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GLOBALIZATION AND SUSTAINABLE HUMAN DEVELOPMENT: PROGRESS AND CHALLENGES FOR ZIMBABWE

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EXECUTIVE SUMMARY

1. From the Unilateral Declaration of Independence by the settlers in 1965 through 1990, the Zimbabwean economy was relatively closed and regulated. In the 1990s two structural adjustment programme were implemented. These increased the openness and decreased the regulation of the economy significantly. The adoption of the structural adjustment philosophy was intended to improve the performance of an economy which had experienced positive, albeit low, growth rates, rather than to rescue a collapsed economy as was often the case elsewhere in Africa.

Meaning, indicators and extent of globalization

2. It is thus argued that 'globalization' was policy-induced through liberalization of the economy. A distinction is made in the Study between two globalization processes. For some economies 'globalization' has occurred because of the changes within the global economy into which they were already integrated. The process was not driven by increased openness, but was rather a consequence of external changes for an already open economy. This is called '*intensive globalization*'. For many other economies, it is increased openness, which has dominated the process. This is a more *'extensive'* form of globalization. Although the movement of a globalizing economy will be the result of a mix of the two, there will be different balances between them. Zimbabwe's 'globalization' is characterized as being policy-induced and extensive. Such indicators as trade-to-GDP ratio and FDI-to-GDP ratio indicate a significant opening of the Zimbabwean economy since indepencence.

3. Emphasis on policy-induced globalization is not meant to ignore the 'world-wide' forces of globalization. These are of two inter-related but separable types. Firstly, there are those forces, which arise out of the global business environment: the developments in information technology, in transport and in financial services have created a more intensely competitive international climate. The growth of transnational corporations has meant that global investment decisions, which affect small countries like Zimbabwe are taken in boardrooms far from Zimbabwe. These forces constrain the range of options for small domestic economies to manage their response to globalization. Secondly there are forces of 'global governance'. Organisations such as the World Trade Organisation and the various regional trade groupings provide a global environment, which increasingly constrains national governments' policy options. Zimbabwe is a member of SADC and a signatory to a number of bilateral agreements with such neighbouring countries as Botswana and Malawi. Its export performance in future will depend partly on the outcomes of renegotiations of bilateral agreements and the new free trade agreement between South Africa (one of its main trading partners) and the European Union.

4. The extensive globalization which, Zimbabwe has embarked upon in the 1990s has laid the platform on which its response to intensive globalization must be built. Although the two sets of forces are working simultaneously, the distinction is useful for it suggests that the management of the economy might be different depending on the relative importance of the two processes at any point in time. During the phase in which extensive processes dominate, relatively standard policies of managing macroeconomic balance and sequencing of those policies will be to the fore. Once the scope for gains from further openness become less important, policies aimed at competitiveness and productivity growth become more important.

Economic performance and 'sustainability'

5. It is widely recognised that the Zimbabwean economy has not performed well since the introduction of the Economic Structural Adjustment Programme (ESAP). In the early days of ESAP it was possible to attribute some of the poor performance to exogenous factors, in particular the drought which devastated the economy in 1991-92. However, subsequent events have made it increasingly clear that domestic policy mismanagement is the fundamental cause. There is little question that the fiscal arena has been mismanaged to such an extent that it drives most of the other problems in the economy.

6. The main focus of the study is the impact of globalization on sustainable human development. The concept of 'sustainability' is itself problematic. Sustainability is discussed in terms of three different growth rates. First there is the ***environmental growth rate***, the *maximum* rate at which the economy can grow without causing environmental degradation. Secondly there is the ***human growth rate***, the *minimum* rate at which the economy must grow in order avoid rising poverty. Both of these rates are medium to long term constraints on the ***actual growth*** rate of the economy, which will be determined by more short-term consideration of macroeconomic sustainability. Policies designed to promote sustainable human development must concern themselves with all three growth rates.

7. The poor performance of the Zimbabwean economy during the reform period has, in many respects, left Zimbabwe in a worse position now than before the reforms. The trade balance, the current account, foreign exchange reserves, foreign debt, the budget deficit, domestic debt, unemployment and inflation are all worse now than ten years ago. There has also been a worsening of poverty and income distribution as well, as growing pressure on the environment. In terms of the two constraining growth rates referred to above, the environmental growth rate has probably fallen while the human growth rate has risen. This means that the space for determining the actual growth rate has probably been narrowed.

The evolution from import-substitution to liberalization

8. Between the Unilateral Declaration of Independence (UDI) in 1965 by Southern Rhodesia and the creation of independent Zimbabwe in 1980, the country was relatively isolated from the rest of the world. The *de facto* import-substituting industrialization stimulated by international sanctions was reinforced by the regime's response: wide-ranging controls on foreign trade and capital movements, to avert a possible balance of payments crisis. As with many regulationist schemes, these controls bred others. Price controls, subsidies and other interventions were subsequently introduced. This *dirigisme* continued well after independence; the new government believed itself to be socialist, and the control mechanisms it inherited from the settler regime accorded well with its rhetoric.

9. The Study adopts a simple 'gap accounting' framework to examine the evolution of the economy since independence. This decomposes the national accounts into three balances or 'gaps': the private-sector, the public sector and the foreign sector. It shows how Zimbabwe's post-independence macroeconomic history divides into four phases: the post-independence boom (1980-83), the 'stable' 1980s (1984-90), the 'transition' (1991-1993) and the 'globalized' 1990s (1994 to the present).

10. In the post-independence boom both the private and the public sectors had deficits, which could be accommodated by a current-account deficit since foreign aid and soft loans were readily available. By the end of 1982, however, government concern about medium-term debt implications caused it to pay more attention to macroeconomic balance. Tightening foreign exchange rationing was the main instrument for achieving this. By 1986, the current account was in small surplus. However, the government continued to pursue its social programmes, incurring a public deficit, which was accommodated by a private-sector surplus.

This was achieved by both a rise in private savings and stagnant private investment. By 1989, gross private fixed investment was only 10.9% of GDP.

11. Again, government concern with the growth consequences of low investment prompted it to begin tentative steps towards reform. To reduce the foreign exchange constraint the Government experimented with a variety of export incentive schemes, mostly entailing retention of export earnings by exporters. The formal reforms were announced in 1990 and implemented over the transition period 1991-93. The overall picture in this period looks remarkably similar to the post-independence boom of 1980-83: two reinforcing negative domestic gaps accommodated by a current account deficit. However, although the private-sector gap increased, as in 1980-83, because of a business response to the removal of previous constraints on investment, there was also a fall in private savings, related to removal of constraints on consumption. Public savings for the first time were positive, although outweighed by public investment.

12. The period after 1994 saw the current account balance improving but remaining negative. With both a rise in savings and a fall in investment, the private gap became close to zero, while the public sector gap has grew. In both the globalized period and 'stable 1980s', the public sector ran a high deficit. In the 1980s this was coupled with regulatory policies to force the current account to balance, and so there had to be a strong private-sector surplus. After 1994, however, it was the current account, which was in deficit – accommodated by rising debt – while the private-sector was balanced.

13. This gap story gives a macroeconomic overview. Underlying this is a microeconomic and trade-related story. Although the reforms after 1990 are often characterized as an export-promoting policy replacing an import-substituting one, this is not strictly correct. Zimbabwe has never deliberately followed an import-substituting industrialization strategy. The controls on trade, which stimulated import substitution, were always driven by macroeconomic concerns, not industrial policy. From 1982 onwards, there was a growth in explicit export-promoting policies. Import controls and foreign exchange rationing were maintained and tightened *solely in order to control the current account.* In other words, they were instruments of macroeconomic rather than industrial policy.

The economic reforms

14. Although the reform programme (ESAP) announced in July 1990 was not the result of an agreement between the World Bank and Zimbabwe, it contained most of the ingredients of World Bank SAPs seen elsewhere in Africa: trade liberalization, budget deficit reduction, deregulation of prices, wages, transport and investment, and commercialisation and improved efficiency of parastatals. The main differences from standard SAPs of the time were that the changes were to be phased in over a longer period than was then usual – five years – and that there was little immediate external funding to support it. Although concern with the 'social dimensions of adjustment' was expressed even in the early policy statements, this was not seen as a major part of the programme. However, during the implementation of the programme, as its negative impact on the poor became increasingly obvious, greater effort was made to develop poverty-alleviating programmes. Their initial impact was marginal, in part because of inadequate funding, but also because of poor design and implementation.

15. The successor to ESAP – ZIMPREST: *Zimbabwe Programme for Economic and Social Transformation 1996-2000* – continued the same thrust as regards macroeconomic and structural policies. However, it focused more explicitly on social dimensions: poverty, empowerment, indigenisation, and land reform.

Industrial Reforms

16. An explicit industrial policy has been slow to emerge after the reforms. The tariff regime has been reviewed and a Tariff Commission was established in 1998. A Competition Commission, dealing with problems of monopoly, was also established. However, there is no explicitly formulated industrial policy *per se*. The more important influences on industry have continued to be the side effects of other policies pursued for macroeconomic, trade and other purposes.

Agricultural Reforms

17. Globalization-induced measures in the agricultural sector included: price policies which adjust grain prices to give incentives to growers, incentives to private farmers to produce cash crops for export, relaxation of restrictions on maize sales, rationalisation of the Grain Marketing Board and ensuring of prompt payment to farm producers.

18. Major changes have occurred in the agricultural sector since the implementation of the reforms. The pre-ESAP era was characterised by guaranteed markets for agricultural produce through the state marketing parastatals. This was liberalised after 1991. The centralised crop purchasing system of the early eighties was diversified, but the majority of smallholders generally received low prices. Declining real producer prices in the 1980s were reversed in the nineties. The eighties saw impressive growth of farmer extension services; this was curtailed due to reduced resources in the nineties. The 1990s also saw a substantial reduction in the subsidies on farm inputs, which had existed in the 1980s. The growth in farmer credit was also reversed.

19. A number of these strategies have implications for use and management of natural resources. Farmer training, and research and extension resources have declined, which, combined with rising costs of farm inputs, implies that rural incomes are likely to have fallen. Increased income and food security may become an unreachable goal if these trends continue. As a result of such developments, smallholder agriculture will become extensive with increased reliance on the natural environment for survival.

20. The biggest agricultural policy success of the 1980s was to increase sales from communal farmers. However, there has been no growth since then, with the 1998 share of communal areas being the same that it was in 1984. The communal output is still very much a function of the weather, as witnessed by the sharp drops in the drought years of 1992 and 1995.

Financial Reforms

21. Reform of Zimbabwe's financial sector was a key element of ESAP. Although the sector was relatively more advanced and diversified than that in most African economies, it suffered from similar financial repression. Interest rates were fixed. The credit rationing this induced, coupled with an oligopolistic banking sector, made the system very supportive of the *status quo*. It was particularly difficult for new indigenous firms to obtain credit.

22. Nominal interest rates rose sharply with deregulation. However, because of the high rates of inflation in the transition period, real rates remained negative. Short-term interests have become higher than long term reflecting uncertain expectations about the market, there forms deregulated interest rates and permitted new players to enter. However, some interest rate controls remain, partly motivated by a desire by the government to influence allocation of investment funds.

23. The main institutional change was the liberalization of entry: Between 1990 and 1998, more than 16 financial institutions came into being. Unlike many other African countries, where state banking was more pervasive prior to reforms, these were new entrants rather than privatised stated-owned banks. However, although the numbers have grown, the new institutions remain relatively small, and it is not clear how much competition they have injected.

24. The major weakness in the financial reforms has been the failure to introduce and implement adequate legislation to monitor new entrants. A Banking Act has been promised for a number of years, but nothing has been forthcoming. There has been one bank collapse and doubtful debts of the banks are high.

Trade liberalization

25. Trade liberalization was implemented faster than any other component of the reform package and faster than envisaged in the initial policy document. The reforms began by placing some raw materials on Open General Import Licence (OGIL). These were followed by intermediate inputs and then other imports, so that most goods were on OGIL by 1994.

26. Foreign exchange allocation was phased out, leaving tariffs as the only direct protection to local industry. The exchange rate was allowed to depreciate in real terms in order to encourage a shift of resources to the export sector and sustain export competitiveness. In addition, a number of new export incentives were introduced.

27. In addition to the shift from quantitative restrictions to tariffs, tariff rates have been reduced. A rebate scheme was introduced in 1992, so that exporters do not pay duties on imported inputs.

28. The reforms may have stimulated export growth. During the pre-adjustment period (1981-90) the US$ value of exports grew by only 2.4% per annum. In the transition period this fell to an average decline of –2.6%. Between 1994 and 1998, however, export growth has averaged 5% per year. However, this latter figure masks a sharp downturn in recent years. The rate of growth was reversed in 1997 and there was a substantial decline in 1998. It is puzzling that the downturn should come in the period immediately after the sharp depreciation of the Zimbabwe dollar. One possible explanation is that the earlier growth resulted from the benefits of extensive globalization, which had been exhausted by the late nineties. This would suggest that policies focusing on intensive globalisation are now necessary to induce further growth. An alternative explanation is that the deteriorating internal macroeconomic situation inhibited export growth, particularly through high inflation and nominal interest rates. This is an area in which further research is required.

29. Liberalization of imports caused a fall in output and employment in the short run. By 1993, GDP had not risen to the level of 1990. A consumption boom led to a substantial increase in imports and a growing trade deficit. However, one cannot be certain that all these adverse effects were attributable to trade liberalization. The situation is complicated by the severe droughts, which occurred in 1992 and 1994-95.

Capital Account Reforms

30. The adjustment programme had stimulation of investment as a primary target. A number of measures were introduced to attract foreign investment. These included capital account liberalisation and institutional reforms, including the establishment of Export Processing Zones and the Zimbabwe Investment Centre. Full dividend remitablility was introduced. In 1993, exporters were allowed to source funding requirements for pre- and post-shipment finance from external banks through their local banks. This off-shore borrowing

significantly reduced the cost of finance, since lines of credit were available at 1% above LIBOR, allowing most exporters access to finance at 6% compared to a domestic average acceptance rate of 32%.

31. Consistent data to assess the true impact of these measures are not readily available, with sharp discrepancies between data from different sources. Despite these problems, there does appear to have been marginally higher flows of Foreign Investment towards the middle of the nineties. However, the increase is not significant.

32. Failure to attract substantial FDI is due to many factors. Many restrictions still remain which discourage foreign investors: limitations on the repatriation of capital and profits, pressures to enter into joint ventures with local firms, and limits on domestic borrowing – in order to borrow in the local market, the EPZs require the Reserve Bank permission. Foreign investors are limited to buying up to 25% of total equity in a company; single investors are limited to only 5% equity. Furthermore, the unstable and uncertain macroeconomic environment and an image of Africa as war-torn over shadow the good-quality infrastructure and local skilled manpower. Government ambivalence towards FDI reduced its credibility and investor confidence.

Exchange Market Reforms

33. The pre-ESAP system of administered foreign exchange allocations and extensive import licensing has been removed. The process was introduced by increasing the list of imports that could be imported on OGIL. During the transition, a dual exchange rate system operated. A proportion of foreign exchange was reserved to pay for commitments not yet liberalised — mainly debt servicing and oil imports — and was traded at an official exchange rate by the Reserve Bank of Zimbabwe. The other portion was sold to authorised dealers at a market-determined rate. As more transactions were liberalised, so the proportion of foreign exchange changed at the official rate declined. In June 1994, the official and the market rate had converged, and the system reverted back to a single rate, determined in an interbank market. Foreign exchange bureaux were permitted. Foreign currency denominated accounts were introduced in late 1993 for private individuals and in 1994 for corporate account holders.

34. Some of these reforms were reversed after the crises in 1997 and 1998. Corporate foreign currency accounts were closed but phased back in August 1999 under the IMF Agreement. Although after 1994 the Reserve Bank of Zimbabwe intervened in the foreign exchange market in orthodox ways only to iron out short-run fluctuations, it would appear since 1998 that it has used moral suasion with the banks to avoid sharp depreciations.

The impact of liberalization

35. The anticipated positive effects of the reforms have not yet been realised. The budget deficit remained high, rising to more than 10% of GDP in recent years. Government borrowing pushed up interest rates, discouraging investment and growth. Inflation has been in double-digits ranging between 20-25% per annum in the past few years, but rising to over 50% in 1999. Gross domestic investment declined from nearly 23% of GDP in the 1980s to about 18% in 1996. Total external debt more than doubled between 1985 and 1996. Although the GDP growth rate was impressive at 7.3% in 1996, in 1994 it was lower than in 1985. The import liberalization of 1990-91 led to a substantial increase in imports, accounting for a serious trade imbalance. Failure of the major donors including the World Bank to disburse funds on target forced the Government to raise short-term commercial loans. This accounts for the substantial increase in external debt.

36. The Study analyses trends in the budget in some detail, concluding that in the transition period, Government made some progress towards the targets it had set for itself under ESAP. Expenditures on both wages and salaries and on complementary recurrent expenditures were reduced in a way that would have reduced the deficit. However, these positive moves were more than offset by failure to maintain revenue generation and by rising interest payments and other transfers. The latter rose despite a reduction in subsidies on goods, mainly because of increasing grants to loss-making parastatals.

37. After the transition period, the progress made on reducing expenditures by cutting the wage bill was reversed. Although interest payments continued to contribute to rising expenditures, these were related to the rising domestic debt service rather than – as in the previous period – the consequences of devaluation for foreign debt service.

Export competitiveness

38. Has globalization raised economic efficiency in Zimbabwe through improved resource allocation and greater competition reducing production costs? The World Economic Forum ranks Zimbabwe low on its competitiveness and optimism indices, but shows higher ranking in respect of the improvement index during 1992-97.

39. The gradual disappearance of the Multi-Fibre Arrangement (MFA) and a possible restructuring of the Lomé Convention (which has hitherto protected the African countries duty-free and quota-free access to European markets), the new South Africa-European Union trade agreement, and withdrawal of export privileges may further hurt Zimbabwe's industrial and export competitiveness. Improvement in enterprise competitiveness requires macroeconomic incentives (through macroeconomic and sectoral policies), entrepreneurial education and skill formation, appropriate institutions of education and training, finance and technology support, and supply networks.

Small and Medium Enterprises

40. The majority of Zimbabwean enterprises are micro single-person operations, mostly in the informal sector. The formal sector employs only about half a million workers out of the total of 1.6 million. SMEs have grown since the introduction of ESAP. Small enterprises grew faster than medium and large ones, which may be partly because they are less affected by the appreciation of the exchange rates. It may also be symptomatic of reform failures rather than high profitability and demand. Demand for SME products may have declined as a result of a possible shift in consumption patterns in favour of cheaper imported goods.

41. A recent analysis of SME competitiveness shows that they are less outward looking than large enterprises and less active in investing in new productive capacity. This may be due partly to lack of market information, and inadequate skills at both managerial and other occupational skills. The survey also suggested a general dissatisfaction with the quality of products and services provided by SMEs.

42. SMEs continue to face barriers to entry in export markets, and thus produce mainly for the domestic market. These constraints pertain mainly to policy environment and incentives. For example: high interest rates, lack of access to finance, distorted tariff structure, policy uncertainty, cumbersome bureaucratic procedures, poor quality of local supplies, and so on and to such supply factors as excessive labour regulations, transport bottlenecks, industrial unrest, and inadequate technological support due in part to lack of subcontracting relationships between small and large enterprises.

43. Export competitiveness involves both price and quality considerations. For SMEs to compete successfully in foreign markets, it is essential that they produce better quality at lower cost. High interest rates and devaluation raise production costs, and low-quality local supplies hinder product-quality improvements. Global sourcing of inputs under globalization can help raise quality but cost competitiveness calls for cheaper finance and credit as well as imported inputs. The overseas marketing capabilities of SMEs are also rather limited, which constrains their export competitiveness. One way of overcoming this bottleneck is for SMEs to pool their output for marketing purposes.

44. There is no dearth of institutions supporting SMEs in Zimbabwe: Business Extension and Advisory Services, Small Enterprise Development Corporation (SEDCO), Chamber of Commerce Small Business Support Unit and Zimbabwe Enterprise Development Programme, and so on. They do not seem to be well co-ordinated and effective in promoting export competitiveness. Linkages between SMEs and large businesses through sub-contracting can also be stimulated Business incubators can be set up. At present such arrangements and services are not well developed. Finally, while ZIC promotes investment opportunities in general, it does not pay any particular attention to SMEs.

45. Some international collaboration between UNIDO and the Ministry of Industry and Commerce is currently underway to provide support to the SMEs. A project based on a clustering and network approach to SMEs to provide the above types of services is at a planning stage.

The Socio-economic impact of globalization

Growth and Productivity

46. In principle globalization and liberalization should lead to an acceleration of growth and productivity through greater allocative efficiency and better resource allocation. In practice, however, Zimbabwe's growth rate was lower in the 1990s (1.5%) than during the regulated UDI (1971-79) (4.2%) and 1980s (3.1%). This is below population growth, leading to a decline in per capita output. This has reduced living standards. In 1998 income per capita was lower than in 1980. The Reserve Bank of Zimbabwe's most recent productivity indices show that for the economy as a whole it rose from the base of 100 in 1990 to 103 in 1998 but declined to 99 for agriculture and 90.5 for manufacturing.

Poverty

47. Although there have been some favourable effects of liberalization on poverty alleviation, such as the shift in consumption from the formerly subsidised roller meal to the more nutritious straight-run meal, these have been overshadowed by the negative effects. These have operated mainly through increased domestic food prices relative to world prices, increased inflation rates and falling real wages. Evidence suggests that there is a high degree of nominal wage rigidity in the face of high inflation.

48. There is a general agreement that poverty has worsened since liberalization. Extreme poverty is concentrated in rural areas, where over 50% of the households cannot meet the minimum food requirements. Urban poverty is less acute, with only about 10% of the households below the poverty line. Female headed households experience proportionately more poverty than male. However, the poverty *increase* was more significant in urban than rural areas and for males than for females.

49. Data on income distribution are sparse. Those available show there is greater inequality in urban than in rural areas. In 1990-91, the highest 20% of the population accounted for over 62% of consumption whereas the lowest 20% accounted for only 4%. There are indications that income inequalities have worsened since then. At the macroeconomic level, salaries and wages fell from an average of 57% of GDP in the 1980s to 45% between 1990 and 1996.

50. It is not clear from the existing literature whether women have been hurt more than men by liberalization. The evidence cited above suggests that males suffered greater increase in poverty than females. However, the pressure to compensate for falling family incomes was felt particularly by women who carried the responsibility for the basic consumption needs of the family.

51. Non-income aspects of poverty are captured by such indicators as infant mortality rates, life expectancy, literacy, school enrolments, and so on. Many of these social indicators have deteriorated or stayed constant during the 1990s. Life expectancy at birth remained almost constant between 1990 and 1995. Access to safe water declined for the rural population.

52. In the health sector there has been a seven-fold rise in the cost of medical care between 1990 and 1997, resulting from the introduction of user fees in an attempt to recover costs. This has resulted in reduced utilisation of services. At the same time real per capita expenditure by the Ministry of Health and Child Welfare has declined. There has also been a decline in longer-term outcome indicators relating to nutritional status and patterns of morbidity and mortality. The situation has been worsened by the AIDS pandemic (over 3,000 AIDS victims die every week), which has important implications for both the health sector and the economy as a whole.

53. Education has also suffered. Recurrent public-sector expenditure on primary and secondary education has declined by more than 30% while that on Higher Education grew by about 1%. Since women are concentrated in primary education, the quality (and quantity) of women's education has probably been adversely affected. Large increases in school fees have also impacted negatively on females, being one of the main reason given for female drop outs.

54. Thus both the income and non-income aspects of poverty show a worsening trend. Although it is difficult, if not impossible to isolate the precise effects, globalization is partly responsible. Other sources of growing poverty include highly skewed land distribution. Lack of an adequate land redistribution policy and agricultural diversification are major impediments to poverty eradication in rural areas. Poverty alleviation calls for a package of policy incentives for employment generation through exports, an effective land redistribution policy, a labour-intensive growth pattern, and better access to social services for the poor. Since the extent and severity of poverty varies across regions and groups, a target approach by both the Government and aid donors is desirable. There is a general perception that the Government does not give a high priority to poverty reduction, and the subject is not a major issue in national politics. Yet this is an area in which aid donors cannot be very effective without a close and constant dialogue with the Government and participation in its priority poverty alleviation programmes.

Employment

55. Prior to liberalization, Zimbabwe had laws to prevent employers from retrenching workers without the prior permission of the Government. This contributed to low employment growth. Other factors accounting for the decline in manufacturing employment include increased global competition, high cost of borrowing and loss of the South African market and increasing capital-intensity of production. Growth in Zimbabwe has become less employment intensive over the years.

56. Employment growth was much lower for the post- than for the pre-liberalization period. The employment decline started before ESAP. Manufacturing employment increased modestly between 1975 and 1988, while public-sector employment nearly doubled. While public-sector employment declined in the wake of liberalization, private-sector employment growth slowed down.

57. Female formal-sector employment increased during the first years of the ESAP. Women are engaged primarily in low-paid occupations. Unemployment rates for women are higher than for men. The effects of globalization on women's employment need to be examined further. Has feminisation of labour occurred as a result of trade liberalization? A recent study of the cut flower industry has shown that there has been a trend to create permanent jobs for mainly women workers.

Impact of globalization on sustainable development

58. Globalization has led to both shifts in crop patterns and expansion of areas under crops. Rising fertiliser prices have pushed particularly peasant farmers to extend areas under cultivation. The increase in exports after trade liberalization and devaluation has been driven mainly by such low-technology primary products as tobacco, wood, cotton lint and minerals, which raises questions concerning environmental sustainability. Industrialization and production of manufactured goods for export can have similar effect not only on agricultural resources but also on urban environment, causing air and water pollution.

59. Deforestation is one of the major causes of environmental degradation in Zimbabwe, which has been accelerated by a shift to tradables and non-traditional exports resulting from shifts in relative prices. Besides, population pressures and poverty have also led to overgrazing and overexploitation of timber for fuelwood. The implications of globalization for deforestation need to be understood in the broader context of energy consumption.

60. Maize is a major cash crop of importance for the majority of Zimbabweans. The number of surplus producers adversely affected by decontrol and commercialisation is small, mainly surplus farmers in remote areas where the Grain Marketing Board (GMB) depots have closed down. For deficit farmers (the majority) the outcome has been even less favourable. Cotton farmers benefited from the intense competition between three large traders to purchase the cotton crop and prices rose rapidly. As most of the cotton farmers are smallholders, the decontrol has had positive impacts on both growth and equity. However, it has led to greater land use and the environment is likely to have deteriorated at a faster rate than with other crops.

61. The implication of these trends for the environment are rather difficult to work out and may even be ambiguous. However, growth in cropped area accompanied by a shrinking in area available to individual households imply the possibility of farmers "mining" the soil and encroaching on marginal land.

62. Data on changes in stocks of terrestrial biological resources are very scarce. Those available suggest that many large mammals are already very rare, not common, or in decline. Given the importance of tourism (in the process of globalization) as an attractive alternative land use, sustaining these stocks and their habitats becomes critical. Since 1994, there has been a marked decrease in poaching of rhinos and elephants. One reason is globalization, which has removed the black market for foreign currency.

Low sustainability: a constraint to globalization?

63. It appears that Zimbabwe has seen a deterioration of all three components of sustainability (noted above) in the 1990s. Income distribution has worsened and income per capita has fallen, suggesting that the 'poverty reducing' growth rate must be higher now than it was then. The 'environmental protection' growth curve has also been brought down: the environment can probably sustain a lower growth rate now than it could then.

64. The stage for conflict between the different objectives of sustainability is clearly set. On the one hand, the macroeconomic imbalances create a management imperative to rein in the budget deficit. On the other, the extent of deep poverty creates an imperative for social action. Such a conflict could exist even in a closed economy. However, openness makes the macroeconomic imperatives more binding. In an open economy with a market-determined exchange rate, internal disequilibria soon become external. Inflation, perhaps sparked by budget deficits and their financing, feed into exchange rate depreciation. With high import content of production, this further fuels inflation. The redistributional effects of this spill over into social unrest and political conflict.

65. The exact nature of the problems created by low sustainability depends on the political sphere. If government responds to the immiserisation of the population – either out of genuine concern or because of fear of loss of office – by increasing total expenditures, then the economy becomes caught in the vicious macroeconomic circle. If it does not, society gets caught in the vicious circle of unsustainable human development.

66. The lower sustainability of Zimbabwe in the 1990s could constrain its globalization efforts as follows. The economy is more open now than it was when ESAP was introduced. There has been very rapid *extensive* globalization. It seems likely that as the trade ratio gets higher, a more *intensive* form will be necessary to continue to benefit. More emphasis will have to be placed on technology. But diffusion of technological change through the economy requires human capital. However, the process of creating human capital has been undermined in the 1990s. In terms of its technical personnel Zimbabwe is possibly worse placed in 1999 to manage technical change than it was in 1989. Diffusion of technology also requires a network of firms. The deindustrialization has perhaps undermined the basis for such interactions. The conservative attitude of some managers brought up under protection may have inhibited such interaction even more.

67. Finally, the fact the economy is more macroeconomically unsustainable now than in 1990 clearly makes managing globalization more difficult. For example, the higher level of interest rate payments in the government budget make it much more difficult to tackle the budget deficit now than it was in 1990. Similarly the domestic debt burden makes government financing much more problematic.

Managing the economy under globalization

68. At a superficial level, the policies required to manage the Zimbabwean economy so as to get sustainable human development in a globalized world are well known. The major problem has been the failure to control the budget deficit. Opening up trade and the capital account before achieving some budget balance initiated a self-reinforcing process of exchange rate depreciation, monetary expansion and inflation. This had a significant income-redistributing effect, which impacted on sustainable human development.

