketed Output: Commercial areas	-0.4	1.8*	1.7	..	..
Marketed Output: Smallholders	19.4	0.9	8.7	..	..
Commercial Farm Employment**	-5.0	3.8	-0.1	..	..
Manufacturing:					
Manufacturing GDP	0.9	4.6	3.0	-9.5	-8.3
Capital stock	0.7	6.9	2.8	..	..
Employment	0.0	0.6	0.1	..	..
Gross Domestic Product	2.3	3.9	3.0	-6.2	4.0

1/ Preliminary estimates
* 1986 to 1993
** Permanent plus casual workers with the latter given a 0.6 weighting per person.

7. ***1980 - 1985 Smallholder Agricultural Growth***. During this period, agricultural GDP grew by 3.6 percent per annum. This growth was largely a result of expanded plantings, higher yields, and increased marketing of maize, cotton, and several other crops by smallholder farmers, primarily those operating in the medium-to-high potential areas. Several factors contributed to this smallholder "success story," including a) the end of the war which enabled farmers to return to abandoned fields, b) favorable official producer prices for major crops, c) the spread of improved cotton varieties and maize hybrids among smallholders, d) a large increase in the agricultural credit disbursed to smallholders, e) the re-orientation of extension and veterinary services toward smallholder agriculture, f) the extension of marketing infrastructure (Grain and Cotton Marketing Boards and the Cold Storage Commission) into smallholder areas, and g) the resettlement of nearly 50,000 smallholder households, who formerly had little or no access to agricultural land.

8. In contrast, the production of the large-scale commercial agricultural subsector and the manufacturing sector were stagnant in the face of uncertainty regarding the future direction of government policy and severe foreign exchange constraints. In both areas, investment initially surged after independence, but declined sharply between 1983 and 1985. As a result of large legislated increases in minimum wages, private sector employment stagnated, so growth in formal employment was concentrated in the public sector. Tourism recovered somewhat from 1980 to 1982 but the continued lack of security in major tourist areas slowed further growth. As a result, the number of visitors didn't regain its 1972 level until 1987.

9. During this period, market incentives were dulled by extensive government interventions and administered resource allocations. In the case of agriculture, the inherited array of commodity market control mechanisms was extended to include fixed

Figure 2: Marketed Output from Communal and Resettlement Areas (Real Value,1980 = 100)

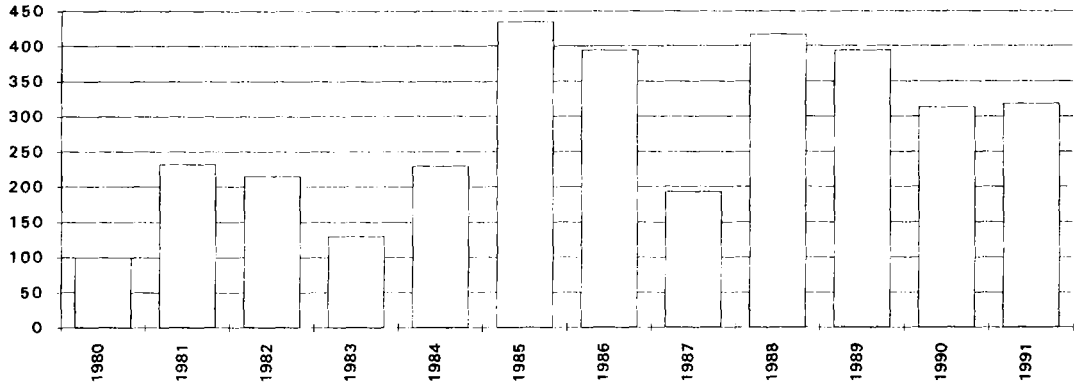
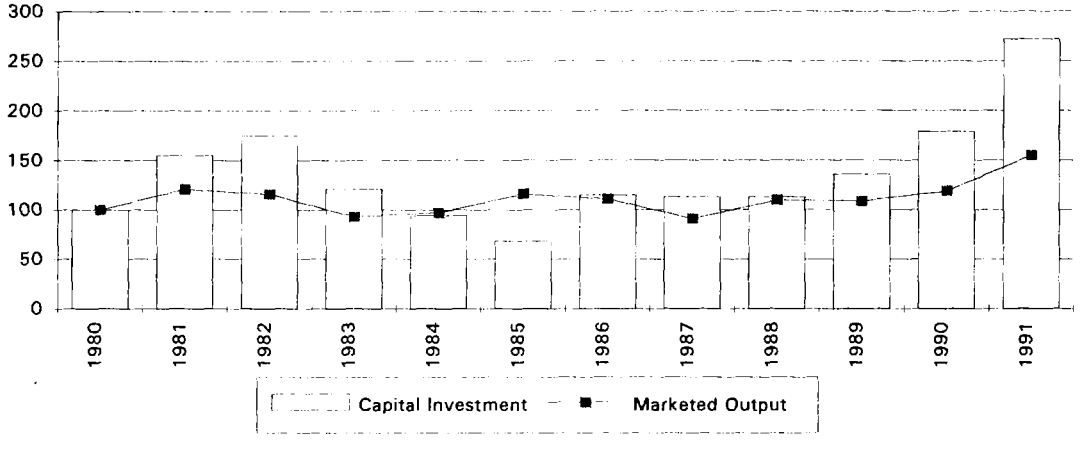


Figure 3: Capital Investment and Marketed Output in the Commercial Farm Areas (Real Value, 1980 = 100)



or floor prices for most crops, compulsory delivery of controlled crops to marketing boards, controlled consumer prices for food staples, and restrictions on imports and exports. The sale, lease, or sub-division of agricultural land continued to be heavily regulated, while the land resettlement program was centrally planned and implemented. Manufacturers faced continued price controls, investment licensing, and administered foreign exchange allocations. Entry of new firms was limited because of these pervasive controls and the existence of unused capacity of established firms.

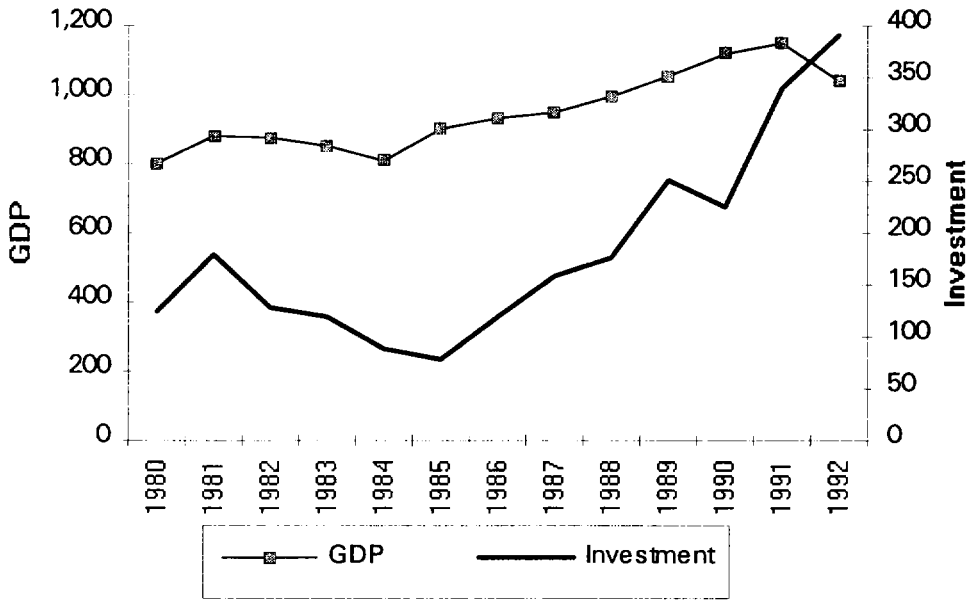
10. ***1986-91 Investment Recovery but Modest Growth.*** Since 1986, overall agricultural production has been stagnant, with smallholder agriculture experiencing declines in output and productivity. While adverse climatic conditions have contributed to this, the more fundamental causes have been declining (real) producer prices; reduced availability of formal sector credit; declining effectiveness of public research,

extension, and veterinary services; and a contraction of public sector marketing services. The prior level of resources committed to the support of smallholder agriculture proved to be unsustainable in a period of budgetary constraint, foreign exchange shortages, and adverse movements of international commodity prices. Faced with declining public support, and operating from a limited and fragile natural resource base, the 'smallholder revolution' not only ran out of steam, but showed clear signs of actual regression. Similarly, the program of land reform and resettlement suffered from a shortfall of resources and from the limited capabilities of the implementing agencies. Few additional households were resettled during this period and little progress was achieved in raising incomes and productivity within the existing resettlement schemes.

11. In contrast, large commercial farming experienced a surge in investment and expanded output of export-oriented crops (especially tobacco and horticulture) and crop and animal products which were not subjected to official price and marketing interventions (e.g. poultry, spices, pork, wildlife products). These producers were far less affected by the decline in public agricultural services as they had developed their own research and extension institutions, were located near major transport routes, and had good access to the commercial banking system. Employment recovered in this subsector from the mid-1980s low, albeit with the additional labor being part-time rather than permanent employees.

