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EVALUATION OF THE COMMODITY IMPORT PROGRAMME, ZIMBABWE

hifab International
PROJECT MANAGERS

Zimconsult
Economic & Planning Consultants

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CONTENTS

LIST OF ACRONYMS

AGRITEX	Department of Agricultural, Technical and Extension Services, MLARR
BCCZ	Bank of Credit and Commerce, Zimbabwe
BOP	Balance of Payments
CAD	Current account deficit
CBA	Cost/Benefit Analysis
CIF	Cost, Insurance, Freight
CIP	Commodity Import Programme
CMI	Chr. Michelsen Institute (Bergen, Norway)
CSO	Central Statistics Office
CZI	Confederation of Zimbabwe Industries
ERF	Export Revolving Fund
FOB	Free On Board
FRG	Federal Republic of Germany
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GON	Government of Norway
GOZ	Government of Zimbabwe
I&N	Department for Commercial and Industrial Cooperation at NORAD, Oslo
INVA	Commodity Assistance and Procurement Division,NORAD,Oslo.
IS	Investment Support
ISP	Import Support Programme
JAC	Joint Allocations Committee, GOZ
JV	Joint Ventures
MC	Mixed Credits
MDC	Ministry of Development Cooperation, GON
MFEPD	Ministry of Finance, Economic Planning and Development, GOZ
MIT	Ministry of Industry and Technology, GOZ
MLARR	Ministry of Lands, Agriculture and Rural Resettlement, GOZ
NOK	Norwegian Kroner
NORAD	Norwegian Development Cooperation Office
NORSAD	Nordic-SADCC agreement on finance of inputs to export production
ODA	Overseas Development Assistance
OGIL	Open General Import License
PTA	The Preferential Trade Area of Eastern and Southern Africa
RSA	Republic of South Africa

SACU	Southern African Customs Union
SADCC	Southern African Development Coordination Conference
SCBA	Social Cost/Benefit Analysis
SIDA	Swedish International Development Authority
TOR	Terms of Reference
UDI	Unilateral Declaration of Independence
UK	United Kingdom
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
USAID	United States Agency for International Development
US$	United States Dollars
ZIDS	Zimbabwe Institute of Development Studies

Note: $ refers to Zimbabwe dollars unless otherwise specified. As of January 1989, Z$ = 3,4 NOK

The CIP and ISP abbreviations are used in this report according to the present usage in Zimbabwe by the Ministries as well as by the Harare NORAD office. However, in Oslo CIP is often used to signify the two components together.

PREFACE

This report is the result of a team work. The team members are presented in section 2 of the report. I would like to thank them all for their professional contribution to this study, while at the same time expressing my gratitude towards the team members from Zimbabwe for their support and hospitality during my stay in their country.

The study team would like to express their thanks to all persons interviewed in the course of the study, and to thank the representatives of the surveyed firms for completing the questionnaire and answering our questions, in spite of other tasks.
We also appreciate the constructive comments received from NORAD officials in discussion of a draft version of the report.

The reader should take note of the fact that this evaluation was made in the context of a Country Study, prepared for NORAD by a larger team with participants from Norway and Zimbabwe. This may explain that more space has been allocated to some subjects than would have been justified from a strict CIP evaluation point of view only. In this way the report should also contribute to the Country Study. Simultaneously, this report is written under the assumption that the readers do not need any general introduction to Zimbabwe as this may be found in the new Country Study report.

Without the contribution of all those listed above this study could not have been completed. The responsibility for the contents of the report remains, however, solely with the authors.

Jan Valdelin
Study Team Coordinator
Commodity Import Programme Evaluation

1. SUMMARY

The Norwegian commodity import programme (CIP;cf.note at the end of list of acronyms) in Zimbabwe began in 1982 but was only designed with programme specific objectives in 1987.
It was introduced as part of the overall Norwegian programme of assistance to Zimbabwe because of a perception that Zimbabwe's development was being retarded by a severe foreign exchange bottleneck. In such a situation, it is not so much the companies in the industrial sector which actually receive the items imported under the CIPs which are the beneficiaries, but the economy and society as a whole. Relieving the balance of payments constraint has a positive impact on output and employment and on the environment, through reducing pressure on the overcrowded peasant farming areas. In addition, the counterpart funds generated by the CIP assist Government in sustaining its social and development objectives.

The CIP was also initiated as an instrument to help Zimbabwe reduce its dependence on South Africa and to strengthen intra-regional trade. This latter objective motivated the introduction of the Import Support (ISP) component of the programme in 1987.

The evaluation carried out in this study suggests that the programme has been successful in meeting its objectives. It has contributed to maintaining and increasing employment and production in recipient firms and has improved their capacity. utilisation. This in turn has had some knock-on effects on the rest of the economy, although these have been difficult to quantify. Firms using the CIP have switched away from former sources of supply in South Africa. The ISP has improved Zimbabwe's imports from the rest of the region.

The programme is welcomed by the Zimbabwe government and the private sector, both of which would like to see it continued and expanded. Although there is no perceived need for major changes to the programme, several modifications in detail could be made: some procedure could be introduced allowing recipient firms to undertake forward planning in the knowledge that they will continue to receive assistance from one year to the next; the vague notion of "strategic" imports could be clarified; and the perception that the CIP is de facto (although not de jure) tied to procurement of goods from Norway, could be tackled.
Finally, although the CIP/ISP is functioning well and should be continued, it will have to be reviewed in the light of major political and economic changes which seem likely in the future. Firstly, the whole South African question with prospects for both escalated instability in the region and later the emergence of a politically acceptable post-apartheid regime, will force such a revision. Secondly, the current assessment of the trade regime by the Zimbabwe government, and the prospects for some reform tending towards liberalisation of imports, will also require a re-thinking of the CIP/ISP. To prepare for this, future agreements and procedures should be as flexible as possible. New mechanisms of support, complementary to the CIP/ISP and oriented to assisting in the delinking from South Africa, should also be considered.

2. INTRODUCTION TO THE REPORT

2.1 Background to Commodity Import Programmes

Commodity import programmes (CIPs) are a form in which many developed countries give assistance to developing countries. In general CIPs entail establishing a fund of foreign exchange which can be used to pay foreign suppliers of imports. Domestic purchasers of imports under the CIP pay the domestic currency equivalent for any forex they receive. These counterpart funds are then available for the recipient government to use for a variety of purposes. CIPs thus simultaneously provide foreign exchange to increase import capacity and domestic currency for the government budget.

There are a number of ways in which CIPs can in practice be constrained. Firstly, the commodities to be imported under a CIP can be restricted to a specified list of commodities, which may often be intermediate inputs. Second, the use of CIPs may be restricted to imports from the donor country, or some other set of countries. Third, the use of the counterpart funds generated might be restricted to specific projects or types of projects. Finally, the assistance provided under the CIP might be in the form of a loan rather than an outright grant. To the extent that these measures operate, the "aid equivalent" of the CIP will be reduced.

A question which needs to be addressed is whether CIPs are preferrable to other forms of aid. This question is, of course, only relevant to other forms of aid which might be substituted for CIPs. There is no point in comparing CIPs with, for example, emergency food aid or technical assistance when the funds for these have not come out of potential CIP funds.

The main advantage of CIPs is that they appear to kill two birds with one stone. They directly assist the recipient country government in generating funds for development or welfare projects, while at the same time increasing the productive capacity of the economy, by providing necessary imported inputs into the production process. This has secondary effects on incomes, employment, revenues, exports etc.

The main criticisms aimed at CIPs are similar to those aimed at all forms of tied aid. The goods imported may be more costly than those from other sources. This, it is argued, could have an inflationary cost-raising impact on production. However, this argument assumes that the CIPs are substitution rather than addition to imports from other sources. If they increase production, they should have a counter inflationary effect. In the long run, however, CIPs can tie the pattern of imports, by establishing trading links which persist even after the CIP is removed, and this may not necessarily be to the benefit of the recipient country. The extent to which these criticisms apply will depend on the extent to which the CIP is tied.

In the final analysis the costs and benefits of a CIP can only be assessed in the context of a particular programme in a particular country, with a particular economic strucutre.

2.2 CIPs in Zimbabwe and Previous Evaluations

There are a number of countries, besides Norway, which have formal CIP agreements with Zimbabwe. In recent years between 5% (in 1986 and 1988) and 8% (in 1987) of total national imports, equivalent to about $100 million pa ($ refers to Zimbabwe dollar throughout the report, unless otherwise specified), have been supplied through this form of assistance[1]. The Norwegian CIP started at less than $2 million in 1983, increasing to $13,7 million in 1987, this being equivalent to about 0,8% of total imports[2]. It is evident that the impact of such a small fraction of imports on macro-economic aggregates cannot easily be measured; this contrasts with the importance of the Norwegian CIP for the recipient firms, where the direct contribution may be substantial. Nevertheless, in a foreign exchange constrained economy such as Zimbabwe's, the impact of the additional import capacity made possible by CIPs may be more significant, through multiplier effects, than the above figures would imply. This theme is discussed in detail in Section 4.2.

Three evaluations of CIPs to Zimbabwe have been carried out to date, providing a useful theoretical and methodological grounding for the present study. The studies are:

- An Economic Evaluation of Zimbabwe's Commodity Import Programs with special reference to the United States' programs[3]
- The Economic Evaluation of the Swedish Commodity Import Programme (CIP)[4]
- an evaluation of the Dutch CIP[5]

The first study by Riddell gives a theoretical approach to CIP evaluations, emphasizing how CIP programmes can benefit both donors and recipients. The economic setting in the recipient country (Zimbabwe in this case) is highlighted to indicate the resource gaps that can be filled by CIPs. The analysis is based on resources made available, the conditionalities attached to the use of the CIP and the implications for economic efficiency. The macro-economic impact of the CIPs is also analysed.

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[1] Detailed figures supplied by UNDP add up to only 1% of total imports, and are clearly an underestimate of the actual figure. A breakdown of the 5-8% is not, however, available.

[2] The figures exclude the allocation for bulk milk tanks. As is explained in Section 2.4, the bulk tank project is the subject of a separate evaluation.

[3] Riddell, 1983.

[4] Kaliyati & Ndoro, 1988.

[5] Study carried out by ZIDS in 1987, report yet to be published.

In the Swedish CIP study by Kaliyati and Ndoro, the evaluation took a different turn, accepting the limitations of using macro-economic indicators for an individual bilateral CIP, and introducing a micro-economic component. The impact of the CIP was thus analysed primarily through the effects that it had on various recipient companies. The emphasis was also on reviewing whether the specific aims and objectives of the Swedish CIP were being fulfilled, suggesting better future administrative procedures, and recommending ways of optimizing individual objectives.

The approach in the Dutch CIP study is understood to have been similiar, but with particular emphasis being placed on employment. For all CIPs, direct employment effects are bound to be limited because labour legislation prohibits employment varying according to the availability of raw materials. This conclusion would not hold, however, if the absence of CIP assistance would result in plant closures and the permanent loss of jobs.

2.3 The Distinction between CIP and ISP in Norway's Assistance

The programme which is evaluated in this report has two separate components: one is the Commodity Import Programme (CIP) and the other is the Import Support Programme (ISP). The main difference between the two is that the CIP is basically not tied to purchases in any specific country[6], while the ISP is tied to purchases in developing countries, particularly SADCC or PTA countries.

Another distinction between the two components of the programme is that the ISP is more recent than the CIP. Although the CIP was started in 1982, the first formal agreement started to apply only in 1987 and it was at that time that the distinct ISP was introduced. The specific objectives for the programme were established in the first formal agreement and remain essentially unchanged in the second[7]. The period of 1982–1986 was not guided by specific agreements: within the framework of the general discussions between Norway and Zimbabwe, an annual plan of operation for the CIP was made to guide the management of the programme.

For the evaluation this distinction is important. Companies in Zimbabwe, suppliers in Norway, and the commodity groups chosen before 1986, were not selected by applying the criteria which were introduced later in the first specific agreement. To the extent, then, that those original choices are still in the programme, there has been a very short period of transformation of the programme between 1986 and the end of 1988. Only two

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[6] This statement refers to the agreements on the CIP, while in practice our results point to some constraints imposed. Cf. Section 7.

[7] The details are given in Section 3.

annual lists[8] of goods and firms have been discussed between the two governments. This does not bring enough experience and data for any far-reaching conclusions in terms of past performance.