69. The question is why was there this failure? At the initial stages of ESAP it was possible to argue that the deficit was influenced by a debt-hangover from before the reforms, or that the drought knocked everything off course. But those arguments now ring hollow. It has become clear over the years that the failure is a political failure: its roots have to be sought in the political process in Zimbabwe, not the economic.

70. The Report considers a number of sequencing issues, in which the implementers of reforms appear to have got things wrong. Although it was intended in Zimbabwe that the reforms would take place simultaneously, in practice **trade liberalization** *preceded* **macroeconomic stabilisation** (which has not yet been achieved.) In practice **trade** and **capital account liberalization** have progressed virtually simultaneously, contributing to the appreciation of the real exchange rate and thus to the poor export performance. In the financial sector, the **establishment of new banks** *preceded* **changes to the regulatory apparatus**. **Reduction of subsidies and cost recovery** were introduced *prior to* **measures to protect vulnerable groups**.

71. Individual components of the reforms have not been well implemented. Part of the deindustrialization observed is due to the competitive disadvantage placed on domestic firms by bureaucratic tardiness in implementing agreed trade reform measures. Reform of the civil service has focussed on numbers rather than quality and efficiency.

72. A private sector management culture formed in a regulatory climate may not have the skills required for an open globalized economy. In Zimbabwe the racial barriers that still exist within the management of old firms mean that the norms and culture of business are not passed on. Unfortunately the process of indigenisation has not been carried out properly. The macroeconomic instability has created an economy in which the returns to rentier capital are much higher than those to production.

73. The Report also raises the issue of the sequencing of economic reforms and environmental protection measures. In principle, since environmental protection is concerned with longer run issues, the presumption is that simultaneity is appropriate. However, lack of capacity to enforce legislated measures can undermine the credibility of environmental protection. Thus there may be a case for delaying environmental actions until it is known that there is the moral, technical and legal capacity to enforce them.

The political economy of policy implementation

74. The analysis of the Zimbabwean experience suggests that much of the poor performance during the past decade's attempts to globalize extensively have arisen because of poor domestic management of the programme. The Report argues that the problem is not the lack of sensible policies but rather the failure to ***implement*** them. An examination of the most recent statement of government's policy intentions, ZIMPREST, of the last Letter of Intent to the IMF and of proposals by independent bodies, finds there is not only a consensus on what needs to be done, but this has existed for some time.

75. The *Letter* reaffirms proposals that the government had itself made in ZIMPREST or in the previous budget. It is not clear why the IMF believes that a restatement of intentions – which had not been adhered to even when they had emanated from government itself – should be grounds for agreement. There is an underlying suggestion that government's 'commitment' needs some external force. Government committed itself to doing what it wanted to do anyway in a much shorter time frame than it had given itself under ZIMPREST.

76. Why is government's commitment to its own policies so weak? It has become commonplace in international policy debates to argue that implementation requires a sense of local ownership. However, in Zimbabwe, the government emphasises the 'home grown' nature of its policies. If the disjuncture between government's policy statements, and its actions is attributable to ownership, it is much more a question of internal ownership. These policies are designed by technicians, and it is not clear that the political powers 'own' the programmes, in the sense that they give expression to the actual convictions of government.

77. Many of the policy recommendations tend to be abstract and vague. This is explained by the failure of the political process to force choices to be made, and explains the lack of political ownership. Spelling out actual details of implementation would give rise to conflicts within government.

78. Time consistency issues raise the question of how to ensure that a government will stick to its announced policies. Various commitment technologies have been proposed: IMF conditionality, regional groupings, openness. All these schemes presuppose that the consequences of mismanagement are harmful to the mismanagers. An external commitment technology only works if there is an appropriate domestic political structure. The central issue is whether policymakers are accountable for policy failures.

79. A common argument for the failure to implement policies is the lack of capacity in the bureaucracy. This argument lends itself nicely for donor funded capacity building programmes. However, 'lack of capacity' is a relative term, which depends upon the purpose for which skills are being used. Part of the solution to lack of capacity is to make sure that the objective functions of the bureaucracy are designed to make best use of existing capacity.

Policy recommendations

80. The above considerations suggest that measures to improve government management of Zimbabwe's globalizing economy should focus on implementation strategies. Although the immediate short-run objective has to be macroeconomic stability, achievement of this objective is unlikely without institutional capacity building. Furthermore, long term considerations arising from the need to manage the economy properly under globalization, also require institutional capacity building. It is therefore convenient to group policy recommendations under these two headings.

Macroeconomic Policies

81. The central target of macroeconomic policy has to be to bring the budget process under control. The Report argues that the Government of Zimbabwe is aware of the measures needed for this: proper construction of budget targets, adherence to agreed budget allocations, reduced borrowing domestically – indeed all of the elements of good housekeeping.

82. Although budget failure is in part due to the failure of Ministries to adhere to authorized expenditure levels, the debt service burden adds a large non-discretionary element to expenditures. Short-term measures to reduce this burden are necessary. Possibilities of swapping domestic debt for foreign are being mooted; these should be explored properly.

83. However, since experience has shown that the capacity to implement these measures is limited, mechanisms to assist government in sticking to its budget proposals will be required. One important recommendation in this regard is the strengthening of Parliament's capacity to play a role in ensuring implementation. This is dealt with further under institutional capacity building.

84. Attempts to reform the Civil Service have failed in the past. There is need for further attempts to implement past proposals. There is perhaps a role for donors to support the implementation of previous recommendations.

Institutional Capacity Building

85. These measures should include:

1. *Strengthening institutions for monitoring the implementation of policies*. Parliament has a paramount role to play among the institutions of government in this regard, since it has the constitutional function of enforcement. Its technical capacity for monitoring should be strengthened. Ministries could also be assisted to make the targets and implementation of their activities more transparent. Assistance should also be targeted through civic organizations outside government.

2. *Improving internal government accounting and control procedures.* There is already a project to computerize government expenditure monitoring. Although the problem is not purely a technical one, it is clear that a speedier monitoring process is a necessary component in tackling it.

   Although the short-term need is to strengthen these institutions' capacity to ensure budget compliance, this capacity should be extended to all government policies, including those targeted at poverty reduction.

3. *Enhancing negotiating capacity.* In the context of globalization there is need for enhancing negotiating capacity, both within government and the private sector.

4. *Understanding Foreign Direct Investment.* There is a need for better data on FDI and a better understanding of the measures required to attract it. There is already a UNDP funded project to review of the opportunities, policy and institutional framework for FDI in Zimbabwe. The review will analyze the country's existing and comparative advantages in attracting FDI with a view to enhancing its role as a catalyst for innovation and capacity building. It is expected to lead to a concrete end product; an objective analysis of investment in Zimbabwe; its strengths, weaknesses, opportunities, and threats. In addition it will lead to enhanced national capacity to monitor FDI and upgraded investment information.

   There is also need for case studies of firms to provide understanding of how the business-driven forces of globalization affect Zimbabwe.

5. *Assisting Small and Medium Enterprises.* Institutional support needs to be given to assisting SMEs to develop export markets. In particular, pooled market activities need to be enhanced. ZIMTRADE may be an appropriate base from which to develop this capacity. A UNIDO project at the Ministry of Industry and Commerce is examining the potential gains from clustering and networking.

6. *Reforming land distribution.* Support is needed for appropriate land reform measures.

86. Many of these measures are concerned with bringing about growth in the short run. There is a danger in a cisis-ridden economy that policy efforts focus solely on crisis management, while apparently longer run issues are neglected. Therefore, it is important that attention is paid to longer-term issues especially concerning the environment.

Environmental Policies

87. An economy such as Zimbabwe which relies very heavily on natural resources needs to have an elaborate natural resource management policy. Given the potentially negative effects of globalisation, it seems clear that globalisation should be accompanied by a set of environmental policies designed to minimise environmental damage they may inadvertently cause.

1. *Economically Sustainable Resource Management*: Economic sustainability is an absolute must in a country so heavily reliant on its natural resources. In this case, economic sustainability is defined as ensuring a permanent stream of income in the future, equivalent to the stream of "rents" actually generated by the natural resources. In some sense it is similar to the idea of a **Perpetual Pension Fund** for the nation – how much would have to be saved to maintain the income currently received if the natural resources were so badly depleted? It is not necessary to reinvest the entire rents in order to guarantee economic sustainability; in fact, if the entire rent is reinvested, there may be an unnecessary sacrifice of consumption by the present generation for the future which the future will not find desirable!

One can develop an operational approach for this concept of economic sustainability along the lines of the "user cost" method. An essential step is the distinction between the amount of the resource income that needs to be reinvested in order to maintain a constant stream of income (the National Pension Fund) and the residual amount that can be consumed as current income: the former is a capital content and the latter value added (true income). The amount to be invested then depends on two things: the remaining life expectancy of the natural resources and the real rate of return earned on the amount saved. For example, if a country has 60 years' extraction left, it needs to set aside a much smaller portion than if it has only 30 years. Similarly, if proceeds can be reinvested at 20% rate of interest, a smaller share needs to be reinvested than if the return is 10%.

2. *Livestock-Wildlife Agriculture*: There is now a substantial literature on the economics of wildlife utilisation in Zimbabwe. The results show broadly the option of combining livestock intensification with tourist-based wildlife conservation. Given the declining real public budgets, the government should empower communities to manage their own resources and share in the benefits. Programmes like CAMPFIRE need to be reformed and extended to other natural resources. As the case of elephants and CITES has shown, aid plays an important role in the success of these programmes. However, it would be foolhardy of government to rely on donor funds as these are not sustainable in the long term. Empowerment offers a potential solution.

Policy-oriented Research

88. There are still a number of areas regarding the functioning of the Zimbabwean economy on which further knowledge is required for enabling sound action.

1. *Macroeconomic Issues*: Topics on proposed policy research include:

- factors driving inflation,
- causes of low employment elasticity of output and the nature, and
- causes and role of foreign direct investment.

2. *Issues Relating to Environment and Sustainable Development*: The following areas are recommended for further research:

Valuation and modelling: There is need to estimate damages from different ways of producing output. A cost-benefit analysis should be made in all such cases, with an ultimate objective of attaining a certain target. But this requires a good supporting database.

Data reform: There must be an appropriate database to support policy analysis. The current data as contained in the SNA must be reformulated with a view to integrating *physical* quantities and *values*. Physical data is just as important as monetary accounts. An *appropriate* and *timely* data base with these qualities is crucial but for entirely different reasons: It influences both the amount of information and response to information by policy makers and resource users; it also actually supports policy analysis under valuation and modelling/policy integration.

I. THE MEANING OF GLOBALIZATION

89. This case study of Zimbabwe is concerned with the interactions between globalization and sustainable human development. We begin setting the stage by unpacking the two central concerns, 'globalization' and 'sustainable human development'. Although the term 'globalization' is widely used in public debates, it is difficult to pin down its precise meaning: it means different things to different people. In trying to clarify its meaning for this study, it is perhaps useful to separate its *economic* interpretation from its *social*.

90. As a label for an economic process, it clearly relates to the closer integration of national economies, particularly through trade, capital and financial flows. World trade has been expanding rapidly during the 1980s. Trade as a share of GDP (a common indicator of globalization) has grown significantly. The composition of developing-country trade has shifted from primary products to manufacturing, and trade in services has expanded faster than that in manufacturing. Foreign direct investment (FDI) has grown much faster than either trade or output growth. However, FDI is concentrated mainly in the industrial and the richer of the developing countries. Since 1995, FDI inflows to developing countries have started declining due partly to the recent Asian crisis and the overall shrinking of these flows.

91. Financial globalization, the most advanced aspect of globalization, is facilitated by the internationalisation of production, the growth of global industries, the rapid pace of change in communications technology, and by financial deregulation by developing countries. In 1971 about 90 per cent of foreign exchange transactions were for the financing of trade and long-term investment and only 10 per cent were speculative (Eatwell, 1995, p. 277). Today this situation is reversed and nearly 90 per cent of all transactions are speculative. Capital account liberalization and deregulation policies adopted by developing countries during the 1980s and 1990s have also led to greater risks for investors and the financial system.

92. Some aspects of this economic globalization are not new. For example, the late nineteenth century saw similar expansion of trade and capital flows. It is the rapid pace of change in communications and transport technology, which sets the current phase of global expansion apart from earlier phases. The information technology (IT) revolution in particular has hastened the integration of global financial markets, giving the financial sector its leading role in the process.

93. These three components of globalization are economic: in essence they all focus on some aspect of 'capitalism on a world scale'[1]. There are, however, other uses of the term 'globalization' which are less economic: labels such as 'global village', 'one planet' and 'spaceship earth' emphasise the commonality and community of mankind, viewing international cooperation on environmental, social, human rights and peace issues as essential for its survival. This globalization is, perhaps paradoxically, driven by the same technological revolution as that driving economic globalization. Better communications, satellite television,

[1] Although it is unfashionable nowadays to refer to Marx (indeed, the collapse of 'actually existing socialism' was a major factor quickening the pace of globalization), it is difficult not to see strong parallels between the current phase of globalization and the Marxist vision of the expansion of capitalism on a world scale. The current global economy is much closer to Marx's vision than the late-nineteenth century ever was, in part because Marx could never have foreseen the IT revolution which gave even greater freedom to financial markets to play the role he recognised: "In its [the credit system's] first stages, this system furtively creeps in as the humble assistant of accumulation, drawing into the hands of individual or associated capitalists by invisible threads the money resources, which lie scattered in larger or smaller amounts over the surface of society; but it soon becomes a new and terrible weapon in the battle of competition and is finally transformed into an enormous social mechanism for the centralisation of capitals." (Marx, 1976). Marx the sociologist also saw the cultural aspects of globalization as an inherent part of the economic.

the worldwide web, all contribute to a perception of the world as a single unit. At the same time they have speeded up the process of cultural homogenisation that many, particularly the French, were already concerned about in the 1960s. The role of communications technology in both the financial and the cultural aspects of globalization is perhaps paradoxical because many critics of the consequences of financial and economic globalization would also argue that global awareness is necessary to solve environmental and social problems. This unifying awareness of and concern over environmental and social problems is in no small measure due to global communications.

94. The foregoing discussion approaches globalization from a global rather than a national perspective. For an individual economy, 'globalization' clearly encompasses integration into the world economy, but its connotations go beyond mere openness. There is a sense the term conveys which implies both inevitability — the process is so strong that individual countries cannot avoid it — and urgency — if countries do not 'globalize' now, they will miss the bandwagon.

95. To the extent that the global process *is* inevitable, the central question for individual economies is how this process constrains the range of national policy choices. In a global market in which money and financial assets can flow in large amounts at fast speeds, can an independent monetary policy, targeted at national objectives, be pursued? How are national social polices circumscribed by considerations of international competitiveness? These questions are, in a sense, the 'standard' questions of the globalization literature. But they can also be turned around. How is international competitiveness circumscribed by legitimate national social concerns – and how should it be? While globalization closes down certain options and paths, it opens up others. The question is, what are these trade-offs?

96. If the process were inevitable in a very narrow sense, there would be little policy choice. Countries would either follow *'the'* policy or would do badly. But obviously it is not as clear-cut as this. Within the broad process there are choices. The process probably may, at least for the foreseeable future, have closed off the options of a 'socialist path to development', but there are alternative capitalist paths. The question for national policy is how best to manage these choices.

97. Like many other countries, Zimbabwe's initiation into globalization was heralded by a structural adjustment programme, which reversed a long tradition of *dirigisme*. There is little doubt that the programme has changed the contours of the Zimbabwean economy, although it is also clear that the effects were very much the consequence of both the initial conditions and the subsequent management of the process. The structural inequalities, which had been built during the settler colonial period and which had not been greatly altered during the first decade of independence, provided the foundation for a programme which sharpened inequality and increased poverty. The inability of a populist government to exercise fiscal discipline contributed to macroeconomic disequilibrium, which then drove the income distribution process particularly through inflation. Financial liberalization in a climate of fiscal indiscipline, provided a basis for an emerging rentier class to join in the process of financial disintermediation.

98. For the reader who is more interested in globalization than Zimbabwe, the question is whether Zimbabwe's experience is symptomatic of a structural adjustment programme (SAP), whether it is an inevitable consequence of globalization or whether it is simply a result of 'local' mismanagement. We will attempt to show that, while the last of these reasons predominates, there are lessons to be drawn by a wider audience.

99. In thinking about these lessons, it is useful to separate two types of globalization. For some economies – mainly developed, industrialized OECD – 'globalization' has occurred

because of the changes within the global economy into which they were already integrated. The process is not driven by an increase in domestic openness, but is rather a consequence of external changes for an already open economy. We might call this '**intensive globalization**'. For many other economies – mainly less developed, often but not solely in sub-Saharan Africa – it is increased openness which has dominated the process. This is a more '**extensive**' form of globalization. Although in practice the actual movement in a globalizing economy will be a mix of the two, there will be different balances between them.

100. Distinguishing between these two kinds of globalization is useful, because the potential sources of growth in the two – and thus the appropriate policy emphases – are different. Under intensive globalization, it is productivity changes or shifts ion economy's efficiency frontier, which are central to growth. Under extensive globalization, the growth occurs because of a reallocation of resources. To use a different parlance, under extensive globalization, comparative advantage (based on natural resource endowments and low-wage labour) will be important; under intensive globalization, the policy maker's eye should be kept on competitive advantage, which is market and enterprise driven. The worldwide forces of globalization arise primarily out of the global business environment:the developments in information technology, transport and financial services have created a more intensely competitive international climate. The growth of transnational corporations has meant that global investment decisions, which affect small countries like Zimbabwe are taken in boardrooms far from Zimbabwe. These forces constrain the range of options for small domestic economies to manage their response to globalization. Secondly, there are forces of global governance. Organizations such as the World Trade Organization and the various regional trade groupings provide a global environment, which increasingly constrains national governments' policy options.

101. It is clear that extensive globalization will have a 'transitional' period. This terminology suggests that the economy was on one (non-globalized) path and wishes to shift to another (globalized) path. A stylised version of the concept is given in Figure 1. We assume that the globalized growth rate for an economy will be higher than the non-globalized (an assumption which accords with the consensus amongst the majority of – but not all – economists). We then show possible alternative transitional paths. The higher growth rate of the globalized economy essentially represents the gains from intensive globalization. The rising growth rates on the transitional paths represent the gains from extensive globalization.

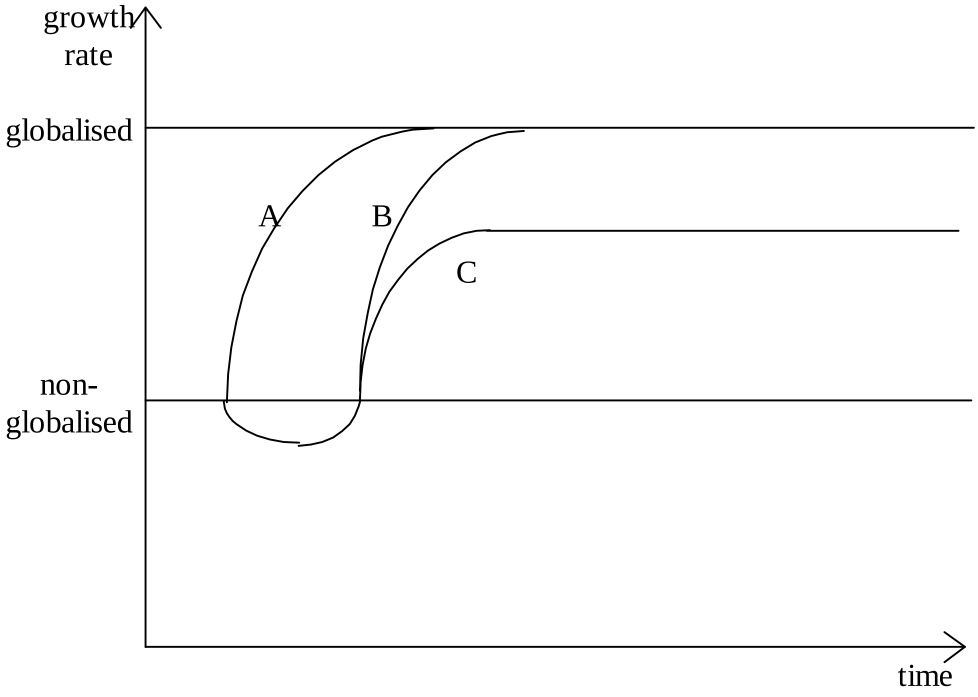

Figure 1: Stylised Transition Paths

102. If path A was possible, the only debate would be over how long the transition will take. However, even proponents of adjustment programmes recognise that path B is more likely: an initial down turn, – the 'short-run costs of transition' – with subsequent movement towards the higher path. Here the debate should be – but seldom is – about whether the longer run gains from the higher path sufficiently offset the short-run costs[2]. Such an assessment may be difficult, especially when the long term benefits are borne by different people from those who pay the costs, but it should be undertaken. A third possibility is path C – the short-term costs are not a short-run phenomenon, but actually mean that the 'long-run' path is not achievable. It is generally viewed that the economy will take path B.

103. As with many economies, Zimbabwe's most recent engagement with the global economy occurred because of the regime shift following the adoption of a structural adjustment package in 1991. The question of whether a process of structural adjustment has been motivated by external or domestic forces is somewhat artificial. Nonetheless, the process by which Zimbabwe adopted its structural adjustment programmes differs from that in other countries, particularly in Africa. In general, all of the countries were responding to the pressures resulting from the worldwide globalization process originating in the late 1970s and gaining force through the 1980s and 1990s. With the shifts in the global economy, which can be characterized as 'worldwide' globalization, the shortcomings of regulationist and relatively closed economies became more apparent. Countries were forced to rethink their international economic relations in the face of the changing global environment. This rethinking resulted in the adoption of SAPs.

[2] It is probably better to speak of the higher path as a medium run path – in the long run who knows what will happen?

104. However, there were also domestic pressures for rethinking policies. Some of the earlier African SAPs can be characterized as economic rescue packages. Ghana, Zambia and Uganda for example, faced almost total economic collapse. In Ghana, the SAP was initiated by the second Rawlings government within months of coming to power with an economic philosophy which was opposed to the central tenets of orthodox SAPs. It could be argued that the government realized very quickly that it had little option but to adopt a SAP, whether because it was convinced of the correctness of the economic rationale underlying them or, as many would argue, because it realized that adoption of a SAP was the price it had to pay for the foreign resources it needed to stage a recovery.

105. In Zimbabwe, the adoption of the Economic Structural Adjustment Programme (ESAP) came under different circumstances. The economy had not collapsed. Indeed its growth performance, though moderate, was not disastrous; with hindsight, many Zimbabweans now look back to the 1980s with nostalgia compared to the ESAP period. However, government felt that the economy should be doing better. Lack of investment, which was ascribed to the economic controls, was seen as causing low growth. The adoption of the structural adjustment philosophy was thus to improve performance rather than to rescue the economy. It could thus be argued that the domestic forces for reform were stronger relative to the global forces, than in other countries.

106. The initiation of globalization was thus because of a policy induced regime shift. It is not that the economy was already open and that the external forces of globalization then caused changes to the economy. For example, the US or the UK economies did not become more open in the 1980s because of changes in trade and capital account policies. In fact, the policies did not change in any essential ways. Rather, their increased integration was caused by globalization forces operating on the existing domestic policy regime. In Zimbabwe the regime shift opened the doors for globalization. We can thus characterise Zimbabwe's 'globalization' as being policy-induced, extensive globalization.

107. This is not to ignore the 'worldwide' forces of globalization. These are of two inter-related but separable types. Firstly, there are those forces, which arise out of the global business environment: the developments in information technology, in transport and in financial services, have created a more intensely competitive international climate. Secondly there are 'global governance' forces. Organisations such as the World Trade Organisation and institutions such as the various regional trade groupings provide a global environment, which increasingly constrains national governments' policy options.

108. It is widely recognised that the Zimbabwean economy has not performed well since the introduction of ESAP. A major analytical problem is to identify the fundamental causes of this poor performance. In the early days of ESAP it was possible to attribute some of the poor performance to exogenous factors, in particular the drought which devastated the economy in 1991-92. However, subsequent events have made it increasingly clear that domestic policy mismanagement is the fundamental cause of the poor performance. There is no question that the fiscal arena has been mismanaged to such an extent that it drives many of the other problems in the economy. The income redistribution is driven by inflation (Davies and Rattso, 1999).

109. The main focus of the study is the impact of globalization on sustainable human development. While the concept of 'sustainability' is itself problematic, and will be examined in the paper, the Zimbabwean experience also provides a case study, which can throw light on this issue. The significant strides made in the areas of education and health in the 1980s have subsequently been eroded. There is debate as to whether this erosion can be attributed to ESAP (see below under Non-income Aspects). Although some of the ESAP policies – for

example, cost recovery on social services – did undermine the progress, there is also evidence that the erosion began in the late 1980s, prior to ESAP. This raises many questions around causality, which will be explored in the study. But the fundamental question it raises, in the context of this study, is 'sustainability of what?' The current issue for Zimbabwe does not appear to be how to sustain human development, but how to get it re-started. This complex question will be further explored.

110. Most studies of globalization are concerned with its impact on domestic economies. Proponents of openness argue that there is a positive relationship between openness and growth (Sachs and Warner, 1995), although both the theoretical arguments and their empirical basis have been questioned (Toye, 1999). In so far as growth and sustainability are linked, this debate can be seen as being concerned with the impact of globalization on sustainability (see below). The question can, however, be reversed: how does the lack of sustainability of an economy affect its potential for benefiting from globalization. This is a crucial question for an economy engaging on economic reforms, which will incorporate it more into the world economy. Indeed, for many economies the initial impetus to undertake such reforms is given by their perception that their current path is, in some sense, unsustainable.

111. Viewing the consequences of globalization in this way immediately brings us to the second concern of this study – sustainability. Many economists would disagree with the assumption in Figure 1 that the non-globalized growth rate is constant. Often the argument for introducing a structural adjustment programme is that the pre-globalization path is unsustainable and that the growth rate without adjustment is likely to decline. It is therefore useful at this point to turn to some conceptual issues related to sustainability.

II. INDICATORS AND EXTENT OF GLOBALIZATION

112. In the above section we distinguished between intensive and extensive globalization suggesting that industrial countries did not open much during the period of globalization since the early 1980s since they were already open. On the other hand, in developing countries like Zimbabwe (a case of extensive globalization) a significant opening of the hitherto import-substituting economies took place during this period as is shown below.

113. To assess the extent of openness and globalization of the Zimbabwean economy we discuss below three indicators, namely, trade-to-GDP ratio, foreign direct investment (FDI)-to-GDP ratio, and relative output and employment in tradable sectors.

Trade Ratios and Regional Trade

114. The trade to GDP ratios for Zimbabwe are given in Table 1 which shows that the ratio rose from 45% in 1988 to 100% ten years later in 1998.

Table 1: Trade to GDP Ratios

1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
71.1	71.2	62.3	56.8	69.8	48.1	47.4	46.7	45.0	48.4

1990	1991	1992	1993	1994	1995	1996	1997	1998
50.6	61.2	80.1	71.0	81.1	92.6	81.8	102.2	110.9

Source: Central Statistical Office, *National Income and Expenditure Report*, various dates.

Note: The ratios are the sum of exports and imports of goods and services to current price GDP.

115. Table 2 shows how the composition of exports has changed under the reforms. Although primary exports continue to dominate overall exports, their relative significance has declined since 1990. Between 1985 and 1997 the share of non-primary exports nearly doubled whereas that of primary products declined from 84% to 73%. In part, however, this represents lower international prices for mineral exports.

Table 2: Composition of Exports (% total exports, US$)

	1985	1990	1991	1992	1993	1994	1995	1996	1997
Primary	84.2	81.3	76.5	75.6	69.8	76.4	72.6	77.1	73.0
Agricultural	51.3	50.4	48.9	46.2	45.9	59.0	47.7	56.8	52.6
Mineral	32.9	30.9	27.6	29.4	24.0	17.4	25.0	20.2	20.4
Non-Primary	15.8	18.7	23.5	24.4	30.2	23.6	27.4	22.9	27.0
Agricultural Based	3.1	3.6	5.6	4.9	5.4	4.9	5.6	4.7	6.0
Food Manufactures	0.8	1.1	4.2	1.2	2.7	1.6	2.2	1.7	2.8
Mineral Based	1.7	2.2	2.2	1.9	2.4	1.6	2.4	1.7	1.6
General	10.2	11.8	11.5	16.3	19.8	15.5	17.1	14.8	16.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Chipika and Davies (forthcoming).

116. During the 1990s Zimbabwe remained SACU's largest export destination (Kalenga, 2000). Zimbabwe's exports to South Africa rose from US$ 137 million in 1988 to US$ 334 million in 1998 (or 16 % of its total exports) (see Table 3). However, Zimbabwe's imports from South Africa are much larger: US$ 1,413 million in 1998 or 53.4% of its total imports. Thus, Zimbabwe has a large trade deficit with South Africa, which is, however, partly offset by its positive trade balances with other regional partners.

117. Zimbabwe’s trade with other SADC countries is significant. In 1996 Zimbabwe was the second most important exporter (after South Africa) to SADC, accounting for 16% of total intra-SADC exports (Tsikata, 1999). Zimbabwe’s share of intra-SADC imports in 1995 was over 42% of global imports (Stahl, 1997). Table 3 shows Zimbabwe’s trade with different regions during the 1990s. During this period Zimbabwe’s exports to the developing countries was a higher proportion of total exports than its exports to industrial countries. This contrasts with the situation in 1990 when its exports to developing countries was only 28% whereas those to industrial countries were 40%.

118. In future Zimbabwe’s export performance may be adversely affected in the wake of the expiry of Lomé IV and the negotiation of a free trade agreement between South Africa and the European Union (EU). So far Lomé IV had provided Zimbabwe’s exporters preferential access to the EU market which is now denied. It is noted that the garment producers are likely to suffer at least in the short run (Tekere, 1999). South Africa’s trade agreement with the EU can have the effect of displacing Zimbabwe’s exports to South Africa, which will face competition from cheaper imports from the EU (UNDP-PRF-IDS, 1999).