12. A gradual easing of foreign exchange constraints from 1986 onwards was accompanied by a surge in investment (7 percent per annum increase in the capital stock from 1986 to 1991) and an acceleration of growth in manufacturing to 3 percent per annum, but very little increase in formal sector employment (see Table 2 and Figure 4). Zimbabwe's manufacturing sector uses capital very inefficiently and has a very high incremental capital to output ratio. Moreover, large parts of this investment surge were in activities, such as large-scale meat processing and maize milling, that do not appear to be well suited to the new policy environment in Zimbabwe. This highlights the importance of sequencing policy reforms to ensure that investors face the true cost of capital prior to making large new investments. The inefficiency of some of this investment is a consequence of it being undertaken in an environment where foreign exchange was overvalued and depreciation expected, subsidized foreign exchange cover was provided, real interest rates were negative, foreign companies were forced to either reinvest or deposit blocked and surplus funds in accounts at 5 percent interest, corporate tax rates were high (50 percent), and investors were allowed to immediately write-off 100 percent of investment cost from taxable income. Public sector provision of foreign exchange cover, together with overvaluation of the exchange rate, provided a very large subsidy to investment, and hence contributed to the high degree of capital intensity in manufacturing and a misallocation of investment.

Figure 4. Real Manufacturing GDP and Investment



13. With the rapid increase in the number of secondary school and university graduates during this period, the gap between employment opportunities and new entrants to the work-force widened. It became clear that the modest rate of overall economic growth was inadequate to provide employment for the bulk of those entering the work-force and to meet expectations for improved living standards.

14. It was in order to address this problem by moving to a more market-oriented policy environment that Zimbabwe initiated its Economic Structural Adjustment Program (ESAP) in 1991 (see Box 1). To increase efficient investment, employment and growth, ESAP was designed to embrace three principal areas of reform: (i) fiscal deficit reduction and public enterprise reform to improve business confidence and avoid public sector borrowings crowding out private investment; (ii) trade liberalization to improve access to foreign exchange and expose firms to international competition; and (iii) domestic deregulation to reduce the cost of doing business in Zimbabwe, increase competition and provide firms with the flexibility to respond to market opportunities. Plans for reducing the public sector deficit centered on reductions in subsidies to public sector enterprises and reductions in the size of the civil service.

15. ***1992 to 1994: Structural Reform with Delayed Stabilization.*** Zimbabwe has proceeded with many parts of ESAP in spite of the severe drought in 1992. The foreign exchange allocation system has been dismantled and all current account transactions freed from controls, price controls have been removed, investment licensing has been abolished for all but large foreign investments, and public sector monopoly over the purchase and sale of agricultural commodities have been removed (see Box 2). However, this success with structural policy reform has not been matched

by commensurate fiscal deficit reduction and parastatal reform, though these were central features of ESAP as originally planned.

Box 1. Why Undertake Structural Adjustment?

- To increase the efficiency and level of investment and generate more employment. Without adjustment the expansion of employment would remain well below the growth of the workforce.
- To increase overall growth and poverty reduction. Without adjustment overall growth would at best remain modest and would not generate the resources necessary to sustain, let alone continue improving, poverty reducing investments in health, education and smallholder agriculture.
- To make macroeconomic management sustainable and hence avoid future destructive economic instability that would suppress growth.

16. Hence, the public sector has continued to borrow well over 10 percent of GDP per year, and this has limited the success of efforts to reduce inflation and ease interest rates. The central government deficit was 11.2 percent of GDP in 1992/93 and 7.9 percent of GDP in 1993/94 (see Figure 5). However, large public enterprise losses caused them to borrow a further 3.1 percent of GDP in 1993/94. Inflation increased rapidly in 1991 as a result of monetary expansion, the fiscal deficit, price decontrol, and exchange rate depreciation (see Figures 6 and 7). Drought-induced added to inflationary pressures in1992 and inflation reached 46 percent, in spite of monetary policy being tightened and interest rates increased to positive real levels. Continued relatively tight monetary policy reduced inflation below 20 percent by the end of 1993, but it crept back up into the low 20s by the middle of 1994.

Box 2: Key Structural Reforms

- foreign exchange allocation system dismantled, current account transactions freed from control, and exchange rate market determined.
- price controls abolished.
- investment licensing abolished for all but projects over $US40 million.
- domestic marketing of agricultural commodities decontrolled.
- dividend remittances freed from controls for all post-1980 foreign investment and repatriation of capital guaranteed for all post- April 1993 investments.

Figure 5: Central Gov't Deficit (% of GDP)

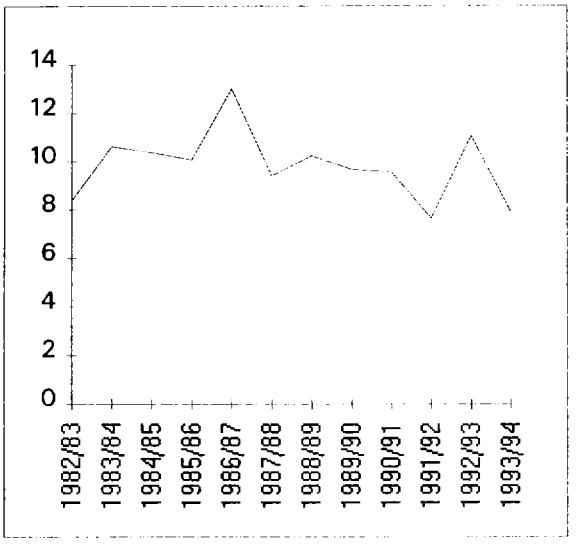
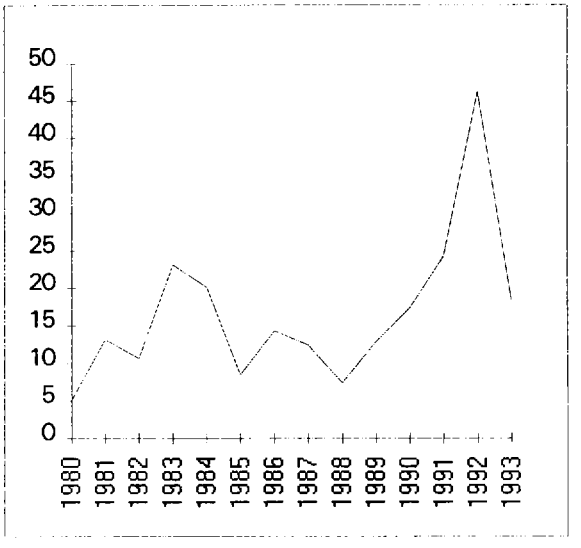


Figure 6: Inflation (percent)



17. Prior to 1991, the same complex array of price, investment, interest rate and import controls that inhibited competition and growth also avoided the imbalance between aggregate demand and supply from giving rise to high inflation or a deterioration in the balance of payments (see Figure 8). Until the start of ESAP, Zimbabwe was able to finance large fiscal deficits by tapping into the well developed domestic financial system. The domestic saving rate was maintained at about 20 percent of GDP, partly through restrictions on consumer and investor choice, and partly by restricting the repatriation of profits. Meanwhile, the unsustainability of public sector deficits was masked by negative real interest rates. The underlying macroeconomic imbalances that were surpressed during the 1980s began to surface when these controls were relaxed to try and move the country onto a higher growth path based on a more market-friendly regime, without supporting fiscal deficit reduction. In particular, price decontrol, import and financial sector liberalization, without a supportive reduction in the fiscal deficit placed an inordinately heavy burden on monetary and exchange rate policy.

18. The 1986-91 investment surge in manufacturing, commercial agriculture and mining slowed in 1992 and 1993, in the face of a severe drought, higher interest rates, a sharp downturn in tobacco export prices, and higher import prices. Manufacturing output and employment fell in 1992 and the first half of 1993 as a result of the drought and compressed domestic demand, but has grown strongly since the middle of 1993. After the severe drought of 1992, when agricultural production fell by 25 percent, farmers took advantage of a good rainy season in 1993 and responded to favorable prices and public support (in the form of free seed and fertilizer to small scale growers), achieving a remarkably rapid recovery in 1993. Significant structural

changes are evident in the wake of agricultural marketing reforms, the most prominent being a) the emergence of large numbers of rural and urban small-scale maize milling operations, b) the development of direct contractual linkages between farmers and traders/agro-processors, and c) the establishment of a commodity exchange house to facilitate trade (ZIMACE).

Figure 7: Real Effective Exchange Rate (1980 = 100)

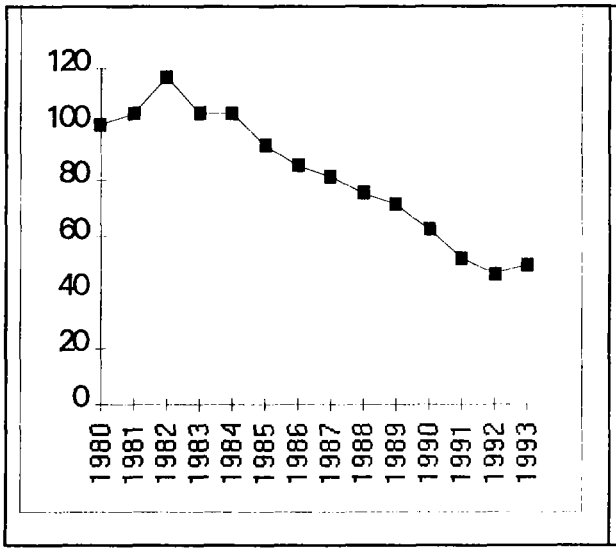
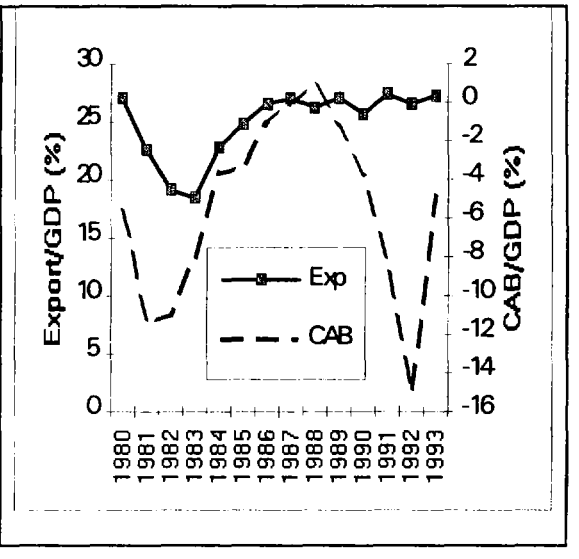


Figure 8: Imports and Exports as a % of GDP



19. After showing signs of sustained growth during the latter part of the 1980s, exports fell sharply due to the drought in 1992 and have yet to fully recover. Non-traditional manufactured exports increased strongly until the drought, but it is not clear how they will respond now that the foreign exchange allocation system has been dismantled and the 9 percent export subsidy abolished. Meanwhile, trade liberalization, drought and expectations of further depreciation combined to yield a large rise in imports in 1991 and 1992. After having virtually no balance of payments deficit from 1986 to 1989, the current account deficit rose sharply to 8 percent of GDP in 1991 and 15 percent in 1992, before falling back to 5 percent in 1993 (see Figure 8).