There are a few other differences of detail between the CIP and the ISP. One is that, in the CIP, the prices are quoted CIF, while in the ISP, they are quoted FOB. Procedures also differ in the management of the two parts of the programme. The basic dividing line is that purchasing in the CIP is made by NORAD in Oslo, while the companies themselves are purchasing the ISP commodities. In making payment arrangements, the companies involved in ISP are restricted to one specific bank, the Bank of Credit and Commerce, Zimbabwe (BCCZ).

2.4 The Evaluation Study

This report is the result of the evaluation of the Norwegian Commodity Import Programme and the Import Support Programme over the period 1982 to 1988[9]. It has been guided by the Terms of Reference (TOR) as presented by the Norwegian Agency for International Development (NORAD). These TOR are annexed to this report as Annex 1.

The TOR were later modified by the inception report for the study. Following discussions at the inception seminar between NORAD and the Consultants, the final form of the evaluation was identified and agreed upon[10]. The changes agreed to the TOR are laid out later in this section.

The CIP/ISP evaluation was carried out in the context of a larger exercise, involving two other evaluations of Norwegian assistance to Zimbabwe[11], a pre-study on the environment, and an all-embracing Country Study. These studies are being carried out simultaneously by Hifab International of Oslo, and Zimconsult, Economic and Planning Consultants, Harare. For the CIP evaluation, ICS Interconsult Sweden, Stockholm, Sweden, was also contracted, together with individual consultants representing different institutions. The CIP evaluation team consisted of the following professionals: Rob Davies, Department of Economics,

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[8] Excluding the additional items allocated during a given fiscal year.

[9] ZIB 404 Evaluation: Commodity Import Programme.

[10] The Inception Seminar was held on 25 and 27 October 1988 in Oslo, and was followed by a letter from NORAD dated 2 November 1988.

[11] These are an evaluation of Norway's assistance to the rural water sector and to the dairy sector. The latter involved the supply of bulk milk tanks, with counterpart funds earmarked for the development of peasant sector milk production. The dairy project is therefore one falling under the rubric of CIPs, but is being treated as a separate exercise for the purposes of evaluation.

University of Zimbabwe, Klaus A. Endresen, Hifab International, Jacob Kaliyati, Zimbabwe Institute of Development Studies (ZIDS), Peter Robinson, Zimconsult and Jan Valdelin, ICS Interconsult Sweden.

To meet the objectives stated in the TOR, as revised by the Consultants and NORAD, the study has involved scrutiny of existing documents and data, an empirical study of the recipient firms and discussions with the concerned parties in Zimbabwe and Norway. The methodology of data generation was straight-forward. Apart from non-formalized interviews, the team also used a structured survey of a sample of recipient firms in Zimbabwe. The questionnaire was sent out to the firms in advance, with additional information being obtained through interview with the respondent when the questionnaire was collected in person from the company[12].

The data analysis was oriented towards evaluating the performance of the CIP/ISP programme in terms of its stated objectives. In this regard, the fact that between 1982 to 1986 the CIP was administered according to an annual plan of operation, and has only had formal agreements since 1987, implies that the main thrust of the analysis of past performance is strictly speaking only possible for 1987 and 1988.

Administrative routines and procedures as stated in agreements have been evaluated in terms of their efficiency by a comparison with actual practices. The criteria applied in this particular aspect of the evaluation have again been the stated objectives of the programme.

The historical evaluation notwithstanding, the analysis has also been made with the future in mind. In this, the current stated objectives are questioned in the context of future designs of the CIP/ISP. The evaluation thus aims not only at measuring past performance in terms of objectives, but of fulfilling a forward-looking planning role for planning purposes. In this latter respect the evaluation may be said to be formative.

One part of the formative evaluation is a comparison of relative advantages of different forms of assistance. In this respect the analysis compares the three levels of forms of Norwegian assistance, i.e. balance of payment support, programme support and project support, as well as various alternatives on each level. Programmes may differ in terms of sectors, time horizons and conceptual designs. At the project level, there are various options to support the industrial sector, ranging from the present or improved (e.g. by increased freedom of choice) CIP/ISP forms of assistance to existing sectors, to high degrees of industrial participation, such as joint ventures. In that the present evaluation, even when looking forward, remains an

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[12]The details of the empirical study of recipient firms are given in Section 7 below. In a few cases, an interview with the person replying to the questions was not possible, and the completed questionnaire was returned by mail.

evaluation of the CIP/ISP, the criteria used for this comparative analysis of forms remain the stated objectives of the CIP/ISP.

NORAD has also requested that the performance be evaluated in terms of the economic impact of the CIP. No specific targets in terms of economic impact have been stated for the CIP, but the general objectives of the Norwegian assistance policy together with "economic" interpretations of the specific objectives have been used as criteria, as well as the reference made in the agreement to employment and foreign exchange earnings.
In Annex 4, "Some notes on the practical use of CBA", some remarks on the use of social cost-benefit analysis in this evaluation are to be found.

The preparations for the CIP/ISP evaluation study started in September 1988 with the production of the Inception Report. Following the discussions with representatives of NORAD (Oslo and Harare) at the inception seminar in October, the final design was decided upon. After NORAD's instructions by letter at the beginning of November, the empirical study could start and the survey of recipient firms was carried out in November and December. The interviews with representatives of the implementing agencies of Zimbabwe and Norway were also carried out in November-December. The first drafts for sections of the report were written in November, followed by others in December. After revisions and discussion, this version of the Draft Report was finalized in January 1989.

2.5 The Evaluation Report

Following this introduction, in Section 3 a review of the Norwegian CIP/ISP to Zimbabwe is presented. The purpose of this is to give some of the basic data that will guide the analysis of impact of the CIP/ISP. The basic context and justification for CIPs in Zimbabwe is spelt out in Section 4, which analyses the country's balance of payments position, identifies import dependence as a structural constraint in the economy, and describes the present trade regime and foreign exchange allocation system. In Section 5, Industry in Zimbabwe, the focus is on the sector of the economy that is the direct beneficiary of the CIP/ISP programme. The ISP is specifically targeted to procurement of goods from the region, and to round off the sections giving the necessary background, Section 6 describes Zimbabwe's trade and industry links with the PTA and SADCC.

Section 7, The Evaluation of the CIP/ISP, is the empirical core of the report, where the results and the analysis of the primary data are presented. In Section 8 the prospects for the CIP/ISP are assessed and compared to other forms of assistance. Conclusions of the evaluation and options for the future are summarized in Section 9. The options constitute the principal information to be fed into the planning process of future cooperation between Norway and Zimbabwe as regards CIP/ISP.

3. THE NORWEGIAN CIP/ISP PROGRAMME TO ZIMBABWE

3.1 Introduction

It has been emphasized in the previous Section that the task of the evaluation is to analyse the CIP/ISP programme in relation to its stated objectives. While initially there was no clear statement of the objectives, the 1987 and 1988 specific agreements do give objectives which differ only slight in each year. To appreciate how and why these changes took place, it is necessary to have some information on Norway's general devlopment assistance objectives (Section 3.2), and to trace the changes which have taken place in Norwegian assistance to Zimbabwe (Section 3.3). A discussion of the objectives and procedures given in the two CIP/ISP agreements then follows (Section 3.4 and 3.5)

The objectives of Zimbabwe in the field of industrial development, governing the country's priorities in the area to which the CIP/ISP is being channelled, may be found in the First Five Year National Development Plan, covering the period 1986-1990:

> The manufacturing industry is the key sector for changing the structure of the Zimbabwean economy and for achieving rapid and sustained overall economic growth and development.

The CIP/ISP cooperation is thus taking place in a priority field of development, where Zimbabwe has planned to achieve results which will have an impact of the whole structure of the economy. The reasons for industry being a key sector will be spelt out in Section 5, but essentially revolve around the relative size and dominance of the manufacturing sector, its extensive linkages with other sectors, and its dynamism. In respect of exports, traditionally there has been reliance on mining and agriculture, but foreign exchange needs and sectoral growth prospects are such that industry will have to play an increasingly important role in generating foreign currency in the future.

3.2 The Principal Goals of Norwegian Development Assistance.

The overall objective for Norwegian development assistance is to contribute to lasting improvements in economic, social and political conditions for the population in developing countries. The assistance shall be poverty-oriented, and preferably be channeled to the poorer developing countries. It shall be given in such a way and such forms that it should avoid creating dependency on continued development assistance[13].

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[13]Norwegian Parliament, St.mld 34, 1986-87 (translated).

In addition to the overall objective, there are sub-goals. These are not always mutually supportive, and the Government of Norway (GON) Government recognizes that in practice, in a number of cases, a choice will have to be made between conflicting sub-goals.

The following sub-goals are emphasized:

- natural resources and the environment: Norwegian assistance seeks to avoid a deterioration of the resource base and the environment, as this would be detrimental to sustainable development;

- economic growth: by promoting sound productive activities in the developing countries Norway aims at supporting the basis for continued growth and sustained development;

- improved living conditions for the poor: the poorer segments of the population should be given the opportunity and possibility to satisfy their basic needs by their own means and to improve their living conditions;

- human rights: the GON wants to contribute to the assurance and realization of social, economic and political human rights in developing countries;

- the promotion of peace: Norwegian overseas development assistance (ODA) shall seek to contribute to the prevention of conflicts, and to build confidence and cooperation between nations and regions. Used in an appropriate way, Norwegian ODA should play an important role in supporting regional organizations and international cooperation across national frontiers.

The following key principles shall govern Norwegian development assistance:

- recipient orientation: the recipient countries own development plans and political priorities should define the premises for the dialogue between the Norwegian and the recipient Government;

- grant basis: Norwegian ODA shall, with some few exceptions, be extended on a grant basis;

- Norwegian ODA is, as a general rule, not tied. The objective is that the ODA shall have a maximum positive effect to the recipient. In the special cases where Norwegian companies are suppliers, a condition is that the price shall not exceed 110 % of the international market price. The purchased goods must not represent a less favourable solution to the recipient than alternative goods on the world market;

- Norway aims to distribute 50% of its ODA through multilateral channels, and 50% on a bilateral basis;

- Norway wants to concentrate the bilateral ODA to a limited number of countries; to main cooperating partners, and to individual, less favoured countries within priority regions. SADCC, Latin America and the Sahel-belt are the three key regions identified for Norwegian ODA.

3.3 Norwegian ODA to Zimbabwe

As a continuation of earlier Norwegian policy of humanitarian support to the liberation movements prior to independence, development cooperation between Zimbabwe and Norway started shortly after Independence, with the aim of assisting in post-war reconstruction. Initially, all forms of assistance, including the CIP programme, were administered through the Royal Norwegian Embassy in Harare. By 1985, debate amongst Norwegian policy makers led to the conclusion that support to Zimbabwe was no longer a matter of reconstruction, but should be continued on a sufficiently large scale to warrant the opening of a NORAD office in Harare. At this stage, Norwegian ODA became integrated with Zimbabwe's regular development plans[14].

The position of the Norwegian government was formalised in a subsequent parliamentary white paper[15]: that support to Zimbabwe had changed its character, from supporting post-war reconstruction, into regular development support; that cooperation with Zimbabwe should be continued, and possibly expanded. This is to a large extent motivated by Zimbabwe's important position in the SADCC region. Having a productive agricultural sector and a diversified industrial base was considered as putting Zimbabwe in a key role in the region's efforts to increase self-sufficiency in foodstuffs, to increase intra-regional trade and to achieve greater economic independence, particularly from South Africa.

3.4 The Norwegian CIP/ISP Assistance to Zimbabwe

The first Norwegian CIP to Zimbabwe was implemented in 1982. The largest component of the initial CIP consisted of bulk milk tanks, but as the bulk tanks are the subject of a separate evaluation, they will not be considered further here. The initial CIP, outside of the bulk tanks, was mainly justified as balance of payment (BOP) support. The objective was to "keep the wheels turning" in Zimbabwe during the reconstruction period, by channeling key inputs into productive sectors. No specific objectives were formulated for the programme. During this

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[14]Norwegian Parliament, St.mld. 36, 1984-85.

[15]Norwegian Parliament, St.mld. 34, 1986-87.

period, the CIP may only be evaluated against the objectives of Zimbabwe during the reconstruction period and against the general objectives of Norwegian development cooperation.

At the time when consideration was being given to whether Zimbabwe should continue to receive regular development assistance from Norway beyond the reconstruction period, the CIP programme came under particular scrutiny. CIP programmes to other countries in the region were generally being cut and in 1985 the feeling in the Norwegian Ministry of Development Cooperation (MDC) was that Zimbabwe should not be eligible for CIP or any other form of BOP support. The CIP should, it was argued, be phased out due to Zimbabwe's relatively well developed economic structure and because CIP programmes were considered to be not in line with the general poverty target of Norwegian assistance.