Table 3 Zimbabwe’s Trade with Different Regions (percentages of total exports and imports)

	Exports				Imports			
	1990	1994	1996	1998	1990	1994	1996	1998
Industrial Countries	40.1	43.7	35.3	49.9	37.2	34.3	26.5	24.3
United States	5.2	5.1	4.2	5.9	5.4	4.2	2.9	3.5
Japan	3.7	4.6	4.7	6.5	3.5	4.6	3.8	3.4
European Union	29.8	32.1	25.3	34.0	25.2	24.4	17.9	33.0
Developing Countries								
Africa	28.2	37.3	40.0	50.0	31.9	39.7	57.0	68.3
Asia	21.7	26.8	29.0	32.7	25.6	29.0	51.5	57.6
Latin America	4.2	6.2	6.1	11.8	3.8	5.3	3.6	9.5
	0.5	0.2	0.3	-	1.1	1.3	0.9	-
Southern Africa								
Botswana								
Malawi	4.0	4.0	4.6	-	2.7	1.3	1.6	-
South Africa	3.3	3.2	3.7	3.6	0.2	0.2	0.3	1.0
Zambia	6.0	9.6	10.1	16.0	16.7	26.1	47.3	53.4
	2,3	2.7	2.2	5.5	0.5	0.2	1.1	1.3

Source: *IMF Direction of Trade Statistics.*

119. Zimbabwe also has bilateral trade agreements with neighbouring countries especially for trade in textiles and clothing: with South Africa, Botswana and Malawi. These agreements were recently renegotiated: the new trade agreements are said to be more restrictive. For example, it is argued that they have generated uncertainty discouraging investment in the garment sector (Tekere, 1999). The expiry of Lomé IV may have also hurt investments in other sectors.

FDI to GDP Ratios

120. For Zimbabwe there are no data on actual FDI inflows, only on approvals which distorts true picture of capital inflows over time. Consistent data to assess the true impact of these measures are not readily available, and there are sharp discrepancies between data from different sources (see Table 4). FDI data have the following features:

- They include joint projects in which some of the investment is domestic. The foreign exchange component varies between 30 and 80 percent.
- They show planned investment over the life of the project, not actual annual inflows. They are approvals: implementation rates are approximately half the approval rates.

121. There nevertheless appears to be an upward trend. However, the jump in 1998 is attributable to three large infrastructural projects, which have long gestation periods and thus exaggerate the annual inflow.

122. The Business Map figures show a combination of actual and intended flows. Again there is the problem that the total intended flow over a number of years is included in the year in which the intention is announced. The UNCTAD figures supposedly give ‘gross flows’, although it is difficult to interpret the negative value in 1990. The final three sets of figures give net flows.

123. Despite the problems with the data, the table does give the impression of marginally higher flows in the mid-1990s. However, the increase is not significant.

Table 4: Foreign Investment in Zimbabwe (US$m)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
ZIC				294	672	436	951	651	2476	
BMap							3	553	321	1660
UNCTAD	-12	3	20	38	41	118	81	135	444	
WB	-34	10	6	27	80	168	36	70		
IMF	-34	3	15	32	30	98	35	110	88	
Kaliyati	13	182	-43	133	0	227				

Notes and Sources: ZIC = ‘Approvals’ : Zimbabwe Investment Centre, personal communication
Bmap = ‘intentions’: BusinessMap (1999)
UNCTAD = ‘Gross FDI’: UNCTAD (1996,1998,1999)
WB = ‘Net FDI’: World Bank (1998/99, 1999)
IMF = ‘Net FDI’: IMF (1999)
Kaliyati = ‘Net Private Capital Flows’: Kaliyati and Makina (1998)

124. Bearing the limitations of data noted above, we present in Table 5 FDI to GDP ratios based on UNCTAD data. Like the trade ratios, FDI/GDP ratios show a significant opening up of the Zimbabwe economy during the 1990s.

Table 5 FDI to GDP Ratios

Year	FDI/GDP ratio
1991	0.03
1992	0.30
1993	0.58
1994	0.59
1995	1.53
1996	0.95
1997	1.51

Sources: For FDI data, UNCTAD, *World Investment Report* 1999; for GDP data, World Bank, *African Development Indicators* 1998/99.

Relative Output and Employment in Tradable Sectors

125. Growth of output and employment in tradable sectors relative to that in non-tradable sectors (although generally not considered in the globalization literature) can also give some indication of the openness and globalization of an economy. In generalm by changing relative factor prices and depressing the exchange rate, liberalization and globalization should pronmote output and employment generation in tradable sector relative to non-tradable sector. Currency depreciation offers price incentives which should lead to a production shift in favour of tradables and goods which use domestic inputs (Muzulu, 1995).

126. One of the problems is to define tradable and non-tradable sectors. We assume that tradables include all agriculture, mining and manufacturing, whereas all the remaining economic activities are non-tradables. In practice, some of agricultural and manufacturing production may also consist of non-tradable production. Bearing this limitation in mind, we present in Table 6 the average annual rate of growth of GDP in tradable and non-tradable sectors at constant prices for different periods before and after liberalization. The table shows that the GDP growth rate during 1985-89 and 1990-94 was lower in the tradable sector. However, it exceeded the growth rate in the non-tradable sector during 1995-97.

Table 6: Growth Rates of Tradable and Non-Tradable Outputs and Prices

	GDP				Ratios	
	Constant Price		Deflator		GDP	P_t/P_{nt}
	Tradable	Non-Trad	Tradable	Non-Trad	T/NT	
1970-74	7.0	4.8	10.0	5.9	1.7	3.1
1975-79	-0.2	-2.3	5.8	13.6	2.5	-4.6
1980-84	1.7	2.2	11.0	12.6	-0.5	-1.0
1985-89	1.2	4.0	14.0	12.8	-2.4	0.7
1990-94	0.1	1.6	33.9	27.0	-1.4	2.9
1995-97	3.4	2.8	13.3	16.4	0.6	-2.1

Notes: The figures show the average annual growth rate for the period in percentages.

T- Tradables, NT- Non-tradables, P_t- price of tradables, P_{nt} - price of non-tradables.

Sources: Authors’ estimates from national accounts data.

127. Table 7 presents average annual growth rates of employment, average earnings, real product wage and value added per worker for pre-liberalization and post-liberalization periods. It shows that growth of employment in the tradable sector was negative (-2.2%) during 1980-84, when growth of employment in non-tradable sector was 3.8%. However, the employment growth rate was positive throughout the post-liberalization period, but very low during 1990s. It is not clear why employment growth was so low. One explanation may be that relative prices failed to adjust in favour of tradables. If they had, real product wages would have also increased relative to non-tradables which was true only for 1995-97. During 1990-94, real product wage growth was negative for both tradables and non-tradables and average earnings growth was only slightly higher in tradables. During 1995-97, average earnings grew slower in tradables than in non-tradables. This could reflect the fact that liberalization in the early 1990s only began to have the expected effect in the mid-1990s after a transitional period (However, subsequent data are likely to show that this effect was not sustained). Another reason for low employment growth may be that employers respond to changes in relative prices only in the long run. It is not clear whether employers shifted to more capital-intensive techniques of production (Weeks and Mosley, 1998). Empirical evidence suggests that capital-labour ratio actually declined since 1995 owing to a fall in the real value of capital stock (Muzulu, 1995).

Table 7: Growth of Employment and Earnings in Tradable and Non-Tradable Sectors

	Employment		Earnings		Average Earnings		Real Product Wage	
	Trad	Non-Trad	Trad	Non-Trad	Trad	Non-Trad	Trad	Non-Trad
1970-74	4.6	4.0	12.8	12.1	6.6	6.7	-2.2	0.6
1975-79	-1.4	-1.0	8.1	8.9	10.3	10.3	3.5	-1.9
1980-84	-2.2	3.8	18.2	16.3	22.9	10.5	7.7	-1.3
1985-89	1.4	2.9	13.3	14.2	11.1	9.9	-1.7	-1.7
1990-94	1.6	0.9	19.3	17.1	16.4	15.5	-1.0	-4.9
1995-97	0.7	2.7	18.4	25.9	17.2	21.5	14.9	3.4

	Value Added per Worker		Profits per Worker		Earnings share of GDP	
	Trad	Non-Trad	Trad	Non-Trad	Trad	Non-Trad
1970-74	1.9	0.7	4.5	0.7	-3.8	-0.1
1975-79	1.4	-1.5	0.2	-1.0	2.0	-0.5
1980-84	4.3	-1.4	2.4	-1.4	2.8	0.1
1985-89	-0.2	1.0	0.7	4.6	-1.5	-2.6
1990-94	-1.4	0.7	-1.5	6.4	-5.5	-5.4
1995-97	2.6	0.1	-1.1	-1.8	0.2	3.3

Note: The figures show the average annual growth rate for the period in percentages.

Source: Authors' estimates from national accounts data.

III. SUSTAINABILITY AND GROWTH: A CONCEPTUAL FRAMEWORK

128. In the early debates about sustainability the emphasis was on environmental sustainability. It was recognised as early as the Meadows and Club of Rome studies that economic growth, in the sense of a rise in GDP per capita, might be achieved in the short-run by eating into environmental capital. The failure of national income measures to account for environmental degradation meant that rising *measured* incomes could mask the fact that the growth was not environmentally sustainable in the long run.

129. The relationship between environmental damage and the growth rate is not fixed, since the transmission depends on the nature of growth and the environmental institutions in the country. But there does seem to be a Kuznets type U- shaped relation between environmental degradation and income per capita. Very poor countries are too poor to be able to do much damage and can therefore grow fast, as can very rich countries, which can afford to replace environmental capital[3].

130. Subsequently, the human aspect of sustainability was brought in. Because of the possibility that extreme environmental protection might neglect the need for poor people to survive by mining the environment, concepts of sustainability evolved to incorporate the need for livelihood. Protecting the environment at the expense of survival was seen as not only morally insupportable but also as objectively unviable. In the short-run, it is clear what rational self-interested agents would – and should – choose when faced with the choice of survival with environmental degradation, or environmental protection with slower short-run growth or stagnation. The notion of sustainability thus evolved to try to incorporate this potential trade-off. The issue became one of trying to avoid excessive and unnecessary degradation, where ‘unnecessary’ had connotations of going beyond some acceptable concept of meeting basic needs. Because of the relationship between politics and satisfaction of basic needs, the concept has sometimes been extended to incorporate a political dimension.

131. These two aspects of sustainability are generally thought of as being encapsulated in ‘sustainable human development’. Pezzy (1992) provides a comprehensive set of definitions gleaned from the literature. Although these two aspects are now closely integrated, for discussion purposes it is useful to treat them as separable, and to refer to the first as ‘environmental sustainability’ and the second as ‘human sustainability’[4].

132. A third and very different notion of sustainability – macroeconomic sustainability – evolved in parallel and virtually separately from these two. Economists have for long argued that macroeconomic sustainability – seen as a set of economic policies which avoid serious macroeconomic disequilibrium – is necessary for the proper functioning of the economy. This view can be traced back to standard Salter-Swan notions of achieving internal and external balance in the 1950s. In development policy terms, it came into its own in the late 1970s, with the Berg Report and the shift of the World Bank away from project towards programme lending. Recent developments in macroeconomic thinking have added sophistication to the concept. Notions of forward-looking and well-informed agents, and the introduction of the concept of time consistency, allowed the development of arguments that macroeconomic policies which carry the seeds of their own self-destruction, will not only fail in the long run,

[3] It is important here to be clear that this relates only to ‘reversible’ environmental damage, not to destruction of non-renewable resources

[4] Pezzy (1992) makes a distinction between sustainability and survivability.

but will be ineffective in the short-run. Agents will perceive the long-run unsustainability of the policies and will adopt behaviour which will negate even the short-run effects of the policies.

133. However, although economists were concerned about sustainability in this sense, there was little integration between this notion and those emanating from the environmentalists and social scientists concerned with human sustainability. Even now there is little integration of the concepts. At best there are implied overlaps between the macroeconomic and the human notions. For example, macroeconomists often argue that their concern about sustainability is not because of an inherent preference for macroeconomic sustainability in and of itself, but because macroeconomic unsustainability will negate other efforts to alleviate poverty and meet basic needs. Thus for example, in Zimbabwe, although the social programmes expanding access to education and health services in the 1980s were successful *taken by themselves*, the burden that they imposed on the Budget initiated forces which would ultimately undermine these very successes. Thus concern with their macroeconomic implications was part and parcel of a desire to maintain successful social programmes.

134. Despite this area of overlap, there has been little attempt to bring together the three components of sustainability (namely, macro, environmental and human) into one overarching concept. Once we recognise that the overall notion of sustainability has these three components, the question of the trade-offs between them comes to the fore. It is not apparent that achievement of a more sustainable path for one of the components necessarily entails a better – or worse – performance on the others. The trade-offs between the objectives of macro sustainability and social sustainability are apparent in the very vociferous criticism proponents of each make of each other. Those concerned with basic needs accuse hard-headed economists of sacrificing human welfare for some nebulous demands of institutional foreign investors (IFIs). The economists in turn criticise the proponents of basic needs of ignoring the realities of the world. These ‘debates’ often spill over onto the streets, with the citizens demanding their economic rights and accusing the government of acting in the interests of the forces of imperialism at the expense of the population. In the meantime the deep ecologists accuse both sides, but mainly the macroeconomists, of ignoring the longer-term realities of the small planet.

135. One way to fit these three separable components of sustainability together, is to interpret them individually as imposing constraints on the economy. We could define three different growth rates. The first, the ‘environmentally sustainable growth rate’ (more briefly, the ‘environmental’ growth rate) would be the *maximum* rate at which GDP per capita could grow without degrading the environment. The second, ‘the poverty-reducing growth rate’ (or the ‘human’ rate) would be the *minimum* rate at which per capita income could grow without poverty increasing. Finally, the ‘macroeconomically sustainable growth rate’ (the ‘macro’ rate) would be the maximum rate at which the economy could grow without overheating.

136. For a given economy, the environmental rate places an *upper* limit on the growth rate while human rate gives a *lower* bound. Most economists would probably argue that the actual short-term growth rate will be determined through the macroeconomic process. If there is excess demand – so that the economy is growing above the macro rate – then either ‘market forces’ or policy interventions will bring down the growth rate; if it is growing more slowly, these forces will push it up. The macro rate thus becomes an ‘equilibrium’ rather than a constraint. There are no *a priori* reasons why the environmental rate should be above or below the human rate. However, clearly the society has a problem if it is below: the immediate contradiction between the environment and humanity makes it a case for special action. Hopefully, the more normal situation is that the environmental rate is above the human rate.

137. The effects of globalization on overall sustainability will depend on the effects it has on these growth rates. These are likely to be country specific and we will explore aspects of the Zimbabwean case further in the section on the Impact of Globalization on Sustainable Human Development. A common view is that the changed composition of exports brings down the environmental rate, while the negative impact on income distribution pushes up the human rate.

IV THE EVOLUTION FROM IMPORT-SUBSTITUTION TO LIBERALIZATION

138. Between the Unilateral Declaration of Independence (UDI) in 1965 by Southern Rhodesia and the creation of independent Zimbabwe in 1980, the country was relatively isolated from the rest of the world. International sanctions against Rhodesia reduced the export-earning capacity of the economy and made imports both harder to source and more expensive. The *de facto* import-substituting industrialization this stimulated was reinforced by the regime's response to sanctions: wide-ranging controls on foreign trade and capital movements, to avert a possible balance of payments crisis. As with many regulationist schemes, these controls bred others. Price controls were subsequently introduced to prevent profiteering by those allocated foreign exchange. This *dirigisme* continued well after independence; the new government believed itself to be socialist, and the control mechanisms it inherited from the settler regime accorded well with its rhetoric.

139. To examine the evolution of the economy since independence, we adopt a simple 'gap accounting' framework, derived from the national income accounts. This decomposes the national accounts into three balances or 'gaps': the private-sector, the public sector and the foreign sector. The results are shown in Table 8 and illustrated in Figure 2.

Table 8: A 'Three-Gap' Account of Zimbabwe's Macroeconomic History Since Independence

			Domestic Gap						Foreign Gap				
		Private			Public								
	Sp	Ip	Total	Sg	Ig	Total	Is	Total	X	F	NFANTR		Total
1980	26.6	17.2	9.4	-8.5	1.9	-10.5	3.5	-4.6	30.8	33.8	-1.4	-0.2	-4.6
1981	19.5	21.3	-1.8	-1.4	2.4	-3.8	4.5	-10.2	25.9	33.4	-2.7	0.0	-10.2
1982	15.4	18.4	-3.1	-2.7	3.7	-6.4	1.3	-10.7	22.9	29.2	-3.9	-0.6	-10.7
1983	4.4	13.2	-8.7	0.7	3.4	-2.7	-3.9	-7.5	22.2	25.5	-4.1	-0.1	-7.5
1984	21.5	15.3	6.2	-3.4	4.0	-7.4	0.4	-1.6	27.3	26.7	-3.1	0.9	-1.6
1985	20.2	11.2	8.9	-3.8	3.4	-7.1	3.6	-1.8	22.6	22.4	-2.5	0.5	-1.8
1986	21.7	12.5	9.2	-3.0	3.0	-6.0	3.1	0.1	24.6	22.0	-3.1	0.7	0.1
1987	20.3	12.6	7.7	-4.4	3.8	-8.2	-1.2	0.7	24.5	21.7	-3.0	0.9	0.7
1988	23.0	11.3	11.7	-2.4	4.6	-6.9	3.2	1.5	24.2	20.8	-2.8	0.9	1.5
1989	17.9	10.9	7.0	-2.6	3.4	-6.0	1.0	0.0	23.7	22.1	-2.6	0.9	0.0
1990	17.0	14.7	2.3	-1.0	3.8	-4.8	-0.9	-1.7	23.3	23.2	-3.4	1.5	-1.7
1991	11.0	17.1	-6.0	3.1	3.9	-0.8	-1.5	-5.4	24.4	27.7	-3.4	1.4	-5.4
1992	12.2	18.3	-6.1	-0.9	4.0	-4.9	-2.1	-8.9	27.1	36.4	-4.1	4.4	-8.9
1993	18.6	19.4	-0.8	2.1	4.3	-2.2	-0.8	-2.1	30.8	32.6	-3.8	3.4	-2.1
1994	22.3	17.9	4.4	-0.6	3.5	-4.1	2.4	-2.0	34.6	36.6	-4.3	4.2	-2.0
1995	18.4	19.9	-1.5	-1.6	4.7	-6.3	-4.9	-2.9	38.3	41.0	-4.5	4.4	-2.9
1996	22.4	15.9	6.4	-4.1	2.4	-6.4	0.5	-0.5	36.7	36.5	-3.5	2.8	-0.5
1997	9.9	15.8	-5.9	-0.7	2.6	-3.3	0.1	-9.2	38.4	45.5	-5.0	2.9	-9.2
1998	11.9	15.0	-3.1	1.1	3.0	-2.0	-0.5	-4.6	47.2	49.0	-6.8	4.1	-4.6
					Period Averages								
80-83	16.5	17.5	-1.1	-2.9	2.9	-5.8	1.4	-8.2	25.5	30.5	-3.0	-0.2	-8.2
84-90	20.2	12.6	7.6	-2.9	3.7	-6.6	1.3	-0.4	24.3	22.7	-2.9	0.9	-0.4
91-93	13.9	18.2	-4.3	1.4	4.1	-2.7	-1.5	-5.5	27.4	32.2	-3.7	3.1	-5.5
94-98	17.0	16.9	0.1	-1.2	3.2	-4.4	-0.5	-3.8	39.0	41.7	-4.8	3.7	-3.8

Sources: Estimated using CSO, *National Income and Expenditure Reports*, various years.

Figure 2 shows how clearly Zimbabwe's post-independence macroeconomic history divides into four phases:

- 1980-83: the post-independence boom;
- 1984-90: the 'stable' 1980s;
- 1991-1993: the 'transition'; and
- 1994 to the present: the 'globalized' 1990s.

140. The distinguishing characteristic of these periods is how the two domestic gaps combine to give the foreign gap. In the post-independence boom both the private-sector and the public sectors had deficits; the private-sector as it attempted to invest after sanctions and because of a consumer boom resulting from minimum wages, relaxation of import restrictions

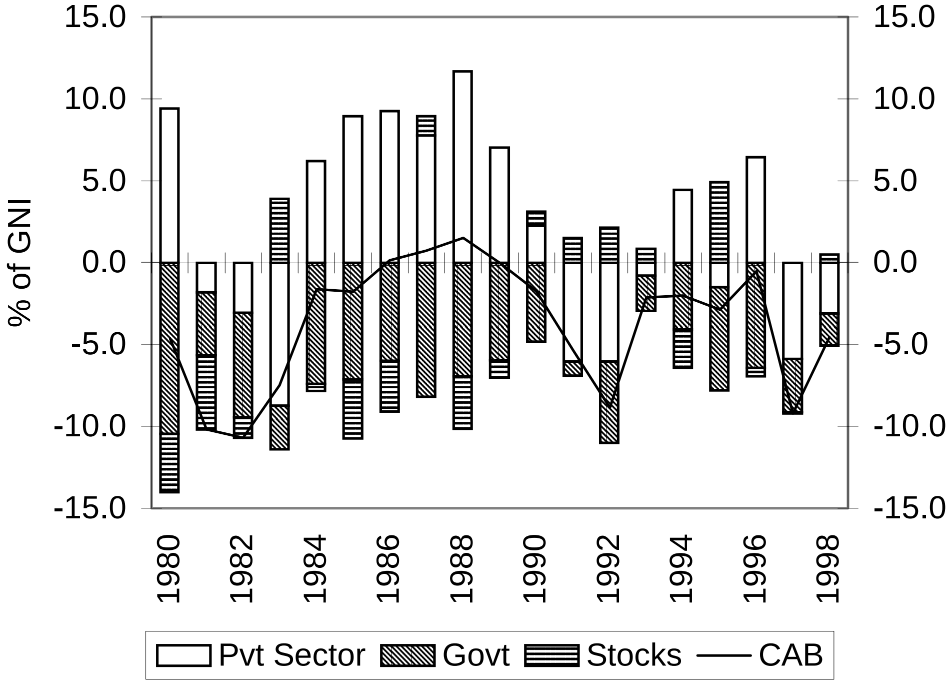

Figure 2: Private-sector Gap, Government Deficit and the Current Account Balance (CAB)

and general post-independence euphoria; the public sector as it attempted to implement its expansionary education and health programmes. The large domestic gap to which this gave rise could be accommodated by a current account deficit since foreign aid and soft loans were coming in.

141. By the end of 1982, however, government became concerned about the longer-term debt implications of the boom and began to pay more attention to macroeconomic balance. Tightening foreign exchange rationing was the main instrument for doing this. Government also entered into its first stand-by agreement with the IMF, as part of which the dollar was devalued. The Reserve Bank of Zimbabwe subsequently followed a policy of avoiding real appreciation. In many ways the origins of the moves away from *dirigisme* can be traced to this point.

142. We see the foreign gap improving from -10.7% in 1982 to +0.1% by 1986 and remaining positive until the 1990s. However, the two domestic gaps now counter-balance each other, unlike in the post-independence boom. The government continued to pursue its social programme, incurring a public deficit. For this to be accommodated, there had to be a private-sector surplus. This occurred through both a rise in private savings and stagnant private investment. By 1989, gross private fixed investment was only 10.9% of GDP, suggesting that

net investment was very low. The decline in the investment rate was largely a result of the import restrictions, which curtailed access to the necessary imported inputs.

143. Again, government became concerned with the consequences of its policies. The low investment was seen to contain problems for future growth. This was the background to the tentative steps towards reform that the government began to take in the late 1980s. Even when it resorted to import rationing in the early 1980s, government had accepted that in the longer run export expansion would be necessary to reduce the foreign exchange constraint. As well as continuing an exchange rate policy aimed at avoiding real appreciation, it experimented with a variety of export incentive schemes. Most of these entailed some form of retention of export earnings by exporters, initially to purchase inputs for exports but subsequently to import inputs for production for the domestic market. These schemes increased the proportion of foreign currency that was allocated outside the administered allocation system, so that by the end of the 1980s the larger share was not going through the official system.

144. This gap story gives a macroeconomic overview. Underlying this, however, is a microeconomic and trade-related story. Although the reforms from 1990 on are often characterized as an export-promoting policy replacing an import-substituting one, this is not strictly correct.

V. THE ECONOMIC REFORMS

Evolution of the Reforms

145. The reform programme referred to as ESAP was first announced in the Budget Statement and an accompanying statement, *Economic Policy Statement: Macroeconomic Adjustment and Trade Liberalization* (GOZ, 1990), in July 1990. A more elaborated statement, *Zimbabwe: A Framework for Economic Reform 1991-95* (GOZ, 1991), was published in early 1991 as an input into a meeting of donors held in Paris in February that year. Although the programme was not the result of an agreement between the World Bank and Zimbabwe, it contained most of the ingredients of World Bank SAPs seen elsewhere in Africa: trade liberalization, budget deficit reduction, deregulation of prices, wages, transport and investment, and commercialisation and improved efficiency of parastatals. The main differences from standard SAPs of the time were that the changes were to be phased in over a longer period than was then usual – five years – and that there was little immediate external funding to support it. It was only after the Paris meeting – some eight months after the announcement of the programme – that there were pledges of financial support from donors. Much of this support did not in fact represent additional resources but rather took the form of switching previously pledged project aid to faster disbursing programme aid.

146. Although concern with the ‘social dimensions of adjustment’ was expressed even in the early policy statements, this was not seen as a major part of the programme[5]. However, during the implementation of the programme, as its negative impact on the poor became increasingly obvious, greater effort was made to develop poverty-alleviating programmes. The Social Dimensions of Adjustment (SDA) programme was introduced in 1991 (GOZ, 1991). It

[5] In the 1990 *Policy Statement* three paragraphs of the eighty one are devoted to social dimensions. Perhaps the statement that reveals most about the change in government views is paragraph 72: “Structural adjustment programmes are usually accompanied by social problems, especially to the vulnerable segments of the society such as the poor, and unemployed. With market forces determining price levels, in the short-term prices are bound to increase beyond the reach of the poor and this can lead to social unrest. Government will therefore take measures to cushion the poor against such possible adjustment effects.” (GOZ,1990, p18) The concern with the poor was because of the trouble they might make rather than because of any inherent concern with poverty alleviation.

established a Social Development Fund (SDF) which provided financial assistance to households earning less than Z$400 per month to help them meet the increased user costs for education and health associated with ESAP. It also provided a small income supplement to offset the effects of deregulation of basic food prices. The SDF also provided introductory training courses and soft loans for retrenchees who had started new businesses.

147. The impact of the SDA was marginal. In part this was because of inadequate funding. The allocation to the SDF from the central government budget rose from its initial Z$20m in 1992/93 to Z$150m the following year, but fell to Z$50m by 1995/96. The donor funding which had been anticipated in support of this programme also fell short of expectations. However, although this funding was clearly insufficient, the SDA was also poorly designed and implemented.

148. Although the successor to ESAP – ZIMPREST: *Zimbabwe Programme for Economic and Social Transformation 1996-2000* – continues the same thrust as regards macroeconomic and structural policies, as its name suggests it focuses more explicitly on social dimensions: poverty, empowerment, indigenisation, land reform (GOZ, 1998). It has a much broader focus than its predecessor and can be regarded as more of a development programme than ESAP.

149. There have been other general policy statements and plans in the ten years since the reforms first started, most notably *Vision 2020.* However, it is not clear that these have had any effect beyond their high-profile rhetoric.

Assessment of the Reform Period

150. It may be useful to distinguish between the *real* and *financial* domestic and international policies of liberalization and globalization as follows:

(a) domestic real (e.g. industrial delicensing, removal of subsidies and privatization)

(b) domestic financial (e.g. capital market reforms and banking sector deregulation)

(c) international real (liberalization of trade and FDI) and

(d) international financial (liberalization of capital account and foreign exchange markets).

These policies and reform measures are briefly reviewed below.

Domestic Real

Industrial Policies

151. An explicit industrial policy has been slow to emerge after the reforms. The tariff regime has been reviewed and a Tariff Commission was established in 1998. A Competition Commission, dealing with problems of monopoly, was also established. However, there is no explicitly formulated industrial policy *per se.* The more important influences on industry have been the side effects of other policies pursued for macroeconomic, trade and other purposes.

152. In early 1999, the Ministry of Industry and Commerce published the *Framework for Industrial Development, Trade and Investment in Zimbabwe* (GOZ, 1999). This provides a brief outline of intentions with regard to industrial policy, with a white paper giving detailed and specific strategic and implementations plans still in the pipeline.

153. Relative manufacturing output has declined since the start of the reforms. In 1990, the manufacturing sector contributed 22.8% of GDP. By the end of the transition period this had declined to 20.7%. The latest estimates put it at 17.1% for 1998.

154. Is this fall in manufacturing output because of decline of manufacturing or faster growth of other sectors? An alternative method for assessing the contributions of each sector to the total change in GDP in a given period is to estimate constant price GDP for the initial year but with the final year value for that particular sector. The percentage change between this adjusted figure and the original shows what would have happened to GDP if output in this sector had been the only output to change. The sum of all of these will give the total change in GDP. Table 9 shows that GDP grew by a total of 19.5% between 1986 and 1990. 4.5 percentage points of this change came from the manufacturing sector: if the manufacturing sector output had been the only one to change, GDP would have changed by 4.5%.