20. ***Participation and poverty reduction.*** The overwhelming majority of Zimbabwe's poor live in semi-arid communal and resettlement areas, but there has been very little growth in these areas since the mid-1980s. In fact, existing levels of production in these areas are now threatened by the environmental fragility of the natural resource base and the unsustainability of existing farming practices. Meanwhile, population growth has continued at about 3 percent per annum, in spite of widespread use of family planning. Though poverty is admittedly not as prevalent in Zimbabwe as it is in most other African countries, the lack of growth in small-scale agriculture and the slow growth in employment suggest that strong improvement in social indicators has not been matched by a commensurate increase in incomes of the poor, especially since the mid-1980s. In recent years, even the social sector

achievements of the independence period are being threatened by drought, decline in public resources, and the AIDS pandemic. For example, there has been a rise in the rate of maternal mortality and in the number of babies born before arrival at hospitals. The analysis of poverty given in Chapter 2 of Volume II and summarized in the following box provides a portrait of the incidence and characteristics of poverty in 1990/91. Systematic monitoring and analyses of poverty over time are needed to provide a foundation for the future improvement of initiatives to reduce poverty.

Box 3. Key facts about Poverty in Zimbabwe.

- Twenty five percent of the people in Zimbabwe were poor in 1990/91 (i.e. didn't have sufficient purchasing power to secure access to a basic consumption basket of food, clothing, shelter, education, health services and transport), while 7 percent were very poor (i.e. didn't have sufficient purchasing power to secure access to an adequate basic food basket).
- Poverty is more common in rural areas (31 percent) than in urban areas (10 percent), and the overwhelming majority of Zimbabwe's poor (88 percent) live in rural areas.
- Poverty is most common and deepest in the low rainfall areas of Matabeleland South, Masvingo and Matabeleland North provinces. Moreover, frequent drought and low asset holdings by the poor in these regions makes them particularly susceptible to food insecurity.
- The drought of 1992 greatly increased the vulnerability of the poor in communal areas by depriving them of the majority of their cattle.
- The poor typically have limited access to good quality land, are heavily dependent on farming for their income (as they receive little off-farm income and small remittances), are less educated, live in larger households, and, if they are in urban areas, are unemployed.

21. The limited increase in formal sector employment (1.5 percent per annum, see table 3) has meant that the majority of new entrants to the work-force have had to seek income earning opportunities among small-scale and informal sector activities. Recent survey information (GEMINI) suggests that there are now approximately 960,000 such enterprises providing employment to about 1.8 million people, but they generally provide low incomes.

22. Indigenous participation in the formal economy increased slowly during the 1980's and remains low. However, the number of new indigenously owned and operated enterprises in the formal sector has increased in recent years, as larger numbers of potential entrepreneurs have acquired both educational qualifications and managerial experience.

Table 3. Formal Employment (thousands)

	1980	1985	1990	1993
Total:	1010	1053	1192	1217
Agr. forestry and fishing	327	276	290	308
Maufacturing	159	170	205	184
Other	524	607	697	725

23. Zimbabwe's achievements in education are among the country's most impressive gains since independence, putting Zimbabwe near the top of developing countries in terms of absolute achievements and the pace at which these results have been attained. Enrollment in primary schools has doubled since independence, largely due to the rapid expansion in rural schools, and there is almost no gender bias in primary schooling today. The explosion in secondary education has been even greater, with enrollments going from 75,000 at the time of independence to over 650,000 today. To achieve these gains, Government increased education's share of the total budget from independence up to 1990/1.

24. This upward trend was reversed in 1991/92, and public expenditure on education as a share of GDP has declined steadily over the last four years. Nonetheless, Zimbabwe still invests a relatively large share of both GDP and public resources in education, which suggests that the challenge now is to enhance the efficiency of these expenditures. The drop in resources allocated to primary education may threaten gains already made in this critical area. Resources allocated to education now flow disproportionality to higher levels of education, and are directed more toward academic than technical/vocational/agricultural training and general skills-upgrading. Finally, the vast majority of any given cohort leaves the school system without significant labor market relevant skills.

25. Likewise, the country invested significant shares of its resources to improve the quality and access of health care for the poorer segments of society during the 1980s. Health sector expenditure increased from about 2 percent of GDP in 1980 to 3 percent at the end of the decade, producing the remarkable gains detailed in Table 1. Over the last four years, however, real expenditures per capita have fallen back to about 2.5 percent of GDP, primarily because of the impact of the drought on government revenue, and the general compression of government expenditures. Preventive care, commonly considered to be the most cost effective part of the health care system, declined from 16 percent of the health budget in the late 1980s to 13 percent by 1994.

26. The decline in resources is creating strains and threatening the sustainability of health sector achievements. Real wages of health personal have fallen by about 30

percent since 1990, fueling an exodus of qualified staff and generating discontent as reflected in strikes by segments of the health care community. Over 95 percent of all doctors in rural areas are foreign, and most only stay for a limited period of time. Some key health indicators have deteriorated in recent years. This seems to be due to a number of factors, including (i) falling real incomes and poorer nutrition following the 1991/92 drought, (ii) renewed enforcement of user fees unintentionally deterring access by the poor in the absence of an effective exemption system, and (iii) the high rate of HIV infection in Zimbabwe. It is estimated that 800,000 are HIV-positive today, meaning around 25 percent of the sexually active are already infected. If infection rates continue to rise, the health care system will face a serious crisis before the end of the decade, sending a strong signal that a major health challenge facing the nation today is the continued fight against the transmission of HIV.

3. A Way Forward

27. Much of Zimbabwe's growth over the past thirty years has come from the pursuit of self sufficiency in manufacturing and agriculture. This has meant that output and employment growth has not been commensurate with the magnitude of investments undertaken. Zimbabwe's output growth per unit of investment has been only about half that achieved by rapidly developing countries. Recent policy reforms reflect a realization of the fact that Zimbabwe must now look outwards in its quest for sustained growth and poverty reduction. The growth of domestic demand will not be sufficient to fully utilize existing capacity and provide a basis for rapid growth. Achieving higher sustained growth depends on integrating with the world economy, making fuller use of the nation's abundant labor resources and using relatively scarce land, capital and managerial skills more efficiently. Improving overall productivity is central to the attainment of higher growth and the expansion of employment. In agriculture this means improved utilization of land while in industry it means more efficient use of capital.

28. Prior to the introduction of ESAP, the principal constraint to more rapid growth was thought to be the low level of investment. Now, three years into ESAP, two of the three key constraints to investment (constrained access to imports, and investment licensing) have been removed. The third, large public sector borrowing and its adverse effects on interest rates, inflation and business confidence, remains. In addition, recent evidence demonstrates that there was a large increase in private sector investment during the latter part of the 1980s and the early 1990s, but that the incremental capital to output ratio over this period has been very high. Hence, the focus should now be on how to sustain the recent level of investment at about 22 percent of GDP, increase it's efficiency, improve the competitiveness of Zimbabwean industry, expand markets and ensure that the benefits of sustained growth are widely shared. If the investment efficiency levels are brought close to those of successful developing countries, this level of investment should yield output growth of 5 - 6 percent per annum and employment growth of 3-5 percent per annum.

29. Achieving Zimbabwe's potential for growth, employment expansion and poverty reduction, will require ongoing contributions from the public and private sectors. Private firms in all sectors of the economy must grasp the opportunities provided by the more market-friendly policy environment to improve their competitiveness, penetrate external markets, and supply the local market with quality goods at competitive prices. In spite of the surge in investment in recent years, this will involve additional investment by many firms to modernize, balance existing machinery and equipment, and improve productivity. After a protracted period of relative isolation and a sheltered domestic market providing relatively high profits, improving competitiveness and integrating with the rapidly changing international economic community will involve a lot of learning by many in Zimbabwe's existing business community. Moreover, the more market-oriented environment being established by policy reforms will demand this type of change for existing firms to remain successful. Similarly, while it will be easier to establish new enterprises under the new environment, they too will face the hard discipline of market forces and hence need to be competitive to succeed.

