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ZIMBABWE 1992–1996: SECOND 5-YEAR NATIONAL DEVELOPMENT PLAN

On 13 February 1992 the Zimbabwe government published its second Five-year National Development Plan. Fundamental to the formulation of the plan was the Economic Structural Adjustment Programme (ESAP) adopted in 1991. The plan advocates market-led growth, the reduction of government controls, the removal of monopolies and incentives to encourage investment. The policy of economic liberalization is a result of the tougher line being adopted by the international financial community.

As reform spin-offs will accrue largely to the urban minority, the government, to stay in power long enough to implement this reform, must gain the support of the rural majority. As a consequence the government is hamstrung between reforming the small urban economy while trying to protect the larger rural economy from the effects of this reform. This dual approach is mutually destructive. Reforms to the first world sector will cause the third world sector to suffer, while placatory concessions to the third world sector could derail first world sector reforms.

PUBLIC SECTOR REFORMS

To stabilise finances public debt will be reduced to below 60% of GDP, while the budget deficit is to be reduced from 8,9% to 2,4% of GDP by 1996. This is to be achieved by reducing the civil service, improving the performance of parastatals, military cut-backs and subsidy cuts. Through reforms in these areas it is hoped government expenditure will be reduced from the present 45,9% of GDP to 38,5% by 1995/96. Simultaneously it is projected that inflation will be reduced from its present 25% to about 9% by 1996. Other reforms planned to stimulate these trends include an increase in money supply and the development of human resources to meet the requirements of economic growth.

The conflict between economic necessity and political popularity is a dynamic underlying and indeed undermining, many reform efforts. While the new 5-year plan provides for a 25% reduction in the civil service so as to reduce recurrent expenditure, the government has been slow to act. For obvious political reasons no one has been retrenched despite the ESAP being implemented over a year ago.

Another example of heel-dragging is that the report of the consultants appointed a year ago to make an audit of the inefficient parastatals will only be due in mid-1992. In the meantime 18 months of subsidy drains will have occurred while the ESAP is still running. Nevertheless it is planned that all indirect subsidies of parastatals would have been lifted by 1995. Direct subsidies to parastatals are expected to be reduced gradually to a maximum of Z$400 million by 1994 and totally eliminated by 1995.

The plan advocates arms rationalisation and the termination of annual recruitment in accordance with the ZNA's reduced role within the region. In the same breath the 5-year plan addresses the

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possibility of cushioning the effects of military lay-offs, a solution totally at loggerheads with the rationale of the ESAP.

A National Planning Commission (NPC) has been appointed to implement the plan. Rather than replacing inefficient ministries and expensive over-staffed bureaucracies as promised, the NPC will operate in collaboration with already existing ministries thereby increasing the existing bureaucracy and adding to its budget. Nevertheless the plan projects government revenue as a percentage of GDP to drop from 37.5% to 36.2% over the next five years. Cost recovery schemes in education and health are to be introduced in an attempt to make government services more self-sustaining. Simultaneously the government has promised the people a continuation of medical and educational subsidies in a bid to maintain voter loyalty. Provision is also made for the training of people in those technical and entrepreneurial skills geared towards the development of export-oriented enterprises.

PRIVATE SECTOR REFORMS

The plan projects the creation of 108,500 new jobs in the formal sector, with an additional 50,000 expected in the informal sector. A 4.6% growth rate is estimated up to 1993 after which a progress assessment will be carried out. Growth in the first half of the plan is expected to be slower as the economy adjusts to economic liberalisation and deregulation. In the second half, up to 1995/96, a take-off in outputs, exports and employment is expected.

Private sector performance is crucial to the plan's success, as Z$17,153 million in private investment will have to be injected into the economy by 1995. 82.5% of the capital investment in mining, manufacturing and agriculture is expected to be contributed by the private sector. In manufacturing it is expected that the private sector will secure the Z$3,345 million in investment necessary for the reconstruction and modernisation of existing plants and machinery. Similarly in mining, the private sector is expected to invest 96% of the Z$1,400 million needed by this sector. The private sector is also expected to raise 95.5% of the required investment in construction, distribution, hotels, road transport, insurance, real estate and small industries and services. To provide this investment, exports will have to grow by a staggering 19.2% per annum for the plan period. This is to be achieved by reducing company taxation and abolishing double deductions on investment, hence encouraging investment in export orientated projects. In the same breath, the plan promises employment generating projects in an attempt to maintain voter sympathy.

To enable the private sector to face the burden of this expansion, a top industry official has called for non-foreign exchange related export incentives, a reduction in corporate taxes for companies exporting more than 50% of their output, and permitting business expenses to be counted for tax purposes. As only a huge increase in manufacturing investment would allow the export target to be reached it was essential that the government not only concede these reforms but immediately pass the Zimbabwe Investment Centre bill giving businesses the autonomy to process their own investments.