However, the decision at the same time to continue and indeed expand assistance to Zimbabwe resulted in a reconsideration of that position. The justification for continued assistance to Zimbabwe not merely in terms of the economic inequality in the country and Norway's general foreign policy, but of Zimbabwe's focal position in the region, had its counterpart in a reformulation of the CIP programme with clear-cut objectives. The result of this major change of rationale behind the CIP may be seen from the post-1986 agreements on the CIP/ISP[16]. Since 1986, the NORAD office in Harare has operated the CIP/ISP programme, in cooperation with the INVA Department of NORAD, Oslo[17].

The first and the second specific agreements on the CIP/ISP are basically identical in terms of objectives, reflecting an effort to combine the objective of support to the target groups and the objective of reduction of the dependency on RSA and a strengthening of the regional cooperation. The introduction of the formal CIP and the ISP component of the CIP[18] was justified in the following way in the agreed minutes from the 1987 annual consultations between the two countries:

> It was agreed that the development cooperation between the two countries should, as a main objective, be directed towards supporting Zimbabwe and the SADCC countries in their efforts to strengthen the regional cooperation and reducing dependency on South Africa. To this effect an untied CIP programme, mainly directed towards strategic industries, would be introduced.

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[16]This implies that the evaluation of the CIP/ISP should only apply to the period after the first agreement. On the other hand, the changes in procedures, firms and goods which resulted from the new agreements, are of interest to the evaluation.

[17]INVA is the Commodity assistance and Procurement Division.

[18]The ISP component was introduced by the second specific agreement.

> The delegations agreed to introduce a commodity import programme comprising an adjustment of the previous commodity assistance programme and the establishing of an import support programme.
>
> They further agreed that the new commodity import programme should be a main area of cooperation in the next few years. It was agreed that the import support component should make up approximately 25 % of the total programme for 1987.

The current CIP/ISP agreement covers the period of 1988-1990, and overlaps (for budgetary reasons) to some extent with the previous CIP/ISP agreement for 1987-1988. It has a budget of 90 million NOK for the period of 1988-1990. The estimates for the period were 10 million NOK for 1988 and 40 million NOK for 1989 and 1990, respectively. The actual figure for 1988, including 25 million NOK originally budgeted for 1987, plus another 6 million NOK which have been appended from other funds not being utilized during the year, will be 41 million NOK.

The CIP/ISP programme is an important part of the Norwegian programme in Zimbabwe. In the four main cooperation countries in Africa (Mozambique, Kenya, Zambia and Tanzania) the average share of CIP/ISP out of the total programmes was almost a third[19]. In Zimbabwe it has risen substantially higher than this, as the following table illustrates:

Table 3-1: CIP/ISP share of Norwegian assistance to Zimbabwe

	1983	1984	1985	1986	1987	1988	1989
Other programmes	49.5	83.3	44.9	74.4	92.4	117.6	(45)
CIP/ISP	13.2	28.3	26.8	46.6	55.6	41.0	(35)
Total	62.7	111.6	71.7	121.0	148.0	154.6	(80)
Percentage CIP/ISP	21	25	37	39	38	24	(44)

Amounts in million NOK, actual disbursements including ISP; Figures for 1989 are budgeted. Source: NORAD.

3.5 Objectives of the CIP/ISP Programme since 1986

The current specific CIP/ISP agreement between Norway and Zimbabwe, states (in Article I) that:

> the objective of the CIP is to support strategic supplies and production with a view to decrease the economic dependence on the Republic of South Africa and to stimulate the development of regional complementary industries and trade.

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[19] 32.7%, Munkebye Aarnes, 1987.

Article V of the current specific agreement concerns the ISP. The article states that:

> Import support shall relate to financing of import as a rule from developing countries, mainly SADCC countries and PTA.

The specific agreement as such does not define a budgetary split between conventional CIP and the ISP; the distribution is made by the Ministry of Industry and Technology (MIT) and the NORAD office in Harare on an annual basis. However, the regulations on the differences in other respects (quoted prices and management of purchases) are defined in the agreements.

The agreed minutes from the annual consultations in 1987 and 1988 detail further the objectives and principles governing the first and the current CIP/ISP agreements, respectively.

The minutes related to the current CIP/ISP define the guidelines (governing the CIP, according to the agreement), as:

> The criteria for the funding of commodities under the programme will have to reflect the above-mentioned geopolitical aspects. These criteria should therefore be that support will mainly be given for:
>
> a) commodities of strategic importance
> b) commodities substituting imports from South Africa
> c) strengthening of regional trade and other forms of regional cooperation.
>
> However, other more traditional macro-economic factors should also be considered, particularly employment creation and foreign exchange earnings.
>
> In setting priorities for allocation of CIP-funds, due attention should be given to the beneficiary company which should be economically sound and not have significant South African ownership or be under any form of South African control. Attention should also be given to the strategic importance of the end product. Consumer goods and luxury items should under no circumstances be included.
>
> Allocation of funds under the Programme can be made to both private and public sector.
>
> In addition to the supply of raw materials to the manufacturing sector, the CIP funds may also be used for capital equipment and services to increase capacity and productivity.
>
> ...it was agreed to explore the possibilities of increasing the allocations to import from SADCC and PTA countries".

Going back to the first specific CIP agreement, the agreed minutes of the annual development cooperation consultations in March 1987, give a slightly different picture[20]. In comparison with it, the present framework is one which:

- opens up more for regional cooperation;.
- stresses the provision of foreign exchange as an important aspect;
- pays more attention to the beneficiary company, requiring inter alia that the individual company should be economically sound;
- excludes companies under South African control, in addition to South African owned companies as previously;
- points out that the CIP is available to both private and public companies;
- specifies use of the CIP for raw materials, as opposed to raw materials and intermediaries in previous CIPs, and specifically excludes consumer goods;
- allows CIP funds also to be used for capital equipment and services to increase productive capacity and productivity;
- limits the CIP to the "manufacturing" sector; previously the CIP was available "as input to production";
- drops the previous paragraph that CIP goods should not as a rule be transported via South African ports. (The goods are shipped in practice, however, through Beira).

The current objectives are concerned with "the strategic importance of the end product". Previously, the CIP was concerned with "the strategic importance to industrial production, nationally and/or regionally". This difference is probably the most crucial one in terms of practical application of the agreement. This is discussed further in Section 7.

In summary then, the objectives of the CIP/ISP agreements can be seen as being in principle political objectives, emphasizing the strategic character of the imported commodity in terms of the end use product, the de-linking from South Africa and, finally, the regional economic development. The economic objectives of employment creation and net foreign exchange gains are secondary.

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[20]The agreed Minutes, Development Cooperation Consultation, March 1987.

3.6 The Norwegian and Zimbabwean Contexts for the CIP/ISP

The Norwegian CIP/ISP should be assessed in the context both of other Norwegian aid programmes and of CIP programmes from other countries.

Since the Norwegian CIP/ISP is not tied to other Norwegian sponsored programmes, and since counterpart funds are also untied, there is no direct link between Norway's CIP/ISP in Zimbabwe and its other programmes. In this sense, the CIP/ISP can be ragarded as almost free foreign exchange for Zimbabwe (provided the political objectives of the agreement are met).

The current allocation of CIP/ISP funds takes into account the amount which a company has already received from all other sources, including CIPs of other countries. There is a direct link between the Norwegian CIP and those of other countries. This tends to ensure that the allocation of forex from all sources is in line with the overall objectives of the Zimbabwean allocation authorities.

In respect of trade between the two countries, Norway is not one of Zimbabwe's major trading partners. About 0,8% of Zimbabwe's imports in 1987 came from Norway while about 0,5% of her exports went there. The import share has risen from 0,4% ($5,1 million) in 1985 to 9,8% ($14,1 million) in 1987, presumably influenced by the operation of the CIP. CLearly the whole CIP/ISP has to be viewed in this context.

3.7 Procedures Specified in the CIP/ISP Agreement

The 1988 agreement also defines the framework for the procedures to be followed in implementing the CIP/ISP. Firstly, in respect of choice of items, the guidelines, as presented in Section 3.5 above, describe the qualitative criteria to be used when drawing up a list of goods and companies to be included in the annual allocation. The main focus is to be on the provision of commodities serving as input to production and capital goods to increase production capacity. Procurement of services and investments should be considered only in connection with commodity provisions. The ISP part of the overall budget has to relate to financing of imports from developing countries, the emphasis being on SADCC countries and the PTA.

The agreement states that Zimbabwe shall annually, by April 1st, submit to Norway for approval proposals regarding imports to be undertaken during the subsequent year, distributed by import support and commodity import, and including detailed commodity lists, firms and budget estimates. The proposals are to be based on, and contain reference to, the guidelines governing the CIP/ISP as defined in the agreed minutes.

Zimbabwe shall every year, also by April 1st, submit to Norway reports on the utilization of the commodities provided within the CIP/ISP of the preceeding year. Norway shall monthly submit to Zimbabwe statements of expenditure incurred by Norway for payments made to each consignee.

Zimbabwe and Norway shall agree in writing, preferably in the form of annual programmes, on the type of commodities, quantities and recipient agency or company; as well as on the number of consignments, schedules, method of conveyance and destination.

All commodities under the agreement become the property of Zimbabwe upon entering the country. The proceeds from the sale of the commodities to the users form part of the General Revenue of the Zimbabwe Government, but are to be used for meeting expenditures in development projects. It should be pointed out that the Agreement between the two countries does not specify any monitoring or any accounts of the use of the counterpart funds created by the Norwegian CIP[21].

In Section 7, the actual implementation procedures, as identified in the empirical study, are presented and discussed in relation to the above.

[21]During the course of the study, we accidentally found projects explicitly financed by Norwegian counterpart funds in Agritex (MLARR).

4. FOREIGN EXCHANGE AND IMPORT DEPENDENCE IN ZIMBABWE

4.1 Zimbabwe's Balance of Payments

During the UDI period, when the country was subject to international sanctions, the scope for borrowing was extremely limited and the external accounts had therefore to be kept more-or-less in balance. At the end of the liberation war, however, with exports declining as a share of other aggregates and imports being allowed to rise, a negative balance of trade was inherited by the new Government.

After Independence, import allocations were initially increased, to replenish worn out capital and ensure satisfactory capacity utilisation. In the domestic demand-led boom that followed, exports failed to keep pace, while other liabilities in the balance of payments were growing. The current account deficit (CAD) deteriorated from $157 million in 1980 to $439 million in 1981 and $533 million in 1982. An analysis of the causes of this deterioration[22] showed that external factors (conditions in the world economy, the influence of the weather on agriculture and the effects of South African destabilisation tactics on the transport of exports and imports), together with the particular situation of Zimbabwe at Independence (requiring a significant inflow of machinery and spare parts for replacement and maintenance) accounted for 46%, 65% and 75% of the total deterioration to be explained. The remainder was assigned to expansion of output and investment, import and exchange rate policy, remittance of profits and increasing payments on foreign debt.

Having initially borrowed heavily abroad, Government responded to the worsening balance of payments deficit by implementing an IMF-type contractionary policy in 1982-83, involving a sharp cutback in foreign exchange allocations for imports and a 20% devaluation in December 1982. Subsequently, the exchange rate has been tied to a basket of currencies, and has depreciated steadily against most currencies. In March 1984, further measures were implemented, stopping temporarily the repatriation of dividends and branch profits and resolving the outstanding issues of an external securities pool and backlog of blocked funds inherited from the UDI era, through the mechanism of Government 4% bonds; emigrants' costs were reduced by the same means. These actions effectively plugged the last leakage points in the balance of payment, producing very significant immediate savings on the invisible account. On the more positive side, the Government also instituted a package of measures to stimulate exports; these are described in Section 5.

The result of the combination of policy changes and specific measures taken was a dramatic turnaround in the CAD and the overall balance. The current account deficit fell to $102 million in 1984, deteriorated to $159 million in 1985, but has

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[22] Kadhani and Green (1985).

turned to a small surplus since then (+$15 million in 1986). The economic cost of countering the balance of payments deficit has, however, been enormous. Import compression resulted in stagnation, underutilised capacity, high inflation, falling profitability, declining investment, and no increase in formal employment.