Table 9: Sectoral Contributions To Changes In GDP (% Change)

	1986-90	1991-93	1994-98
Agriculture, Forestry and Fishing	2.5	-0.4	3.2
Mining and Quarrying	0.5	-0.2	0.0
Manufacturing	4.5	-3.5	-1.6
Electricity and Water	1.0	-0.3	-0.2
Construction	1.0	0.1	0.1
Finance and Insurance	2.3	1.0	0.9
Real Estate	0.8	0.3	0.6
Distribution, Hotels and Restaurants	4.4	-1.1	2.8
Transport and Communications	0.6	0.2	3.3
Public Administration	0.2	-0.4	-0.6
Education	0.9	0.1	1.9
Health	0.2	0.2	-0.8
Domestic Services	0.0	-0.1	0.1
Other Services, n.e.s.	0.7	0.2	0.8
Imputed Banking Services	-0.1	0.2	1.3
Total Change in GDP	19.5	-3.8	11.9

Source: Estimated from CSO, *National Income and Expenditure Reports*, various dates.

155. In this period the Distribution Sector contributed almost as much as Manufacturing, while both agriculture and finance each made significant contributions. Between them, these four sectors contributed 13.7 percentage points, accounting for 70 per cent of the total increase.

156. In the transition period, overall real GDP declined by 3.8%. The decline in the manufacturing sector alone accounted for more than this. If it were not for positive growth in Finance and other sectors, GDP would have fallen by more than 3.8%. After 1994, although we see positive growth in GDP (11.9% increase up to 1998), with most sectors growing, the manufacturing sector continues its decline.

157. This suggests that the falling share of manufacturing can be interpreted as deindustrialization rather than simply relative shifts in sector sizes.

Agricultural Reforms

158. In the 1980s government exercised strong controls over much of the agricultural sector. Most outputs – tobacco was the notable exception – could only be sold through state-owned marketing boards, falling under the umbrella of the Agricultural Marketing Authority. Prices were set administratively. Under the reforms, these controls have been relaxed, although not completely eliminated. It is now possible for producers to sell through private traders, with the marketing authorities acting as a 'purchaser of last resort'. Some of the boards have been privatised. Gradually, the government began to relax its controls on the agricultural sector. Before liberalization in 1991, it regulated the sector by using different institutional and pricing policies. To control the agricultural market it was forbidden to trade outside the authorized channels, except for local trade. But the 1991 government paper on ESAP contained extensive discussions on food, agriculture and rural-urban balance. It recommended use of price signals and increase in private market activities to promote agricultural growth. Globalization-induced measures included: price policies which adjust grain prices to give incentives to growers: incentives to private farmers to produce cash crops for export: relaxation of restrictions on maize sales and attempts to rationalise the Grain Marketing Board (GMB): ensuring of prompt payment to farm producers.

159. Major changes have occurred in the agricultural sector since the implementation of the reforms. The pre-ESAP era was characterised by guaranteed markets for agricultural produce through the state marketing parastatals. This was liberalised after 1991. The centralised crop purchasing system of the early eighties was diversified, but the majority of smallholders generally received low prices. The declining trend of real producer prices in the eighties was reversed in the nineties. The eighties saw impressive growth of farmer extension services; this was curtailed due to reduced resources in the nineties. The nineties also saw a substantial reduction in the subsidies on farm inputs which had existed in the 1980s. The growth in farmer credit of the pre-reform period was also reversed in the 1990s.

160. Two policy statements relating to agriculture have been published in the 1990s, *Zimbabwe's Agricultural Policy Framework 1995-2020* (GOZ, 1995) and *Agricultural Policy in Zimbabwe under the Economic Reform 1994-1997* (GOZ, 1996a). As with the Industrial Policy Framework, the statements emphasise intentions and goals, rather than specific instruments.

161. A number of these proposed strategies are already under strain since the implementation of ESAP. Yet other strategies may have implications for use and management of natural resources. Already farmer training, and research and extension resources have been declining in the nineties and this together with the fact the farm inputs such as fertilizers have become expensive implies that rural incomes are likely to have fallen. Thus increased income and food security may become an unreachable goal if these trends continue. As a result of such developments, smallholder agriculture will become extensive with increased reliance on the natural environment for survival. Even the proposed commercialisation goal if not properly implemented could lead to an unsustainable exploitation of natural resources, especially forests.

Table 10: Shares In Value of Crop Sales Through The Marketing Authorities (%)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Communal	5.9	10.9	11.8	9.2	14.6	20.8	18.8	14.1	22.0	19.3
Commercial	94.1	89.1	88.2	90.8	85.4	79.2	81.2	85.9	78.0	80.7
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Communal	12.4	9.2	3.7	25.5	18.4	5.3	15.5	16.2	14.9
Commercial	87.6	90.8	96.3	74.5	81.6	94.7	84.5	83.8	85.1
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Statisitcal Office, *Quarterly Digest of Statistics*, various dates.

162. Table 10 shows how the contributions of communal and commercial farmers to total sales of crops have changed since independence. The success of the 1980s was to increase sales from communal farmers. However, there has been no growth since then, with the 1998 share of communal areas being the same that it was in 1984. The communal area output is still very much a function of the weather, as witnessed by the sharp drops in the drought years of 1992 and 1995.

Domestic Financial

163. Reform of Zimbabwe's financial sector was one of the key elements of ESAP. Although it was relatively more advanced and diversified than that in most African economies, it suffered from the same financial repression found in many other countries. Interest rates were fixed by the Reserve Bank of Zimbabwe (RBZ). The credit rationing this induced, coupled with an oligopolistic banking sector, made the system very supportive of the *status quo*. It was particularly difficult for new indigenous firms to obtain credit.

164. The main thrust of the reforms was to deregulate interest rates and to allow entrance of new players. Until late 1989, the RBZ set a fixed minimum lending rate on bank overdrafts. In October 1989 it switched to setting a base rate above which the banks could set their lending rates. It was intended that this base rate would be adjusted in response to market conditions. This was seen as the first step in liberalizing the financial markets. Subsequently RBZ has shifted further to setting a rediscount rate and attempted to influence the lending rates of financial institutions through this rate. However, the financial market is not yet a completely free one. There are still some interest rate controls, partly motivated by a desire by the government to influence allocation of investment funds. For example, building society lending rates are kept lower than other rates, so as to keep housing affordable; however, this has made it extremely difficult to obtain building society loans. It has also caused some distortions in the housing market. Similarly, mortgage rates on 'speculative' building acquisition are set higher than those for industrial property purchases.

165. Nominal interest rates rose sharply with the deregulation as Table 11 shows. However, because of the high rates of inflation in the transition period, the real rates remained negative.

Table 11: Average Commercial Bank Lending Rates

	Nominal	Real
1986-90	12.7	-5.7
1991-93	27.6	-6.1
1994-98	35.4	12.8

Source: Estimated using data in Reserve Bank of Zimbabwe, *Quarterly Economic and Statistical Review*, various dates.

166. After 1993, they started to climb as inflation was brought down, becoming significantly positive. However, it seems likely that they have become negative again in 1999.

167. One noticeable trend is that the short-term interest rates have become significantly higher than the long term. In the 1980s long-term rates were on average about nine percentage points higher than the short-term rates. There was no discernible trend in the ratio. This changed around 1992. Again, if we exclude the transition period, after January 1993 the longer-term rates were, on average, 18.5 percentage points *lower* than the short. One interpretation of this is that the ratios reflect uncertain expectations about the market. Commercial banks are unwilling to tie themselves into a long-term interest rate since they are uncertain about what will happen to interest rates. Depositors are willing to make 24-month deposits because they are uncertain as to whether the high short-term rates will be sustained. We can conclude that one of the results of the reform programme has been to increase the level of uncertainty in the economy.

168. The major institutional change in the financial sector has been the liberalization of entry into what had been, from this point of view, a stagnant sector. Between 1990 and 1998, seven merchant banks, four discount houses, two commercial banks, two building societies and one finance house were created, as well as a number of insurance companies and other specialised institutions including foreign exchange bureaux, unit trusts and money market corporations. Unlike many other African countries, where state banking was more pervasive prior to reforms, these figures represent new entrants rather than privatization of formerly stated-owned banks.

169. The encouragement of new institutions was motivated by the desire to make the sector more competitive. However, although the numbers have grown, the new institutions remain relatively small players in the market, and it is not clear how much competition they have injected. Competition might be expected to reduce the spread between deposit and lending rates. This does not appear to have happened. Between 1986 and 1990 the ratio of the average overdraft rate to the average 3-month deposit rate at commercial banks was 1.42. Although it fell to 1.17 between 1991 and 1993, it has subsequently risen, to average 1.50 between January 1994 and August 1998. Although part of this rise can be explained by increased reserve requirements, it nonetheless suggests that the sector has not become noticeably more competitive.

170. Rather than affecting the interest rate spread, competition could improve the quality of service. There have been some innovations since ESAP, particularly at a technological level. Debit and credit cards have been introduced along with automated teller machines and electronic point of sale facilities. The Banks co-operated amongst themselves to introduce a network that interlinks accounts of clients of different banks. Clearly these innovations are a ‘globalization’ factor: the international pressures to keep up with banking technology are probably greater than the domestic pressures from rival banks. It is likely that they would have been introduced even without the new entrants to the banking sector. Indeed, although we do not have any evidence on this, it is more likely that the established banks have a better basis on which to innovate than do the newcomers. It is not clear that these particular service improvements have been stimulated by the deregulation of the financial sector. Undoubtedly, regulations and foreign exchange controls would have delayed their introduction by creating supply bottlenecks. But although they can be attributed to the liberalization of the economy, they cannot be attributed to increased competition amongst banks.

171. Promoting efficiency in the financial sector is motivated not by a concern with the sector itself but rather by a desire to improve the allocation of financial resources amongst other sectors. It is difficult to judge whether such an effect has been achieved.

Table 12 Outstanding Advances of Commercial Banks by Sector as % of GDP

(Period Averages)

	Agric	Mining	Manuf	Constr	Finance	Distrib	Other	Total
1986-90	14.1	6.5	6.1	3.6	8.0	4.8	3.9	6.7
1991-93	27.9	4.5	10.1	6.8	9.9	7.1	7.2	10.2
1994-96	22.6	14.3	15.4	18.1	8.2	9.9	8.4	13.1

Source: Estimated from data in Reserve Bank of Zimbabwe, *Quarterly Economic and Statistical Review*, various dates.

172. Table 12 shows outstanding stock of advances at the end of each year for each sector relative to its contribution to GDP. Total advances to the private-sector increased relative to overall GDP after 1991, rising from an average of 6.7% in the five years prior to the reforms to 10.2% in the transition period and 13.1% after 1994. The agricultural sector, which had the highest ratio before the reforms continued to do so. However, the construction sector benefited most, relatively speaking. Before the reforms it averaged 3.6% of its GDP contribution (compared to the 6.7% average across the whole private-sector); by 1994 it was receiving 18.1%.

173. Although these data give an impression of how loan allocation changed after the reforms, it is difficult to draw any inferences about changes in the *efficiency* of these allocations. To do so assumes that credit requirements are uniformly related to output across sectors, which is unlikely to be the case. They will vary with factors such as the export composition of output, the import composition of production, the nature of the production cycle, the extent of internal financing and sector-specific credit customs. We therefore cannot infer that the allocation of loans has become more efficient simply because the pattern of bank advances to sectors has become more closely aligned to their contributions to GDP. However, a decomposition of the pattern of advances shows two interesting patterns.

174. First, in the 1980s the main ‘determinant’ of the changes in advances to a particular sector was the reallocation of loans between sectors rather than the expansion of the total volume of advances. In the 1990s this has reversed. The expansion of total advances is more important, with changes in shares playing an insignificant role. This suggests that economy-wide effects played a relatively more important role after the reforms than did sector-specific effects.

175. Secondly, in the 1980s there was a relative shift of advances away from “Manufacturing”, “Finance, Insurance and Real Estate” and “Mining”, and towards “Other” and “Distribution” (which includes hotels and restaurants). After the reforms there is a relative shift in favour of “Construction”, “Finance” and “Agriculture”, out of “Other”, “Distribution” “Manufacturing” and “Mining”. The sectors benefiting most from a positive share effect are predominantly non-tradable, while the contracting sectors are tradable. The different allocative effects are inconsistent with the direction of allocations one would anticipate under a SAP. However, this does not mean that the financial-sector reforms have led to a less efficient allocation of bank loans. The figures are outcomes of both supply and demand factors and reflect as much the performance of the sectors themselves as the efficiency of the banking sector’s loan allocation mechanism. However, the net outcome is not what we might regard as desirable, and it suggests that, if the banking reforms have made it more efficient in allocating finance, the effect has been insufficiently strong to offset other effects undermining the structural adjustment.

176. The major weakness in the reforms has been the failure to introduce and implement adequate legislation to monitor new entrants. A Banking Act has been promised for a number of years, but nothing has been forthcoming. In the meantime, there have been problems caused by the fact that the issuance of a licence to operate a bank is done by the Registrar of Banks, while the responsibility for monitoring performance lies with the Reserve Bank of Zimbabwe. This has made it difficult to enforce the regulations that already exist. In May 1998, one of the new banks collapsed, affecting many other financial institutions. The immediate reason for the collapse was related to fraudulent issue of bills on behalf of a customer. However, concern had been expressed for some time about the operation of the bank and its non-compliance with basic reporting procedures.

International Real

177. Trade and foreign investment policies were reformed during the 1990-95 period. The import control, industrial licensing and fixed exchange rate associated with the colonial period were dismantled. Despite the serious drought in 1991-92, liberalization policy was not reversed.

Trade Liberalization

178. Trade liberalization was implemented faster than any other part of the reform package and faster than envisaged in the initial policy document. The reforms began in 1990 by placing some raw materials on Open General Import Licence (OGIL). These were followed in subsequent years by intermediate inputs and then other imports, so that most goods were on OGIL by 1994, with the exception of a small ‘negative list’ (including textiles and clothing).

179. Foreign exchange allocation was phased out, leaving tariffs as the only direct protection to local industry. The exchange rate was allowed to depreciate in real terms in order to encourage a shift of resources to the export sector and sustain export competitiveness. In addition, a number of new export incentives were introduced. An export retention scheme (ERS) allowed productive sectors to retain a proportion of their export earnings for the

purchase of machinery and raw materials needed to boost output. Initially, mining and agriculture were allowed to retain 5% of export earnings with manufacturing, tourism, construction and road hauliers retaining 7.5%. The proportion of these retentions was increased over time until 1994 when all exporters were allowed 100% retention.

180. In parallel with the expansion of the export retention scheme, the foreign exchange market was reformed. Initially the export retentions were for use by the exporter only. However, trading was soon permitted, introducing an element of a market determined exchange rate. As the breadth of export earnings was widened, so the amount of transactions at the market rate started to dominate. The dual system was integrated in 1994. Since then the exchange rate has been determined on an inter-bank market, with the authorities only intervening to support the dollar in conventional ways.

181. In addition to the shift from quantitative restrictions to tariffs, tariff rates have been reduced. An average nominal tariff of 16 per cent was reported in the *Trade Policy Review of Zimbabwe* for WTO of December 1994. This figure did not include the import surcharge of 15 per cent, which was subsequently reduced to 5%, although not abolished as was expected. As Table 13 shows, the effective nominal average tariffs – which include surcharges, rebates etc. – have fallen substantially since the start of the reform programme. The whole tariff structure was reviewed in 1997 and again in 1999.

Table 13: Ratio of Duty Actually Collected to Import Values

1990	1991	1992	1993	1994	1995	1996	1997	1998
24.3	24.1	22.5	19.9	15.7	13.0	13.5	14.5	13.3

Source: Import data supplied by the Central Statistical Office.

182. An Import Processing Rebate scheme was introduced in 1992, under which an exporter does not have to pay duties on imported inputs, provided he can post a bond and stores inputs. This measure was meant to overcome the burden to exporters of duty drawback system in force.

183. The trade liberalization measures have not always provided necessary incentives for export promotion. The government failed to coordinate and sequence trade liberalization with other policy changes under ESAP (e.g. exchange rate adjustment). For example, trade liberalization was implemented but not fiscal policy reforms. Continued high fiscal deficit and high interest rates hindered industrial expansion and exports. The official development assistance to finance ESAP had the effect of raising the relative prices of non-tradable and thus taxing tradable and exports (Collier and Gunning, 1992).

184. Trade liberalization caused a fall in output and employment in the short run. By 1993, GDP had not risen to the level of 1990 (see Rattso and Torvik, 1998). A consumption boom led to a substantial increase in imports and a growing trade deficit. However, one cannot be certain that all these adverse effects were attributable to trade liberalization. The situation is complicated by the severe droughts which occurred in 1992 and 1994-95. Rattso and Torvik (1998) isolated the effects of trade liberalization and concluded that 'the deficit and the deindustrialization associated with it are the high short-run price of liberalization, even if the long-run effects may be favourable' (p. 336). They believe that trade liberalization may have created uncertainty, which can well reduce further investment (including FDI) and accelerate the process of de-industrialization.

Liberalization of Capital Inflows

185. The adjustment programme had stimulation of investment as a primary target. To this end a number of measures were introduced to attract foreign investment. These included:

Capital Account Liberalization

- After May 1993, all after-tax dividends could be remitted abroad. In January 1995, restrictions on remittances of new dividends by companies were lifted. Domestic borrowing limits for foreign investors were also removed in order to attract foreign investment projects. The Zimbabwe Stock Exchange was opened to foreign players, with remittability of proceeds from sale of share subject to a 10 per cent withholding tax.
- All companies in Zimbabwe are free to borrow offshore for export-related business through commercial banks loans of up to US$5 million per loan without government approval. Loans in excess of this amount require prior approval of the External Loans Co-ordinating Committee (ELCC).
- Up to 100 per cent foreign ownership in manufacturing, mining, quarrying and mineral exploration, hotels for tourism, 70 per cent ownership in such specialised services as management consultancy and construction, and 35 per cent, in selected sectors under joint ventures. For the purpose of joint ventures, a reserve list of 15 sectors and sub-sectors (e.g. agricultural forestry, transport services, wholesale and retail trade, employment agencies, estate agencies, bakeries and grain milling, armaments manufacture, and tobacco packaging) was introduced under the Statutory Instrument 108 of 1994.

Institutional Reforms

- The Export Processing Zone Authority (EPZA) of Zimbabwe was established under the EPZ Act of 1995, as a quasi-government body whose Directors are predominantly from the private sector. Foreign investors are offered a 5-year tax holiday followed by a 15 per cent flat rate for the life of the project; exemptions from taxes (e.g. sales tax, capital gains tax and taxes on employee fringe benefits tax; duty-free imports of raw materials and capital goods; 100% repatriation of profits and liberal repatriation of proceeds from disinvestment; exemption from for EPZ firms.
- The Zimbabwe Investment Centre (ZIC) was established in November 1993, to bring together in a 'one-stop shop', all aspects of government's controls over FDI, thereby reducing the bureaucracy involved. Although it emphasizes its promotional role, it retains some control over FDI through its co-ordinating role. When it was established, It was envisaged that the importance of this function would diminish over time until, in a fully liberalized economy, it would retain only promotional functions. In practice, it proved impossible to bring together *all* regulations affecting FDI, particularly those that did so only indirectly (e.g. zoning laws). Foreign investors are still required to seek approval and, if they are in 'non-specialized' services, to find a local partner.

186. Failure to attract substantial FDI is due to many factors. Many restrictions still remain which discourage foreign investors: limitations on the repatriation of capital and profits, pressures to enter into joint ventures with local firms, and limits on domestic borrowing – in order to borrow in the local market, the EPZs require the Reserve Bank permission. Foreign investors are limited to buying up to 25 per cent of total equity in a company; single investors are limited to only 5 per cent equity. Furthermore, unstable and uncertain macroeconomic

environment (high inflation rate of 50 per cent, high budget deficits, high interest rates) and image of Africa as war-torn overshadows the good-quality infrastructure (however, telecommunications infrastructure can be improved further) and local skilled manpower. Government ambivalence towards FDI reduced its credibility and investor confidence.

International Financial

Foreign Exchange Liberalization

187. The main institutional change in the foreign exchange market has been the removal of the pre-ESAP system of administered foreign exchange allocations coupled with extensive import licensing. The process was introduced fairly rapidly by increasing the list of imports that could be imported on OGIL. During the transition, a dual exchange rate system operated. A proportion of foreign exchange was reserved to pay for commitments not yet liberalised — mainly debt servicing and oil imports — and was traded at an official exchange rate by the Reserve Bank of Zimbabwe. The other portion was sold to authorized dealers at a rate that was largely market determined. As more transactions were liberalised, so the proportion of foreign exchange exchanged at the official rate declined. In June 1994, the official and the market rate had all but converged, and the system reverted back to a single rate, determined in an inter bank market. The Reserve Bank of Zimbabwe intervened only to minimise short-term fluctuations and maintain sufficient reserves.

188. Foreign exchange bureaux were permitted. Most of those established were subsidiaries of other institutions or travel companies. They were initially excluded from the interbank market. This meant that their dealing in foreign currency had to be mediated through an authorized dealer. However, as the policy on holding foreign currency was liberalised, it appears that bureaux held their own currency balances outside the market. They were formally allowed to trade on the inter bank market after the crisis in late 1997, as government saw this as a way to get more currency onto the market.

189. Foreign currency denominated accounts were introduced in late 1993 for private individuals and in 1994 for corporate account holders. Although these were initially introduced on a ‘no questions asked’ basis to induce residents holding currency abroad to repatriate it, as requirements to sell foreign exchange earnings to the authorities were relaxed, the foreign currency accounts came to play an important role in the establishment of the inter bank market. In December 1993, foreign currency account deposits amounted to 2.6% of M2; between January 1996 and the end of 1997 they were around 8.2%, having peaked at 10.5% in February 1996.

190. Some of these reforms were reversed after the crises in 1997 and 1998. Corporate foreign currency accounts were closed, with the Reserve Bank of Zimbabwe (RBZ) arguing that they were being used for speculation. Their removal appears to have hurt not only firms that were forced to convert their holdings very rapidly, but also many exporters who were using their foreign currency accounts to smooth out the effects of currency fluctuations. In August 1999 they were phased back under the IMF Agreement; they appear to have been rebuilt relatively rapidly, partly spurred by expectations of further depreciation of the Zimbabwe dollar. In November the RBZ introduced some measures to force holders to reduce their balances.

191. Although after 1994 the RBZ intervened in the foreign exchange market in orthodox ways to iron out short-run fluctuations in the Zimbabwe dollar, it would appear after 1998 that it has used moral suasion with the banks to avoid sharp depreciations.

192. As noted above, there were a number of reforms affecting the capital account as well. Full dividend remittablility was introduced for foreign investors. In 1993 private exporters were allowed to source funding requirements for pre- and post-shipment finance from external banks through their local banks. This off-shore borrowing significantly reduced the cost of finance, since lines of credit were available at 1% above LIBOR, allowing most exporters access to finance at 6% compared to a domestic average acceptance rate of 32%.

193. Although these reforms substantially liberalised the foreign exchange market, the changes were perhaps not as stark as has been painted, since there had been a process of effectively undermining the allocation system since the mid-1980s. Many imports came in under special swap arrangements. Special schemes of export incentives were introduced in the wake of foreign exchange shortages.

Macroeconomic Indicators: Pre-liberalization and Post-liberalization Periods

194. In the short-run at least, expected positive effects of structural adjustment and reforms have not been fully realized. During the 1980s and early 1990s, the budget deficit was quite high, rising to more than 10 per cent of GDP in recent years against the target of 4.6 per cent. Government borrowing to finance such a high deficit pushed up interest rates discouraging investment and growth. In fact, high fiscal deficit was one of the major economic problems in the post-independence period. Inflation has been in double-digits ranging between 20-25 per cent per annum in the past few years. As percentage of GDP, gross domestic investment declined from nearly 23 per cent in the 1980s to about 18 per cent in 1996.

195. Total external debt more than doubled between 1985 and 1996 (see Table 15). Although the GDP growth rate was impressive at 7.3 per cent in 1996, in 1994 it was lower than in 1985. Import liberalization of 1990-91 led to a substantial increase in imports, accounting for a serious trade imbalance. Failure of the major donors including the World Bank to disburse funds on target forced the Government to raise short-term commercial loans. This accounts for the substantial increase in external debt.

196. A broad look at the performance of exports in the regulated, transition and liberalised periods suggests that the reforms may have stimulated export growth. During the pre-adjustment period (1981-90) the US$ value of exports grew by only 2.4 per cent per annum. In the transition period this fell to an average decline of –2.6%. Between 1994 and 1998 export growth has averaged 5% per year. However, this latter figure masks a sharp downturn in recent years. As Table 14 shows the rate of growth was reversed in 1997 and there was a

Table 14: Annual Change in US$ Value of Exports (%)

1991	1992	1993	1994	1995	1996	1997	1998
-13.7	-2.9	8.7	27.0	6.3	14.5	0.7	-23.6

Source: Central Statistical Office, *Quarterly Digest of Statistics*, various dates.

substantial decline in 1998. It appears that this downturn continued through 1999. Although there are numerous possible explanations for this, it is puzzling that the downturn should come in the period immediately after the sharp depreciation of the Zimbabwe dollar. One possible explanation, although we do not have evidence for this, is that the earlier growth resulted from the benefits of extensive globalization, which had been exhausted by the late nineties. This would suggest that policies focusing on intensive globalization are now necessary to induce further growth. An alternative explanation is that the deteriorating internal macroeconomic situation inhibited export growth, particularly through high inflation and nominal interest rates. This is an area in which further research is required.

197. Adverse economic conditions noted above have led the government to reverse some of the liberalization policies. For example, although export incentives were abolished in 1994, various new forms (mainly through tax reductions for exporting firms) have been experimented with since 1998. They do not yet appear to have had an effect.

Table 15: Macroeconomic Indicators of Performance (1980-98)

	Pop.	GDP at Factor Cost (1990P				CPI	Gross Public Debt of Govt		Foreign Debt		Exchange Rate		GDI
		Total		per head		Infl.			Total	Service			%
		Z$m	g	Z$	g		Total	Foreign			US$	Real	GDP
	’000		%		%	%	Z$m	%	%GDP	% Exp			%
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]	[13]
1980	7094	13485	10.1	1901	7.2	7.2	1843	22.5			0.63	70	18.8
1981	7302	14794	9.3	2026	6.4	13.9	2099	24.5			0.72	70	23.1
1982	7608	15008	1.4	1973	-2.7	14.6	2481	33.9			0.92	73	21.2
1983	7851	14476	-3.6	1844	-6.7	19.6	2853	34.6		24.6	1.11	70	15.9
1984	8101	14807	2.3	1828	-0.9	16.3	3747	38.4		27	1.50	70	18.9
1985	8387	15907	7.2	1897	3.7	9.2	4641	39.4		29.4	1.64	74	17.8
1986	8650	16199	1.8	1873	-1.3	14.2	5453	40.8	53.0	29.4	1.68	78	18.1
1987	8922	16448	1.5	1844	-1.6	11.9	6055	36.1	53.8	33.3	1.66	84	14.9
1988	9202	17422	5.8	1893	2.7	7.1	7956	39.0	45.3	27.5	1.94	86	18.7
1989	9491	18053	3.6	1902	0.5	11.6	9432	37.7	45.5	21.3	2.27	91	15.0
1990	9789	19349	6.9	1977	3.8	15.7	11326	40.8	45.2	23.1	2.64	100	17.4
1991	10096	19974	3.2	1978	0.1	23.3	16267	51.7	43.6	23.5	5.05	136	19.1
1992	10413	18885	-5.6	1814	-8.7	42.1	20402	60.8	60.9	30.0	5.48	112	20.2
1993	10779	19211	1.7	1782	-1.7	27.6	25054	63.8	66.7	30.0	6.84	114	22.8
1994	11150	20294	5.5	1820	2.1	22.3	31132	58.6	65.4	25.0	8.39	116	23.7
1995	11526	20084	-1.0	1742	-4.4	22.6	47503	48.1	60.4	19.8	9.31	113	19.7
1996	11908	21797	8.2	1830	4.9	21.4	53565	40.7	58.1	18.1	10.84	109	18.7
1997	12294	22365	2.6	1819	-0.6	18.9	59303	48.8	57.3	17.9	18.61	148	18.1
1998	12685	22708	1.5	1790	-1.6	31.7				18.6	37.37	162	17.1
						Period Averages							
1980-83		14441	4.3	1936	1.0	13.8		28.9		24.6	0.8		19.8
1984-90		16884	4.1	1888	1.0	12.3		38.9	48.6	27.3	1.9		17.3
1991-93		19357	-0.2	1858	-3.4	31.0		58.8	57.1	27.8	5.8		20.7
1994-		21450	3.3	1800	0.1	23.4		49.0	60.3	19.9	16.9		19.5

Notes: [3] and [5]: continuous growth rates

[12] 1990 = 100; rise in index means depreciation of Zimbabwe dollar

Sources: Central Statistical Office, *Quarterly Bulletin of Statistics,* various dates; Central Statistical Office, *National Income and Expenditure Report,* various dates; RBZ, *Quarterly Economic and Statistical Review,* various dates.

The Budget Deficit

198. In order to study whether the problems caused for the reform programme by the budget deficit were due to mismanagement or other, more exogenous, factors, we need to analyse trends in the budget in some detail. To do this we can decompose the proximate causes of the movements in the budget deficit. At the highest level of aggregation, we can separate out the effects of changes in revenue from changes in expenditure. This is done in Table 16.

Table 16: Effects of Changes in Revenue and Expenditure on the Budget Deficit

	1980/81 to 1984/85	1985/86 to 1989/90	1990/91 to 1992/93	1993/94 to 1997/98
	1990 Constant Z$m			
Change in Revenue	1 122	1 040	- 260	1 166
Change in Expenditure	-1 815	-1 009	- 28	-1 997
Change in Budget Deficit	- 693	31	- 288	- 831
	% of Initial Year GDP(mp) 1990			
Change in Revenue	7.5	6.0	-1.2	5.4
Change in Expenditure	-12.2	-5.8	-0.1	-9.2
Change in Budget Deficit	-4.6	0.2	-1.3	-3.8

Note: The sign on expenditure has been reversed, to show its impact on the deficit.