The concentration of the 5-year plan upon the private industrial sector illustrates the urban industrial bias of its focus. Reforms are ultimately designed to stimulate growth within the first world urbanized sector of the economy. The majority of the population, involved in subsistence farming, while feeling the cut-backs in public expenditure, won't benefit at all from this reform. The largest sector of the government's support base is hence alienated from government planning. Yet the international community continues to pressurize the Zimbabwe government into political unpopularity for the sake of the tiny urban-industrial sector directly linked to the international economy. To maintain political support the government has to implement reform while simultaneously protecting the people from reform. The co-ordination of these two drives often proves mutually destructive. Thus, while devaluation occurred it was not accompanied by sufficient deregulation, illustrating the dichotomy under which structural adjustment is being implemented. While the international finance club called for devaluation to promote investment, the government failed to deregulate enough as it felt it had to protect local production to at least save some support. As a result the reform initiative in this instance failed. The economy was hit by rising inflation, undiluted by an investment and trade boom which, due to protectionism, never materialized.

The removal of produce subsidies which will ultimately improve efficiency and vitality, hurt small producers in the short term. As a result the government has been forced to guarantee them protection. This not only runs counter to the ethos of structural adjustment, but the expense of protection could destroy any savings made through reform.

ROLE OF THE INTERNATIONAL COMMUNITY

The 5-year plan is wavering between satisfying the donor communities' demands for restructuring and cushioning the domestic population from the effects of reform. To ensure that this precarious balance is maintained the flow of foreign resources into the economy will have to be increased. According to a progress report prepared for the two-day Zimbabwe donor consultation meeting held in Paris in Mid-February, US$2.64 billion in foreign loans and aid will be required for the period 1992-1994.

Despite the hiccoughs the World Bank was satisfied that the government had begun to implement the most important aspects of the reform programme. The application of measures to reduce the deficit, exchange rate depreciation, limited trade liberalisation and some tariff reform has made Zimbabwe eligible for long-term International Development Agency credits and International Bank for Reconstruction and Development loans.

In the meantime the international financial community remains oblivious to the long term implications of this reform. The reform, centred upon the small urban economy, produces social cut-backs which are felt by the entire society. In turn, the subsistence economy of the larger rural society will benefit very marginally from any urban reform. This could potentially produce a political backlash which could derail reform. In the meanwhile a growing cynicism appears to be emerging within the international financial community. Whether the reforms prove politically destructive or not to the reforming government is beside the point. At the end of the day any new government will have to toe the same line as well.

THE DROUGHT AND THE LAND BILL

The drought and the Land Bill seriously threaten the viability of the latest 5-year plan in terms of both domestic productivity and international support. The private sector export industry, on whom the government is relying for the success of its 5-year plan, will be severely affected by the drought.

The output of raw materials required by manufacturers will drop while traditionally high earning exports, like beef, maize, cotton and tobacco will be hard hit. Reduced sugar production will result in less ethanol being produced, pushing up the oil import bill, the price of fuel, and hence the price of manufacture, which will reduce export profits.

As output is reduced export targets will become even more difficult to achieve. Precious foreign exchange is going to have to be used to buy food at a time when foreign currency is necessary for restructuring and expansion. The 5-year plan was based on the assumption that Zimbabwe would be self-sufficient in food. The drought may demand a review of objectives and capabilities at a time when the success of this 5-year plan is critical.

Because of the drought the only sector of agriculture likely to contribute something to export-earnings is commercial farming. Half of the 5-year plan's estimated $2,076 million needed to boost agricultural exports was to be provided by this sector, while the rest was to come from exports of processed and manufactured goods produced in this sector. Yet commercial farming could be dealt a blow by the Land Bill. This Bill may reduce commercial farmland by half under a scheme of compensation left to the minister's discretion. No provision is made for appeal to the courts. Economists have warned that the Land Bill could destroy the base of Zimbabwe's economy and would serously undermine Zimbabwe's credibility abroad. The World Bank has criticized the Bill. It argues that while land redistribution is a political necessity, the 35,000 peasants to be given land under the 5-year plan could be accommodated on land already up for sale. The international community has called upon the government to introduce a mechanism of redistribution that is 'fair and efficient' and that 'will not discourage private sector investment'.

As the drought and the socio-economic impact of economic reform have hit the rural majority hardest, criticism of the Mugabe government is growing. The temptation to win the support of the majority of voters through land grants is thus strong. Indeed the international community appears to have very little grasp of the domestic realities threatening the 5-year plan.

CONCLUSION

The central dichotomy undermining the second 5-year plan is that the effects of the urban-biased reforms catering to the first world minority sector will be felt most strongly by the rural majority involved in subsistence agriculture. This majority, while bearing the socio-economic burden of reform, will reap few benefits as these will largely accrue to the urban commercial and industrial classes.

Being the majority this group poses a threat to the stability of the Mugabe government. Hence to prevent the reforms from being derailed the Zimbabwe government has at every turn attempted to cushion the social impacts of the ESAP. These politically motivated concessions, in turn, often run counter to the purposes of economic reform and so threaten the viability of the 5-year plan.

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