This situation has essentially continued throughout the period 1983-1989; a slow improvement in exports, tempered by external climatic factors for agriculture and mineral price factors for the mining sector, has not yet been sufficient to offset the substantial debt repayments which fell due in 1987-88, and the payments which had to be made when the temporary March 1984 measures were lifted. Foreign exchange has also been committed to purchasing external shareholdings from foreign investors, particularly in South Africa. The Government is committed to reducing its foreign debt service obligations, so there should be no repeat of the debt bulge experienced in 1987-88, while the purchase of external shareholdings reduces future dividend repatriation requirements. On the other hand, the 4% bond repayments will fall due during the 1990s.

Even if the balance of payments position looks more promising now than it has done in recent years, the availability of foreign exchange remains the single most important constraint on macro-economic performance in Zimbabwe. From Zimbabwe's viewpoint, the primary role of CIPs is to relieve the balance of payments constraint. In so doing, it is not so much the companies which actually receive the items imported under the CIPs which are the beneficiaries, but the economy and society as a whole. Without the foreign currency to supply imported raw materials to raise capacity utilisation and to import the capital equipment needed to realise investment intentions, standards of living will continue to decline, the employment crisis will intensify further and the burden on the communal lands will result in accelerated environmental degradation.

4.2 Import Dependence and Multiplier Effects

It was mentioned in the previous section that the anaysis of the causes of the deterioration in the CAD immediately after Independence placed emphasis on external and conjunctural factors. This should not be taken to imply that Zimbabwe's balance of payments constraint is determined exogenously; the purpose of this section is to demonstrate that import dependence is a fundamental structural problem within the economy. The influence of external factors is superimposed on this, making it even more difficult to implement policies to counter the balance of payments constraint.

To the extent that the potential savings on the non-trade elements of the balance of payments have already been exploited, and export promotion measures have been set in motion, the foreign currency problem revolves around the issue of the import dependence of production and investment[223].

During the UDI period, sanctions had the effect of dramatically reducing the level of imports, from 47% of GDP in 1965 to 36% in 1980. Import-substitution policies (coupled with demand and relative price changes) simultaneously altered import composition away from food, other primary commodities and manufactured consumer goods imports, with the result that fuels and manufactured intermediate and capital goods became dominant. By no means limited to consumer goods production, the import-substitution industries that emerged remain, nevertheless, heavily dependent on imported capital and intermediate goods, so that import volume is a key determinant of capacity utilisation in manufacturing.

Although less so than manufacturing, agriculture and mining are also import-dependent, so that import capacity determines to a significant extent the overall level of activity in the economy. The most determinant influence of all, however, is in respect of investment and hence growth, on the one hand because profitability and investment intentions are so heavily influenced by the availability of imported inputs for production, and on the other because the very high import content of investment may lead to intentions having to be frustrated when foreign exchange is in particularly short supply.

Numerical estimates of this import dependence have been made utilising an input-output model of the Zimbabwe economy[224]. This allows for the total (direct plus indirect) import utilisation to be calculated, which gives a much better picture of import dependence in an economy with strong inter-sectoral linkages than looking just at direct imports. The results are shown on a sectoral basis in Table 4.1. Of the productive sectors, agriculture has by far the lowest import content per unit of output (15%) followed by mining (20%) and industry (at an overall level of 26%). Within industry, which in the model embraces the GDP sectors Electricity and Water and Construction as well as Manufacturing, the final goods subsector is at the same level as mining (20%), with intermediate goods (35%) lying between and capital goods by far the most import intensive (40%).

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[223]This section draws extensively on Robinson (1987), section 4.4.

[224]See Knox, Robinson and Stoneman (1988).

Table 4.1: Direct Plus Indirect Imports by Sector

	Agri-culture	Interme-diates	Capital Goods	Final Gods	Mining Sector	Other
Direct Imp	6%	25%	30%	8%	7%	9%
Total Imports	16%	35%	40%	20%	20%	12%

Source: Robinson (1987), Table 4.11

As regards the import content of final demand categories, Table 4.2 gives the figures for the structure of demand in 1984. While consumption has a very low direct import content for a developing country of Zimbabwe's size (4%), the import dependence of the domestic production structure raises the total to 17-20%. Even though about two thirds of exports originate from agriculture and mining, overall exports have a similar level of import content (20%), all of which is indirect in that re-exports are excluded from the table.

Table 4.2: Direct Plus Indirect Imports - Final Demand Categories

	Private Consump	Govt. Consump	Exports	Invest-ment	Total
Direct Imports	4%	4%	0%	24%	7%
Total Imports	20%	17%	20%	50%	24%

Source: Robinson (1987), Table 4.13

The significance of Zimbabwe's high import content of investment in relation to other demand categories was first highlighed by Kadhani and Green (1985). Essentially the argument is that, in the short run, attempts to increase investment will have a detrimental effect on imports. If a rapid increase in foreign debt is impossible or undesirable because of the repayment over the medium term, expansionary policies may simply force a policy reversal, with import repression curing the balance of payments at the expense of lost output and foregone investment projects. Increasing investment may then end up having a perverse effect on growth of private and public consumption, not just in the sense of a short-run trade-off, but in the medium run as well.

This is not to suggest that investment is not ultimately a prerequisite for economic growth. Rather it is to focus on one of the central planning issues, namely the sectoral divison or targetting of investment resources. The appropriate policy response to the foreign exchange constraint is to invest so as to increase exports. Export promotion in this context[25] makes sense

[25] As distinct from the stereotyped World Bank "export promotion" package, requiring as one of its prerequisites, import liberalisation. Zimbabwe's recent successful export promotion efforts have not been incompatible with maintenance of the present foreign exchange allocation

not as an end in itself, but as a means of relaxing constraints elsewhere in the economy and spreading growth more widely through multiplier effects. These arguments also forcefully illustrate why the role of external assistance through CIPs and other balance of payments support mechanisms has been so important in recent years. Whatever decisions are made about the extent and timing of liberalisation and other policy reforms on the agenda[226], CIPs will continue to be critical during the next phase of attempting to overcome structural constraints in the economy.

The necessity to achieve rapid growth of exports is recognised in the Five Year Plan, in which a GDP growth rate of 5,1% pa is premised on export growth of 7% pa, which allows imports to grow at 6% while achieving the targetted reduction in external debt. Sensitivity tests using the input-output model indicate that if external or internal factors result in the achievement of only 4% pa export growth, while maintaining investment and debt service targets this would require import growth to be reduced to 3,25% pa, resulting in GDP growth of only 2,5% pa over the period, below the population growth rate.

If these lower figures are used as a base case scenario, a multiplier can be calculated to show the effect of increasing import capacity through a CIP. The result indicates that a CIP of $10 million, which is the current annual size of the Norwegian CIP, may result in a GDP increment of $24 million, a multiplier of 2,4. As regards employment, Riddell in his study pointed out that only a rough and general estimate can be made. In the case where CIPs are replacing normal inputs, he cites a Confederation of Zimbabwe Industries (CZI) survey to the effect that $10million of raw material input maintained an average of 3470 jobs in the manuafcturing sector in 1982. The employment effects of CIPs leading to an overall $10 million increase in imports, would depend on the nature of the imports: consumption imports might create 140 jobs, intermediate imports 680 jobs and capital equipment imports 190 jobs in the economy[227].

4.3 Trade Regime

Zimbabwe inherited from the UDI regime a comprehensive set of foreign exchange control and allocation mechanisms which had been introduced to cope with the fall in foreign exchange earnings following the imposition of sanctions. This system has been broadly maintained since Independence, as demand for foreign exchange continues to exceed supply and there is a perceived need to contain capital outflows. Certain steps have been taken, however, to change and improve the system; the details of the allocation process and of the changes made are given in the next section and in Chapter 8.

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system, but whether this state can or should persist is discusses further in Section 8 below.

[226]These are discussed in Section 8 below.

[227]Riddell (1983), page 23.

It is the operation of this foreign exchange allocation system rather than tariffs which provide protection to the industrial sector[28]. Allocations for imported raw materials are made on the basis of the historical requirements of individual firms, while imports which compete with domestic production do not receive an allocation. On the investment side, only projects which do not use foreign currency or those that substitute for imports or generate exports are approved. The system therefore effectively protects the industrial sector from both foreign and domestic competition.

What is of concern in the current debate on Zimbabwe's trade regime is whether the acknowledged economic benefits of the system, which served the economy well during the UDI period, outweigh the costs. In deciding this, account has to be taken of the recent modifications to adapt the system to the post-Independence era (spelled out in section 8 below).

Some of the major benefits of the system have been that, on the whole, it has been fairly administered, essential goods have been imported and industry has diversified to replace imports due to the implicit protection offered to manufacturers. Furthermore, the system has ensured that the country's creditworthiness has been maintained, as allocations are only given on the basis of available foreign exchange.

Critics of the system argue that it leads to the misallocation of resources as it protects existing firms from facing international competition. It is also biased against new entrants wishing to produce goods already domestically produced. It has been argued as well that balance of payments equilibrium has been maintained through the rationing of foreign exchange, rather than the use of the exchange rate. This, therefore, implies that the exchange rate is overvalued and is biased against growth in exports. The argument concludes that if the industrial sector is to fulfill its role in the economy as the engine of growth and employment creation, protectionism must be reduced through import liberalisation and the relative profitability of exporting must be increased, in part through devaluation. This debate is discussed further in Section 8 in connection with the UNDP/Government study on trade liberalisation.

4.4 Foreign Exchange Allocation System

Foreign currency allocations for visible imports are made once every six months, after a detailed balance of payments forecasting exercise has been carried out by the Ministry of Finance, Economic Planning and Development (MFEPD), in conjunction with the Reserve Bank[29].

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[28]Duties payable on imported goods are outlined in Section 4.5 below.

[29]This section draws upon the material produced by the working group organized by NORAD, Harare: Report of the working group, NORAD 1987. This initiative by NORAD

This exercise begins with detailed export projections for all commodities undertaken in liaison with the relevant economic Ministries, viz Mines, Agriculture, Trade and Commerce, and Industry and Technology. Export projections are analysed in the light of anticipated price trends, production, domestic sales, and other economic factors. Estimates of invisible receipts and payments based on projections by the Reserve Bank are then taken into account. Capital Account transactions are provided by the various sections in MFEPD and the Reserve Bank. On the basis of the anticipated foreign exchange inflows and outflows, and after setting aside an adequate level of international reserves, the balance becomes available for global imports. If global imports are deemed inadequate, after taking into account imports financed from other sources, then the possibilities of either increasing external borrowing or running down reserves are explored. Finally, the BOP projections are submitted to the Cabinet Committee on Financial and Economic Affairs before the global allocations can be approved.

The Import Planning Section in the Ministry of Trade and Commerce is responsible for establishing the total amount of foreign exchange required by all sectors of the economy based on the bids submitted. The bids are called for every six months from:

a) Government Ministries
b) Other Public Bodies
c) Local Authorities
d) Industry
e) Commerce
f) Mining
g) Zimbabwe Oil Procurement Council.

The bids are then consolidated into between 32 and 37 sub-heads. Because of the serious foreign exchange constraints, the bids are always higher than the amount available for allocation. The Import Planning Section has therefore to reduce the bids in line with the global allocation. The revised bids are then submitted to the Foreign Currency Allocations Committee which is chaired by MFEPD and includes all the economic Ministries plus Defence, and Energy, Water Resources and Development.

After the subhead allocations have been approved, the Ministries of Trade and Commerce and Industry and Technology notify the importers of their allocations through Commercial Import Control and Industrial Import Control.

Commercial Allocations: The Currency Allocation Section is responsible for allocating basic allocations for commercial imports on a specific tariff basis, as well as a firm basis. There are approximately 350 tariff headings and in order to facilitate this exercise, each tariff is assigned a priority rating from a scale of 1 to 5.

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deserves mentioning on its own merits.

Priority 1: Essential requirements where no shortages are accepted.

Priority 2: Essential items but some shortages may have to accepted.

Priority 3: Average priority items, forming the bulk of imports by both commercial and industrial sectors.

Priority 4: Mainly leisure goods.

Priority 5: Luxuries.

Generally speaking, greater fluctuations occur between lower priority items than the high priority areas.

Beside the basic allocations, there are ad hoc allocations. Commercial importers wishing to import up to $2500 more than their basic allocation and new firms where there is no regular importer of the product concerned, may submit a request to the Commercial Import Controller who has the authority to grant approval directly. Applications for more than this are considered by the Joint Allocations Committee (JAC). Although this comes under the auspices of the MTC, it is essentially interdepartmental and comprises the following posts: under-secretary, MTC, under-secretary, MIT, assistant secretary, MTC, Commercial Import Controller, Industrial Import Controller, and an official from MFEPD.