Source: Government of Zimbabwe, *Estimates of Expenditure*, various dates.

199. We see that the deficit increased relative to GDP in both the post-reform periods. But the proximate source of the changes is different. In the transitional period, both revenue and expenditure fell relative to GDP, but the fall in revenue was more drastic. The interpretation is that although government was succeeding in reducing its expenditure (albeit minimally), there

Table 17: Shares in Total Expenditure of Main Expenditure Categories (%)

	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98
Goods & Services	50.2	49.9	44.8	46.9	48.3	40.9	45.3	48.1	52.1
Transfers	30.7	31.3	32.7	37.2	32.0	35.5	41.4	39.8	36.9
Capital	19.1	18.9	22.5	15.9	19.7	23.6	13.3	12.1	11.0

Source: as for Table 16.

was a problem of maintaining revenues. After 1994 however, the situation reversed. Now revenue rose relative to GDP. However, expenditure rose much more dramatically. Thus we see that, over the whole reform period, 'the' reason for the deficit changed. The initial decline in revenue was perhaps to be expected. It was brought about by a combination of cuts in tax rates and reduced efficiency in tax collection, both of which could be attributed to the reforms themselves. The reduced tax rates were an intended policy objective of the reforms. The reduced efficiency was an unintended consequence of the attempts to cut the size of the civil service and to keep wage costs down, both of which led to a drain of manpower from the tax department.

200. After this transitional period, we see that it is the expenditure side, which is the main cause of the deficit. In order to see why, we can apply our decomposition technique to the expenditure side of the budget. Table 17 shows the shares in total expenditure of the main categories for each year in the post-reform period. The trends show a decline in Goods and Services (which includes wages and salaries) until 1994/95 and then a rise to the same share as in 1989-90 before the reforms. Both transfer payments and capital expenditure shares move in the opposite direction. The problem with looking simply at shares is that we cannot tell whether the change in the share of a particular component is because of a change in it, or because of a change in one of the other components. To determine this, we can use our standard decomposition technique. In Table 18 we show what the effects would have been on total expenditure if each component had been the only one to change. Thus the Table shows that total expenditure grew by 4.9% in real terms between 1989/90 and the following budget, 2.1 percentage points of which came from each of Goods and Services and Transfers, while 0.7 percentage points came from increases in real capital expenditure.

Table 18: Effects of Changes in Components on Total Expenditure

	89/90 to 90/91	90/91 to 91/92	91/92 to 92/93	92/93 to 93/94	93/94 to 94/95	94/95 to 95/96	95/96 to 96/97	96/97 to 97/98
Goods & Services	2.1	-2.9	0.1	-0.9	2.8	2.2	4.5	6.4
Transfers	2.1	2.9	3.0	-6.7	12.4	3.9	-0.2	-1.3
Capital	0.7	4.7	-7.3	2.9	9.7	-10.9	-0.7	-0.6
Total	4.9	4.8	-4.2	-4.7	24.9	-4.8	3.5	4.5

Source: as for Table 16.

201. This decomposition allows us to see, for example, that in the 1993/94 budget, when expenditure on goods and services increased its share from 46.9% to 48.3% (Table 18), this was because of the large decline in transfer payments rather than an increase in goods and services. If the only component to change between the two budgets had been goods and services, total expenditure would have declined by 0.9%. If on the other hand transfer payments had been the only change, expenditure would have fallen by 6.7%. The reason for this was a cut in subsidies of 45% in real terms. In the following year, although there was a further cut in subsidies, both ‘Interest Payments’ and ‘Other Grants and Transfers’ increased dramatically.

202. Table 19 shows the changes in total expenditure, excluding net lending, that can be attributed to changes in the shares of each expenditure item. To interpret them, consider the row for 1990/91-92/93. If the share of wages in total expenditure had changed the way it did each year, but the level of total expenditure had remained constant, then there would have been an average of Z$102 million less spent on wages each year. On the other hand, the rising share of interest payments would have contributed an extra Z$50 million on average per year. Of course, since the ratio is to total expenditure, the net effect of all the shares is zero.

Table 19: Effects of Changes in Shares of Expenditure Components (Z$ million)							
	Wages	Other	Interest Payments			Other	Capital
		G & S	Foreign	Domestic	Total	Transfers	
1979/80-82/83	-47	-123			37	61	72
1983/84-89/90	80	14			47	- 51	11
1990/91-92/93	-102	-23	24	27	50	71	3
1993/94-97/98	115	-38	-30	76	46	-76	-48

Source: as for Table 16.

203. The figures provide us with some insight into what budgetary allocations were important in each period. In the transition period, both wages and salaries and other goods and services were reduced in a way that would have significantly reduced the expenditure. In the subsequent period, however, the wage share began to rise, while allocations to other goods and services fell. This creates a picture of a government struggling to maintain civil service salaries, but doing so at the expense of complementary expenditures. We see also how interest payments took a greater share of expenditure in every period. However, in the transition period, both foreign and domestic interest payments increased. In part the rise in foreign payments reflected the declining value of the domestic dollar. In the subsequent period, the share of foreign interest payments declined, while that of domestic interest rose.

204. The conclusions we can draw from the above analysis of the *ex post* budget figures are:

- In the transition period, government did make some progress towards the targets it had set for itself under ESAP. Expenditures on both wages and salaries and on complementary recurrent expenditures were reduced in a way that would have reduced the deficit.
- However, these positive moves were more than offset by failure to maintain revenue generation and by rising interest payments and other transfers. The latter rose despite a reduction in subsidies on goods, mainly because of increasing grants to loss-making parastatals.
- After the transition period, the progress made on reducing expenditures by cutting the wage bill was reversed. Although interest payments continued to contribute to rising expenditures, these were related to the rising domestic debt service rather than – as in the previous period, the consequences of devaluations for foreign debt service.

205. This assessment of macroeconomic indicators after the reforms shows that although there were initially some positive responses, the performance since the mid-nineties has been disappointing. It is however possible to question whether this impression is accurate or whether it reflects the increasing unreliability of official statistics. For example, in 1999 despite the pervasive pessimistic views of the economy, the Stock Exchange has performed very well. The index, which stood at 6600 at the start of the year had risen to 13199 by the end of November. Furthermore, many of the listed companies have presented good results in the Annual Reports for financial years ending in 1999. This seems to be at odds with the view that the economy is performing badly. We have not explored the reasons for this, since it appears to be an area for more detailed research. However, some impressionistic observations may be made:

- Although many company reports show nominal profits increasing dramatically over the previous year, the rates of increase are not much higher than the rate of inflation.
- The stock exchange is a thin market, where small shifts in investor behaviour can lead to large changes in the index. This has been the case in earlier periods when relatively small inflows of foreign short-term capital have driven strong rises in performance.
- It is not clear how the stock market performance is related to other rentier activity in the economy.

206. Although it is possible to argue that these kinds of indicators suggest that the economy is not in as bad shape as it appears, most Zimbabweans are sceptical of such arguments. A more common perception is that the stock market reflects the worsening income distribution in the economy. A small number of entrepreneurs and rentiers have been able to benefit from the reforms but these benefits have not been translated into real growth or improvements in the standard of living for most Zimbabweans.

VI. EXPORT COMPETITIVENESS AND SMALL ENTERPRISE DEVELOPMENT

207. We noted earlier that globalization is assumed to raise economic efficiency through improved resource allocation and greater competition reducing production costs. Has this occurred in Zimbabwe? The World Economic Forum has developed a competitiveness index for 23 African countries including Zimbabwe (see Table 20). Countries are grouped into high-ranking (Botswana, Mauritius, and Tunisia), middle ranking (Kenya, Uganda and Zambia) and low ranking (Angola, Malawi, Nigeria and Zimbabwe).The index is based on an average of the following six indices: openness, government, finance, labour, infrastructure and institutions. It shows a positive correlation with the UNDP Human Development Index based on life expectancy, literacy and real per capita GDP, which suggests that national competitiveness promotes human welfare; so does human development contribute to competitiveness. Besides competitiveness index, two other indices are shown: improvement and optimism. An improvement index during 1992-97 shows the attitudes of business community towards reforms and growth. These two indices are based on a questionnaire survey which sought answers to 30 'direction of change' questions in which respondents had to rate factors affecting economic growth (a) five years ago (b) at present and (c) two years from now. Zimbabwe ranks quite low in both competitiveness and optimism indices, but shows higher ranking in respect of the improvement index during 1992-97 (Table 20).

Table 20: Competitiveness, Improvement and Optimism Indices for Zimbabwe and SACU Countries

Country	Competitiveness		Improvement (1992-97)		Optimism (1997-99)	
	Index	Rank	Index	Rank	Index	Rank
Zimbabwe	-40.0	20	18.37	6	9.65	16
South Africa	+0.34	7	9.22	16	3.61	20
Botswana	+0.54	3	9.60	15	8.99	18
Lesotho	+0.06	10	–		–	
Namibia	+0.43	4	10.02	13	6.99	19
Swaziland	+0.22	8	–		–	

Source: *World Economic Forum* (1998).

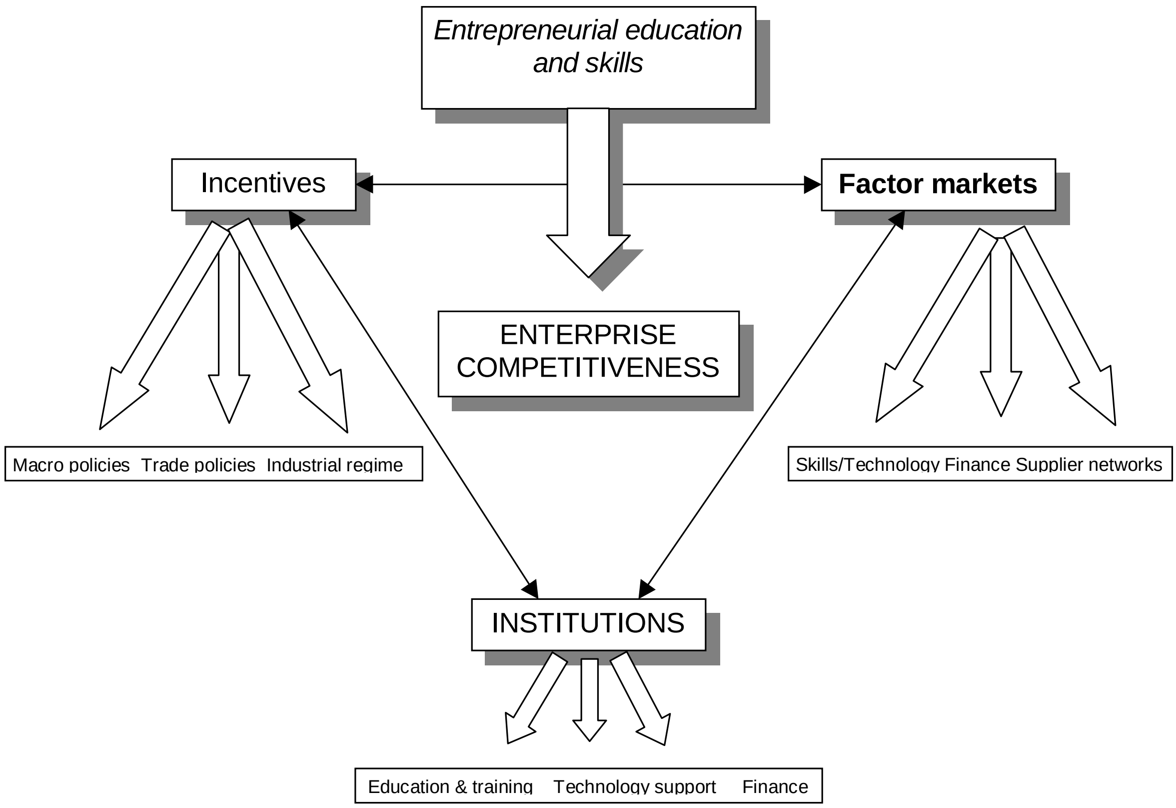

Figure 3: Policy Triangle for Achieving Competitiveness
Source: Lall *et al.* (1999).

208. The gradual disappearance of the Multi-Fibre Arrangement (MFA) and a possible restructuring of the Lomé Convention (which has hitherto protected the African countries duty-free and quota-free access to European markets), the new South Africa-European Union trade agreement, and withdrawal of export privileges may further hurt Zimbabwe's industrial and export competitiveness. Improvement in enterprise competitiveness requires macroeconomic incentives (through macroeconomic and sectoral policies), entrepreneurial education and skill formation, appropriate institutions of education and training, finance and technology support, and supply networks (see

Figure 3, and Latsch and Robinson, 1998).

Small and Medium Enterprises

209. The majority of Zimbabwean enterprises are micro single-person operations, mostly in the informal sector. The formal sector is known to employ only about half a million workers out of the total of 1.6 million. It is reported that the SMEs have grown since the introduction of ESAP, representing annual growth in turnover of 28 per cent between 1991 and 1995. Small enterprises (employing fewer than 10 workers) grew faster than the medium and large enterprises, which may be partly because they are less affected by the appreciation of the exchange rates. This may also be symptomatic of reform failures rather than high profitability

and demand (Knight, 1996). Demand for SME products may have declined as a result of a possible shift in consumption patterns in favour of cheaper imported goods.

SMEs play a bigger role in the manufacturing sector (than in the mining) where SMEs contribute about 10.1% to gross output, 10.9% to net output, about 13% to employment and 11% to wages and salaries compared to 2.2%, 3.1%, 3.1% and 1.7% respectively in the mining sector. It is reported that there are 2,100 agricultural co-operatives in Zimbabwe, employing about 350,000 people (owners and employees) and supporting about 1.5 million family members. Thus SMEs and micro-enterprises play a critical role in respect of both output and employment.

BOX 1 Deindustrialization of Zimbabwe

A study of the textile sector notes that the industry employs about 13,000 workers although it has the potential to employ 20,000 workers, suggesting decline in its profitability and competitiveness (Zimbabwe Investment Centre, 1997). A more recent USAID survey (1998) of micro and small enterprises suggests that closure of these enterprises has been increasing. A regression analysis estimates that between 1988 to 1997, for every 1 per cent increase in GDP growth rate the birth rate of these enterprises decreases by 0.6 per cent. From time to time the media reports the closure of enterprises in various sectors particularly in the clothing and footwear industries. Some data on these closures is presented in Table 21.

Table 21 Closure of Enterprises in Clothing and Footwear Industries (1996)

Name of enterprise	Date of closure	No. of workers	Comment
G and D Shoes	January 1996	2000	Largest local shoe company applied for liquidation
Bulawayo Clothing	March 1996	1200	Closed
WS Craster Clothing	June 1996	950	Closed
Fashion Industrial Holding	July 1996	2000	Second largest clothing company; closed

Source: Carmody (1997).

In December 1994 the largest textile producer in Southern Africa - Cone Textiles - closed with the loss of 6,000 jobs. It is estimated that widespread closures and retrenchments in the textile sector alone led to decline in textile industry from 25,320 in 1991 at the beginning of ESAP to 12, 427 at the end of 1995. The decline in the output and employment in clothing and footwear industries was less drastic however since output contracted by only 20 per cent in 1995. But the process of deindustrialization that began earlier started accelerating in 1996 as is reported in Table . Employment in clothing is estimated to have declined from 21, 265 at the end of 1995 to about 17,000 in July 1996 (Carmody, 1997). Other estimates suggest nearly 40 per cent loss of jobs in the industry (interview with Professor Sachikonye, Institute of Development Studies, Harare, March 1999).

Several factors may account for de-industrialization. First, South Africa, which was Zimbabwe's major trading partner, in 1992 abrogated the 1964 trade agreement and levied tariffs of 70-100 per cent on the imports of textiles and garments from Zimbabwe. But some authors (e.g. Sachikonye, 1995) believe that this factor may have been exaggerated since the importance of the agreement had been declining during the 1980s. Also it is reported that exports of Zimbabwean textile products actually increased by 26 per cent (in US dollar terms between 1992 and 1994 (unpublished CSO data). Secondly, exchange rate and trade liberalization may also be important explanatory factors. Interest rates trebled between 1991 and 1993 in the wake of liberalization, which created liquidity problems for textile and other firms and prevented them from introducing modern technology so essential for raising competitiveness in the face of import competition. Devaluation in 1991 raised the cost of imported inputs which only large enterprises could afford. Thirdly, tariff reduction on the import of textiles raised import penetration. Although some of the imported textiles (e.g. synthetic fabrics) were not manufactured in Zimbabwe, in the competing product markets domestic producers (especially small ones) may have failed to meet import competition.

Financial deregulation may make it easy for locals to acquire foreign currency which they would use to buy cheap goods across the border for resale on the domestic market. This has the tendency of reducing the market share for domestic enterprises in the same field. Another result of the deregulation of foreign currency markets is the ease with which ordinary citizens can access foreign currency, which, once obtained, is used to buy second-hand goods from neighbouring countries for resale on the domestic market. Import of cheaper second-hand clothing during the 1990s provided serious price competition to domestic manufacturers (see Table 22). This has reduced the market size of the domestic SMEs and at times it has resulted in company closures as in the case of textile industry. A mini survey reported that the problems faced by the industry were not the result of increased competition from international companies, but rather it is a result of this cross-border shopping which has seen the mushrooming of "flea markets". The decontrolling of the current and capital accounts and the reduction of tariff and non-tariff barriers to trade has resulted in the proliferation of chain outlets (mainly South African) which sell products that are not locally produced. Examples of these include Nando's in the food business and

Jaggers in the retail business. In addition some enterprises producing a variety of products before have now found it more viable to stop production and act as distribution centres. Examples of these include Pfizer and Datlab. The effect of this phenomenon on SME development is difficult to determine, since while some enterprises were closing down others (mainly in the informal sector) were emerging.

Table 22: Price Differentials between Domestic and Second-Hand Imported Garments

Product	Domestic goods (cost per garment) (Z$)	Second-hand imported goods (cost per garment including duty) (Z$)
Ladies cotton trousers	48.00	8.55
Children's heavy shorts	48.75	20.52
Men's long shirts	37.75	22.80
T shirts	42.00	25.65
Denim jeans	92.00	93.31

Source: Confederation of Zimbabwe Industries (1995) cited in Carmody (1997).

210. SMEs are much less important as exporters of manufactured goods than the large enterprises. On average only about 18 per cent of their turnover was destined for export markets compared with 30 per cent for large enterprises. Several factors account for this situation: poor quality of output and local supplies, failures to meet delivery deadlines, low technology levels due in part to the lack of any subcontracting arrangements between large and small enterprises, limited new investment in SMEs, and unfavourable policy environment. One of the major hurdles is high interest rates (noted earlier), which raise production costs and lower competitiveness.

211. Inefficient SMEs are likely to close down. Zimbabwean exporters are likely to face stiff competition not only from South Africa but also from other NICs and developed countries which are the main destinations of Zimbabwe's exports. Clothing and textiles and engineering goods industries are known to have suffered from serious import competition and closure of firms (see Box 1).However, for those enterprises that are efficient and globally competitive global tariff reductions can lead to increased access to international markets thereby increasing not only output but also export earnings and employment.A number of measures can be suggested for raising SME competitiveness. First, SMEs may pool their output for marketing purposes. One way of overcoming this problem is to establish links with trade-promoting agencies such as ZIMTRADE. But this may not be easy in conditions of mistrust among enterprises. Due to their small size, SMEs are handicapped in marketing their products, particularly in export markets. Secondly, linkages between SMEs and large businesses can be provided in the form of subcontracting arrangements under which modern equipment, technology and skills. Business incubators can also be set up to make these services available for a fee. Finally, the Zimbabwe Investment Centre can play a bigger role in promoting investment in SMEs.

212. A recent analysis of SME competitiveness (Lall *et al.*,1999), based on a mini survey, shows that they are less outward-looking than large enterprises, importing fewer raw materials and exporting fewer export products, less active in investing in new productive capacity, making limited use of existing technical and other support institutions. This may be due partly to lack of information, and inadequate skills at both managerial and other occupational skills. The mini survey also suggested a general dissatisfaction with the quality of products and services provided by SMEs.

213. SMEs continue to suffer from constraints to entering the export markets, and thus falling back on producing mainly for the domestic market. These constraints pertain mainly to policy environment and incentives, (e.g. high interest rates, lack of access to finance, distorted tariff structure, policy uncertainty, cumbersome bureaucratic procedures, poor quality of local supplies, and so on), and such supply factors as excessive labour regulations, transport bottlenecks, industrial unrest and unreliable electricity supply and inadequate technological support due in part to lack of subcontracting relationships between small and large enterprises. Foreign investment in technology imports is much more limited in SMEs. For example, the mini survey conducted by Lall *et al.* (1999) shows that since ESAP in 1989-90 only 7 SMEs made substantial investments in production technology compared to 21 large enterprises, only 1 SME had obtained foreign license compared to 12 large enterprises, and only 7 SMEs used foreign consultants compared to 28 large enterprises. Although in general FDI is considered as a means of stimulating growth of SMEs through supplier relationships with multinationals, such relationships are not well developed in Zimbabwe. This is partly because most of the FDI inflows are concentrated in mining, agriculture and tourism. During 1991-96 manufacturing accounted for only 27.4 per cent of total FDI and joint venture approvals (see Lall *et al.,* 1999, p. 96). The share of SMEs is likely to be quite small.

214. Export competitiveness involves both price and quality considerations. For SMEs to compete successfully in foreign markets, it is essential that they produce better quality at lower cost. High interest rates and devaluation noted above raise production costs, and low-quality local supplies hinder product-quality improvements. Global sourcing of inputs under globalization can help raise quality but cost competitiveness calls for cheaper finance and credit as well as input imports. The overseas marketing capabilities of SMEs are also rather limited, which constrains their export competitiveness. One way of overcoming this bottleneck is for SMEs to pool their output for marketing purposes. This can be done through links with such trade-promoting agencies as ZIMTRADE. Due to their small size, SMEs are handicapped in marketing their products, particularly in export markets.

215. There is no dearth of institutions supporting SMEs: Business Extension and Advisory Services, Small Enterprise Development Corporation (SEDCO) , Chamber of Commerce Small Business Support Unit and Zimbabwe Enterprise Development Programme, and so on. But they do not seem to be well-coordinated and effective in promoting export competitiveness. ZIMTRADE needs to work closely with such organizations as SEDCO to promote export marketing, and price and quality improvements. Linkages between SMEs and large businesses can also be provided in the form of subcontracting arrangements under which modern equipment, technology and skills are supplied to SMEs. But experience of many other developing countries shows that lack of trust and the limited size of the large industrial sector can limit ther scope of such arrangements. Business incubators can be set up to make these services available for a fee. At present such arrangements and services are not well developed. Finally, the Zimbabwe Investment Centre (ZIC) can play a bigger role in promoting investment in SMEs. While it promotes investment opportunities in general, it does not pay any particular attention to SMEs.

216. Some international collaboration between UNIDO and the Ministry of Industry and Commerce is currently underway to provide support to the SMEs. A project based on a clustering and network approach to SMEs to provide the above types of services is at a planning stage.

VII. THE SOCIO-ECONOMIC IMPACT OF GLOBALIZATION

217. So far we have been concerned mainly with macroeconomic aspects of liberalization and globalization although we briefly referred to social issues in the section on the Economic Reforms. Our concern in this section is to concentrate more on the social dimension of globalization. However, before doing so it is necessary to examine briefly the impact on growth and productivity, which also influence the poverty and employment situation. We discuss below the impact of globalization and liberalization on (i) growth and productivity, (ii) poverty and (iii) employment. The possible adverse effects of global integration on sustainability are discussed in a separate section.

Growth and Productivity

218. In principle, as we noted in the Introduction, globalization and liberalization should lead to an acceleration of growth and productivity through greater allocative efficiency and better resource allocation. In practice, however, with the exception of Southeast and East Asia, the growth record of most other regions and countries during the 1980s and 1990s has not been impressive. In the case of Zimbabwe also, growth rate was higher at 4.1 per cent during the Unilateral Declaration of Independence (UDI) (1971-79) than during the 1980s (3.1 per cent) and during 1991-94 (1.5 per cent). Over time there is no clear trend emerging and growth rate has generally fluctuated with the timing of the droughts of 1982-84, 1987, 1992 and 1995 which led to contraction of output. The growth rate achieved in 1996 has not been sustained in the face of high inflation rates and large budget deficits.

219. The annual rate of growth of 1.5 per cent has been below population growth, thus leading to a decline in per capita output growth rate. This has led to a decline in living standards. In 1993, income per capita (Z$405 at 1980 prices) was lower than in 1980 (Z$ 438). In 1998, economic growth was expected to be only 2 per cent instead of the target of 3 per cent; this fall caused by the decline in output in manufacturing and mining. By 1998, manufacturing contributed only 17 per cent to GDP. The sector experienced a negative growth rate of -1% in 1998. Massive depreciation of the currency vis-à-vis the US dollar (over 60%) more than trebled the cost of imported raw materials and hence of domestically produced goods.

220. The Reserve Bank of Zimbabwe’s most recent estimates of productivity index show that for the economy as a whole it rose from the base of 100 in 1990 to 103 in 1998; the sectoral productivity index for agriculture declined to 99 in 1997, whereas that for manufacturing declined to 90.5. The slight overall increase in the index was accounted for by transportation and communications and distribution and hotels (see Reserve Bank of Zimbabwe: *Weekly Economic Highlights*, 4 June 1999). Among tradable sectors, labour productivity rose mildly in agriculture during the 1970s and 1980s but remained almost constant in manufacturing and services (Kanyenze, 1999; Weeks and Mosley, 1998).

Poverty

221. There are a number of ways in which liberalization and globalization can impact on poverty and income inequalities in Zimbabwe: (i) increase in domestic food prices relative to world prices after liberalization, (ii) increase in inflation rates which hurts the poor particularly badly, (iii) fall in real wages following increased domestic and global competition and labour

market flexibility. After liberalization (e.g. deregulation of maize marketing and removal of subsidies on basic commodities) food prices shot up. Since the poor (especially the very poor) spend the bulk of their income on food (for the very poor food consumption is nearly 60 per cent of total consumption), substantial increases in food prices worsen their economic situation. Prices of such essential food items as bread and sugar are estimated to have increased by 40 per cent and 50 per cent respectively in 1993 after the withdrawal of subsidies (Minot, 1994, p.6). To make matters worse, prices of such other goods and services as clothing and footwear, rent rates and fuel and power and medical care also increased substantially (see Table 23).

222. But there were also favourable effects of liberalization on poverty alleviation: shift from the formerly subsidised roller meal to the more nutritious straight-run meal (see MPSLSW, 1996, pp. 10-11).

Table 23: Consumer Price Index and Components (1990 = 100)

	Food	Clothing and Footwear	Rent Rates, Fuel & Power	Medical Care	Education	All Items
1990	100.0	100.0	100.0	100.0	100.0	100.0
1991	122.6	122.7	117.9	116.3	127.6	123.3
1992	192.7	161.5	150.2	144.3	191.7	174.4
1993	267.4	185.6	204.4	169.3	211.6	223.6
1994	336.8	207.8	236.7	415.9	229.1	273.3
1995	429.3	239.9	276.3	496.0	258.5	335.1
1996	544.8	263.4	339.7	632.9	294.7	406.9
1997	640.5	292.3	412.9	734.0	392.3	483.6
1998	893.2	350.1	485.6	818.7	508.3	636.9
1999	1370.6	457.4	589.3	957.9	642.5	910.3

Notes: (1) average of monthly figures; (2) inclusive of sales tax and excise duties; (3) 1999 to June only

Source: Central Statistical Office, *Quarterly Digest of Statistics*, various dates.

223. Real wages have been declining in practically all sectors since liberalization. The decline in the real wages in construction, public administration, education and health has been particularly significant. Evidence suggests that there is a high degree of nominal wage rigidity in the face of high inflation (Davies and Rattso, forthcoming). Nominal wages appear to take as much as two years to adjust to increases in inflation. Declining real wages explain greater urban poverty and lowering of living standards, especially since per capita incomes and industrial productivity have not risen.

224. There is a general agreement that poverty has grown worse since liberalization. CSO (1998) notes that extreme poverty is concentrated mainly in rural areas where over 50 per cent of the households cannot meet the minimum food requirements. In urban areas poverty is much less acute, with only about 10 per cent of the households below the poverty line. The headcount ratios of poverty between 1990-91 and 1995, however, show that poverty increase was more significant in urban areas compared to the rural; also the increase was greater for

males than for females (MPSLSW, 1996). Although no concrete evidence is available, there is a general consensus that this pattern has persisted in the ZIMPREST period (1996-2000).

225. Data on income distribution are sparse; World Bank (1998b) gives Gini coefficient for Zimbabwe at 0.57. World Bank (1995) gives consumption distribution as follows: all Zimbabwe, 0.55, rural areas, 0.45 and urban areas, 0.49. If the data are accepted as accurate, there is greater inequality in urban than in rural areas, and in the country as a whole than in rural and urban sectors. In terms of percentage share of consumption by percentiles of population also, inequality is quite high. The highest 20 per cent of the population accounts for over 62 per cent of consumption whereas the lowest 20 per cent, accounts for only 4 per cent (World Bank, 1998b). The above data relate to 1990-91. There are indications that since then income inequalities have grown worse.

226. At the macroeconomic level, the sharply reduced real wages manifest in an income distributional shift away from low-income households to profit earners. The share of GDP going to salaries and wages, which averaged just over 57 per cent in the 1980s, fell sharply to 45 per cent between 1990 and 1996. By contrast, profit share has risen from 41 per cent in the 1980s to about 55 percent in the 1990s. As we noted earlier, the SAPs and subsequent liberalization led to decline in employment (company closures and retrenchments) which must have contributed to worsening of poverty indirectly.