30. The public sector needs to contribute in a number of ways to support private sector growth and to ensure that inequity and poverty are reduced. This involves improving public sector efficiency and continuing to reorient it from a regulator of economic activity to a supporter of efficient poverty-reducing development. First, to make it possible for private firms to improve their competitiveness and achieve labor intensive growth, the public sector must maintain a market-friendly policy environment in which firms can respond quickly to market opportunities and pressures. Second, it must continue to invest in human resources, and ensure that firms have access to reliable economic infrastructure at competitive prices. Third to ensure poverty reduction, the public sector needs to provide services and infrastructure that actively support the efforts of the poor, and ensure that the poor have access to social services and safety net provisions.

31. Initiatives already introduced to move towards a more market-oriented policy environment make an important contribution towards the realization of more rapid growth. Now is the time to build on this solid beginning by removing remaining constraints to growth and rebuilding measures to ensure poverty reduction. To effectively build on past investments and policy reforms already introduced, this report suggests actions in three key areas:

- reforms to generate more **supportive macroeconomic management**;
- **improvements to the incentive environment**, with particular reference to land use and the competitiveness of exporters;

- focusing **public expenditure** on human resource investments and other initiatives to support sustained poverty reduction and provide infrastructure needed for growth.

32. Two other areas where survey results indicate a need for action to alleviate their constraining effects on growth are infrastructure and finance, but detailed analysis of these is beyond the scope of this study. In particular, telecommunications, electricity and external transport have been identified as important constraints. Some of the actions needed to overcome these problems are obvious, but others need further analysis. For example, it is clear that reliable and competitively priced air and sea transport is needed to fully realize the potential for continued rapid expansion of horticulture exports. Work already under way to formulate strategies to effectively alleviate these infrastructure constraints needs to be given high priority. Financial sector analysis is needed to assess the nature of financing constraints faced by new small-scale firms.

A. Make Macroeconomic Management more Supportive

33. As important as reforms already introduced are, they will not achieve the desired increase in growth and reduction in poverty without a supportive stable macroeconomic environment. There is ample evidence from other countries that macroeconomic instability (persistent high inflation, balance of payments crises, and high fiscal deficits) undermines the supply response to structural reforms and make the attainment of poverty-reducing growth extremely difficult. Moreover, long-term growth requires sustained investment. Uncertainties about the sustainability of macroeconomic management discourages investment and increases the transition cost of adjustment. Indeed, countries with high fiscal deficits and persistent inflation have found the transition to sustained growth to be a protracted and difficult process. Structural reforms and macroeconomic stability are complementary since both lessen adjustment cost induced by the other. In contrast, inconsistency reduces private sector confidence in the government's ability to complete reforms and maintain a supportive policy environment, and delays the supply response needed to restore economic growth.

34. Maintaining an enabling macroeconomic environment calls for balanced and coordinated use of fiscal, monetary and exchange rate policies. Zimbabwe's macroeconomic stance since 1991 can be characterized as a combination of restrictive credit policy, devaluation, and continued large fiscal deficits. The burden of macroeconomic stabilization has been disproportionately borne by tight monetary policy and depreciation. As a result, the monetary contraction required to restore internal and external balance has been greater than it would have been with concurrent fiscal adjustment. Resulting high real interest rates have prevented the private sector from taking advantage of the newly introduced structural reforms and slowed recovery from the drought-induced recession of 1992. Greater fiscal deficit reduction would

allow real interest rates to be lower and private sector activity to expand without rekindling inflationary pressures.

35. Continued large public sector borrowing now poses a serious threat to Zimbabwe's efforts to generate a supply response from structural adjustment and thus attain more rapid growth. This public sector borrowing is due to both the central government deficit still being too large at about 8 percent of GDP in 1993/94, and the combined losses of the Grain Marketing Board and the Zimbabwe Iron and Steel Company being over 3 percent of GDP. It is critical that Zimbabwe reduce its overall public sector borrowing to a modest and sustainable level to enhance macroeconomic stability. Failure to do this would continue to place an excessive burden on monetary policy, prevent a reduction in interest rates, undermine the competitiveness of Zimbabwean enterprises, and threaten the sustainability of the balance of payments. It is doubly difficult to do this and maintain public services now that past deficits and higher interest rates have led to interest payments rising to 19 percent of government expenditure. Zimbabwe should strive to achieve no primary fiscal deficit (i.e. the central government deficit without interest payments) as soon as possible and then run a modest primary surplus. This means getting the overall central government deficit down to 5 percent of GDP and then reducing it further to below 3 percent.

36. The public sector as a whole must reduce its deficit by rapidly eliminating public enterprise losses, focusing public expenditure on public goods and poverty reducing initiatives that cannot be profitably provided by the private sector, and reducing expenditures in lower priority areas. However, it is imperative that this much needed reduction in public expenditure be undertaken in such a way that expenditures in basic education and health, and in services needed by the poor are protected. Otherwise the macroeconomic adjustments would contravene concurrent efforts to improve equity and reduce poverty. The need for detailed analysis of options for achieving this highlights the importance of a public expenditure review (PER). The following general suggestions indicate priority areas for action, but they do not obviate the need for a PER to formulate more detailed plans of action:

(i) Public sector enterprises need to be restructured to concurrently reduce their losses and to increase their efficiency. In particular, the Grain Marketing Board needs to have greater flexibility in pricing so it can contain losses while continuing to be a buyer of last resort, and private sector participation in ZISCO needs to be increased and its operations rationalized to avoid continued losses. Selected public sector asset holding in productive enterprises could be privatized to provide government with additional revenue during this adjustment period. This revenue from sales could be used to retire public debt or reduce the overall deficit.

(ii) There needs to be a sustained reduction in wage and salary expenses through a reduction in civil service employees and in military expenditure. The central government's wage and salary expenditure was 13.2 percent of GDP in 1991/2,

12.6 percent in 1992/3, and 12.1 percent in 1993/94. It is hard to find another developing country that has such a high share of central government's wages and salaries in GDP.

(iii) Public investments need to focus on activities that are strategically important to poverty reduction and private sector growth, and the project appraisal process needs to be consistent and transparent.

With this action to reduce public sector borrowing, monetary policy could be eased and interest rates fall while still bringing inflation down, and external balance could be maintained without further rapid depreciation.

B. Improving the Incentive Environment.

37. While much has been done since 1991 to improve market incentives and the flexibility firms have to respond to emerging opportunities and pressures, further actions are still needed in two very important areas if the potential for sustained growth through fuller integration with the world economy and improved productivity of land and capital is to be realized. These are the development of a more efficient land market and initiatives to enable exports to be competitive.

Increasing the Efficiency, Distribution and Sustainability of Agricultural Land Use.

38. Increasing the utilization of the country's high-to-medium quality agricultural land offers one of the greatest potential sources of further agricultural growth. At the same time, achieving more efficient and sustainable patterns of land and other natural resource use within the densely populated communal areas has significant implications both for poverty reduction in rural areas and the future growth potential of smallholder agriculture. The issues of land distribution and natural resource management are very challenging as they must address problems of land use efficiency and the equity of present land ownership. While improved access to land can contribute to employment expansion, poverty reduction, and improved household food security, it can not alone provide a solution to the poverty experienced by large numbers of communal area families.

39. Zimbabwe's rural economy exhibits over-utilization of natural resources in communal areas, and under-utilization within commercial farming areas. The large-scale commercial farming subsector (LSCFs) occupy about one-third of the country's total land and a majority of its high-potential agricultural land. Facing extremely low land taxes and significant regulatory restrictions on land sub-division and leasing, large-scale farmers have tended to cultivate only their most productive land, leaving the bulk of their farm area idle, under woodlands, or for use in extensive grazing. On the land which they do cultivate, the LSCF have proven to be both technically proficient

and economically efficient. However, making allowance for non-arable and inaccessible land, considering appropriate fallows and crop rotations, and making generous provisions for roads, homesteads, and tree lines, our analysis indicates that the LSCF sector cultivates about 50 percent of its (adjusted) arable land. In stark contrast 74 percent of the communal land falls in the semi-arid Natural Regions IV and V. Increased population and livestock pressures in these areas have resulted in the continuous sub-division of communal area landholdings into smaller and smaller plots, in the cultivation of marginal and environmentally fragile lands, in rapid degradation of forest resources, and in continuous cultivation instead of the traditional practices of shifting cultivation and land fallowing. These patterns and practices have contributed to declining soil fertility and crop yields in many communal areas (CAs). Though economically efficient (based on analyses of domestic resource costs), the agricultural systems in many communal areas have become environmentally unsustainable.

40. The present dualistic agrarian structure and distribution of land is inefficient, environmentally unsustainable, and a barrier to the achievement of both rapid agricultural growth and the reduction of rural poverty. It is inefficient since one of the country's most scare resources--high-potential agricultural land-- is being underutilized. It is also inefficient in the sense that in terms of technical efficiency, economic efficiency, and managerial efficiency, the 'optimal' range of farm sizes in Zimbabwe's different agro-ecological areas are most certainly smaller than most of the existing large-scale commercial farms and larger than the vast majority of communal farms. This agrarian structure is environmentally unsustainable due to the over-exploitation of natural resources in the communal areas. While the reduction of rural poverty in Zimbabwe requires efforts on several fronts, one part of the agenda must include increasing the opportunities for smallholder households to acquire or lease larger and/or better quality landholdings.

41. To address the co-existing problems of natural resource over- and under-utilization, what is needed are institutions which can: (a) bring about an efficient transfer of land between those with surplus land to those who can make productive and sustainable use of it, and (b) can facilitate improved means of natural resource management at the farm and community levels in areas facing population pressures. In Zimbabwe, both prior to and since independence, the state has intervened heavily in these areas, strongly regulating or restricting the operation of a land market and superseding local 'traditional' natural resource management practices and arrangements with centrally-imposed laws and institutions.