The JAC is served by an Investigations Section, which researches applications (in 1982, about 100 applications per week) and recommends according to the following criteria:

- basic allocation to the firm;
- the current allocation to competing firms;
- value added in production when the good is an input;
- the terms of payment when the good is an input into an export order;
- the degree of urgency.

Industrial allocations: MIT is responsible for allocations to industry, including materials and projects in the sector, as well as building projects. Special products also fall under this body: anhydrous ammonia, timber, switch gear, passenger vehicle kits and commercial vehicle kits. One important difference in the process of allocations, as compared to commercial allocations, is that MIT breaks down the allocation by industrial division and then splits between firms within each division. Each firm may then use its allocation to import from a range of tariff items approved for the particular industry. A second interesting difference is that there is no equivalent to the commercial allocation priority system. Verbally the team was told that there are priorities but they were not spelled out.

They do not exist in the form of an established list as in the case of commercial allocations.

On top of the basic allocation, ad hoc allocations may be made by the Industrial Import Controller for less than $10 000. Amounts larger than that must be approved by the JAC.

For new industrial projects needing foreign exchange, applications are passed to the Industrial Projects Committee, comprising officials from MIT, MTC, MFEPD and the Reserve Bank. The main criterion for project selection is a net foreign exchange gain within 12 months.

There are a number of other bodies examining and deciding upon the details once the basic allocations have been made by JAC[35], but the above outline should be sufficient for the purposes of this report. In Section 8, there is a description of the revolving export promotion funds introduced in recent years. These are increasingly important, as the policy since 1984/85 has been to give priority in making allocations to imports required as inputs to the production of exports. This has brought foreign exchange effectively into free supply for exporters, while further curtailing the importation of inputs for production for the domestic market.

4.5 Duties Payable on Imported Goods

As mentioned in Section 4.3, protection to domestic industries in Zimbabwe has not come from tariffs, as in many developing countries, but from the foreign exchange allocation system and investment controls. Tariffs have therefore played a secondary role in providing protection and have served more as a source of fiscal revenues.

For the purpose of assessing the amount of duty payable, the value of goods imported into Zimbabwe is taken to be the domestic value, i.e. the market value at which, at the time of exportation to Zimbabwe, such or similar goods are freely offered for sale for consumption in the country from which the goods are imported. Customs duties are generally based on an ad valorem rate (although there are a few flat rates) and are applied to the CIF value of goods. The rates vary from one commodity to another. Thus, all goods (except those grown, produced or manufactured in countries in which are Contracting Parties to the General Agreement on Tariffs and Trade (GATT), or with which the GOZ has concluded agreements containing the most-favoured-nation tariff clause) are subject to the customs duties leviable as per customs tariff schedules.

In addition to the customs duty, an import surtax of 20% is levied on the CIF value of most imports. Goods assessed at a flat rate are exempted from this surtax.

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[35]The total number has been said to be 26 different units (Gray, 1988).

Lower duty rates than the maximum are levied on certain commodities. These include imports by certain parastatals and such goods as medical and surgical equipment. In addition, manufacturing companies are granted duty rebates and a drawback of duty on imported inputs which are used for the production of exports.

5. INDUSTRY IN ZIMBABWE

5.1 The Industrial Sector

Most available reports written by outside observers of the industrial sector of Zimbabwe's economy start by saying that industry in Zimbabwe is "well developed" compared to its neighbouring countries - excluding South Africa. This approach to the development problems of Zimbabwe's industry carries several implications: industry in Zimbabwe is relatively successful and relatively rich; thus the country itself is relatively rich and relatively less in need of foreign assistance; simultaneously it is "too dependent" on its economic relations with South Africa.

This report will be more cautious in making such definitive statements on the state of industrial well-being in Zimbabwe: the "success story" of industrial development in Zimbabwe is very relative, even compared to other SADCC countries, and its future growth is by no means assured. In its relation to South Africa, there are many outstanding questions: did Zimbabwe's industrial sector not develop strongly under the UDI period in close cooperation with South Africa? Does it not suffer from the present sanctions against South Africa (more so if the presently limited sanctions are intensified and broadened internationally), and does it not face a big risk of being swallowed by the neighbour in the south once sanctions are lifted after liberation? Is the present difficulty of Botswana in starting new industries not a case to be considered in order to understand what the competitive situation of Zimbabwe might be in the near future?

The time has also come for the international donors' community to recognize the urgent need for change in the industrial sector of Zimbabwe. The prospect of a post-apartheid South Africa and close economic cooperation with this industrial giant is currently a realistic and necessary planning horizon for industrial planners in Zimbabwe. The present situation of sanctions and the policy of disengaging the industrial firms from South Africa must therefore be considered in its two-fold context: in the short run, sanctions are first of all part of a political commitment to contribute to the transformation of South Africa; in a medium term perspective, and in economic terms, sanctions must also serve as a means of gradually restructuring Zimbabwe's industry with the purpose of raising its competitive force before it will be facing outright competition from post-apartheid South African industry.

These comments may render the issues of dependency and essential goods a bit more complicated when it comes to the assessment of CIPs where objectives are phrased in similar terms, but such complications may carry a larger explanatory value than comparisons with general average indexes of industrial contribution to GDP and other similar comparative exercises.

Our argument may be illustrated by a short review of the history of industry in Zimbabwe, and the change in its political basis at Independence. It will be shown that the most relevant basis for relative comparisons at this stage is a combination of Zimbabwe's own industrial development needs, i.e. in relation to population growth and rural poverty, and its future competitive situation when sanctions against South Africa are lifted. These topics are dealt with in the next three subsections.

5.2 Significance of the Industrial Sector

Despite having achieved a relatively high level of industrialisation, the economic growth of Zimbabwe remains strongly determined by weather-induced fluctuations in agriculture. In another important sector, mining, performance is strongly influenced by world market prices, which are also beyond the control of the government as well as individual firms. Two important sectors of Zimbabwe's economy are thus to a large extent governed by external factors. Thus, apart from the South African dimension, strengthening industry in Zimbabwe is required to reduce the vulnerability of the economy to disturbance from external factors.

The real average annual growth of GDP during the post-liberation period has been approximately 3%. The real GDP growth for each year 1979-1987 is given in Table 5.1.

Table 5.1: Real GDP and Manufacturing Sector Growth 1979-1987

	1980	1981	1982	1983
GDP	10.7%	9.7%	1.4%	-3.6%
Manufacturing	15.1%	9.9%	-0.5%	-2.9%
	1984	1985	1986	1987
GDP	2.3%	7.6%	2.3%	0.3%
Manufacturing	-5.0%	11.5%	3.0%	2.2%

Source: Calculated from CSO Quarterly Digest of Statistics, Sept 1988, Table 9.3.

During the same period, population has been growing at a slightly higher rate than GDP, while formal employment has been almost static. These basic figures indicate that the economic performance of Zimbabwe must be improved in order, first of all, to avoid decreasing real incomes per capita and, second, to make room for increased employment and growing welfare of the population. In this, the manufacturing sector has a critical role to play.

In 1938 mining employed 93 000 workers in what today is Zimbabwe, while industry employed 18 000 workers and contributed about one-tenth of exports and net domestic output. Presently, manufacturing contributes about a quarter of value added to GDP,

more than mining and agriculture together. The industrial sector employs over 170 000 people and accounts for between 15% and 20% of exports. The following table gives a few indicators of the importance of manufacturing in Zimbabwe.

Table 5.2: Industrial economic indicators 1970-1984

Year	1970	1975	1980	1984	1985	1986	1987
Manufacturing (1980 $ million)	513	729	802	809	902	929	949
Share of GDP (%)	21.0	23.5	24.9	22.8	23.6	23.8	24.3
Employment	115	156	159	166	169	177	176
Share of Empl (%)	13.5	14.9	15.7	16.0	n.a	n.a	n.a

Source: CSO Quarterly Digest of Statistics, Sept. 1988, Tables 7.1 & 9.3.

These figures quantify the current significance of the industrial sector in the Zimbabwean economy. However, they do not measure its significance in a more qualitative sense. The sector plays an important role in the processing of agricultural products, particularly for the domestic market. It also has an important role to play in technology transfer and in improving the technological capabilities of Zimbabwe's manpower.

5.2 Industrial Strategy and Planning in Historical Perspective

Much of the foundation for today's industry in Zimbabwe was laid during the 50 years before independence. Import substitution during the enforced protectionism of the Second World War, and expansion through the Federation with what are now Malawi and Zambia in the period 1953 to 1963, gave the country an unusually diversified industrial base by the mid-1960s. After the Unilateral Declaration of Independence (UDI) by a minority colonial regime in 1965, the process of inward-looking industrialisation was continued due to the imposition of trade sanctions from large parts of the industrialized countries. The unique political situation of the UDI period created particularly conditions for the economy, notably the industrial sector.

During UDI, a number of centralized control measures were taken by the government to overcome the shortages induced by sanctions. Important features were foreign exchange control, import rationing, price controls and a very close cooperation with the South African regime, including a strong element of direct economic support from the latter to the UDI regime. Industrialization for import substitution became the guiding principle of the UDI period. Simultaneously domestic industrial firms were protected from most competition, partly due to sanctions and partly due to explicit measures of import licensing and tariffs. Industrial growth was rapid from 1965 to 1974, when it slowed down until the increase in growth during the first few years after Independence.

The UDI industrialization period rested upon a very particular political base: the colonial regime, supported by South Africa, represented the white minority of the country's population, and controlled virtually all commercial farming, commerce and industry. As a consequence, the alliance between the state and the leading economic agents of the country was very close. The state was implementing policies, in close cooperation with farmers and industrialists, intended to serve their interests and which were seen by the regime as being the same as those of the country.

The liberation struggle was based on the majority of the population: the landless and poor in the rural areas as well as those employed on the farms and in the firms controlled by the minority.

Upon liberation in 1980 and the installation of a new majority rule government, the present state inherited the industrial structure of the past as well as the particular regulations of the UDI period. But a very important political transformation had taken place: the new government's policies towards industry (and commercial farming) were no longer seen as an instrument for the well-being of industrialists. The relationship between the state and industry was no longer one of intimate cooperation, but one of mistrust and antagonism. Any state economic policy rests upon a political base; the transformation of that base implies that the same measures, will no longer have the same effects as they had before. Unless ownership and control changes from the former allies of the colonial regime, i.e. including South African owners, the measures taken by the state in terms of central planning will not create confidence among the owners.

This explains why the major planning and control mechanisms of price controls, foreign exchange controls and investment policy, although similar in form, play a very different role in the economy today than they did during the UDI period. In that period, industrialists viewed the controls as a necessary evil and proceeded to make the best of a bad situation. Now they are seen as an unwarranted interference by Government, to be circumvented, ignored or complained about. The previous regime did not see the controls as constraining business but rather as maintaining macro-balance. Now they are viewed as necessary to curb the predatory instincts of private industry.

The changing political situation is also part of the explanation behind the changing impact of interventionist policies; the current debate in Zimbabwe on this issue (where liberalisation, cf.Section8, is only one extreme) is not only of great theoretical interest, but its practical outcome will be decisive for the industrial future of the country. It will also have implications for the role and efficiency of the current CIP.

One of the main problems is that the result of the protectionist policies over the fifteen years of sanctions and close cooperation with South Africa, was a situation in which the majority of firms in the manufacturing sector were oriented towards the domestic market and were operating a cost levels far

above those of internationally competitive levels. Despite the severe balance of payments pressures which have curtailed freedom of action to redress this situation (see Section 4.1), Government has succeeded over the last five years in forcing some change on the sector in the direction of export orientation and improved efficiency[31]. The principal mechanisms deployed have been an export promotion package (a bias introduced into foreign exchange allocation, the export incentive scheme and continuous depreciation of the Zimbabwe dollar against most currencies), and price control in the domestic market, which has been applied in such a way as to sharply reduced profitability for many firms.

Despite the progress made, there is a consensus among observers that the industrial structure needs to be changed further, and that new and different mechanisms are needed for this. The current debate is not about the necessity for change, but about the means through which change should be effected and the pace of change.

5.4 Industrial Independence of Zimbabwe

An important issue in relation to industry in Zimbabwe and the Norwegian CIP/ISP is the dependency on South Africa. Before Zimbabwe reached its politial independence the relations between the colony, and later the UDI state, and RSA were very close. During UDI political and military dependency on the RSA was very strong. It was one of the few allies and supporters of the UDI regime. Economically, the support and cooperation from RSA had an enormous importance for the survival of the UDI economy.