Impact on Women

227. The impact of ESAP has been studied on different target groups, particularly women (Gibbon, 1995; Brand *et al.,* 1995; Kanji and Jazdowska, 1993). The Zimbabwe Women's Bureau (1991) found that the pressure to earn extra income was particularly felt by women who carried the responsibility for the basic consumption needs of the family. Chipika *et al.* (1996) showed that public-sector real earnings fell to as low as 34.4% of its 1980 level in 1993/4. Since the majority of these lower positions are occupied by teachers of whom 40% are women, the fall in real incomes may have also hit women hard (UNDP, 1993 as cited by ZWRCN, 1995).

228. Historically, the number of people living in poverty in rural areas has exceeded the urban poor although the urban poor are on the increase. Structural changes in the agricultural sector combined with population growth explain a decline in the access of poor to productive land and other assets. These changes can be attributed to a variety of factors, including macroeconomic policies, population growth and changes in agricultural practices. The image of rural poverty is still that of small farmers dependent on the natural resource base. Other categories of rural poverty include landlessness as well as the percentage of rural households headed or maintained by women. For the female-headed households in rural areas, remittances from husbands or relatives in rural areas are a major source of income (estimated in 1990-91 at two-fifths of total income). In urban areas also remittances account for about 28 per cent of the total income of female-headed households. In rural areas, income of female-headed households is slightly higher than that of male-headed households, but in urban areas it is lower. In general, the gender of the household head is not strongly correlated with poverty; but size of households and dependency ratios are (World Bank, 1995).

229. It is not clear from the existing literature whether women have been hurt more than men by liberalization. The poverty headcount evidence cited above suggests that males suffered greater increase in poverty than females. More analytical-cum-empirical work is needed to determine the precise impact on women by urban and rural areas (also see the section *on Female Employment below*). At present there is little concrete evidence to give a conclusive answer.

Non-income Aspects

230. So far we have considered only the income or consumption aspects of absolute and relative poverty. The non-income aspects of poverty are captured by such human development indicators as infant mortality rates, life expectancy, literacy, school enrolments, and so on (see Table 24 – for a detailed discussion of human development, see UNDP, 1999). Many of these social indicators have also deteriorated or stayed almost constant during the 1980s and 1990s. While infant mortality rate declined from 82 per 1,000 in 1980 to 56 per 1,000 in 1995, maternal mortality rate shot up from 145 (per 100,000 live births) to 570 in 1990. Life expectancy at birth remained almost constant between 1990 and 1995, whereas access to safe water declined for the rural population.

231. In the health sector, two types of changes are noticeable: short-run changes in process indicators such as rise in prices, reduced utilisation of services after the introduction of user charges and health fees on the one hand, and longer-term outcome indicators relating to nutritional status and patterns of morbidity and mortality. A seven-fold rise occurred in the cost of medical care between 1990 and 1997, which resulted from the introduction of user fees to recover costs (see Table 23). As we noted earlier, the SDA was poorly designed and implemented; administrative processes were slow and cumbersome. To qualify for assistance with health costs, beneficiaries had to visit Social Welfare offices, which entailed travel costs more than the medical costs would have cost. Allocations had a strong bias in favour of retrenched civil servants and against women. The introduction of maternity fees is reported as having led to women patients being turned away by health institutions. ESAP also resulted in a decline in real per capita recurrent expenditure by the Ministry of Health and Child Welfare (MOHCW), which by 1994/95 had fallen by more than 39%.

232. The situation has been worsened by the AIDS epidemic (over 3,000 AIDS victims die every week), which has important implications for both the health sector and the economy as a whole by lowering worker productivity, raising dependency ratio in rural areas (where patients end up in the absence of hospital care facilities), and raising the cost of health services (World Bank, 1996). By 2000 AIDS is estimated to result in 1 million deaths of adults and children and to 600,000 orphans putting additional burden on already strained social services (Loewenson and Chisvo, 1997, p.188).

233. Education has also suffered. Statistical data reflects that women (both teachers and as young girls in schools) are concentrated in primary education then followed by secondary education. Eighty per cent of all females undergoing formal education are in primary schools, 19% in secondary schools, while 0.8% are in vocational, industrial and teacher training and the remaining 0.2% are in universities.

234. Recurrent public-sector expenditure on primary and secondary education (where women are concentrated) has been allowed to decline by more than 30% during ESAP while that of Higher Education grew by about 1% in 1994/5 fiscal year above its 1990/1 level (Chisvo and Munro, 1994). Because of this it can be inferred that ESAP has affected the quality (and quantity) of women's education.

235. Large increases in school fees necessitated by the cost recovery measures in education have also impacted negatively on females (Nilsson, 1995). The results of the Third Round of SDA monitoring survey found that among reasons given for not being at school, "because it was too expensive" was mentioned more frequently in all age groups for girls than boys.

Table 24: Zimbabwe: Social Indicators (1980-1995)

	1980	1985	1990	1995
Infant mortality rate (per 000)	82.4	-	59.0	56.0
Maternal mortality rate (per 100, 000 live births)	145.0	480.0	570.0	-
Crude death rate (per 000)	13.0	-	11.0	10.8
Crude birth rate (per 000)	49.3	-	40.6	37.6
Life expectancy at birth (years)	55.9	56.9	53.7	52.0
- Male	53.2	55.5	54.4	51.0
- Female	56.8	-	57.3	53.5
Access to health services (% of population)	-	71.0	-	85.0
Access to safe water (%)	-	71.0	84.0	74.0*
- Urban	-	-	95.0	99.0*
- Rural	-	-	80.0	65.0*
Illiteracy rate (%)	-	37.7	33.1	14.9
- Female	-	45.0	39.7	20.1
Primary school enrolment ratio (%)	85.0	136.0	116.0	115.0*
- Female	-	131.0	115.0	111.0
Secondary school enrolment ratio (%)	8.0	41.0	49.0	44.0
- Female	-	33.0	46.0	39.0

Source: African Development Bank (1998) *Selected Statistics on African Countries*.
* - 1993.

236. There is a general agreement that poverty has grown worse since liberalization as a result, *inter alia*, of public and private retrenchments discussed below, pressures of global competition and high degree of capital intensity in manufacturing and decline in real formal-sector wages, and declining public expenditures on social services (Killick *et al.*, 1998; UNDP, 1999; World Bank, 1998). CSO (1998) notes that extreme poverty is concentrated mainly in rural areas where over 50 per cent of the households cannot meet the minimum food requirements. Rural poverty is concentrated in the communal farming areas where farmers have no land title and are thus unable to borrow against collateral for investment in their smallholdings. To a lesser extent rural poverty also prevails in the Resettlement Areas where peasant farmers from the communal areas are relocated. Poverty is much less acute in urban areas, with only about 10 per cent of the households below the poverty line. However, the headcount ratios of poverty between 1990-91 and 1995, show that it has increased more significantly in urban than rural areas. The increase was also sharper for males than for females (MPSLSW, 1996). Although no concrete evidence is available, there is a general consensus that this pattern has persisted in the ZIMPREST period (1996-2000). The phenomenon of urban poverty is characterized by declining nutritional and educational standards, particularly among women and children (see below).

237. We noted above that the Government introduced a Social Development Fund (SDF) to protect the poor from adverse effects of liberalization, which was poorly funded. At any rate, a social safety net can be no more than a temporary palliative. Lack of an adequate land redistribution policy and agricultural diversification are major impediments to poverty eradication in rural areas. Poverty alleviation calls for a package of policy incentives for

employment generation through exports in new niche markets (e.g. export of cut flowers) noted below, an effective land redistribution policy, a labour-intensive growth pattern, and better access of the poor to adequate social services. Since the extent and severity of poverty varies across regions and groups, a target approach by both the Government and aid donors is desirable. There is a general perception that the Government does not give a high priority to poverty reduction, and the subject is not a major issue in national politics (see Killick *et al.*, 1998, p. 26). Yet this is an area in which aid donors cannot be very effective without a close and constant dialogue with the Government and participation in its priority poverty alleviation programmes.

238. Thus both the income and non-income aspects of poverty show a worsening trend. How much of this worsening can be attributed to the integration of Zimbabwe into the global economy? Although it is difficult, if not impossible to isolate the precise magnitude, globalization is partly responsible. Other sources of poverty include: low economic growth, highly skewed income and wealth (land) distribution, and high and rising levels of unemployment and declining public expenditures on social services (see UNDP, 1999).

Employment

239. Lack of employment and low real wages are linked to the impact on poverty. Structural adjustment programmes (SAPs) and economic reform measures influence employment and its security in several direct and indirect ways. First, one of the main components of the conventional SAPs included reduction in public expenditures through, *inter alia*, retrenchment of public-sector employees. Indirectly, worker retrenchments may occur in the private-sector following globalization, which raises international competition. Prior to liberalization, many countries including Zimbabwe, had explicit laws and regulations, such as the Employment Act of 1980, to ensure minimum of employment security to organised permanent and fixed-term (but not casual) workers. This Act prevented employers from laying off workers without the prior permission of the Government (Ministry of Labour) and defined penalties for wrongful dismissals (i.e. reinstatement with back pay, a fine or a prison sentence for the employer). *A priori* arguments suggest that labour regulations tend to keep the wages at artificially high levels and thus discourage employment expansion, and that labour market flexibility will expand employment and incomes more widely instead of creating a labour aristocracy. For Zimbabwe, Fallon and Lucas (1991, 1993) show, using Census of Production data for 29 industries from 1960-61 to 1984-85, that long-run employment in these industries will be reduced by over 25 per cent as a result of job security regulations. They noted that the magnitude of estimated decline in employment varied from industry to industry depending on private or public ownership, and the degree of unionisation. Thus the authors conclude that although the new labour regulation offered greater employment security, it was mainly for the ‘privileged’ worker and at the expense of greater employment of larger number of workers (Fallon and Lucas, 1993, p.270). Other factors accounting for the decline in manufacturing employment include increased global competition, high cost of borrowing and loss of South African market and increasing capital-intensity of production. Growth in Zimbabwe has become less employment intensive over the years. In the mid-1980s output elasticity of employment was 0.56 which suggests that a 1 per cent increase in real GDP led to an increase of formal employment by 0.56 per cent. Since 1980, employment elasticity has declined to 0.49 per cent (UNDP, 1999).

240. To what extent can the decline in employment growth and increase in urban unemployment rates be attributed to the global integration of the Zimbabwean economy? One needs to examine the employment situation during 1980-90 and compare it with that during 1990-97 to obtain some rough idea of the impact. Employment growth was much lower for the post-liberalization period (1991-94) than for the pre-liberalization periods (1981-85 and 1985-90). It is clear that employment decline started occurring long before ESAP was introduced in 1990. Employment was not growing much except in 1988 when in manufacturing it grew by nearly 5.6 per cent (Muzulu, 1995). Sachikonye (1993) notes that manufacturing employment registered only a modest increase of 36,000 new jobs between 1975 and 1988. However, public-sector employment increased phenomenally, near doubling of employment from 48,900 to 91,400 during the same period. But this growth represented only about 18,000 new formal-sector jobs per annum during the 1980s. ESAP in 1990 envisaged substantial retrenchments in the public sector as follows: 26,000 public-sector workers, 2,000 parastatals and an additional 20,000 from the private-sector between 1991 and 1995 (Sachikonye, 1993).

241. While public-sector employment declined rapidly and significantly (-4.6 per cent per annum during 1991-94) in the wake of liberalization, private-sector employment growth in agriculture and manufacturing slowed down thus failing to compensate for major deceleration in the growth of public-sector employment. This may be explained by falling labour productivity and low investment (Kanyenze, 1999). This partly explains the growth of employment in the informal sector, which may well be due to failure of economic reforms (Knight, 1996).

242. Growth in informal-sector employment parallels decline in formal employment growth during the reform period and the serious droughts in 1992 and 1994-95. It is possible that the latter is somewhat underestimated since a shift took place under reforms from permanent and full-time employment towards contract and casual or part-time employment (the latter indicator is usually used to reflect labour market flexibility as a response to global competition). The latter is less easy to register and report in annual surveys and inquiries.

243. Although potential for employment generation exists in smallholder agriculture, substantial employment expansion is unlikely without asset (land) redistribution. Asset redistribution is not popular for political reasons. Even apart from opposition from the white population, within ZANU black Zimbabweans also feel lukewarm since they see modernity in large holdings. In horticulture, cut flowers represent a good export potential where FDI from the Netherlands and assistance in management and international marketing is reported.

Female Employment

244. Female formal-sector employment has traditionally accounted for a small proportion of the total, ranging between 17-21 per cent between 1980 and 1995 (see Table 25). In fact, before liberalization female employment was only 17 per cent whereas it increased during the first years of the ESAP.

Table 25: Employment Trends By Sex (1980-1995) (000)

Year	Total	Male	Female	% female
1980	1009.9	838.5	171.4	17.0
1981	1037.8	871.9	165.9	16.0
1982	1045.9	881.8	164.1	16.0
1983	1033.4	864.5	168.9	16.3
1984	1036.4	864.4	172.0	16.6
1985	1052.5	863.2	189.3	18.0
1986	1081.1	890.0	190.1	17.6
1987	1085.1	889.5	195.5	18.0
1988	1131.2	929.5	201.5	17.8
1989	1166.7	956.4	209.9	18.0
1990	1192.2	977.6	214.5	18.0
1991	1243.5	1015.4	228.1	18.3
1992	1236.2	1012.1	224.1	18.1
1993	1240.3	997.6	242.7	19.6
1994	1263.3	1008.8	254.5	20.1
1995	1239.6	983.7	255.9	20.6

Source: *Central Statistical Office*, 1997.

Note: There was break in the series since 1989; thus post-liberalization data may not be comparable to the pre-liberalization data.

245. A sexually segregated labour market in Zimbabwe may be explained by discrimination against women in education and training during the colonial period, which was removed after independence. Women are engaged primarily in such low-paid occupations as agriculture, private domestics, and health and education.

246. Unemployment rates for women are much higher than for men, especially in urban areas where they were estimated at over 28 per cent in 1986 and 34 per cent in 1990-91, compared to the male unemployment rates of 13 per cent and 22 per cent respectively. Higher female unemployment may be explained, inter alia, by lower school enrolments and literacy rates. Unemployment among women is particularly high for the young (age group 15-24) and for women with secondary schooling (Knight, 1996).

247. Since access to formal employment is restricted to a few occupations, in situations of declining demand during the adjustment and deflationary period, women were pushed into the informal sector small-scale activities (Chipika *et al.*, 1996). Statistical data show that women produce 60% to 80% of food in Africa. Given that this sector is female dominated, structural adjustment programmes are likely to affect women. Empirical studies do not fully address this issue – the effect is not yet known[6]. Women are attracted into the export-producing sector

[6] See Chipika *et al.* (1996); ZWRCN (1995).

leaving other activities, especially subsistence food production unattended[7]. This therefore creates a need for more labour, often from their children who have to be taken out of school.

248. The effects of globalization on women's employment need to be examined further by answering the following two questions:

1. Has feminization of labour occurred as a result of trade liberalization for example? Some authors (e.g. Standing, 1989) argue that women have been pushed into exploitative and low-paid activities such as electronics assembly operations with high labour turnover. For Zimbabwe, Nyabadza (1998) found that with a shift to ESAP, a small core of workers is retained, who generally enjoy basic labour rights. It is mainly men who are retained as core workers, while women are pushed out into the more exploited periphery. However, a recent study of the cut flower industry has shown that there has been a trend to create permanent jobs for mainly women workers (Davies, 1999 and Box 2). This is mainly a result of the pressures from 'green labelling' on the industry.
2. Has globalization and resulting labour market flexibility in Zimbabwe hurt women more than men? Flexibility may be measured by the relative increase in non-standard employment (casual and part-time work). Income and employment security is lower in this type of employment since it is generally not covered by social security provisions. In the case of Zimbabwe, although evidence is not conclusive, some studies note that ESAP adversely affected the working environment for women who have been forced into survival activities in the informal sector. Women with paid jobs in the formal sector suffered more than men under ESAP, and women's jobs were the first ones to go when retrenchments took place.

VIII. IMPACT OF GLOBALIZATION ON SUSTAINABLE DEVELOPMENT

249. In the conceptual chapter on sustainability and growth above, we discussed three components of sustainability: macroeconomic, environmental and human. In this chapter we attempt to trace the impact of globalization more narrowly on environmental and human sustainability in Zimbabwe.

250. Discussions about environmental sustainable development effectively entered the Zimbabwean policy arena at the national level in the mid-1980s. The National Conservation Strategy (NCS) was launched in 1987 and it had as its goal the integration of sustainable resource use within social and economic development programmes. However, the NCS has had no significant activity; it is yet to be presented for adoption by the government and the Parliament. The broader theme of sustainable development has also been a main subject of discussion in Zimbabwe from the mid-1980s onwards. The idea that human beings degrade their environment goes back to at least the ancient Greeks. However, it has become popular in Zimbabwe during the last couple of decades, perhaps due to the (i) Brundtland Report, (ii) end of cold war, (iii) debt crisis and (iv) rising awareness of global environmental problems. However, much like environmental sustainability, the tenets of the broader sustainable development are something like a magic triangle with no implementation tools. As a result, it remains very much a vision, or rather a fleeting illusion to be pursued, but never attained.

[7] In many developing countries, export-oriented manufacturing employs more women than men. It should be noted however, that in the export processing zones, rates of pay are generally lower for women than men, hours of work are long, and health and safety standards remain very poor.

BOX 2: The Impact of Globalization on Local Farm Communities and Women

The Zimbabwean cut-flower industry is a highly export-oriented sector, with close to 100% of commercially grown flowers finding their way into foreign markets. It has been an extremely fast growing sector, both as compared to other Zimbabwean exports and in terms of its rise in its world share of the cut-flower market. Between 1990 and 1997, the US$ value of cut flower exports has increased by an average of 87% per year. Zimbabwe is currently the second largest exporter of cut flowers in Africa (after Kenya), and the third largest in the world. In 1995 Zimbabwe was the third largest supplier of roses to the European Union. These and other attributes of the industry make it eminently suitable as a case study of the impact of globalization.

The community most directly affected by the cut-flower industry is the farm-worker community. Globalization impacts through foreign exchange earnings which benefits the Zimbabwean economy as a whole. However, there is evidence to suggest that links between horticulture and the rest of the economy are small. Although a number of activities supplying the sector have developed, most of the inputs have a very high import content.

The rapid expansion of the industry has not had a significant impact on total employment. Although floriculture is labour intensive, the relative size of operations is small compared to overall agricultural activities. There are about 900 ha under cut-flowers. There are an average of 30 workers per ha[1], suggesting that there are 27,000 workers in floriculture, that is, less than 8% of the total workforce on commercial farms.

Although the growth of floriculture has not expanded total employment significantly, it has *influenced the composition of the workforce*, in terms of both *seasonal vs permanent and male vs female workers*. After independence, with the introduction of minimum wages coupled with 'non-firing' regulations, commercial farmers shifted towards using a larger proportion of seasonal relative to permanent workers. In floriculture, this workforce was primarily composed of female employees – very often wives of permanent male employees on the farm. However, because of their concern with labour conditions, labeling programmes have reversed this trend. They encourage growers to promote job security by making all workers permanent, leading to an increasing number of permanent female employees.

Job security for women has two important results. Firstly, there is an increasing number of two-income families living on cut-flower farms, raising the standard of living for farm worker families. Secondly, providing women with a permanent income empowers them, as financial independence provides more freedom of choice. While most people would regard the long-run consequences of this beneficial, in the short run it brings social challenges, with an apparent conflict with 'traditional' values in a male dominated society. Although this shift has benefited mainly women who were already on the commercial farms, it has also reduced the linkage between farms and surrounding areas, from which seasonal workers (also mainly women) were predominantly recruited. There thus appears to be opposite effects on the two different communities.

At the micro-level, the main influence of floriculture has come *through the impact of quality requirements*. In order to market their produce in increasingly discerning foreign markets, producers have to meet high international standards regarding both the quality of the flowers themselves, and the methods used to produce them. Due to the production processes involved, the floriculture industry makes intensive use of pesticides and fertilisers. Waste management, chemical and water usage, occupational safety and employment conditions are coming under increasing scrutiny in markets. International labeling programmes encourage farmers to meet environmental and ethical guidelines for cut-flower production. This agenda is partly driven by consumer pressure, but is also supported by growers in the destination countries, clearly as a non-tariff barrier.

Source: Davies (1999).

251. There are a number of ways in which liberalization and globalization can affect the environment and hence sustainability. As we discussed above, the new liberalization policy followed in the 1990s has generated several unfortunate effects namely:

(i) badly unbalanced relative price structures, especially in the wake of exchange rate depreciation with large fiscal deficits: high domestic interest rates, reductions in the purchasing power of the real wage combined with reduced productivity,

(ii) financial instability and declining total investment, and

(iii) rising unemployment and regressive income redistributions and poverty induced by falling growth rates and rising populations. The increased level of natural resources consumption due to a growing population, unfavourable impact of liberalization and an increasing imbalance between supply and demand is likely to contribute to environmental mining with accompanying ecological damage.

Agriculture Policy and Sector Performance

252. One of the key elements of Zimbabwe's structural adjustment programme was a general reduction in the role of the state in agriculture. This section gives an overview of the elements of agricultural policies before 1991 and the implementation of the liberalization programme.

253. Before economic reforms, agricultural policy was broadly seen as a part of an overall strategy to consolidate the state's grip on the economy. It was mainly directed at intervention with the overall objective of self-sufficiency in food crops; low and stable food prices and support for an equitable regional development. The sector was highly regulated with consumer and producer subsidies extended and intensified. Below we discuss of some important instruments of intervention in maize market used during the period prior to reforms.

Fixed Producer Prices

254. Agricultural prices were set at the beginning of the crop season, in general at prices well below world market prices. To encourage equitable regional development, maize pricing was done on a pan-territorial basis. This was an attempt to support production in remote areas, but it was made without due consideration of different ecological conditions and transportation costs. Maize output, for example, could only be sold through the Grain Marketing Board (GMB), a state -owned board, falling under the umbrella of the Agricultural Marketing Authority (AMA). It was prohibited to trade maize outside authorized channels, except for local trade (hence the system was very centralized). Maize could only be sold through one of the three procurement arms of the GMB: (a) GMB depots, (b) GMB collection points located in rural smallholder areas, and (c) licenced private traders who bought on behalf of the GMB. The GMB was obliged to buy all farmers' produce, and it had monopoly over the import and export of maize.

Storage Subsidies

255. The government owned and continues to own all regional grain procurement facilities (silos). It absorbed all processing, handling and storage costs associated with the procurement.

Consumer Price Subsidization

256. Industrially processed foodstuffs were sold to consumers at controlled prices (below market value).

Subsidies on inputs and credit

257. Inputs such as fertilizer and maize seed were again subsidized for most producers in the country. In addition, through the Agricultural Finance Corporation (AFC) and general controls on interest rates, the government provided loans to farmers at subsidized interest rates. The bulk of these loans became non-performing.

258. These measures resulted in what has come to be known as the 'Zimbabwean Miracle'. The essence of this miracle was the dramatic increase in share of total sales from communal farmers. However, there has not been growth since then, with the 1998 share of communal areas being the same as that in 1984. Past experience in communal areas has shown that economic growth was achieved by expansion of area under maize and cotton. The area under maize in communal areas increased 1.34 times, from 900,000 hectares in 1980 to 1,149,500 hectares in 1988 and further to 1,209,200 hectares in 1995 under economic reforms. The output of communal area is still very much a function of weather, as was witnessed by the sharp drops in the drought years of 1992 and 1995.

259. However, the artificially low prices resulted in sizeable declines in the total surface area of land under maize cultivation (especially for commercial farmers). Despite increased yields (which also partly reflected artificially low input costs), the subsidization policies were very costly to the government. They resulted in a large and eventually unsustainable burden on government finances.

Liberalization Policies and their Impact

260. Despite some improvements, economic performance under reforms has been unfavourable, as we discussed above. This applied also to the agricultural sector. Agricultural output stagnated, the country became a perpetual net importer of food and area under crops increased. The removal of input subsidies and the inability of the private sector to respond to privatization has led to a fall in the output-input ratio. As noted above, overall productivity index rose only slightly during the 1990s. The sectoral productivity index for agriculture actually declined in 1997, compared to its modest increase in the two previous decades. Increases in acreage coupled with declining productivities suggest mining of the soil as well as extension of the frontier. It is likely that the introduction of high-yield varieties will help matters. However, with the removal of subsidies on fertiliser and other inputs and the worsening output-input ratios it is unlikely that the use of these inputs (and new varieties) will increase significantly. Other problems include non-availability and high cost of credit and bottlenecks in the marketing system.Thus, as we approach the new millenium it is recognised that there is more to be done in the agricultural sector for its full potential to be realised.

261. In the 1990s the Government began to gradually relax its controls on the maize sector, in line with its other economic policies. Producers were now allowed to sell to whom ever they wished (without restrictions) as long as it is within Zimbabwean borders, essentially reducing the monopoly of the previous single channel marketing mechanism[8]. The AFC ceased provision of subsidized rural credit and fertilizer prices were decontrolled.

262. However, despite economic reforms the government has not completely withdrawn from intervention in the agriculture sector, presumably because of the perceived sensitivity of agriculture for both producers and consumers within the domestic economy. In order to avoid domestic food shortages, prohibition of maize exports except by the GMB is maintained. Although there are isolated instances when a private agent can be allowed to export maize, the

[8] There has been an emergence of the private sector for trade in spot {and future} contracts for maize and other products in the form of ZIMACE.

government continues to manipulate foreign trade through restrictive licensing requirements. As a result, domestic maize prices have remained at levels well below import parity prices[9]. Through the GMB the state still has considerable direct influence on domestic price fixation of maize through maize purchases for the Strategic Grain Reserve[10]. Other remnants of the old control regime include the fact that the GMB is still not fully commercialised and still serves the function of purchaser of last resort.

263. An evaluation of agricultural reforms since 1991 is complicated by the fact that the reforms are not yet complete. Furthermore, because numerous other reforms elsewhere in the economy are taking place simultaneously, one cannot be certain that all the effects in this sub-sector are attributable to reforms. The situation is complicated by the severe droughts that occurred in 1992 and 1994-95. However, available anecdotal evidence allows some preliminary conclusions.

264. According to Muir-Leresche (1998), the first year of private trading following the good 1994 harvest resulted in maize producers being paid a little less than the GMB prices by private traders in communal areas. The 1995 harvest was poor and prices paid to producers were more than double those paid by the GMB. In 1996 maize prices did not drop in nominal terms. Although most surplus farmers appear to have benefited, some lost out. The producers negatively affected by decontrol and commercialization are small, surplus farmers in remote areas. These areas have high transport and transaction costs with relatively few, scattered farmers producing small surpluses. For deficit farmers (the majority of the rural farmers) the outcome is likely to have been even less favourable. Some studies have shown that the three high rainfall provinces of Mashonaland West, East and Central, which include only 18 of the 170 communal areas, accounted for about 70% of maize in surplus years and up to 90% in drought years. In practical terms, this implies that as the producer prices of maize increased, only those communal farmers in surplus regions (18% of communal farmers) and commercial farmers could have benefited. Further, perhaps in part due to informational problems, there are reports that in Mangwende communal area, private traders are paying Z$45 per bag of maize, as opposed to the GMB price of Z$56, and that farmers see the liberalization of maize prices and its marketing leading to lower maize prices. The same study also reports that farmers in Chivi and Hurungwe communal areas also complained of very low prices offered for their maize. Liberalised grain marketing in the later 1990s has been associated with escalating maize meal prices resulting in sporadic food riots in urban areas.

265. On the demand side, the impact of liberalized grain marketing is still controversial. Some contend that the poor have benefited from cheaper mealie-meal prices, cash payment, farm-gate collection and provision of packaging (Addison 1996). Indeed, conditions prevailing before the reform were such that the rural poor had not been benefiting from the maize subsidy because of poor access (Muir-Leresche, 1998). Decontrol has resulted in a greater spread between the roller meal and hammer meal prices in rural areas. However, this seemingly rosy picture is only one side of the story.

[9] Other factors that may contribute to the structural differential between domestic prices for maize and import parity prices include the road system and on-farm storage facilities that hamper access to markets.

[10] Its main task is to build up and maintain a strategic maize reserve aimed at an increase in food security during periods of severe shortages. The scheme is funded through the budget.

266. As noted above, food prices have shot up since liberalization. It is fair to say that such liberalization measures as reduction in food subsidies have affected the poor disproportionately, given the high income spent on food, making the poor extremely vulnerable to price/income shocks and income redistributions. Adjusting upward prices for maize meal under such circumstances of general hardship has understandably been difficult. Government has responded by imposing price controls on maize meal prices that are formally milled. Continuing with past pricing policies, which made subsidies available to all, has, however, implied significant leakages to the non-poor and has represented a major fiscal burden.

267. Widespread de-industrialization of core manufacturing and stagnation of agriculture coincided with growing unemployment. Pressure to seek livelihoods in the informal sector or in agriculture implies migration to areas where population pressures are already a heavy burden on the fragile ecosystems and scarce natural resources. Thus, poverty and environmental degradation are closely related. Poverty alleviation is, therefore, one of the important means of ensuring environmental sustainability.

Globalization and the Environment

268. The linkage between globalization and the environment, though controversial, is now widely acknowledged and accepted. The linkage filters through various sectors such as mining, tourism, manufacturing, although it is strongest through agriculture. This is primarily so because the agricultural sector supports the livelihood of the majority of the population in the country. The agricultural sector linkage creates pressures on land resources and this pressure is reflected in the farmers' consumption and production patterns.