42. Land use efficiency, agricultural production, and rural employment could be increased, and land made available to a larger number of smallholder households, by developing a market-assisted land redistribution process. Elements of such a program might involve: (i) a graduated land tax with higher rates depending on land quality/location, (ii) charging farmers the full economic costs for utilities and removing other direct or indirect subsidies which increase the price of land and induce the replacement of labor with capital equipment, (iii) revising land sub-division, lease, and

sale regulations to facilitate the transfer of land from existing commercial farms to other smallholder households, (iv) financial instruments to enable smallholder farmers to purchase or lease land and develop on-farm infrastructure, (v) institutional arrangements to provide training and technical and marketing services, and (vi) public investments in selected common use facilities and infrastructure within areas where significant land transfers are taking place. A grant component could be combined with such a market-based redistribution program to facilitate the transfer of land to resource poor small-scale farmers, thereby enhancing equity.

43. This more flexible market-assisted approach would yield more efficient use of land and existing infrastructure and would reduce the need for government to find large amounts of public resources for land acquisition and development for resettling communal farmers. It would facilitate outgrower schemes and other forms of contract farming, linking smallholders with commercial farmers, traders, and agro-processors. Finally, it would facilitate the more extensive use of technical, managerial, and commercial skills of the current commercial farmers, through training arrangements and commercial relationships with nearby small-scale farmers. This would make the latter less dependent upon public sector support services and marketing, freeing public resources for more targeted interventions.

44. An analysis of land resources and agricultural land use patterns in the LSCF subsector in 1993 indicates that of the nearly 6 million hectares of LSCF land in Natural Regions I-III, approximately 1.6 million ha. is not presently used for agricultural purposes, but could be effectively used for cropping (600,000 ha.) or livestock production (1 million ha.). This 'underutilized' land is unlikely to exist in large contiguous blocks and therefore is ill-suited to the type of administered resettlement program carried out since independence thus far. However, if the above measures are adopted, it is likely that a considerable proportion of this land would be made available as part of a process of land sub-divisions, with subsequent sales or leases. The incremental production, employment, and incomes from the increased subsequent use of this land would be considerable. Even with very conservative assumptions, the incremental employment on this newly settled and farmed 1.6 million ha. would exceed 130,000 full-time jobs.

45. The long-term productivity and sustainability of land, woodland, and other natural resources in the communal areas will ultimately depend on the viability of local institutions and social structures. Under present arrangements, land and woodlands in the CAs are considered to be national property, whose use is regulated by government in a manner which overlaps, replaces, and/or conflicts with traditional arrangements. Legal control over these resources in CAs is currently held at the district level, relatively far removed from local concerns and conditions.

46. While Agritex and other government institutions have begun to involve communities in land use and rangelands planning, such planning remains primarily top-down with the techniques employed not always consistent with local management

practices. Where local communities have initiated and/or participated in the design and management of grazing schemes the results have generally been more successful. The opportunities for community resource management extend beyond grazing schemes and the CAMPFIRE program to include community woodlots, locally-managed micro-irrigation schemes, and wetlands management. The government can help facilitate local common property management schemes by providing local communities with the legal basis to control the use of certain resources, by reinforcing (through extension) practical resource management rules drawn from local practice or practiced in similar communities, and by helping in the design and negotiation of co-management agreements between local community groups on the one hand and NGOs, commercial farmers, or others on the other hand. Extension efforts should also encourage the uptake of low cost and easily adaptable measures to control soil erosion (including various vegetative technologies).

Initiatives to Enable Exports to be Competitive

47. It is vital that impediments to export competitiveness be minimized so firms can expand, raise capital productivity and increase employment by penetrating export markets. The experience of other countries with relatively large inward-looking manufacturing sectors, such as Mexico, Turkey and India, is that many established firms can become outward-looking and expand exports, provided the policy environment is conducive to such adjustment. They can often do this by restructuring their product mix and production processes, thereby expanding output with small amount of investment. This calls for an array of initiatives to reduce the remaining anti-export bias and enable Zimbabwean firms to become competitive with foreign firms. Provisions to ensure that exporters have access to material inputs at world prices are central, but to realize the full potential for export-oriented growth, it is also important that the anti-export bias inherent in relatively high border taxes be greatly reduced, that any infrastructure constraints be removed and that exporters have access to competitively priced finance.

48. Import liberalization since 1991 has dramatically improved access to imported materials and capital goods and real exchange rate depreciation has greatly increased the competitiveness of Zimbabwean exports in international markets, but tariff collections remain high and exporters are still far from free from the burden of taxes on their material inputs. Zimbabwe has one of the highest tariff collection rate in the world and most imports have tariff collection rates of 15 - 25 percent. This increases the cost of final goods, making them uncompetitive in external markets. Very few exporters have been able to gain timely duty relief from the cost increasing effects of import tariffs under either of the current schemes - Duty Drawback, or duty suspension or exemption under Inward Processing Rebate (IPR) provisions. Meanwhile, the domestic tax regime creates modest cascading in the cost of locally produced goods. This is particularly evident in respect of services, as providers of services must charge tax on their sales and must also pay sales tax on their inputs. Exporters currently cannot reclaim any of the taxes which are embodied in the cost of services they

employ. Small scale, indirect and new exporters have found it particularly difficult to gain relief from indirect taxes. In fact, since repayment of duties cannot be relied upon, exporters are generally not pricing their goods on the assumption of receiving drawback, so the scheme is not affecting the volume of exports. This deficiency has to be rectified and firms given full and timely relief from the cost increasing effects of all taxes on inputs so they can successfully switch from being focused on the domestic market to being export-oriented. Legislation to establish a Free Trade Zone is currently being processed but this still will only meet the needs of specialized new enterprises that have very limited links with the local economy.

49. Every effort needs to be made to improve the effectiveness and timeliness of duty relief provisions for all existing and potential exporters. Duty Drawback needs to be simplified and streamlined so rebates are provided more quickly. Duty exemption provisions under the Inward Processing Rebate (IPR) needs to be simplified to make them more readily available to a wider array of exporters. Promoting greater awareness and use of the IPR system is also part of this, but improvement of the existing compensation and exemption systems will not be enough. The experience of other countries suggests that the relief mechanism currently operating in Zimbabwe will never be able to meet the needs of all potential exporters in a country with such an extensive industrial structure. To more fully meet this need in the short run it is recommended that Zimbabwe establish simple rate coefficients or average duty drawback rates for individual products, expressed as a percentage of FOB value of exports. For example, business shirts of blended fabric could be offered say 15 percent of the FOB value of exports as a duty drawback, if material costs are about 50 percent of the total output value and border taxes rate for materials is about 30 percent. This type of scheme has been successful elsewhere (e.g. India) and would provide exporters with additional choice. It would be particularly helpful to small-scale, indirect and new exporters. These drawback rates can be estimated from the input and cost data and the tariffs that apply to these inputs, published in advance and regularly reviewed to ensure that they remain in line with production costs and the structure of duties. Since they are a fixed share of export value, they would be very quick and easy to administer and could be paid through financial institutions at the time export proceeds are received. Controls would be exercised on the basis of ex-post audits so there would be no delays in exporters receiving relief. This would allow many firms to quickly supplement domestic sales with exports, thus improving capacity utilization and maintaining employment during the transition to a more open trading environment.

50. In reality though, it is virtually impossible to provide exporters with effective relief from border taxes when they are as high and complex as in Zimbabwe and exports are diversified. At the very least, tariff protection provided to import substituting activities inhibits exporting by placing exporters at a disadvantage when competing for production resources. With the current tariff structure, the effective rates of protection afforded import competing activities usually lie between 35 and 80 percent, while that provided to exporters is mostly negative and at best zero. In addition, the patchwork of domestic indirect taxes (particularly sales and excise taxes)

increases costs and makes it difficult for exporters to compete and it is virtually impossible to compensate exporters for these domestic taxes. Hence, the overall structure of indirect taxes needs to be modified to remove the burden of revenue generation from border taxes so they can be lowered, enable duty exemption systems to be made more effective, and avoid cascading. The best way to do this is to introduce a Value Added Tax (VAT) and to trade off lower border taxes for a higher VAT. A VAT should be introduced as soon as possible and border taxes lowered to reduce the anti-export bias inherent in current import duties. Lowering border taxes on materials and intermediate goods is particularly important to enable exporters to be competitive, but it is recognized that this needs to be accompanied by additional revenue from domestic indirect and/or other taxes to avoid a worsening of fiscal management. Hence the urgency of establishing a VAT system and a rebate system so exporters are refunded VAT paid on their material and intermediate inputs.

51. However, as this will take at least a couple of years, the current sales tax system whereby transactions between registered firms are sales and import tax free until the final-good stage (i.e. the ring system) should be modified now to make it more like a VAT and thereby eliminate double taxation of domestic products and the taxation of exports. To achieve this, the sales tax system needs to be rationalized to ensure that providers of services are treated the same as producers of goods. In particular, service industries should be treated like activities that produce goods, thereby allowing their imports and domestic purchased materials to be free of sales tax. Further, customs duties on materials and intermediate goods that are important to export expansion should be made as low as revenue concerns allow. These measures are all supportive of the Cross Border Initiative and complement actions already taken to decontrol investment and the repatriation of dividends and capital. Manufacturers can get an exemption from import taxes (the equivalent of domestic sales taxes) on materials through the ring system so they don't have the same cost increasing effects as customs duties. Hence import and sales taxes could be raised to facilitate a lowering of custom duties.