The struggle for independence led to a military and political victory, which was in itself the most important "reduction" of dependency on South Africa imaginable at that point in time. But the new sovereign state of Zimbabwe, even after Independence, remains constrained in several ways in relation to its neighbours. The clearest evidence of this is the various political, military and terrorist destabilisation actions taken by South Africa against Zimbabwe[32]. The size of the military budget of Zimbabwe is, amongst other things, due to its forces assisting Mocambique against military aggression, in itself a burden to the country imposed by South Africa.

The political and military struggle in the region takes its toll for all countries involved. Zimbabwe's political acts must always be seen in this light. The military costs are, in turn, a direct constraint on the economic development of the country. In the efforts to avoid too large budget deficits and too large deficits in the balance of payments, the GOZ has been forced to reduce its allocations of foreign exchanges for investments goods and inputs to industry. There is consequently a direct relation

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[31] Riddell gives some vivid examples in Part I of his 1988 study.

[32] For examples, see Joseph Hanlon, "Destabilisation and the battle to reduce dependence" in Stoneman, 1988.

between the military aggression from RSA and the resources available for industrial development in Zimbabwe. In a similar way, the degree of freedom for Zimbabwe in terms of trade partners, transport routes and even strategic investments is directly constrained by the political relations to RSA. Any kind of economic and commercial measure taken by Zimbabwe may cue retaliation from RSA.

There is no such thing as an isolated concept of economic dependency when two states are in direct confrontation with each other. As long as Zimbabwe remains a front line state it will be in a relation of confrontation with RSA, i.e until the abolishment of apartheid in South Africa. An outright struggle on all fronts is all there is. Donors for development are not likely to support the military part of the struggle; but in all other areas support must be seen as part of the support in the confrontation with the apartheid regime. There is no way conceptually to make a dividing line between one form of a support or another in terms of the relation to RSA.

Currently the leading trading partner of Zimbabwe is RSA. This is approximately the situation of, for example Nordic countries and the Common Market. No economist or politician in those countries would be willing to pay the price for a de-linking with the Common Market: it would simply be too high (even without the military and political sanctions that would follow in the case of Zimbabwe and RSA). All relatively open economies - and Zimbabwe's economy is open - are "dependent" on other economies: this is related to concepts such as free trade and free competition. The difference is the political and military confrontation between RSA and Zimbabwe: the struggle creates its own (political and military) reasons for Zimbabwe to delink from RSA. In this connection we should remind ourselves that large parts of industry are owned by people who still keep a lot of sympathy to RSA, to say the least.

Furthermore, well over 50% of Zimbabwe's foreign trade passes through South African transport routes, i.e. this trade would be stopped as soon as RSA decided to do so. Furthermore, RSA-backed sabotage in Mozambique has demonstrated that alternative trade routes are also vulnerable to SA attack. The costs of such a break in trade for Zimbabwe would be a complete stop in industrial production in many subsectors, to be followed by a general reduction of all kinds of production. The threat of retaliation in this field continuously throws a cloud over possible delinking prospects on the part of Zimbabwe, but simultaneously underlines the importance of doing so now.

It should be emphasized that this dependence on RSA trade routes is the outcome of historical circumstances and RSA's attempts to prevent changes. Before 1975 more than 50% of Rhodesia's exports went through Mozambique. When that border was closed as independent Mozambique enforced sanctions, Rhodesia was forced to shift to the higher cost South African routes. The RSA has ensured that independent Zimbabwe has never regained its more natural routes to the sea.

The sense of the above points may be summarised in the conclusion that dependency in the economic sense - as opposed to normal intense exchange relations between economies - only takes on the extremely high costs when it is part of a political and military struggle; thus, it cannot be separated from those contradictions.

In the case of Zimbabwe it must necessarily be emphasized that the economic competition between the two countries (RSA and Zimbabwe) currently is linked to the political and military struggle, while in the future - after apartheid - it will continue in the normal way and still be important for Zimbabwe. Currently, delinking is justified from Zimbabwe's point of view firstly by the need to survive in the ongoing struggle with the racist regime - which means that delinking must not provoke retaliation - and secondly, in order to prepare the country's firms and farms for future economic competition with a friendly neighbour (Cf. Section 8 below).

In the present struggle the decisive element is economic growth; it has been shown that economic growth in Zimbabwe is highly import dependent, which is further underlined in the industrial sector. With the highly selective import policy that is already in place, virtually all imports contribute to growth and are thus more or less essential to the economy in the current economic struggle with RSA. Given the on-going reality of a shortage of foreign currency, CIPs thus have a vital role to play in contributing to growth, related not only to the objectives of the country's development plans, but also to its share of the geopolitical struggle for the abolition of apartheid.

6. ZIMBABWE'S TRADE AND INDUSTRY LINKS WITH PTA/SADCC

6.1 Trade in SADCC, PTA and Zimbabwe

The most comprehensive study on SADCC trade, carried out by Chr. Michelsen Institute in 1986, produced the following table, giving average intra-SADCC trade for the period 1982-84. Due to the difficulty of obtaining reliable trade data for the region, the figures are to be treated as estimates.

Table 6.1: Intra-SADCC trade, 1982-84 average

	Imports		Exports	
Country	Mill US$	%	Mill US$	%
Angola	12	4.3	21	0.8
Botswana	51	18.5	47	19.2
Lesotho	0.3	0.1	0	0.0
Malawi	26	9.4	21	8.6
Mozambique	26	9.4	14	5.7
Swaziland	3	1.1	7	2.9
Tanzania	24	8.7	4	1.6
Zambia	48	17.4	35	14.3
Zimbabwe	86	31.2	115	46.9
Total	276	100.1	245	100.0

Source: CMI (1986)

In the first half of the 1980's nearly half of of all intra-regional exports came from Zimbabwe, while Zimbabwe accounted for nearly one third of all the intra-regional imports.

In terms of trade balance, Zimbabwe had a substantial and growing trade surplus with the rest of SADCC. Swaziland had a smaller surplus; Botswana had a surplus in 1982 but a deficit 1984, while the other member states all had deficits in 1982. According to the CMI study, 67% of the intra-SADCC trade in 1982 was balanced bilaterally, while 10% were balanced multilaterally. Only Mozambique and Zimbabwe would have gained from a multilateral clearing system for the SADCC region in 1982.

In 1984, 22.7% of the intra-regional trade consisted of food and live animals, 16% of fuels, 5.2% of crude materials, and 7.8% of Chemicals. More than 40% consisted of manufactured or semi-manufactured goods.

Intra-regional trade represents only a small part of total trade for the SADCC countries. Trade with RSA is for example, at the aggregate level, more voluminous. The SADCC countries' trade with RSA exceeds the volume of intra-regional trade. In 1982 RSA received 7% of the exports from the SADCC countries, but was the source of 30% of their total imports. At the same time, intra-regional exports represented 5% of total SADCC exports, while the intra-regional imports were 4.4% of total imports.

In 1982 around 17% of Zimbabwe's export went to RSA, while Zimbabwe imported roughly 22% from RSA. Approximately 65% of Zimbabwe's imports originated outside of Africa[35]. In 1987 Zimbabwe's trade with RSA had been considerably reduced in relative terms. Less than 10% of its exports went to RSA, while export increases to the Common Market had led to a situation whereby UK, the Federal Republic of Germany (FRG) and the Netherlands together imported more than 20% of the exports from Zimbabwe. The reduction of imports from RSA between 1982 and 1987 was negligible: between 21 and 22% were still coming from RSA, while UK, FRG and USA together made up for almost 30% of exports from Zimbabwe.

The SADCC member states are all signatories to different trade agreements. All states but Angola and Botswana are members of the PTA (The Preferential Trade Area of Eastern and Southern Africa). In addition, ten other African states are members of the PTA. The members of the PTA are committed to a gradual reduction and eventual elimination of customs duties and non-tariff barriers to trade amongst themselves. They are also committed to a gradual long term evolution of a common external tariff in respect of all goods imported from third countries, with a view to the eventual establishment of a common market. In the more immediate perspective, the PTA is establishing a common list. The goods on the list will have their intra-PTA customs duties reduced with a specific percentage. A 51%-of-origin rule must be met, i.e. 51 % of the ownership must be on PTA hands. Members are committed to relax non-tariff barriers for goods included on the common list. The PTA includes most-favoured-nation treatments. It also makes provisions for the establishment of a clearing house, reducing the need for foreign exchange for the individual intra-PTA trade deals. This has started rather slowly with the establishments of PTA travellers' cheques, but hopes are that 1989 will bring further progress.

Three states (Botswana, Lesotho and Swaziland) are members of the Southern African Customs Union - the SACU. There is a free trade system between the SACU members, which have common external (high) tariffs on products which are also produced in the RSA, with relatively low tariffs on other products. As a result, other SADCC members wanting to export to these three countries countries face several obstacles in the form of tariff barriers (except for Zimbabwe trading with Botswana, cf. below.).

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[35] Haarloew, "Regional Cooperation in Southern Africa", CDR Research Report (1988)

Finally, there are various sets of bilateral trade agreements in the region. Zimbabwe has an Open General Import License (OGIL) agreement with Botswana[=4], offering a preferential market in Zimbabwe as imports can be made by Zimbabwe companies outside of the normal foreign currency allocations. South Africa also holds a limited preferential trade agreement with Zimbabwe. The position of RSA firms is further strengthened by the South African involvement on the ownership side in various Zimbabwe industries, and through the trade relationships that were consolidated during the UDI period.

6.2 Constraints to Intra-Regional Trade

There are various obstacles to increased intra-regional trade. The poor and non-industrialized economies of the region's member states create serious limitations on both the supply and the demand side of production and trade. There is only a limited degree of complementarity between the economies of the region. The transport system is inadequate, both in terms of structure and capacity. This is also exacerbated by the massive disruptions and extra costs caused by RSA destabilization activities in the region's infrastructure and economies. The droughts that plagued the region from 1981 to 1987 have reduced current trade possibilities. The war has been disruptive, but has also consumed massive resources that otherwise would have been potential benefits to the intra-regional trade.

Other factors that limit the scope for intra-regional trade are, for example, the scarce availability of essential goods and services. This is further aggravated by those situations where there are goods and services available, but the market does not know about it. Or, the exporter does not know of the existence of the particular market. Even in the cases where such knowledge is present, the size and uncertainty of the market may not be satisfactory for the exporter to venture into trade.

Regionally produced items are not always competitive in terms of quality, price, credits, and reliability of supplies compared to products from outside the region. Some trade does probably not take off due to inadequacies or prohibitive costs of the regional transport system.

6.3 Trade Potential

There have been large fluctuations in the intra-regional trade over the last few years. The CMI team put together the highest figures for the various commodity groups, the peak flows for commodities that were traded annually in the early 1980s. These peak trade figures were taken to indicate some sort of a minimum potential for trade. The added figure is almost twice the size of the 1984 trade. If only half the value of this combined peak flow could be realised, intra-regional trade would increase by 40%.

[=4] A similar arrangement with Malawi was terminated when Zimbabwe and Malawi joined the PTA.

In order to develop potentials beyond this indicative figure, however, new export products and even new industries will have to be created.

The lack of foreign exchange is a major barrier to increased trade in the SADCC region. This is relevant at several levels. Obviously, the major problem in this respect is the lack of funds at the hands of the importing country. But even in cases where the importer has the necessary funding, the lack of foreign exchange in the exporting country could be an obstacle, as the exporter may not be in a position to purchase the missing inputs (raw materials, spare parts etc) that are required to produce the good in question. Various mechanisms are about to be established in the SADCC context to overcome this problem; mechanisms that will be very relevant to enhancing Zimbabwe exports to other countries in the region.

6.4 SADCC and the Programme of Trade

The initial priority for the SADCC efforts was given to the sectors of transport and communication, industry, food and agriculture, and energy.

A trade sector of the SADCC organization was formed later. In 1986 it was decided to develop a SADCC programme of trade. The programme should take into account the instruments of (a) multi-year purchase contracts; (b) counter purchases; (c) preferential import licensing; and, (d) product specific tariff reductions or other financial support mechanisms.

It has been agreed to look further into the scope for extending trade preferences; one suggestion is that SADCC states who are members of the PTA could extend the same type of preferences offered inside the PTA to the "external" SADCC states. Another type of preference, of great relevance for example to the Norwegian financed CIP, is a preference to be extended to SADCC suppliers in competition with outside suppliers and contractors in government purchases and donor financed projects.