269. Globalization affects the environment in several ways including the following:

- *Scale effects*: If globalization results in increased economic activity, barring major technology changes, it will raise the demand for such inputs as raw materials, transportation services and energy. If output is produced and delivered as before the reforms, increases in resource consumption and hence emissions and depletion of resources will follow.
- *Composition effects*: This stems from changes in the relative size of the economic sectors following changes in the macroeconomy. With the country essentially being nature-based, it will use this comparative advantage and specialise in more polluting and resource- dependent sectors, damaging the environment.
- *Technological effects*: This refers to the changing production methods following changes in economic policies. Pollution emissions are affected by demand for environmental quality, new technologies, input mixes, national environmental standards and organised environmental interests. Technology has an ambiguous effect on pollution and resource extraction.
- *Social effects*: This refers to changes, *inter alia*, in social safety nets, poverty levels, income distribution and public-sector employment resulting from liberalization. Adversely affected groups exploit natural resources, farm on marginal lands, poach wildlife and degrade the environment in other ways to make a living.

270. A CGE model covering food agriculture, infrastructure and the rest of agriculture as a production sector was used to quantify deforestation and distributional shifts with liberalization. In this economy-wide set-up, we can identify several expansionary and contractionary elements involved in a liberalization process. The CGE model tells a story of economic reforms that affect deforestation in several ways[11]. First, reforms make shifts towards tradables and exports particularly attractive. In agriculture, a shift towards export crops and processed forest products can lead to a degradation of such natural resources as forests (through deforestation). Export diversification and exports of forest products have contributed to unsustainability. Zimbabwean manufactured exports grew more rapidly during 1990-95 (at over 10 per cent per annum) than during 1980-90 (2.5 per cent). This export growth rate is lower than that of South Africa (13.6 per cent) but higher than that of world manufactured exports (8.8 per cent). The effect of liberalization on export growth has been significant especially during the past few years (see Lall *et al.*, 1999). Of course, this recent surge of exports can be traced to competence of manufacturing firms accumulated during the earlier years. In fact, despite import-substitution and protective tariffs many industrial firms are reported to have maintained international competitive efficiency. As discussed above, liberalization policies did not particularly succeed in raising the international competitiveness of Zimbabwean industrial firms. In terms of product categories, the fastest growing export sectors included wood and furniture, grain mill products, and jewellery. The slow-growing sectors that suffered decline during 1990-95 included textiles and clothing, that is, labour-intensive products. Thus, it is clear that most of the growth came from the exports of low-technology primary products (e.g. wood, cotton lint, tobacco, minerals) which raises important questions concerning environmental sustainability. Industrialisation and production of manufactured goods for export can have a similar effect not only on agricultural resources but also on urban environment, causing air and water pollution.

271. Globalization has led to significant crop shifts especially in the large-scale commercial sector, while crop area expansions were observed in the communal and resettlement areas. Government policies and global trade and price trends have influenced the pattern of agricultural development, particularly the choice of crops. An increase in market competition, together with removal of controls in the foreign exchange market, and the subsequent depreciation of the local currency resulted in rapid increases in producer prices for various crops during the 1990s. However, increase in producer prices of crops did not result in a positive output response since there was a general decline in communal crop output at the rate of about 2% annually in the 1990s. Maize declined at a rate of about 2%, sorghum at 3.3%, groundnut at 6.1% and soyabeans at 4.8% (Oni 1997). These declines are mainly explained by drop in crop yield per hectare among the communal farmers due perhaps to substantial reduction in the use of fertiliser and other agro-chemicals following the removal of subsidies on these inputs, which led to price increases of over 300% in five years. As a result, farmers' ability to buy and use these inputs was reduced. Fertiliser use by smallholder farmers declined as a share of national fertiliser consumption from 24% to 22% between the pre-liberalization and post-liberalization periods. This period has also been characterised by increases in total area cropped. This is an indication of the increasing pressure on land. In order to maintain their income levels, farmers are forced to extend their agricultural areas in the face of increased fertiliser prices. Such a trend is clearly unsustainable.

[11] It is, however, important to understand that environmental degradation occurs even without economic reforms, due partly to population pressures and a worsening human-land ratio.

272. Maize is a major cash crop for the majority of Zimbabweans. The first year of private trading following the good 1994 harvest resulted in maize producers being paid a little less than the Grain Marketing Board (GMB) prices by private traders in communal areas. The 1995 harvest was poor and prices paid to producers were more than double those paid by the GMB. In 1996 maize prices did not drop in nominal terms. Although most surplus farmers appear to have benefited, some surplus farmers lost out. The producers negatively affected by decontrol and commercialisation are small in number, mainly surplus farmers in remote areas. These areas have high transport and transaction costs with relatively few, scattered farmers producing small surpluses. For deficit farmers (the majority of the rural farmers) the outcome is likely to have been even less favourable. This suggests that the income gap between the large and the small-scale farmers may have increased over the years. Indeed the rural Gini coefficient is higher than the urban Gini coefficient, 59.7 compared to 57.5 respectively for 1998.

273. Cotton farmers benefited from the intense competition between three large traders to purchase the cotton crop and prices rose rapidly. As most of the cotton farmers are smallholders, the decontrol has had positive impacts on both growth and equity. The land devoted to cotton production rose by 21% between 1989-96 and the increase has been witnessed mainly in the communal and resettlement areas, implying that more land is being cleared and used for cotton production. However, if cotton production is more soil eroding than other crops like maize, this shift is obviously unsustainable in terms of its demands on the environment. Evidence that cotton is indeed more decreasing than other crops are found in Whitlow (1988). There seems therefore to be a conflict in that, while incomes of small-scale farmers of cotton increased, the environment is likely to have deteriorated at a faster rate than with other crops.

274. Despite a devastating drought in 1992, tobacco exports have risen by 8.2% in the 1990s, while horticulture exports have risen by over 21%. There have also been beneficial effects for groundnut and other farmers with the expansion of local processing facilities. The production of these crops is dominated by LSCF. This would imply that these benefits went to the already rich. Horticultural exports grew by 43% per annum in US dollar terms between 1991-1996, rising by a total of 305% from US$19 million to US$77 million over that period. Although that represents an important diversification of sources of income for some producers, its overall significance for trade remains less than that of manufacturing. By 1996 horticulture still accounted for only 3.7% of export value, while the share of manufacturing had risen to 42.8% (from 33.8% in 1991), and the share of "pure manufacturing" had risen to 28.7% (from 18.3%). Still, farmers in these non-traditional export sectors are likely to be affected negatively by the removal of Lome preferences in the year 2000. This is likely to affect sugar, horticulture and cotton (and therefore the textile industry). The poor will be affected directly and indirectly (through resulting employment losses).

275. These patterns seem to suggest that overall, there was a supply response in agriculture, with the trading sector benefiting initially from liberalization. Disaggregating the effects within agriculture further shows shifts towards exportables and tradables produced by the shift in relative prices, with significant growth in the non-traditional export sector. Within the smallholder agricultural sector, the households producing export crops will be vulnerable to the volatility in product prices. Although poor, they are not the poorest. The poorest households suffered most from many of the impacts of domestic trade liberalization. Previous government policy particularly on maize production on which most rural farmers depend, resulted in an increasing incorporation of subsistence farmers into surplus producers for the domestic market. This resulted in a much higher level of vulnerability to the effects of liberalization than had they remained insulated. Thus, the reforms appear to favour tradable

cash crops. As a result the farmers who have benefited have tended to be those marketing tobacco, flowers, fruit and vegetables. However, these exclude the communal area farmers who suffer from lack of skills, technical inputs, capital and marketing constraints. For the communal farmers, the trend will get worse as inputs become expensive and access to credit becomes difficult.

276. The implication of these trends on the environment is rather difficult to work out and may even be ambiguous. However, the growth in cropped area accompanied by a shrinking in area available to individual households imply the possibility of farmers "mining" the soil and encroaching on marginal land, unless there is a sudden far- reaching technological revolution, which is not the case. The majority of the small-scale farmers are producing for their own consumption rather than for the market. Use of modern inputs, including fertiliser is on the decline, implying that agricultural production, in particular food production, has remained below potential.

Deforestation

277. Deforestation of indigenous forests is one of the major causes of environmental degradation in Zimbabwe. It is estimated that the natural forests and woodlands of Zimbabwe are being depleted at the rate of 1.5% per annum due to several factors, including agricultural expansion, population pressure, overgrazing, fires, overexploitation of timber for fuel wood and other purposes. Although there are no shortages of wood fuel at the national level, district and local level shortages occur in the communal areas. Much of the deforestation in the communal lands took place before the 1960s. In addition, during the liberation war in the 1970s, some communal areas were severely deforested during the creation of protected villages and in bush clearing exercises.

278. At an aggregate level, according to Campbell and Whitlow (1989) some 52 000 ha of woodland were converted to cropped land annually between 1963 and 1977. During this time both large scale commercial farmers and small scale farmers were responsible for clearing. The World Resource Institute estimates that the country lost about 609,000 hectares of forestland between 1981-90, or an annual loss of 61,000 hectares per annum. The UNDP (1997) estimates that the country was losing 0.6 per cent of its forest area of about 23 million hectares annually between 1981-90. Land clearance for agricultural purposes accounts for more deforestation than all other agents put together. Compared to the period prior to 1980, small scale/rural farmers have mainly been responsible for land clearing for agriculture. The estimated amount of deforestation has since then been estimated to be 70 000 ha of land per year (FAO 1997). Current estimates, based on Mabugu *et al.* (1998) (see Table 26), estimates that the total forest growing stock and net annual increment had declined from 1990-1996. Increases in the timber stocks from growth and reforestation are larger compared to total depletion. So timber stocks have increased but at a decreasing rate. Infact, it is declining each year by approximately 3.8%. In the near future, this trend will likely continue, resulting in annual increment exceeding depletion. The current rates of forest depletion are thus on an unsustainable path. Globalization has increased the pressures on ecological decline stemming from increasing rural population (which increases demand for fuel wood and construction material and so on) and continued clearance for agriculture.

Energy Consumption Patterns

279. The implications of globalization for deforestation need to be understood in the broader context of energy consumption. From the ensuing, there are essentially two types of changes that are likely in the energy sector in the next five years. They are: (i) changes in process indicators such as rise in prices, and reduced utilisation of modern fuels after the introduction of higher user charges and (ii) changes relating to fuel wood consumption, wood

trade and patterns of deforestation. The World Resources Institute (1994) estimated that total commercial energy consumption increased by 89% from 1971 to 1991 or approximately 4.5% per annum. Table 26 distinguishes energy consumption patterns over the same period by different sources.

Table 26: Net Annual Increment Estimates (million tonnes)

Year	1990	1991	1992	1993	1994	1995	1996
Total growing stock	1349.2	1319.1	1289.0	1258.9	1228.8	1198.7	1168.6
Accessible stock	404.8	395.7	386.7	377.7	368.6	359.6	350.6
Accessible mean annual increment	9.03	8.83	8.63	8.43	8.22	8.02	7.82
Total depletion	1.15	1.18	1.22	1.26	1.29	1.35	1.40
Net annual increment	7.88	7.65	7.41	7.17	6.93	6.67	6.42

Source: Mabugu *et al.* (1998).

Table 27. Historical energy consumption trends (1982-1991) (%)

Diesel	Petrol	Electricity	Coal	Wood
65	36	73	101	30

Source: Based on Milne (1998) and updated by the authors.

280. Energy consumption has increased markedly in all sectors. In fact the trend has continued even after 1991. There are two factors strongly related to energy consumption in the country: demographic and economic. Growing population has put pressure on energy resources. The proportion of energy consumption is bound to increase with the development processes taking place in the country. Due to the small percentage of the population living in urban areas, only a small number of dwellers have access to the commercial energy sources. The majority of the population, about 70%, still relies on the use of wood fuel as their main source of energy, but even here we have demonstrated that there are shifts to modern fuels where these are supplied (electricity or where they are available (and candles) (Campbell *et al.,* 2000).

281. Consumption of diesel and petrol can also have important environmental impacts, if unaccompanied by investments to reduce emissions of harmful gases, as seems to have been the case (Milne 1998). Because the poor often depend on public transportation and are unable to afford cleaner technologies, the overexploitation of those resources can lead to both environmental degradation and increased poverty. A large proportion of those living below the poverty line cannot afford medical costs, yet are dependent on public transportation. Thus, environmental degradation can exacerbate negative health impacts. The same can be said

about coal consumption that has risen dramatically (mainly due to tobacco drying and other industrial uses). Electricity consumption captured in the table is hydro-based, hence its environmental consequences in terms of emitting harmful gases is benign.

282. Despite the above pessimistic outlook, a peculiar situation has emerged for the energy sub-sector, where subsidies have been maintained. In much of the pre-ESAP era, electricity and kerosene prices were competitive with those of wood, and this has remained so up to the time of the present surveys (Campbell *et al.*, 2000). Thus real energy prices of modern fuels to urban and rural households have remained static (or have fallen) (Campbell *et al.*, 2000; Vermeulen *et al.*, 2000). This applies to the full spectrum of types of energy, but notably electricity and kerosene. Thus the energy proportion of household expenditure has fallen. This explains the continued shift to modern fuels that was detected in the survey of urban and rural areas. It is highly unlikely thus situation will continue as the energy suppliers are calling for massive price increases in order to remain viable. Thus we predict substantial increases in real prices of fuels in the next 5 years, and concommitent switches back to biomass fuels. However, perhaps the switch back to biomass fuels will not occur at the same rate as occurred for the switch in the opposite direction. Findings from the urban poor indicate a movement to modern fuels even though incomes are severely constrained, thus some of the trends must rather be interpreted in the context of modernisation which is sweeping the country.

283. In the rural areas far from urban areas, switching from wood is not as easy (Campbell *et al.*, 2000). Unless land redistribution policy and other government measures are effectively implemented, pressure on biomass resources will continue with further reductions in consumption rate as the most likely consequence. Zimbabwe is still a predominantly rural country where the rural population consuming more traditional or non-commercial fuels is likely to increase.

284. In addition, Zimbabwe, unlike most countries in sub-Saharan Africa has had a successful electrification programme, so that wood formed a relatively small component of the urban energy sector. Urban consumption of energy is a function of income, price, location, appliances (size and efficiency) and household characteristics (size and composition). However, reduced investments in the energy sector had yet to feed through to urban households, where data shows a continued shift towards use of electricity between 1994 and 1998 (Campbell *et al.*, 2000). Given the cutback in investments in energy (including electrification) we would predict that the next 5 years would see a different scenario emerging.

Wildlife and Tourism

285. Unlike the two resources above, data on changes in stocks over time is very scarce for terrestrial biological resources. Available data from Milne (1998) suggests that many large mammals are already very rare, not common, or in decline. Given the importance of tourism as an attractive alternative land use, sustaining these stocks and their habitats becomes critical. There is few data on aquatic resources although anecdotal evidence of declining catches and smaller average fish size suggest over-depletion beyond sustainable levels.

286. Related to the above is the issue of wild animals in national parks. Sustaining wildlife stocks and their habitats is critical. Since 1994 there has been a marked decrease in poaching of rhinos and elephants. There has been a 10% growth of the black rhino in the past 10 years, the highest sustained growth rate over such a period. Elephant population has in fact increased

to beyond capacity because of reduced poaching. One reason for the reduced poaching is globalization, which has removed the black market for foreign currency. In the case of some animals that were endangered like the rhino, this development is positive but for the case of the elephant its increased population has almost reached unsustainable levels. Its degrading habits on forests and damage to human agriculture have adverse effects on the natural resource base.

IX. LOW SUSTAINABILITY: A CONSTRAINT TO GLOBALIZATION?

287. In the introductory section we suggested that that lack of sustainability could pose a problem for economies managing globalization. Although there is some interest in asking this question from the point of view of assessing whether Zimbabwe’s poor performance under ESAP was due to problems caused by the initial conditions? Our concern is not to find explanations for the past but rather to provide a basis for looking at current policy options. For there seems little doubt that the poor performance during the reform period has, in many respects, left Zimbabwe in a worse position now than she was when she embarked upon the reforms. There is certainly more macroeconomic disequilibrium. Externally, the trade balance, current account, foreign exchange reserves and foreign debt are worse now than ten years ago. Internally, the budget deficit is no better, while unemployment and inflation are both considerably higher. Paradoxically, if SAPs do what they are meant to, the need for a SAP now is greater than it was ten years ago when it was first mooted.

288. The situation has also deteriorated with respect to our other two components of sustainability. Income distribution has worsened and income per capita has fallen, suggesting that the ‘poverty reducing’ growth rate must be higher now than it was then. The ‘environmental protection’ growth curve has also been brought down. The environment can probably sustain a lower growth rate now than it could then.

289. So the relevance of the question of the impact of sustainability on globalization is of greater importance now than then.

290. The stage for conflict between the different objectives of sustainability is clearly set. On the one hand, the macroeconomic imbalances create a management imperative to rein in the budget deficit. On the other hand, the extent of deep poverty creates an imperative for social action. Such a conflict could exist even in a closed economy. However, openness makes the macroeconomic imperatives more binding. In an open economy with a market determined exchange rate, internal disequilibria soon become external. Inflation, perhaps sparked by budget deficits and their financing, feed into exchange rate depreciation. With high import content of production, this further fuels inflation. The re-distributional effects of this spill-over into social unrest and political conflict.

291. The above broad-brush story accords with Zimbabwe’s experience. The ‘three gap’ history told earlier showed how in the 1980s, regulation of the economy allowed government to accommodate its large deficit without running into foreign debt problems, but using import controls to force the private-sector to generate a surplus of savings over investment. Essentially the controls enabled government to channel resources out of the private-sector into the public sector. After the reforms, this mechanism of adjusting the economy to the underlying disequilibrium created by the public sector deficit is no longer available. Continuous exchange rate depreciation is necessary to try to contain the current account consequences of the budget deficit. As we have seen, this is inflationary, reducing savings. At the same time, the domestic financing requirements of the deficit push up interest rates and inhibit investment.

292. The exact nature of the problems created by low sustainability depends crucially on the political sphere. If government responds to the immiserisation of the population – either out of genuine concern or because of fear of loss of office – by increasing total expenditures, then the economy becomes caught in the vicious macroeconomic circle. If it does not respond, society gets caught in the vicious circle of unsustainable human development.

293. Thus one way in which low sustainability can be a constraint to globalization is because the process is initiated – as in Zimbabwe in 1990 – from a point at which government has a high commitment to social development. In fact it is likely that this high commitment and the social budgetary expenditures that it entails are at the root of the imbalances which have brought about the policy induced globalization. Government, being aware of the constraints that openness will place on its ability to continue these expenditures, will therefore be cautious about the whole process. Although the character of the Zimbabwean government has changed considerably under ESAP, with hindsight it seems unlikely that, had it known how poorly the economy would perform, it would have embarked upon the reforms.

294. A different way in which the lower sustainability of Zimbabwe in the 1990s could constrain its globalization efforts could be as follows. The economy is more open now than it was when ESAP was introduced. We have already seen that exports and imports of goods and services are over 100% of GDP. In the terms set out in the introduction, there has been very rapid *extensive* globalization. It is not clear whether there is a limit to extensive globalization, but it seems likely that as the trade ratio gets higher, a more *intensive* form will be necessary to continue to benefit. This means that more emphasis will have to be placed on technology. But diffusion of technological change through the economy requires human capital. However, the decline in sustainability in the 1990s has undermined the process of creating human capital that was one of the success stories of Zimbabwe in the 1980s. In terms of its technical personnel Zimbabwe is possibly worse placed in 1999 to manage technical change than it was in 1989.

295. Diffusion of technology also requires a network of firms. As Mytelka and Tesfachew (1998) have argued, endowments of formal education and R&D institutions "are not themselves determinants of firm-level learning. We have argued that technological learning by firms is an interactive process involving other firms as well as other key players within the economy." The de-industrialization in Zimbabwe over the 1990s has perhaps undermined the basis for such interactions. Against this, as we argue later, the conservative attitude of some managers brought up under protection may have inhibited such interaction even more.

296. Finally, the fact the economy is more macro-economically unsustainable now than in 1990 clearly makes managing globalization more difficult. For example, the higher level of interest rate payments in the government budget make it much more difficult to tackle the budget deficit now than it was in 1990. Similarly the domestic debt burden makes government financing much more problematic.

X. MANAGING THE ECONOMY UNDER GLOBALIZATION

297. ‘Addressing the Structural Adjustment Participatory Review Forum in Harare last week, World Banks Resident Representative, Mr. Thomas Allen, said the ESAP was flawed.

298. “From the broader perspective of poverty and human development. The programme design itself was flawed, particularly in the underestimation of its social consequences,” he said.’ (*Daily News*, 1999)

General Considerations

299. At a superficial level, the policies required to manage the Zimbabwean economy so as to get sustainable human development in a globalized world are both simple and well known. The major problem has been the failure to control the budget deficit. Opening up trade and the capital account before achieving some kind of reasonable budget balance initiated a self-re-inforcing process of exchange rate depreciation, monetary expansion and inflation. This had a significant income-redistributing effect which impacted on sustainable human development.

300. The question is why was there this failure? At the initial stages of ESAP it was possible to argue that the deficit was influenced by a debt-hangover from before the reforms, or that the drought knocked everything off course. But those arguments now ring hollow. It has become clear over the years that the failure is a political failure: its roots have to be sought in the political process in Zimbabwe, not the economic.

301. Our earlier examination of the proximate factors contributing to the deficit showed that although the decline of tax revenues was significant in the transitional period, in the subsequent years it has been the rise in expenditures which have driven the process. How can the rising expenditures be attributed to a political process? This issue is tackled in the next section. In this section we consider some of the more technical aspects of policy implementation. These issues are conveniently grouped under the general problem of sequencing.

Sequencing

302. The issue of sequencing of reforms under a structural adjustment programme has been discussed in the theoretical and policy literature for some time. Although there are some divergent opinions, there is a majority view on the theory of sequencing; however, empirical studies provide little conclusive evidence for particular sequences. The question of sequencing appears to be specific for each economy depending on the precise initial conditions and the capacities and capabilities of the economy. In what follows we present some of the main views and assess how the Zimbabwean experience fits in. The main components of a standard SAP – all of which were present in Zimbabwe’s ESAP – include trade reform, public enterprise reform, rationalisation of government finance and administration, sectoral reforms (particularly in the agricultural and financial sectors), labour market deregulation, price liberalization and capital account liberalization. The standard literature on sequencing addresses the order in which various pairs of these components should be implemented. What does the Zimbabwean experience tell us?

Macroeconomic Stability and Trade Liberalization

303. At the broadest level, there is the question of how to sequence trade liberalization and macroeconomic stabilisation measures. There are differing views as to whether stabilisation should precede liberalization or whether they can be undertaken simultaneously. The case for simultaneity is based on the view that there is little connection between trade orientation and the state of the macroeconomy, and there is no point in prolonging the inefficiencies of the trade regime. Some authors also suggest that it is in principle possible to design a package whereby the losers from trade liberalization are compensated by gains from stabilisation and vice versa. This might make the whole package easier to implement than either part separately.

304. The predominant view, however, is that macroeconomic stability should be achieved before significant liberalization is undertaken. The central basis for this view is that the products of macroeconomic instability – particularly inflation and incorrect exchange rates – will distort the price signals that are meant to be driving the resource reallocations that the trade reforms are intended to achieve.

305. Although it was intended in Zimbabwe that the reforms would take place simultaneously, in practice trade liberalization *preceded* macroeconomic stabilisation (which has not yet been achieved.) According to the theory, this should have hampered the shift from non-tradables into tradables. We have seen that the real exchange rate, after depreciating quite rapidly in the first two years of reforms, appreciated and has remained roughly constant through the mid-nineties (although it has appreciated over 1999). The strong inflationary pressures from the failure to achieve macroeconomic stability have more than off set the nominal depreciation that has occurred. Although the disappointing performance of exports cannot be attributed entirely to this, it is unlikely that the actual sequencing has helped.

Capital Account and Trade Liberalization

306. The general view is that trade liberalization should precede capital account liberalization. This view is based on the notion that capital inflows prevent depreciation of the exchange rate that is necessary to get the current account right. In Zimbabwe although trade liberalization was started before capital account liberalization, in practice the two have progressed virtually simultaneously. This has been highlighted by some commentators as contributing to the appreciation of the real exchange rate and thus to the poor export performance. Part of the problem is that the adjustment packages brought capital account inflows which themselves undermined the effectiveness of the trade reforms.

Sectoral Sequencing

307. Sectoral sequencing issues entail questions of how different sectors should be sequenced as well as how specific measures within a given sector should be sequenced. The best example in Zimbabwe of the latter relates to financial sector reforms. There is a strong presumption in the literature that the institutional reforms – particularly those relating to the regulation of new banks – should be in place before the new banks are allowed to come into operation. In Zimbabwe this was not done. The establishment of new banks preceded changes to the regulatory apparatus. Despite promises about a new Banking Act, which would give the Reserve Bank of Zimbabwe greater supervisory powers, it has not yet materialised. Many of the problems related to abuse in the banking sector can be attributed to the lack of these supervisory structures.

Fiscal and Financial Reforms

308. It is clear that the failure to reform the fiscal apparatus has been the major force behind the high interest rates. The inflationary impact of the budget deficit, coupled with a view in the Reserve Bank of Zimbabwe and its advisors from the Bretton Woods Institutions, that inflation is a purely monetary phenomenon requiring tight monetary policies, has pushed up interest rates. The negative consequences of this not only for private investment but, for supply responses to depreciation, are clear.

Sequencing of Trade Reforms

309. Trade was reformed by reducing restrictions on inputs and capital goods before those on consumer goods. However, it appears that the process was not followed fully. Institutional bottlenecks, particularly in the speedy processing of rebates on duties paid on intermediate inputs and of imports for firms in the EPZs, have meant that a number of firms have not benefited in the manner intended. Part of the deindustrialization observed is due to the competitive disadvantage placed on domestic firms by this tardiness.

Sequencing of Social Packages

310. It is clear that part of the negative impact on social living standards is due to the delay in the designing of poverty alleviation programmes. The initial SDF was, as we have seen, inadequate. Subsidies and cost recovery programmes were introduced prior to introducing measures to protect vulnerable groups. Even when they were put in place – albeit with insufficient funding – the failure to sort out administrative arrangements undermined their impact. For example, to qualify for exemption from fees for health services, which were intended to protect the poor, initially required certification from the Department of Social Welfare.

Bureaucratic Reforms

311. In principle, reforms to the public sector are seen as comprising two broad aspects: reducing the size of the bureaucracy and streamlining what remains. In Zimbabwe the emphasis has been – and still is – on the former – even though the early progress was not sustained. Even now the issue of deciding appropriate functions of ministries, removing redundant ministries or departments, and of providing the right incentive structure to ensure performance has not been addressed. This was predictable. Retrenching staff involves hurting people and it is easier to do it by natural wastage and voluntary redundancies than by deliberate targeting of specific people. But this mechanism runs counter to the second objective. Voluntary redundancy is likely to remove those people best able to find private-sector jobs, who may be the more competent civil servants.

312. A more problematic area of bureaucratic reform is the question of improving the quality of service. Although attempts have been made to relate bonuses to performance, it is not clear that the manner in which this is done actually achieves the desired result. The problem of civil service efficiency is in large measure not related to the individual capabilities of individual bureaucrats but rather to the management of work practices. There appears to be little specialised division of labour with assignment of specific responsibilities. Often individuals are not only given a wide range of duties but can also be assigned *ad hoc* duties – such as preparing speeches for Ministers. As the numbers are reduced this diffusion of responsibilities is increased. In terms of sequencing, the ideal phasing for bureaucratic reform would be to implement measures to enhance performance and then reduce numbers in a systemic way.

Private-Sector Management Reform

313. An issue of sequencing, which is not generally treated in the literature, is that of improving private-sector management. A management culture, which has grown up in a climate of regulation may not have the skills required for an open globalized economy. The orthodox adjustment literature assumes that the lack of good management or entrepreneurial activities is a result of the inhibiting effects of regulation. Removing the regulations will release the natural inclinations of people to 'truck and barter'. But this is clearly not the case. In Zimbabwe the problem has been compounded by the historical nature of the private-sector. This has had two negative effects. The racial barriers that still exist within the management of old firms mean that the norms and culture of business are not passed on as smoothly as they might be. For example, the demise of apprenticeship training can largely be ascribed to racial attitudes of management. This is recognised by many in the indigenisation lobby, who see the need for deliberate policies to break down these old structures. Unfortunately the process of indigenisation has not been carried out properly. The macroeconomic instability has created an economy in which the returns to rentier capital are much higher than those to production. There are few indigenous businessmen who have been successful in starting – or running existing – industrial firms, as opposed to those in the financial sector or in services such as telecommunications.

314. There is a more insidious way in which the process of indigenisation pursued in Zimbabwe has undermined indigenisation. Because of the historical inertia of racism, it is entirely plausible for an unsuccessful businessman to find external excuses for his failure. In some instances government has provided support for these excuses. The problems in the UMB for example were well known long before the corruption scandal became public. But the political support to the group of companies allowed the problem to escalate before anything was done. We should not be surprised when a businessman uses an available excuse to extract support: businessmen are in the business of doing the best they can in the circumstances in which they find themselves. But this does not mean that the self-interested arguments they put forward are correct. Reputation is important, and reputation unfortunately comes from not only individual merit but also from collective actions of groups with which one is identified. Two related examples suggest themselves. First, some indigenous business groups have used their political power to prevent the sale of houses that have been put up as collateral for indigenous businesses. While the immediate effect of this may be to protect individual business men, the longer term effect is to make it difficult for anyone who is identified as possibly having access to this kind of extra-market support to obtain loans. The second example is the continuing pressures from some interest groups over the *in duplum* 'law'. It is apparently contrary to Roman Dutch law illegal for anyone making a loan to recover interest greater than the principle sum. This has been used to prevent interest payments on outstanding debts accruing beyond a certain level. Again, while this may be an apparently moral argument, which a businessman can use to his own ends, its effects are to destroy indigenous businesses. A bank that is approached by a business to roll over a loan that, perhaps for good reasons, cannot be repaid on time, has a great incentive to refuse, knowing that to accept will essentially turn the loan into a non-performing asset. Even if the business looks as though it is about to become viable, there is an incentive for the lender to force it into liquidation[12].