52. Given the importance of exports to growth, Zimbabwe should also (i) ensure that exporters have access to pre-shipment credit on terms that are comparable with their off-shore competitors; (ii) consider a system of matching grants to help defray the costs of export market development; and (iii) ensure that there is reliable and competitively priced infrastructure, particularly power, telecommunications and external transport. While the longer-term solution to high financing costs must involve improved macroeconomic management so interest rates can be lower, existing pre-shipment credit provisions need to be strengthened in the short term to avoid the current cost of finance needlessly handicapping export efforts. Second, penetrating export markets often requires very lumpy investments and is strategically important in that it commonly yields long-term economic returns to the nation that exceed the private returns that can be captured by individual exporting firms. For this reason it is suggested that Zimbabwe consider a system of matching grants to support investment in export market development. Third, the importance of overcoming infrastructure

constraints is well illustrated, for example, by the effect of air transport provisions on flower exports. Zimbabwe's flower exporters will not be able to establish buyer confidence in Europe - and hence growers will continue to receive lower prices than other suppliers - until air transport from Harare is more reliable. This points to an urgent need for an open skies policy for air transport and the restructuring of Affretair. The importance of strategic action to improve access to telecommunications and power is discussed further in the next section.

C. Increasing the Effectiveness of Public Expenditure.

53. While sound macro management and an improved incentive framework will help put the economy on a stronger growth path, public expenditure will need to enhance participation, provide supportive infrastructure, and protect those whom the benefits of growth do not reach. To be effective in promoting equity, such expenditures must be selective, well-targeted, and designed primarily to empower the poor with wider opportunities. This translates into three complementary forms of investment:

- investing in human resources (health, education, and training),
- improving the return to assets, especially those held by the poor,
- a social safety net.

54. To make constrained public resources go further, it is important to deliver services as cost-effectively as possible. One option is to make service provision more demand-driven and accountable through a combination of decentralization and community involvement. Involving communities more in the design and implementation of public interventions ensures that they meet local needs while helping to save resources. Zimbabwe's gains in primary school enrollments in the 1980s, for example, depended on community-based construction without significant government contributions. In addition, the private sector should be invited to compete in areas where market conditions do not require public sector involvement.

Improving Human Resource Investments.

55. Human resources represent the fundamental asset of any society, and their development is strategic not only for the well-being of individuals and families but for the country's future. Sustained investment in basic human capital was fundamental to the success of such countries as Malaysia, the Republic of Korea, Thailand and Indonesia. The public goods aspects of primary education and basic health care are well-established and create a strong case for the public sector to accord priority to these areas in its financial allocations. Although substantial burden-sharing between the public and household sectors is appropriate, the public sector should retain the primary responsibility for ensuring universal coverage at these primary levels. At higher levels of the service system, a greater share of resources should come from households.

56. Following remarkable gains in human resources, Zimbabwe has encountered difficulty in maintaining this effort in recent years. Continued expansion of social services has left the public sector providing too many services at too many levels for its efforts to be sustainable even during economically buoyant times. Resources are no longer concentrated on serving those most in need, with negative consequences for equity and quality. Real declines in health and education budgets in recent years, have intensified these problems. To ensure continued human development and poverty reduction, Zimbabwe needs to return to the key principles that shaped its early successes -- providing adequate resources and targeting on activities most in need of public support -- and devise burden-sharing mechanisms that will access by the poor to basic social services.

57. **Education**. Declining budget resources have eroded the quality of basic education in recent years. Government needs to rebuild the share of GDP allocated to primary education to 4-4.5 percent and seek increased cost sharing by the beneficiaries of higher education. To provide better quality education in rural areas, and correct some of the urban bias in school expenditures, per capita grant levels could be revised to increase them for rural schools and reduce them in low density suburbs, implicitly asking better-off families to contribute more.

58. School fees should be revised to ensure access to primary school education for all children and provide incentives for girls to continue attending at least through the early years of secondary school. The current exemption from fees of students in rural primary schools should be extended to high-density urban areas. A differentiated exam fee structure for 'O'-levels could also be established so as to favor rural areas.

59. With respect to the content and quality of schooling, the curriculum needs to be reviewed to ensure that it focuses on the core skills of English, mathematics and science, as this will best equip school leavers to find income-earning employment. Improving teaching would also help improve learning outcomes. Roughly a quarter of all teachers now lack formal qualifications. As these less qualified teachers are often from the community and thus are less likely to move away, focusing distance education on upgrading their skills could provide a cost-effective way of increasing the quality of teaching staff in rural areas. For the 50 percent of children who never go beyond primary school, more practical skills are needed. There are, however, limited opportunities for technical/vocational/agricultural training, and most are offered by NGOs which must charge fees that many households cannot afford. One possibility might be to provide non-transferable training vouchers to children who leave before completing high school. Failing this some other way of efficiently channeling resources into institutions that offer income earning skills training to students that don't complete secondary school needs to be developed.

60. The higher (tertiary) levels of the system, which yield more modest social returns or where returns can be more fully captured by these trained, need to generate more of their own revenue by increasing tuition and fees. At present rural households often pay 30 percent of the total cost of sending their children to primary school through uniform costs, book purchases and building levies, while university students pay as little as 2 percent of the real cost of their education. The need for technical skills in the private sector suggests that added emphasis should be placed on technical and vocational training. Student loans could be structured to create incentives for graduates to work in key areas of public service: teachers for technical institutions; medical doctors in rural areas; economists, statisticians and planners; provincial and district administrators. The public sector could pick up a large share of student loans for individuals in public service for a given number of years.

61. **Health, Population and Nutrition.** As in education, primary health care is a fundamental public investment in human welfare and economic potential which should be protected from vacillations in funding, especially in view of the AIDS pandemic. The overriding concern is to ensure that all households have access to basic health services. Achieving this necessitates restore and maintain real per capita health spending at levels adequate to ensure universal access to an essential package of services. To improve the targeting and impact of public health resources on those most in need, Government should consider focusing public resources on a smaller "core" package of services to be delivered at various levels. This approach would effectively reallocate public spending from its current mix of primary and expensive interventions toward universal assurance of basic health needs.

62. Government should continue to strengthen the referral system to increase overall system efficiency and ensure services are as cost-effective as possible while guaranteeing universal access. Among other things, this will require a fee structure that encourages .people to seek treatment of their medical needs at least costly part of the health care system that has staff, drugs and facilities to meet such needs. Changes to the fee structure in January 1994 simplified the system and encourage clients to enter at the lowest available facility. However, there is evidence that the fee exemption system under which poor people are entitled to claim free treatment has not worked well, and fees undermined access to health services for vulnerable sections of the population. Against this background, the recent abolition of fees at entry level facilities in rural areas is very welcome. Still, all fees for antenatal, maternity and child health services should also be suspended; and free basic health services, including immunizations, preventive care and infectious diseases, should be maintained. Moreover, any symbolic fees collected should be retained by the facility concerned for operations and maintenance purposes.

63. Some structural steps would also improve cost-efficiency. The distinctions between government, council and mission health facilities should be removed as far as resource allocations are concerned. Decentralization of the health delivery system,

which Ministry of Health (MOH) has been pursuing for some time, should also continue at a pace consistent with quality service delivery. However, line ministries (notably the Ministry of Finance) need to support this initiative by granting MOH greater latitude in delegating resources and control (including fee retention authority) to lower levels. Government should also help community-based programs become more effective. These programs, which are increasingly seen as necessary complements to hospital care for a number of health issues in Zimbabwe, can only be kept viable if the women who provide the services receive effective assistance. One solution is to have the 6,000 Village Community Workers return to the role for which most of them were originally trained, namely Village Health Workers. Doubling their current monthly allowance would provide a village level health system for under Z$11 million a year in direct personnel costs.

64. The spread of AIDS threatens the attainment of higher growth and poverty reduction in Zimbabwe and has already begun to reverse many of the health achievements the nation has so painstakingly accomplished. As such, it demands to be treated as a significant national economic challenge meriting resource allocations above and beyond the regular health budget. Ongoing community based and public education programs to raise and maintain public awareness and modify sexual behavior are also important.

Enhancing the Return on Assets

65. In addition to increasing poor households' stock of productive human and physical assets, steps need to be taken to increase the returns those assets can generate. This is best accomplished through the provision of physical and institutional support in the form of infrastructure and services.

a. Infrastructure to Serve the Poor and Promote Growth

66. Continued public support for water, rural transport and marketing infrastructure is justified because of their importance to equity and poverty reduction. The challenging issues are determining the level and form of public support in these areas, and preserving an efficient blend between the maintenance of existing infrastructure and its extension through new investment. With both water and rural transport, there is considerable scope for increased local government and community participation that should be pursued. For example, public health aspects of investments in drinking water and sanitation provide a convincing case for public sector support, but operations and maintenance costs should be covered by local finance. Rural transport is important to expand marketing possibilities for small scale enterprises and to increase access to social services and employment opportunities. The expansion of publicly supported marketing infrastructure contributed to the growth of smallholder agriculture in the early 1980s and private sector marketing agents will take time to replace it and, even then, prices offered in remote areas will be discounted to cover transport costs. Hence,

government may wish to maintain some level of marketing infrastructure as a support to small scale growers.