The SADCC trade programme includes two financing mechanisms: the Export Pre-Financing Revolving Fund and an Export Credit Facility. The revolving fund will enable companies to finance the imports of inputs (raw materials, spare parts, etc) required for the production of exportable goods. The export credit facility will help SADCC members to offer internationally more competitive export finance to their domestic exporters (who currently cannot compete on the financial side due to foreign exchange scarcities). For Zimbabwe, this facility will be particularly important in competing with RSA for regional markets, where competitiveness in price and quality has often not been sufficient in the face of the much easier credit terms which South African exporters have been able to offer.

6.5 Industry in SADCC and Zimbabwe

The contribution to the GDP of the manufacturing sector in Zimbabwe is larger than in any of the other SADCC member states. This points to the country's relatively more "developed" economy. In 1984, Zimbabwe accounted for more than 40 % of the total manufactured value added in the region. In Africa, the absolute value of the Zimbabwean manufacture is second only to Nigeria.

Table 6.2: Manufacturing value added in the SADCC countries.

Country	Share of Regional Manufactured Value Added (1984) (%)		Annual rate of growth Manufactured Value Added 1970-74	1974-81
Angola	3		14.4	14.9
Botswana	3		23.3	6.1
Lesotho	1		7.7	4.8
Malawi	6		5.5	6.2
Mozambique	6		16.1	11.6
Swaziland	4		5.5	0.3
Tanzania	9		5.9	-6.6
Zambia	26		11.4	-6.4
Zimbabwe	42		19.6	-1.4
Total	100	Average	14.1	-4.9

Source: Haarloew, "Regional Cooperation in Southern Africa", CDR Research Report (1988)

The manufacturing industry in SADCC is dominated by the production of consumer goods. This increases the import dependency on spare parts and investment goods. Only Zimbabwe is in a different position, with a larger capacity for metal products, engineering and machinery production. The capital goods industry and a steel mill put Zimbabwe in a special situation in relation to the other member States. Zimbabwe is relatively well placed to give an alternative to the other SADCC states in terms of supplying manufacturing capacity from other African sources than RSA.

Much of the installed capacity in Zimbabwe is, however, obsolete. First the years of UDI and then later the shortage of foreign exchange allocations for industrial renewal, clearly have put a limit on how much of the Zimbabwe formal installed capacity that can be realised for the benefit of SADCC. Significant modernisations and reinvestments are required.

Zimbabwe has maintained a relatively high capacity utilisation within its manufacturing sector. The 1986 SADCC macro economic survey estimated capacity utilisation in Zimbabwe to be in the range 70 - 75 % in 1984. The other member states listed showed significantly lower figures: Angola 20-30%, Tanzania 25%, Zambia 20-80%, and Mozambique 30%. The slack capacity in Zimbabwe is

thus comparatively small, in relative terms. However, as the installed capacity in Zimbabwe is significant also in the regional context, the underutilised capacity is large in absolute terms. By modernising and upgrading industrial capacity, Zimbabwe would be better placed to provide SADCC with a viable alternative to RSA in terms of a broad spectrum of manufactured goods.

The consumption of domestically manufactured goods in the various SADCC states, varies significantly. Zimbabwe has the highest degree of self-sufficiency; 73% of domestically consumed manufactured goods are produced in Zimbabwe. This is due to the fact that, unlike most other SADCC states, Zimbabwe's manufacturing sector consists not just of light industries, but of heavy industries, such as ferrochrome smelting, iron and steel and associated secondary engineering. The other countries in the region with a relatively high degree of self-sufficiency are Zambia (65%), Tanzania (44%) and Malawi (40%). There are no data on Angola and Mozambique, and the other countries have a self-sufficiency of 10% or less. These figures are from 1980, and are probably not fully representative for Zimbabwe.

The shortage of foreign exchange, suppresses demand, as well as curtailing imports of raw materials and inputs to production. The size of the domestic markets are generally too small to support industry benefitting from economies of scale. Too much of a domestic orientation will for most countries and most industries result in an sub-optimal industrial structure. Access to international markets to realise industrial potentials and achieve economies of scale. Other problems and constraints being faced by the industrial sectors of the SADCC states are: heavy competition from South African goods, a shortage of manpower with appropriate skills and training for the industrial sector, limited knowledge and experience of overseas markets, and finally de-stabilisation from South Africa, interrupting normal economic life, distorting transport and production patterns and causing the loss of economic opportunities.

6.6 SADCC Industrial Sector Planning

Tanzania coordinates the SADCC industrial sector. The industry sector programme has two main components; "Projects for Manufactured Goods" and "Projects for Industrial Support Services". The programme for "Projects for Manufactured Goods" has been further sub-divided: (a) Rehabilitation of existing industries; (b) Priority basic needs industries; (c) Core industries.

The projects for manufactured goods reflect the SADCC industrial strategy by first paying attention to existing industries, and identifying where an upgrading and rehabilitation would increase the capacity to improve supplies.This would also induce intra-regional trade of input factors to the same industries. Secondly, one objective is to develop industries to supply the basic needs of the region. A number of key sub-sectors have been identified. Thirdly, the group of "core industries" take recognition of the fact that it is not economic for all SADCC

countries to strive to have a complete range of industry within the national borders. Rather, a programme is envisaged where duplication would be avoided, and where individual countries would be "allocated" various core industries that require markets significantly larger than the national ones in order to be economically viable.

The value of the SADCC industrial portfolio is roughly 20% of the total SADCC project portfolio. In terms of funding secured, the industrial sector showed a lower-than-average performance as only approximately 20% of the portfolio was financed compared to 33% of the overall portfolio, reflecting that it has been very difficult to secure funds for the implementation of projects in manufacturing. This has led to the existing gap between plans and their realization. Implementation of 4 (out of 55) SADCC industrial projects had been completed in August 1986 at a total cost of 190 million US$. Implementation of an additional 14 projects was then under way.

Zimbabwe has a broad participation in the SADCC industrial portfolio, with projects like an expansion of a sulphuric plant (12 million US$), a new polyester staple plant (12 million US$), expansion of special steel plant (12.4 million US$), the Mutare Board paper mill (6.3 million US$), upgrading and expansion of a pesticides and insecticides plant (0.12 million US$), and a study on an integrated paper mill (0.25 million US$).

7. THE EVALUATION OF THE CIP/ISP

This section presents the data generated by the team and the analysis of those data. The core of the section is the presentation of the empirical survey of recipient firms in Zimbabwe.

7.1 Basic Data and the Empirical Survey

The original CIP started in 1982. Allocations under the various agreements have been the following:

Table 7.1: Norwegian CIP funds 1982-1990

Agreement[35]	Amount
(1982 disbursed)	16.300
(1983 disbursed)	13.183
(1984 disbursed)	28.331
(1985 disbursed)	26.795
(1986 disbursed)	46.619
First agreement 87/88	50.000
Second agreement 87/90	90.000
Total	271.23

Amounts in NOK million
Sources: NORAD and the specific agreements

The above table gives a global amount, being the sum of actual disbursements during 1982*D*1986 and the commitments made for 1987*D*1990, over the years 1982*D*1990, leading to an average of 30.1 NOK million per year.

It should be noted, as has been mentioned above (Section 3) that the Norwegian administration of the CIP in Zimbabwe was handled by the Norwegian embassy in 1982*D*86, while in 1987 the NORAD office in Harare took over the administration.

With the introduction of ISP in 1987 the following split between CIP and ISP allocations was effectuated:

[35] For years when there was no agreement, actual disbursements are given. The disbursements before the agreements followed an annual Plan of Operations established by consultations between the concerned authorities in Zimbabwe and the Norwegian Embassy in Harare.

Table 7-2: CIP and ISP Shares of the Programme in 1987

	CIP	ISP	Total
1987	40.6	15	55.6
Percentage	73%	27%	100%

Amounts in NOK million
Sources: NORAD

The actual total annual disbursements 1982-1987, as well as their distribution over commodities may be seen from the following table:

Table 7.3: Commodities imported under the Norwegian CIP 1982-1987

Commodity	1982	1983	1984	1985	1986	1987	Total
Spraying equipm., plows	2.2	2.4					4.6
Milk tanks	14.1	3.7	0.4		1.1		19.3
Pulp		1.0	2.4	1.6	6.3	1.6	12.9
Paint raw materials		6.1	3.8	9.1	16.8	13.8	49.6
Plastic resins			14.5	8.4	13.0	17.1	53.0
Glue (for wood)			0.2				0.2
Aluminum, tin plate, zinc			5.4	5.9	6.8	4.3	22.4
Calcium carbide			1.6	1.6	1.8	1.8	6.8
Telephones, switch boards				0.2	0.8		1.0
Paper						2.0	2.0
Total	16.3	13.2	28.3	26.8	46.6	40.6	171.8

Sources: NORAD document,1988 (translated).
Amounts in NOK million; ISP is not included; it amounted to 15 NOK million in 1987.

As may be seen from the above table, the total of disbursed CIP and ISP funds in 1982*D*1987 amounts to approximately 187 NOK million, i.e. an average of more than 31 NOK million per year. By far the most important commodity groups are paint raw materials and plastic resins, making up 29% and 31%, respectively, of the total CIP funds of 171.8 NOK million. Together, the two chemical commodity groups have delivered 60% of the Norwegian supplies to the programmes. In 1987 the chemicals imported under the Norwegian CIP accounted for approximately 5% of the country's total imports of chemicals The second largest commodity group, aluminum, tin plates and zinc, has accounted for 13% of deliveries.

Since the CIP was formally regulated by a specific agreement this distribution has been reinforced. In 1987, chemical products (paint and plastic raw materials, calcium carbide) were bought for 32.70 NOK million, being equal to 81% of the total programme. Of the remainder, the metal group was 11%, leaving only 8% to be divided between pulp and paper. These figures indicate that the commodity list made up by the MIT in 1987 is actually concentrated to the chemical industry. This confirms the statement made by the officials of the ministry. According to the practical managing rules of thumb in the Foreign Exchange Allocation Section of the

MIT different donor CIPs are allocated to different divisions according their supply situation.

The countries of origin for all countries receiving Norwegian CIP have changed over the years, from being solely to Norway, to a bit more variation:

Table 7.4: Countries of origin for all Norwegian CIP 1982-1987

	1982	1983	1984	1985	1986	1987	1982-87 average
Country							
Norway	100	89	85	83	62	57	79.3
DCs		4	12	12	34	20	13.6
Others		7	3	5	4	23	7.1
Total	100	100	100	100	100	100	100

Percentages of total disbursements. Sources: INVA, MDC 1988.

On the average, Norway has been the origin for just less than 80% of the purchases from all countries receiving Norwegian CIP.

For Zimbabwe, out of the total 171.8 NOK million in 1982-1987, less than 10% were bought from other sources than Norway, i.e. Sweden, Tanzania and Zambia in 1986, Sweden and Zambia in 1985.[35] (Due to lacking specifications we are not able to state the precise figure, only that it is less than 10%.) The significant increase in purchases from other countries arrived with the ISP in the 1987 agreement whereby 15 NOK million worth of commodities were bought from Zambia, Tanzania, Brazil and Malaysia. This makes the total sourcing outside Norway in 1982*D*1987 (CIP/ISP) to less than 15%.

For the other African countries (Mozambique, Kenya, Zambia, Tanzania) the average shares of source countries for CIP over 1982-1986 were 48.1% for Norway, 32.1% for other developed countries, and 19.8% for developing countries.[36] This means that the Norwegian CIP in the case of Zimbabwe has been directed to Norwegian suppliers to a much larger extent than in the neighbouring countries.

From the Norwegian point of view it may be observed that Norway's normal commercial relations with developing countries and particularly with Africa are quite limited. In 1984 the imports from developing countries amounted to 8200 NOK million, corresponding to 7.3% of total imports. The total exports to the main cooperation countries (Mozambique, Kenya, Zambia, Tanzania) in Africa were about 210 NOK million in 1984. To the very same countries the total commodity assistance was approximately 213 NOK million, i.e. the same level. Out of the commodity assistance tothese countries, 131 NOK million were used for purchases in Norway. This means that 62.3% of total Norwegian exports to these countries were financed by Norwegian commodity assistance.[36]

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[36]Munkebye Aarnes, ibid.