[12] There is an additional problem that in the few cases that have come to court it appears that the interpretation is in regard to nominal interest payments, which is a nonsense in a high inflation economy.

Economic Reforms and Environmental Protection

315. The various sequencing debates are usually restricted to the components of economic reforms. However, there is the issue in this study of the sequencing of economic reforms and environmental protection measures. In principle, since environmental protection is concerned with longer-run issues there is no real need to delay them; the presumption would be that simultaneity is appropriate. One of the consequences for Zimbabwe of globalization is tourism growth. It is likely that measures to protect the environment from tour operators is necessary before it is too late to do so. There is a question of credibility. If environmental activities are legislated but, because of the short-run economic consequences, are not implemented or enforced, then their credibility suffers. This means that they may become ineffective even in the long run when they matter. A climate of ignoring regulations builds up a culture, which disregards them and it may be difficult for it to be changed. Thus there may be a case for delaying environmental actions until it is known that there is both the moral, technical and legal capacity to enforce them. For example, have practices over the years led to a complete disregard for legislation preventing stream bank cultivation? Whether or not you get away with it is a random event. Once you have planted there is a good chance that you will be allowed to harvest. The policies are, in economic terms, time inconsistent.

XI. THE POLITICAL ECONOMY OF POLICY IMPLEMENTATION

316. The previous chapter provides some general guidance to important issues in the design and implementation of policies under globalization. The concern of the UNCTAD/UNDP Programme on Globalization, under which this case study is being undertaken, is to produce a list of concrete policy proposals to help participating countries manage globalization in a manner supportive to sustainable human development objectives. These proposals will be included in a plan of action, which UNCTAD, UNDP and other international agencies and multi-bilateral donors will be able to assist countries in. However, the analysis of the Zimbabwean experience suggests that much of the poor performance of Zimbabwe during the past decade's attempts to globalize extensively have arisen because of poor domestic management of the programme. In this section we will argue that the problem is not the lack of sensible policies but rather the failure to *implement* them. We will begin by exploring this argument in more detail. Our conclusion will be that there is no need for more policy proposals, but rather that the reasons for implementation failure need to be tackled. Although we find that the main reason for implementation failure lies in the nature of domestic politics, we also argue that this is not attributable solely to government but that the private-sector and the donor community also contribute to the failure.

Existing Policy Statements

317. Over the past decade there have been numerous reports and papers making policy recommendations for Zimbabwe. These have come from the government itself, from institutions advising the government, such as the IMF and World Bank, and from NGOs and civil groups, such as the ZCTU[13]. Rather than make another set of recommendations *ab initio*, it would be better to start from what is already on the table and to see whether it can be built upon or needs radical modification. Such a comprehensive compilation is, however, beyond the scope of this paper. We therefore begin this section by reviewing briefly the policy thrust in three representative documents: ZIMPREST, the Zimbabwe *Letter of Intent* to the IMF on July 16,1999, and the Zimbabwe Human Development Report 1998 (ZHDR). We then make some observations about problems in the policy process in Zimbabwe.

[13] The ZCTU produced its own assessment of ESAP with suggestions for improvement and reform, in a study entitled *Beyond ESAP*. This report had a major influence on the contents of ZIMPREST.

318. The range of policies that have come out of various government bodies over the past decade is enormous. Many of the ideas behind these were incorporated into ZIMPREST, which presents a twenty-page policy matrix, which specifies not only the nature of the policies but also sets deadlines for implementation. The policies are grouped under four main headings:

1. *Restructuring government for economic and social transformation* deals with fiscal policy (which is narrowly seen as tax reform), managing expenditures, managing debt and deficit financing, restructuring government for service delivery, decentralisation and public enterprise reform;
2. *Supporting socio-economic policies and programmes* sets out policies related to the financial sector, exchange rate and monetary policy as well as labour market reforms, deregulation, infrastructure provision, drought mitigation and preparedness, trade and regional integration, environment and natural resources;
3. *Facilitating empowerment and private-sector development* covers indigenisation, land reform, agricultural development, direct poverty alleviation, small-scale enterprise and employment programmes, mining, manufacturing trade and regional integration, tourism, and communications;
4. *Investing in people* deals with national aids strategy, education, health, housing, sports and culture, and youth and gender issues.

319. Under each of these broad groupings, detailed reform areas and objectives are specified, with action programmes and specific actions for each objective and, in many cases, dates by which they will be achieved. Since it is a wide ranging programme, many of the policies outlined are specifically aimed at the area of this report – sustainable human development.

320. As might be expected, the IMF has played a major role in influencing the evolution of policy under ESAP (as have the World Bank and other donors). The influence is not so much from direct policies but rather through influencing government. A letter of intent therefore, although coming from Government, is indicative of what the IMF thinks needs to be done. IMF contribution to policy has, as expected, focused on macroeconomic stabilisation. However, the letters of intent cover a broader range of areas. The *Memorandum on the Economic Policies of the Government of Zimbabwe for 1999* attached to the latest *Letter of Intent* specifies a long list of policy actions, some specific and some vague.

321. The immediate objectives are stated to restore confidence, bring inflation under control, stabilise the exchange rate and rebuild international reserves. Specific performance targets are 1.2% real GDP growth in 1999, reducing inflation to 30% by the end of the year, and achieving a current account deficit of 6.3% of GDP, raising reserves to 1.6 months cover by year end. The main instruments for achieving these targets appear to be controlling monetary growth – it will be cut to 10% in 1999 – and fiscal restraint – the 1999 budget deficit will be targeted at 5.3% of GDP. Interest rates and the exchange rate will be allowed to adjust freely.

322. The key elements of the policies outlined are: fiscal discipline, civil service retrenchment, financial sector reforms, reversal of the elements of control (maize prices and removal of FCAs) that had been reintroduced, public enterprise reform, including sale of specific assets and a programme for privatization, tariff reductions and improved quality of government economic management, which appears to be taken to mean reducing corruption and being freer with information.

323. Although most of the policies are concerned with macroeconomic management, there is also reference to safety net measures ‘being expanded through a loan programme for the purchase of maize in the poorest rural areas’ (to alleviate the impact of rising food prices). The commitment to land reform is also reaffirmed in several places.

324. As with ZIMPREST, there are specific dates by which these measures will be implemented.

325. Although the Zimbabwe Human Development Report 1998 was not primarily a policy document, it does end with recommendations on “the essential ingredients of a poverty alleviating macroeconomic strategy”. These are:

- policies designed to achieve relative price stability, rapid economic growth and viable external payments and foreign debt profiles;
- structural policies to create an enabling environment to foster savings and investment;
- promotion of good governance, transparency and accountability and the reduction or elimination of corruption;
- a system of easily administered taxes with a broad tax base, moderate tax rates and the minimum of exemptions;
- reduction of unproductive expenditure and the efficient allocation of public spending to activities most beneficial to the poor;
- well-targeted social safety nets.

326. The Report supplements these rather general prescriptions with more specific recommendations. These include:

- land redistribution and resettlement to alleviate poverty and stimulate faster growth;
- increased public sector investment in physical and social infrastructure, coupled with more joint private-public investment in infrastructure;
- strong competition policies to reduce or eliminate “entry barriers and regulations that constrain the growth and development of small and medium-scale enterprises”;
- re-engineering the state to ensure it is “better able to perform the reduced role that it has been called upon to fulfil”;
- re-invigorating the social services sector, particularly health and education;
- efficient macroeconomic policies in respect of taxation, public spending, industrial protection and competition are necessary to generate more job opportunities in the formal sector through sustained rapid growth.
- better coordinated efforts to attract foreign investment, a competitive exchange rate policy and effective fiscal and monetary policies that will curb inflation so as to foster the export led growth required by globalization.

327. The Report suggests that poor performance was, *inter alia*, due to insufficient political commitment.

328. A number of comments can be made about these three sets of proposals.

Similarity of Prescriptions

329. First, they are almost identical. The *Letter of Intent* contains nothing that is not in ZIMPREST. Dates of implementation may have changed, but there is nothing that the government agreed with the IMF in July 1999 which was not in the government's own policy proposals some years earlier. The recommendations gleaned from the ZHDR are also in broad agreement with ZIMPREST. Even the "good governance" issues are included in ZIMPREST, in a final section on "Making ZIMPREST Work" although they are given more prominence in ZHDR.

330. This re-confirms the perception that many people have that the 'policy' problem in Zimbabwe is not the lack of reasonable proposals, but rather implementation failure. There is not only a great degree of consensus on what needs to be done, but this consensus has existed for some time. The problem does not lie in the menu, but rather that, as in many Zimbabwean hotels and restaurants, dishes on the menu turn out to be 'off' when ordered.

Abstract Prescriptions

331. Many of the recommendations are either vague or banal. Given the current state of the economy, it is banal to say that there is a need for fiscal discipline. Many of the 'precise' proposals in both ZIMPREST and the *Letter of Intent* are of this sort. Adding a figure to the proposal (as in "the budget deficit will be targeted at 5.3 percent of GDP" *Letter of Intent* p 3) adds a spurious air of concreteness[14]. Many of the other proposals are simply abstract, even when they are intended to be concrete. In order to exemplify our argument, consider how ZIMPREST spells out one aspect of its policy proposals, dealing with restructuring of government. Figure 4 is an extract from the policy matrix. Ten 'specific actions' are mentioned. However, only two or three of these can be possibly interpreted as 'specific actions': to publish mission statements and to formulate corporate plans. One, ensuring that Ministries publish and implement their client charters, might be interpreted as a specific action although no specific mechanisms for ensuring this are given. The remaining 'actions' are in fact proposals for further 'review' or 'develop' or 'design', which, although they might result in specific actions, are not in themselves specific actions. Furthermore, some of them are pre-requisites for the specific actions that have been identified. How, for example, can a ministry publish a mission statement or a corporate plan, when the process of reviewing their functions is still being undertaken?

332. Although this is only one example, a review of ZIMPREST suggests that it is not exceptional. Most of the document does not provide guidance on action, but rather suggests areas in which specific actions need to be formulated. Most of the specific dates mentioned are actually dates by which mechanisms for developing specific actions will be set up.

333. The same criticism could be made of many of the recommendations in the ZHDR. No one could object to the view that poverty alleviating strategies must include, for example, "structural policies to create an enabling environment to foster savings and investment". But what is such an environment and, more importantly, what steps must be taken to develop it? Given the purpose of the ZHDR it is perhaps unfair to make this criticism. But it is relevant to ask what contribution is made to the development of policy by such broad and essentially abstract recommendations?

[14] Anyone with any familiarity with estimates of the Zimbabwean GDP in recent years knows that specifying a ratio to GDP to even one decimal place is laughable.

334. As might be expected, the *Letter of Intent* is more specific. But the curious aspect of the *Letter* is that it merely reaffirms proposals that the government had itself made in ZIMPREST or in the previous budget. It is not clear why the IMF believes that a restatement of intentions – which had not been adhered to even when they had emanated from government itself – should be grounds for agreement. There is an underlying suggestion that government's 'commitment' needs some external force: although government wanted to do all these things previously, it is the addition of the IMF Agreement which is necessary to force it to do what it wants to do.

335. Another – and rather sad – aspect of the *Letter* is that government committed itself to doing what it wanted to do anyway in a much shorter time frame than it had given itself under ZIMPREST. For example, in ZIMPREST, it was proposed that the Zimbabwe Development Corporation would be dissolved and its subsidiaries would be disposed of. Government has had four years since the supposed start of ZIMPREST (or two since its actual publication) to implement this. Under the *Letter of Intent* it gave itself four months do it. It has changed the privatization programme spelled out in ZIMPREST – and in fact in ESAP before then – into a fire sale.

Reasons for Implementation Failure

336. The problem does not lie in the absence of ideas but rather in the implementation of those ideas. This raises the fundamental question of why government's commitment to its own policies is so weak. This is not unique to Zimbabwe; it is found in many countries, particularly in sub-Saharan Africa. It has been discussed widely in both the theoretical and the policy-oriented literature. A number of alternative explanations have been given for this phenomenon.

Lack of Local Ownership

337. It has become a commonplace in international policy debates to argue that implementation requires a sense of local ownership. This is generally taken to mean that policy advice will not be implemented if it is seen as being imposed from outside. It may be 'adopted' to get the foreign resources that come with it, but that does not mean that the national government is either convinced that it is right or necessary, or that it intends following it. There is a time inconsistency problem: once the assistance is given, there is no need to stick the bargain. Practice has shown that SAPs are rather like serial monogamy. The intention is to get the initial assistance, knowing that if the agreement is suspended, so that we do not get the full support, a new agreement will eventually be negotiated and so the game can continue. This is particularly so when the main aim of the agreement is not the resources that come with it but rather the 'seal of approval' aspect. An IMF agreement is important not because of the amounts of money involved from the IMF but rather because the agreement is a positive signal to other donors.

338. This problem, it is argued, can be overcome if the policies are home grown. The ideal process, which is emphasised by the MFIs, is that the government concerned should develop its own programme – perhaps with some technical support from the MFIs – and that external donors come in as partners to assist the government to implement. This does not seem to be the case in Zimbabwe. The government took great pains to emphasise the 'home grown' nature of both ESAP and, more particularly, ZIMPREST. While it is possible to argue that many of the ideas and approaches in the reforms – particularly the aspects related to market orientation – were influenced strongly by policy fashions outside Zimbabwe, the process of formulating ZIMPREST was essentially one of internal dialogue rather than of negotiation with the IMF. We have argued that even the *Letter* is simply a restatement of polices already

adopted by Government. If the disjuncture between government's policy statements and its actions is attributable to ownership, it is much more a question of internal ownership. The details of government proposals are drawn up by 'technical' personnel within the bureaucracy. But it is not clear that the political powers 'own' the programmes, in the sense that they give expression to the actual convictions of government. This in part explains the lack of specificity of the programmes. It is easy for Cabinet to adopt a policy stance which gives general – and mostly uncontentious – statements of intent. Conflicts arise only when the actual details of implementation are spelled out. No one can disagree in principle with, for example, the need to streamline the functions of ministries. But when such streamlining is put in concrete terms

REFORM AREA: RESTRUCTURING GOVERNMENT FOR SERVICE DELIVERY

Continue process of restructuring the public sector, to focus on the core functions of government, streamline the apparatus of central government and improve service delivery

Action Programme:

- Define and focus resources on core business of government;
- Eliminate overlaps and duplication and decentralise responsibilities where appropriate;
- Privatise and Commercialise activities and services wherever possible;
- Contract and out source input provision into public administration and re-focus on-going civil service reform around core activities

Specific Action: See below

Civil Service Reform: Create an adequately remunerated, modern, highly skilled civil service that is efficient, effective, accountable, transparent, responsive and development-oriented.

Focusing on core business: *Adjust operations of government to match resources and reflect expanded role of the private-sector*

Action Programme

- re-focus the role of the public sector in the provision of services

Specific Actions:

- Formulate corporate plans
- Publish mission statements
- Ensure that Ministries publish and implementtonalise (sic) their client charters

Streamlining Government: *Rationalise function and responsibility across agencies, strengthen co-ordination and monitoring functions and Rationalise ministerial structure and civil service*

Action Programme:

- Formulate and Implement programme for rationalisation
- Continue the civil service reduction and rationalise exercise.

Specific Action

- Establish Inter-ministerial Committee on rationalisation to undertake review of functions of ministries
- PSC in consultation with the Inter-ministerial Committee on rationalisation to develop a programme of action for further rationalisation /reduction of civil Service.

Efficiency enhancement: *Improve human resources recruitment, training and communication between and within ministries*

Action Programme

- Design and implement a cost-effective recruitment and selection system.
- Complete introduction of performance management
- Design and implement a national training policy for the civil service
- Improve communication on human resource issues

Specific Action

- Review the current system and come up with a recruitment strategy that will facilitate the filling of posts in the service, with the right people at the right time.
- In consultation with Ministries, design and implement entrance and promotion examinations.
- Develop and implement programme for improving financial, human resources, programme/project management and change in management.
- Design, coordinate and implement training programmes.
- In consultation with Ministries, to come up with civil service-wide communications strategy

Figure 4: An Extract from ZIMPREST

339. Involving a particular ministry losing some of its functions – or being disbanded completely – then it becomes a matter of which Ministers or senior bureaucrats will lose their positions or have their powers curtailed. It becomes clear that the goal of 'streamlining' entails winners and losers. Unless political processes have the mechanisms to make and enforce these choices, there will be delays, establishment of inter ministerial review committees, and general inaction.

340. Thus while the question of 'national' ownership may be relevant, it makes the mistake of thinking of the nation as a consensual homogeneous entity. It is divorced from the realities of national politics. A more serious question is *which* of the different national interest groups have a sense of ownership. This is recognised in the current policy literature, which emphasises the involvement of all 'stakeholders' in the formulation of policies. But again, this view has a consensual view of national politics. It implies that if 'we' could all be involved, 'we' will work out policies from which 'we' can all gain. This is a naive view of societies, politics and policies. Policies entail winners and losers. If the losers are not directly involved in policy making, the result could simply be opposition to the policies after they are announced. But if the 'losers' include policymakers whose spheres of influence will be curtailed, the result is likely to be inaction. No politician or bureaucrat will explicitly oppose a policy on the grounds that it weakens their power. They might find 'objective' arguments to try to change the proposals during the formulation stage, but once they lose the battle, they will obstruct implementation through normal bureaucratic procedures.

Commitment Strategy

341. In the economic policy literature there has been an increasing concern with 'commitment technologies' or 'commitment strategies'. Time consistency issues raise the question of how to ensure that a government will stick to its announced policies, particularly since it may well be optimal to reverse them after private agents have responded to them. Various commitment technologies have been proposed. IMF conditionality is seen by some – including the IMF – as one such strategy. Regional economic co-operation is another. Openness itself is a particular kind of commitment technology, since openness – coupled with unregulated markets in foreign exchange – implies that certain kinds of policies will not work. For example, in a truly open economy, excessive monetary expansion creates balance of payments and exchange rate problems. Therefore a government adopting such strategies is essentially tying itself to avoiding excessive monetary growth. Central bank autonomy is also a form of commitment technology.

342. The problem with all these devices is that they presuppose a process in which the consequences of mismanagement are harmful to the mismanagers. How far do the negative consequences for the economy of monetary expansion in an open economy constrain policy makers, if economic hardship and collapse does not lead to loss of office? An external commitment technology only works if there is an appropriate domestic political structure.

Political Structures

343. We have argued that the political set-up in Zimbabwe does not force difficult decisions to be made, and has an inherent tendency to encourage inaction. While the reasons for this may be found in the domination of one particular political party, there is nothing inherent in either single-party systems that need cause this – witness China – or in multi-party systems, which will avoid it. The central issue is whether policymakers are accountable for policy failures.

Capacity

344. A common argument for the failure to implement policies is the lack of capacity in the bureaucracy. This argument lends itself nicely for donor funded capacity building programmes. However, while there is always a need to improve skills, 'lack of capacity' should not be seen in absolute terms emanating from the skill base of the civil servants. It is a relative term, which depends also upon the purpose for which the skills are being used. Part of the solution to lack of capacity is to make sure that the objective functions of the bureaucracy are designed to make best use of existing capacity. We have argued earlier that reforming the quality of service provided by the bureaucracy is an important but neglected part of the overall reforms. This requires a rethinking of the functions of bureaucrats and a more professional approach to the use of their skills. There are many cases in which, for example, training courses are seen not as a way of up-grading the skills of those people assigned the functions related to the skills, but rather particularly when the training involves some perk to the individual such as a trip to Washington – as an opportunity to reward favoured bureaucrats. This kind of abuse is made easier by the apparent lack of specialisation of officials. It is also necessary that work practices are such that those who have acquired skills are in a position to use them. Again there are instances of lower level officials who have been trained in particular relevant skills finding themselves unable to use them because the nature of their work is not changed to take into account their upgrading. There is no point taking someone whose job has been to write non-analytical reports on particular sectors, giving them the skills to undertake more significant analysis, and then requiring that they continue to produce the same quality of report as before.

345. Improving performance does not require simply better assignation of duties and responsibilities but also accountability at an individual level. Just as competence should be rewarded, incompetence should be punished. But this is not possible when failure is not seen as the fault of particular individuals.

XII. POLICY RECOMMENDATIONS

346. The above considerations suggest that measures to improve government management of Zimbabwe's globalizing economy should focus on implementation strategies. This is inevitably tied to the complex of issues falling under the rubric of good governance. Some aspects of the problem are being addressed at a political level under the constitutional revisions currently being undertaken in Zimbabwe.

347. Policy recommendations can be grouped into those dealing with macroeconomic stability, those dealing with institutional capacity building, and others such as issues on which policy research would be desirable.

Macroeconomic Policies

348. The central thrust of macroeconomic policy management has to be on controlling the budget deficit. The government is aware of the measures needed to bring the budget process under control: proper construction of budget targets, adherence to agreed budget allocations, reduced domestic borrowing. In the past high budget deficits have been due to the failure of various ministries to remain within the authorized expenditure ceilings. But the debt service burden also adds a large non-discretionary element to expenditures. Short-term measures are necessary to reduce this burden. Possibility of swapping domestic debt for foreign are being discussed and should be explored properly.

349. Experience has shown that the capacity to implement above measures is limited. Therefore, mechanisms to assist the Government in sticking to its budget proposals will be required. In this regard, one important recommendation is to strengthen Parliament's capacity to play a bigger role in ensuring implementation. This issue is discussed further below under institutional capacity.

Institutional Capacity Building

350. Strengthening of institutional capacity calls for the following measures:

1. *Strengthening Institutions for Monitoring the Implementation of Policies*. Parliament has an important role to play in monitoring policy implementation. This role exists under the present Constitution and is being strengthened under the proposed new constitution, although it has in practice been emasculated in the past. There is, however, a growing awareness of the importance of their role by parliamentarians. Performing this function requires parliamentarians who are not only jealous of their rights but also have the technical support to monitor complex government activities. There needs to be a strengthening of technical support to Parliament.
2. *Promoting Civic Organisations*. Support needs also to be given to the development of civic fora and organisations such as the National Economic Consultative Forum. This could be an appropriate body for developing dialogue between government and different interest groups. It could also provide the basis for more frank assessments of government performance than will come from internal reviews.

351. Both of these measures would strengthen the institutional basis from which accountability, transparency and good governance could develop.

352. At a more immediate level, it is clear that policy measures have to focus on bringing government expenditure and the deficit under control. Here there are a number of measures, which have been proposed and occasionally implemented in the past, which could benefit from support:

1. Improving internal government accounting and control procedures. There is already a project to computerise government expenditure monitoring. Although the problem is not purely a technical one, it is clear that a speedier monitoring process is a necessary component in tackling it.
2. Attempts to reform the Civil Service have failed in the past. There need however to be further attempts to implement past proposals. There is perhaps a role for donors to support the implementation of previous recommendations.
3. The attempt to control expenditures through a limited version of a 'cash budget' has apparently failed, mainly because its implementation was not properly thought out. It may well be that a proper attempt is necessary, at least in the immediate future, as a drastic measure to bring expenditures under control. Such implementation will require technical assistance.
4. The expenditure problem is not solely related to expenditures on the civil service. Interest payments on domestic debt are a major cause of the deficit and threaten to continue to inject macroeconomic instability into the economy. There are currently a number of proposals to reduce this burden by swapping domestic for foreign debt. Although such a step carries inherent dangers – particularly if the Zimbabwe

dollar depreciates – there may be merit in them and a systematic study of the possibilities is warranted.

353. The above measures focus mainly on the problems of creating and controlling an accountable public sector. This is emphasised since it is argued that a strong and efficient public sector is an essential ingredient for ensuring that other policies are properly formulated and implemented. It is clear that there are numerous other areas in which policy action to manage globalization is needed. These include:

1. There is a need to develop capacity for trade policy research and implementations within government. The recently formed Tariff Commission needs to build its capacity so that it can become the focal point for discussion of trade policy.
2. There is a need for better data on FDI and a better understanding of the measures required to attract it. In 1999, UNCTAD and UNDP financed an Investment Policy Review in Zimbabwe to examine opportunities, policies and institutional framework for FDI.
3. Institutional support needs to be given to assisting SMEs to develop export markets. In particular, pooled market activities need to be enhanced. ZIMTRADE may be an appropriate base from which to develop this capacity.
4. Support is needed for appropriate measures for land reform.

354. Many of these measures are concerned with bringing about growth in the short run. There is a danger in a crisis-ridden economy that policy efforts focus solely on crisis management, while apparently longer run issues are neglected. It is important therefore that attention is paid to long term issues, especially concerning the environment.

Environmental Policies

355. An economy such as Zimbabwe which relies very heavily on natural resources needs to have an elaborate natural resource management policy. Given the potentially negative effects of globalization, it seems clear that globalization should be accompanied by a set of environmental policies designed to minimise environmental damage they may inadvertently cause.

1. *Economically Sustainable Resource Management*: Economic sustainability is an absolute must in a country so heavily reliant on its natural resources. In this case, economic sustainability is defined as ensuring a permanent stream of income in the future, equivalent to the stream of "rents" actually generated by the natural resources. In some sense it is similar to the idea of a **Perpetual Pension Fund** for the nation – how much would have to be saved to maintain the income currently received if the natural resources were so badly depleted? It is not necessary to reinvest the entire rents in order to guarantee economic sustainability; in fact, if the entire rent is reinvested, there may be an unnecessary sacrifice of consumption by the present generation for the future, which the future will not find desirable!

   One can develop an operational approach for this concept of economic sustainability along the lines of the "user cost" method. An essential step is the distinction between the amount of the resource income that needs to be reinvested in order to maintain a constant stream of income (the National Pension Fund), and the residual amount that can be consumed as current income: the former is a capital content, and the latter value added (true income). The amount to be invested then depends on two things: the remaining life expectancy of the natural resources and the real rate of return earned on the amount saved. For example, if a country has 60 years' extraction left, it needs to set aside a much smaller portion than if it has only 30 years. Similarly, if proceeds can be reinvested at 20% rate of interest, a smaller share needs to be reinvested than if the return is 10%.

2. *Livestock-Wildlife Agriculture*: There is now a substantial literature on the economics of wildlife utilisation in Zimbabwe. The results show broadly the option of combining livestock intensification with tourist-based wildlife conservation. Given the declining real public budgets, the government should empower communities to manage their own resources and share in the benefits. Programmes like CAMPFIRE need to be reformed and extended to other natural resources. As the case of elephants and CITES has shown, aid plays an important role in the success of these programmes. However, it would be foolhardy of government to rely on donor funds as these are not sustainable in the long term. Empowerment offers a potential solution.

Policy-oriented Research

356. There are still a number of areas regarding the functioning of the Zimbabwean economy on which further knowledge is required for enabling sound action.

1. *Macroeconomic Issues*: Topics on proposed policy research include:

- factors driving inflation,
- causes of low employment elasticity of output and the nature, and
- causes and role of foreign direct investment.

2. *Issues Relating to Environment and Sustainable Development*: The following areas are recommended for further research:

Valuation and modelling: There is need to estimate damages from different ways of producing output. A cost-benefit analysis should be made in all such cases, with an ultimate objective of attaining a certain target. But this requires a good supporting database.

Data reform: There must be an appropriate database to support policy analysis. The current data as contained in the SNA must be reformulated with a view to integrating *physical* quantities and *values*. Physical data is just as important as monetary accounts. An *appropriate* and *timely* data base with these qualities is crucial but for entirely different reasons: It influences both the amount of information and response to information by policy makers and resource users; it also actually supports policy analysis under valuation and modelling/policy integration.

XIII. CONCLUSION

357. Over the past ten years, Zimbabwe has opened itself considerably to the influences of the global economy through a process of liberalization. It embarked on this course so as to raise its growth rate by stimulating investment. However, its performance has been poor and both its economic and its social profile now is worse than at the time the adjustment programme was introduced. A number of factors have contributed to this poor performance. On the social side poverty alleviation programmes were poorly designed, under-funded and introduced too late. In the economic sphere, liberalization was introduced before macroeconomic stability. Failure to address the budget deficit has contributed to inflation, which has driven the regressive income redistribution, to high interest rates, which have hindered domestic investment, and to exchange rate depreciation.

358. We have argued that the failure to implement policies rather than their poor design lies at the heart of these failings. While some of this can be traced to lack of capacity, we have tried to show that a good measure of it can be ascribed to the political system, which does not punish policy makers for failing and therefore encourages inaction. This is a pessimistic diagnosis. If the problems lay in purely technical design of programmes, or in lack of specific skills, the solutions would be easier. But it is not clear what should be done to tackle inadequacies of a political system.

359. The processes currently under way in Zimbabwe rethinking the political terrain through the Commission of Inquiry into the Constitution, and the opposing National Constitutional Assembly, is clearly an important potential input. Whatever flaws there may be in the process set out by government, it does seem to have raised general awareness of the importance of constitutional issues.

360. The appropriate role of donors in *supporting* this process is problematic. If solutions do not emanate from within Zimbabwean society it is unlikely that they will be sustainable. However, donors should critically examine their role in *inhibiting* political change. They should ask themselves how far their aid – or even the conditional assistance of the IMF – cover up the economic consequences of mismanagement, and thus ameliorate the demands by Zimbabweans for political change?

361. Ultimately political solutions are a matter not of laws and constitutions, nor of external pressures, but of social customs and norms. A new constitution that provides the legal framework for transparency and accountability may be a necessary step towards more effective policy implementation but it will not be a sufficient one. There is also a need for a national consensus, not on the specifics of policies, but on the ground rules, which condition interactions not only between governors and governed, but also amongst the governed themselves.

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