67. For potential economic growth to be realized, enhanced infrastructure will be indispensable in two sectors -- telecommunications and power. Telecommunications not only provide wider access to foreign investment, know-how and technologies, but also reduce production costs and increase productivity. Government's recent initiative to commercialize the operations of the Post and Telecommunications. Corporation (PTC) and establish two separate profit/loss centers is a move in the right direction. Experience from other countries, however, suggests that the potential for internal changes to improve sector performance is limited. As Government has decided to retain ownership of PTC, liberalization of consumer equipment and value added services would help satisfy rising demand for services. Mobilization of private sector resources through joint ventures and licensing schemes would also contribute. In the context of the ongoing study for the commercialization of PTC, priority should be accorded to developing a strategy for increasing private sector participation through such schemes. Zimbabwe's power sector has achieved high standards for reliability of services but only reaches a small share of households. An operations improvement plan for ZESA (Zimbabwe Electricity Supply Authority) has been approved, and discussions are underway to permit the utility to automatically adjust its tariffs in line with unanticipated cost increases. However, these measures will not overcome the constraints on access. What is needed is a development strategy based on detailed estimates of demand, which would identify overall investment requirements to meet demand at least cost, alternative financing mechanisms for those investments and an assessment of the impact of such mechanisms on sector development.

b. Public Services for Small-scale Producers

68. There is a lot of scope to increase productivity within the communal and resettlement areas. Yields of maize, cotton, small grains, and oilseeds can be increased through a combination of measures, including: further development and adoption of short-season planting varieties, improved pest management techniques, increased use of minimum tillage techniques, broader use of water harvesting and other water conservation techniques, and a variety of techniques to stem soil erosion and improve soil fertility. Improved husbandry practices could also bring about advances over the existing low level of livestock productivity in smallholder areas. Achieving such gains will depend, in part, on the strengthening of public agricultural services and the prioritization of the agricultural departments' activities on the technical challenges facing smallholder farmers.

69. With the recent decline in resources allocated for public agricultural research, field extension, and veterinary services, such prioritization is critical. In some areas, the private sector is already providing important research, extension, and other services, not only to large-scale farmers but also to smallholders. In some other areas, there is scope for increased public-private sector collaboration with the public sector

focusing on basic research, while applied research, trials and dissemination are delegated or contracted to private or non-profit entities. If the public sector provides services to end-users who are engaged in commercial production of crops or livestock, then many such services can be charged for, achieving full or partial cost recovery. For some services and some client groups, cost recovery may not be possible or desirable in light of strong food security or natural resource management concerns. Public agricultural services must become increasingly demand-driven, with local communities and professional field staff in the best positions to identify priorities.

70. The availability of credit is important to the growth of smallholder agriculture and other small-scale enterprises. However, it is not necessary that the public sector become heavily involved in providing this credit as it is access, not subsidization, that is important. In fact, experience in Zimbabwe and elsewhere suggests that when the public sector does become heavily involved in subsidized credit programs they are often not sustainable. Rather than providing subsidized credit, Government should focus its attention on supporting private sector banking initiatives, replicating and expanding successful group lending schemes, and helping to strengthen formal and informal savings institutions. The one notable exception, where grants or subsidies do appear to be warranted, is to enable poor people to participate in a more flexible market for agricultural land, as discussed earlier.

The Social Safety Net

71. For the many Zimbabweans who will not have the opportunity to take part in a growing economy, a social safety net is critical to ensure that basic needs can be fulfilled for all. Such a program should emphasize: (a) nutrition/food security; and (b) access to water, health, education and shelter. Those living in absolute poverty tend to be marginalized by society, living far from central services, and having more limited access to information and social services. Direct targeting of public resources to such groups will therefore usually not be effective, so self-targeting mechanisms coupled with widespread availability need to form the mainstay of a successful safety net.

72. The existence of communal land management, whereby households are given access to land where they can build a shelter and produce some of their food, is probably the most important part of the social safety net in Zimbabwe today. The second important strand in the safety net is free or virtually free access to primary education and basic health care. Additional rural area programs include: (i) food-for-work in food-deficient areas, (ii) supplementary feeding programs for vulnerable groups during drought periods, and (iii) free maize distribution when large-scale drought hits. With urbanization and increasing signs of urban poverty, however, the household food insecurity found in urban areas now needs to be addressed. The current "food money" scheme is too costly to administer and does not reach the truly needy very effectively. Subsidized whole-grain yellow maize, sold through retail outlets in high-density areas at 60-70 percent the price of white maize might largely address this concern.

4. Outcomes

A. Likely outcome if there was little further reform.

73. Provided that macro management is improved to ensure a stable overall environment, structural reforms already in place, together with the human resource investments made since independence, should yield a modest increase in growth to about 3 percent per annum. Mining expansion would probably continue. However, agricultural sector growth would remain constrained by the continuing lack of an effective land market and the declining effectiveness of public agricultural services. A modest increase in manufacturing export growth would likely be offset by concurrent contractions in the face of increased import competition, leaving overall manufacturer's growth also at about 3 percent per annum. Moreover, this development would probably continue to be relatively capital intensive and large amounts of underutilized. capacity would persist. Overall investment would probably fall back below 18 percent of GDP and the incremental capital to output ratio would remain high.

74. Without fuller integration into the world economy and improved land use, formal sector employment is not likely to expand any faster than the labor force, so unemployment would remain high and there would be little poverty reduction. Furthermore, this modest increase in growth would not generate an increase in overall public resources per capita. In fact, overall public expenditures per capital would fall slightly to reduce public sector borrowing and ensure stable macroeconomic management. Consequently, if human resource investments and other initiatives that support increased participation by the poor (e.g. rural infrastructure and services to smallholder agriculture), and safety net provisions are to keep pace with population growth, other activities would have to be targeted for the needed expenditure cuts.

75. In the absence of improved macroeconomic management, it seems likely that latent uncertainty would result in annual growth being lower than population growth. Without a reduction in overall public sector borrowing, inflationary pressure would continue and resources available for private sector initiatives would be constrained and the sustainability of the balance of payments would be at risk. The growth of formal sector employment would continue to lag behind the rate of expansion of the workforce, there would be no reduction in poverty and the sustainability of recent improvements in social indicators achieved since independence would be threatened.

B. Likely outcome with further reform.

76. Barring extreme exogenous shocks such as the severe drought of 1992, the actions outlined in section 3, (i.e. improved macroeconomic management, improved incentive environment, and more effective public expenditures) would enable Zimbabwe to achieve faster and relatively labor-intensive growth by a range of

agricultural, industrial and service activities. Some of the activities that currently appear to offer the most promising potential for rapid growth are horticulture, cotton, sugar, textiles, clothing, leather goods, wood products and tourism. However, only an integrated approach could achieve these desired results. No single initiative or activity can alone produce high overall growth, sufficient employment and rapid poverty reduction. This sustained higher growth, coupled with continued efforts to invest in human resources, expand indigenous participation and maintain a social safety net, would achieve a sustained reduction in poverty over time, but it would not reduce poverty very quickly. Moreover, higher growth and social investments would be mutually reinforcing as growth would provide increased resources for investment in human resources and other initiatives to support participation, and these would in turn help sustain higher growth.

Selected Review of Growth Possibilities.

77. ***Agriculture.*** Zimbabwe has considerable potential to expand its exports of cotton, fresh and processed horticultural products, sugar, oilseeds and several other agricultural commodities. Zimbabwean cotton has an international reputation for excellence. As long as cotton producers have adequate access to working capital and receive export-parity prices, growing domestic demand and exports could result in 7 percent per annum growth in cotton production for the remainder of the 1990s. Moreover, growth in cotton would have considerable multiplier effects in the rural areas, since smallholders account for about 70 percent of cotton production and this crop provides the largest single source of smallholder cash income.

78. If provided with a supportive policy environment and if current technical and transport constraints are alleviated, Zimbabwe's horticultural export industry may be able to achieve growth rates of 10-15 percent per annum over the next decade, thus generating several thousand new jobs each year. Considerable investments have been made in citrus production in the past five years. With the maturation of these orchards, production and exports are projected to surge over the next decade, exceeding 100,000 tons per annum by 2005, compared with exports of only 10,000 tons during the early 1990s. Since the mid-1980s, Zimbabwe has developed a rapidly expanding trade in cut flowers. International trade in cut flowers is projected to experience continued growth and Zimbabwe should be well-placed to participate in this growth provided reliable and competitively priced air transport is available. Exports of fresh and processed vegetables could also be expanded if improved linkages are developed between traders/agro-processors and small-scale farmers.

79. Zimbabwe is one of the lowest cost producers of sugar in the world and is thus likely to be increasingly competitive as preferential quotas and trade barriers are removed. The prospects are also good for Zimbabwean exports of soybeans and confectionery groundnuts. In contrast, there is limited growth potential for Zimbabwe's leading export commodity--tobacco--since international prices are projected to decline by

about 10 percent in real terms over the next decade. For Zimbabwe to maintain its world market share for tobacco, efforts will be necessary to reduce production costs and to expand the participation of smallholder farmers as they are low cost producers.

80. Domestic demand for food and agricultural raw materials will depend upon population growth and urbanization, the level and distribution of income, and industrial growth. While population growth is expected to slow to about 2.8 percent per annum, urban population growth will be considerably higher and, together with increasing incomes, result in increased demand for higher value and convenience foods (e.g. bread, packaged foods, meat and dairy products and fruits and vegetables). While maize will remain the staple food, its domestic demand growth is expected to trail population growth, as the income elasticity of demand for maize-based products is relatively low and processing is becoming more efficient.

81. Balancing little or no growth in tobacco with a potential for relatively rapid growth in horticultural, cotton, sugar, and oilseeds production and trade, suggests that an overall agricultural growth of between three and four percent per annum is achievable.

82. ***Manufacturing.*** In view of the high degree of import substitution already attained by Zimbabwe's economy, manufacturing sector growth will now depend heavily on expanding exports. In fact, it is likely that some activities will contract in the face of increased competition for their markets and their production resources. Hence, unless exports can be increased more rapidly, manufacturing sector growth is unlikely even to maintain its past modest rate; employment growth would also remain low, and the share of manufacturing in GDP may well contract.

83. Manufacturing activities with prospects for relatively rapid export-oriented growth tend not only to be labor-intensive and based on locally available inputs, but also have relatively high value-added. They include agro-processing, clothing, textiles, leather goods, and wood products. Exports of light engineering and basic electrical goods using Zimbabwe's relatively inexpensive semi-skilled labor force could also expand quite rapidly in regional markets, including South Africa. The experience of other countries demonstrates how quickly such exports can expand once producers are given a conducive policy environment. Bangladesh, for example, increased annual clothing exports from just a few million US dollars to over one billion US dollars within 10 years of establishing an environment that exempted exporters from taxes on imports and facilitated foreign investment and joint ventures with foreign production and marketing firms. Encouraging recent growth of non-traditional manufacturing exports suggests that Zimbabwe could achieve double-digit growth in manufacturing exports, provided the anti-export bias is further reduced and exporters are given effective relief from the costs of taxes on their inputs.

84. Domestic demand for locally produced manufactures will depend very heavily on growth elsewhere in the economy and the ability of producers to compete effectively

against imports. Their ability to compete depends on the extent to which they improve productivity, integrate with the international economy and transfer technological improvements to facilities manufacturing for the local market. As the demand for manufactured goods is relatively price- and income-elastic, manufacturing output for the domestic market can be expected to grow at about the same pace as overall growth, as a modest increase in import penetration is to be expected. Together with export growth of around 10 percent, this suggests manufacturing sector growth of 6 to 7 percent per annum could be achieved in the coming years. Considering the relative labor intensity of expanding activities, this would increase the rate of growth in manufacturing employment to 4-5 percent per annum.

85. ***Mining***. After growth of only 1 percent per annum during the 1980s, there has been renewed investment, and higher growth in the sector is now expected. Gold production currently constitutes over a third of mining sector earnings and is expected to achieve continued growth, with additional mines coming on stream over the next 12 months. However, the largest new investment is the US$200 million Hartley Platinum project due to begin production in 1996. Export revenue from this one project is expected to be US$130 million per year, 8 percent of Zimbabwe's current total export earnings. As this is only the first of several expected large investments in platinum mining, platinum could challenge gold as an earner of foreign exchange by the end of the 1990s. Along with this expansion of platinum will come an increase in mining sector employment. The Hartley Platinum mine alone is projected to employ about 2700 people.

86. ***Tourism.*** Tourism expanded rapidly from 0.4 percent of GDP in 1988 (US$26.4 million) to 1.8 percent in 1992 (US$102.8 million). Tourism related activities now provides about 60,000 jobs. To date, the majority of "tourists" have come from South Africa to visit friends and relatives. Zimbabwe currently receives only 1 percent of all African arrivals from Europe, compared with 9 percent for Kenya and 7 percent for South Africa.

87. Tourism is one of the fastest growing industries in the world, and Zimbabwe is well placed to participate in this growth with such resources as Victoria Falls and various national parks, in the southwest, along the Zambezi river basin and in the Eastern Highlands large numbers of wildlife. Moreover, tourism sector growth would be very labor intensive and geographically disbursed. To realize this sector's potential for growth and employment expansion, broad-based initiatives already introduced as part of ESAP need to be complemented by clear regulatory guidelines that facilitate private sector initiative and the multi-tiered pricing structure needs to be reformed to increase the share of high spending overseas tourists in total arrivals.

Prospects from a National Perspective

88. The overall portrait of growth prospects that emerges from this selective review is a blend of productivity improvements, increased production for export, and cumulative domestic market growth. Activities with bright prospects for relatively rapid growth are all targeted at external markets. While the share of the economy that has obvious potential for rapid export-oriented growth is relatively small, the realization of this potential will have far-reaching growth-inducing effects throughout the economy. The typical pattern for small countries that have achieved rapid growth has been for a combination of investments in human resources and rapid export-oriented growth by a small segment of the economy to generate sustained rapid growth for the economy as a whole. Increased exports creates an initial increase in employment, purchasing power and productivity in the economy, and this leads to secondary effects via backward linkages, an expansion of domestic demand and increases in productivity.

89. Double digit growth, as attained by East Asian countries, would require export growth of close to 20 percent per annum and this would be difficult to achieve in view of the large share of tobacco and other commodities with limited growth prospects in Zimbabwe's existing export profile. However, it is possible for Zimbabwe to achieve non-tobacco export growth of over 8 percent per annum, sustain overall economic growth of around 5 percent per annum and employment expansion of 3-5 percent per annum.

90. Improvements in productivity and increased integration into the international economy will make an important contribution to the attainment of higher growth. Maintaining investment at over 22 percent of GDP will be important, but it is equally important that the economic efficiency of investment increase. With improved efficiency, which would reduce the incremental capital-to-output ratio to about 4, growth could exceed 5 percent per annum without a further rise in investment as a share of GDP. To avoid large foreign borrowing and the subsequent constraint that debt servicing would impose on future import capacity, this investment needs to be largely financed by domestic savings or direct foreign investment. Given Zimbabwe's traditional savings rate of about 20 percent of GDP this could be achieved without any special initiatives as long as macroeconomic management is improved to provide a sound basis for confidence in its sustainability and low real interest rate levels are maintained. Direct foreign investment can be expected to contribute a larger share than it has in past years and will be important to achieve the desired integration with the world economy, but the overwhelming majority of investment should and can come from domestic sources.

91. Even the most optimistic scenario for future labor intensive growth by services, manufacturing and small-scale commercial agriculture would not provide a quick solution to current unemployment. However, as many of the activities with good

prospects for relatively rapid growth (e.g. tourism, cotton and horticulture) are labor intensive, achieving 5 percent per annum growth would expand employment by more than 3 percent per annum and hence reduce unemployment over time. Formal employment would expand by about 60,000 jobs per year (including 15,000 in small-scale enterprises), compared with an average of 15,000 per year from 1980 to 1993. Adding natural attrition of about 40,000 per year (i.e. the number of people expected to leave formal sector employment), this means that there will be openings for about 100,000 new entrants into formal sector employment per annum. Since there are about 200,000 new entrants to the workforce each year, the informal sector, including communal agriculture, will still need to absorb about 100,000 new workers per year. As the total work force is increasing at about 115,000 per annum, this means that the net increase in informal sector employment will need to be about 55,000 per annum for the remainder of the 1990s, to avoid a further increase in unemployment. In contrast, without continuing policy reform, formal employment would only grow by about 40,000 per annum, so the informal sector would have to absorb about 120,000 per annum rather than 100,000.

92. The large rise in the price of capital equipment relative to wages since 1991 (largely due to exchange rate depreciation and declines in real wages) will support this move to greater labor-intensity and hence boost employment. In spite of this net increase in employment, though, some jobs will be lost in activities that are no longer competitive in the more open economy. Facilitating the movement of labor from less to more productive work calls for policies aimed at deepening skill levels through investments in human and physical capital, augmented by the creation of an environment which motivates the private sector to take a lead in providing labor with specialized skills through suitable training. As the East Asian countries have demonstrated, achieving accelerated labor-demanding growth will depend on how effectively Zimbabwe integrates with the global economy, while raising labor incomes will depend on increasing labor productivity through rapid capital accumulation, efficient use of resources and steady technological improvements.

93. Given the concentration of Zimbabwe's poor in communal and resettlement areas and the fact that formal sector employment would only expand by about 1 percent faster than the work force, 5 percent per annum growth based on market forces alone would not reduce poverty quickly. Success in reducing poverty will depend critically on initiatives to avoid a decline in agricultural production by communal area farmers, expanded agricultural opportunities in non-communal areas arising from a judicious opening up of the land market, infrastructure to facilitate market access for products and labor from communal areas, sustained investments in human capital, and the lorger-term expansion of non-farm employment. Hence, public sector initiatives outlined in section 3C above to complement the existing assets of the poor and further increase participation will continue to be essential tools in the fight against poverty. Similarly, on-going investment in human resources and sustained reductions in barriers to entry will be important to continue the recent increase in indigenous participation.

94. Finally, though poverty would not be dramatically reduced over the next few years, a sustained reduction would be progressively achieved with this higher and more labor intensive growth and there would be additional resources available for important public sector initiatives. These include investments in primary education and basic health care. This scenario would move the economy to a sustained virtuous cycle of poverty reduction comprising a higher growth rate, improved nature of growth, expanded participation with continued investment in human resources and strategic infrastructure and services, and a strong social safety net (see the attached diagram for a summary).

Achieving Sustained Poverty Reduction and Growth

Growth rate

- 5% p.a. GDP
- 8 -10% p.a. non-tobacco exports

Nature of growth

- outward oriented
- more labor intensive
- more efficient use of capital and land
- integration of large medium - & small-scale enterprises and farm subsectors

Participation

- continued investment in human capital
- sustained social indicators
- expansion of small - scale agriculture
- increased indigenization of the economy

Safety Nets

- ensure access to basic education and health care
- communal land coupled with targeted services
- food-for-work
- supplementary feeding

Exogenous shocks

- drought
- international commodity prices

Macro management

- reduced fiscal deficit
- eliminate public enterprise losses
- concurrently ease monetary policy.

Market incentives

- improve the land market
- enable exporters to be competitive

Public expenditure

- sustain human resource investments
- focus agr. services on small-scale farmers
- focus infrastructure on poverty reduction and growth
- maintain safety net provisions