In Zimbabwe the funds were allocated to 62 firms in the following way in 1983-1988:

Table 7-5. Recipient companies for Norwegian CIP/ISP 1983-1988

	1983	1984	1985	1986	1987	1988
SALTRAMA PLASTEX	180000	500000	400000	500000	700000	30000
TREGER INDUSTRIES	300000	1250000	700000	930000	930000	80000
VAN LEER	20000		80000	150000	400000	60000
PRODORITEPRODORITE	30000	50000		293406	300000	40000
HIGHFIELD BAG	60000	150000	150000	100000	300000	25000
SYLVESTER AND KITCHEN	885000	111467	200000	930000		
HUNYANI PULP AND PAPER	135000	318182	230000	1330000		75000
ALMIN.INDUSTRIES	269610	530303	400000	750000		
ASTRA PAINTS		270000	600000	1050000	1350000	90000
DULUX		140000	250000	600000	600000	30000
BERGER VALMORE		65000	90000	400000	210000	4500
ALKA PAINTS		55000	80000	400000	140000	3000
SYNTA CHEMICALS		100000	150000	50000	450000	25000
GENKEM		60000	100000	100000	200000	20000
TRINIDAD ASPHALT		36000	50000	40000	250000	10000
OXYCO		265152	300000	400000	450000	25000
CELLOPHANE PACKAGING		60000	60000	750000	300000	25000
INDUSTRIAL GALVANISING		265152	100000		100000	10000
BEMO PLASTICS			50000	100000	150000	
LANCASHIRE STEEL			100000		100000	10000
HAGGIE WIRE AND ROPE			100000	100000		
TOR STRUCTURES			100000		100000	10000
CROWN CORK			280000	50000	300000	
METAL BOX				300000	500000	20000
D.M.B.					700000	30000
FORESTRY COMMISSION				200000	250000	
SHIELDCOTE					3000	
CAFCA					15000	
ERICSSON	170000				10000	
BERIK PLASBOND		200000		150000	10000	
ZIMELEC				400000		
ATUOELEC				50000		
NEW PRODUCTS	50000	100000		200000		
FLEXIBLE PACKAGING				500000		
MUTARE BOARD				400000	75000	
MONARCH PRODUCTS		100000		250000	10000	
RADIATOR AND TINNING		50000		100000	10000	
METAL SALES		50000				
LYSGHAT					10000	
TUBE AND PIPE				570000	30000	
RADAR METAL					10000	
CRITAL HOPE					10000	
MOREWEAR INDUSTRIES					20000	
TRINITY ENGINEERING					10000	
DEVEN ENGINEERING					10000	
EVEGLO REFRIGERATION					10000	
AJAX					10000	
CAPRI					10000	
DUNLOP				1250000	70000	

	1983	1984	1985	1986	1987	1988
NATIONAL TYRES					175000	200000
CHUBB UNION						100000
ZIMBABWE WIRE AND ROPE					100000	100000
NON FEROUS METALS					100000	200000
CHLORIDE ZIMBABWE					100000	100000
VOCTOR ONION						100000
TONY ELECTRICAL						100000
ZIMGLASS						250000
METCO					175000	
BRATEX					50000	
TONTO INDUSTRIES					250000	
STAINLESS STEEL					150000	
CENTRAL AFRICAN CYCLES					50000	
	1879610	4226256	4790000	9823406	13750000	10955000

Foreign exchange allocations have been made to firms with considerable South African connections (in terms of ownership) on at least the following occasions:

Table 7.6: Firms with RSA Connections receiving CIP/ISP Support

	1983	1984	1985	1986	1987	1988	1983-86
Hunyani	135000	318182	230000	800000		*	1483182
Astra		270000	600000	1050000	1350000	*	3270000
Dulux		140000	250000	600000	600000	300000	1890000
Haggie			100000	100000			200000
Total	135000	728182	1180000	2550000	1950000	300000	6843182

Amounts in thousand Zimbabwe dollars

Sources: Compiled from table 7-5 above and common knowledge about ownership of firms. Government purchase of the South African share of Hunyani and Astra; * indicates continued Norwegian support after Govt purchase of RSA share.

In the above table amounts given to firms for re-allocation to other firms have been eliminated as far as possible, i.e. when it is known that the amounts were re-distributed to firms without RSA connection. (Pls note also, that at the time of writing we still await confirmation as to Dulux and Haggie.) Before the CIP/ISP objectives were adopted the share going to the listed firms was 26%. In 1988 it had dropped to 3%. Although we cannot tell to what extent this may be a casual relation, it is clear that in two firms the RSA shares were bought by government, while one was dropped from the list of recipients after the new objectives.

Some firms have been refused allocations for different reasons, probably not all of which are known to the team. The most interesting case of a company being refused a CIP allocation is

that of the paper and packaging company Hunyani. Having had allocations in each year from 1983 to 1986, with the signing of the first formal agreement in 1987, an allocation was denied because of majority South African ownership of Hunyani. Subsequently, however, with the Government of Zimbabwe acquiring the RSA share in the company, Hunyani became eligible once again and was granted an allocation in 1988.

To date 62 companies have benefitted from Norwegian Aid. A sample of 27 companies was selected from the 62 companies for the empirical survey. This amounts to 44% of all firms ever having received Norwegian CIP/ISP and 59% of those receiving in 1988. All firms in the sample responded to the survey. The sampling procedure used the following company characteristics:

(a) Companies importing various commodity groups had to be represented in the sample;

(b) Companies had to range from those companies receiving small amounts to those which received sizeable amounts on the CIP/ISP programme;

(c) Those companies which had their allocation either cut off or substantially reduced should be included

(d) Those companies which experienced a change from CIP to ISP should be represented

(e) Those companies which volunteered to perform the role of coordinator for particular types of commodity imports should be represented

(f) A fair representation of those companies involved in both the CIP and ISP was desirable

The sample included firms of different sizes. The smallest number of employees was nine, while the largest was 1200. The total number of employees was 8310, making the average 308 employees per firm. The CIP/ISP in 1987 represented a support of about $1650 per employee.

For the 24 firms that replied to the question on the CIP/ISP allocation's share of their total imports in 1987, the average share was over 22%.

All basic data on the sample firms are summarised in Annex 5, Empirical survey summary.

7.2 Impact of the CIP/ISP - Results of the Empirical Survey

1) Sourcing of products imported under the CIP/ISP programme: Of the 27 companies in the sample 19 sourced the products they were getting under the programme from Norway, 5 were sourcing from the SADCC/PTA region, and 3 were sourcing from other developing countries.

2) Nature of the products imported under the programme: The products imported from Norway under the programme included titanium dioxide, borvimal and epikote - used to manufacture coats; plastic raw materials; urea formaldehyde; specialized paper; bleached pulp; various polymers; tin plate; PVAC, UFASAN and emulators - used for the production of adhesives and detergents; calcium carbide used in the production of acetylene gas; glue and hardener. The commodities imported from Norway are exclusively inputs for production, derived from the chemical, pulp and metal industries.

The products imported from the SADCC/PTA region included natural rubber, zinc ingots, and lead and lead dioxide used for the production of motorcycle batteries which are usable in agriculture.

3) Alternative sources: Of the 19 companies importing from Norway, 9 could source the products they are getting from Norway from other developed countries, and 3 were not specific about their alternative sources. Two companies said they had no alternative sources. One company that imports zinc ingots, however, indicated Papua New Guinea, Tunisia and Brazil as alternative sources.

It may be noted that only two of the 19 firms sourcing from Norway were aware of no alternative sources, while almost half of the group could source from other countries.

4) De-linking from South African sources: 9 out of the 27 companies were originally sourcing the goods now imported under the programme from South Africa. 6 companies sourcing the goods from Norway were traditionally sourcing the goods from Norway.

The fact that one third of the surveyed firms were originally sourcing from RSA is at first sight an encouraging figure in terms of the de-linking objective of the programme. But the survey data do not exclude the possibility that those firms simultaneously continue imports from the RSA.

One third of the firms sourcing from Norway were doing it anyway, i.e. the CIP/ISP has not had any switching impact.

5) Increasing bilateral trade: Of the 19 companies sourcing from Norway, 14 were previously sourcing from other countries. To the extent that roughly three fourths of the sample diverted trade to Norway the CIP/ISP programme did strengthen bilateral trade between the two countries.

6) Competitive sourcing: Of the 27 companies in the sample, 9 companies said the prices of the goods bought under the programme were slightly higher than either their original sources or alternative sources. Of the 9 companies, 8 were sourcing from Norway. All the 9 companies pointed out that the margin was not sufficiently large to be a cause of concern. The major reason for the increased price was the freight charges.

The rest of the companies said the price was as good or better than other sources. All the companies but one were happy about the quality of products they were receiving from their respective sources. The odd company was required to source zinc from Zambia. The problem was that the company required zinc which was 99.995% pure, whereas Zambia had zinc of 99.95% purity.

It is seen from these results that sourcing from Norway is the only diversion that increases costs and that the increase is small and resulting from freight charges.

7) On production: Of the 27 companies visited, 18 said production increased as a result of the CIP/ISP. 4 companies said the CIP/ISP helped to maintain production levels; 4 companies did not indicate whether production increased or decreased, whilst one company said the question of the CIP/ISP's impact on production was not applicable to them because their first consignment had not arrived yet.

A large majority of the sample is thus benefitting from the CIP/ISP for keeping up or increasing production levels. This is of course compared to a situation where the total foreign exchange allocation of each firm had been reduced by the amounts corresponding to the allocation made through the CIP/ISP. If the priority nature of the industry concerned would have required Government to allocate the foreign exchange to that firm anyway, then the real benefit of the CIP/ISP is to the industry to which Government has been able to devote its own foreign currency as a result of the extra leeway allowed by the aid programme.

8) On production quality: 6 companies said the product quality improved as a result of the aid received; 10 companies said product quality did not improve; 1 company said the CIP/ISP helped to maintain product quality; 9 companies did not give an indication, and the question of product quality was not applicable for one company for reasons given above.

9) Capacity: 9 companies of the sample said they increased capacity as a result of the CIP/ISP; 9 companies said capacity was not increased as a result of the CIP/ISP; 8 companies did not give an indication, whilst one company said the question was not applicable.

While all commodities are production inputs, one third of the sample experienced increased capacity as a result of the imports. This should probably be taken as a reflection of increased production, rather than actual capacity.

10) Capacity utilisation: 18 companies said capacity utilisation increased as a result of the CIP/ISP; 3 companies said capacity utilisation did not increase; 5 companies did not answer the question, and again one company said the question of capacity utilisation was not applicable to them.

As could have been expected, capacity utilisation, compared to a situation with reduced imports of raw materials, increased for a large majority of the sample.

11) Efficiency: 10 companies said efficiency increased as a result of the CIP/ISP; 5 companies said efficiency did not increase; 11 companies did not answer the question, while the question was not applicable to one of the companies.

As efficiency is related to material flows and utilisation degrees it is to be expected that a large share of the sample has had increased efficiency as one effect of the programme support.

12) Employment: 9 companies said employment increased as a result of the CIP/ISP; 10 companies said that employment did not increase as a result of the CIP/ISP; 7 companies did not answer the question, and again one company said the question was not applicable.

The answers to this question are hard to interpret as the alternative for comparison is not very clear. Under the current labour regulations employment levels may not simply be reduced according to the supply of raw materials. Most of the companies having under-utilized plant capacity would probably have excess labour available as well. Still, a third of the sample has replied that employment increased.

The above results concerning the impact of the CIP/ISP allocations on company performance in production may be summarised in the following table:

Table 7.7: CIP/ISP effects on Company Performance

	Production	Quality	Capacity	Utilisation	Efficiency	Employment
Increase	18	6	9	18	10	9
Maintained	4	11	9	3	5	10
No answer	4	9	8	5	11	7
Not applicable	1	1	1	1	1	1
Total	27	27	27	27	27	27

Source: Empirical survey

13) Alleviation of the foreign currency position: Most of the companies visited were operating below capacity. 9 companies indicated their capacity utilisation rates. These ranged from 30% to 100% with a mean of 55%. The low level of capacity utilisation was attributed to lack of raw materials resulting from foreign currency shortages, rather than to market constraints. In order to have a feel for the extent of the problem companies were asked to indicate (in quantity and/or monetary terms) the shortfall between what they are getting in imports and what they would require for 100% capacity utilisation. The results of their responses indicate an acute shortage of imported raw material inputs. As a follow-up, the companies were requested to give an estimate of what they received in the CIP/ISP as a percentage of (a) total foreign currency allocated in 1987 and (b) as a percentage of their total imports that year.

An analysis of their responses indicate that out of the 22 companies that responded to (a) the average percentage contribution of the CIP/ISP to total foreign currency allocated was 19.1%, and out of the 23 companies that responded to (b) the average percentage contribution of the CIP/ISP to total imports was 20.5%.

The fact that the CIP/ISP contributes around 20% of the total needs of the recipient firms indicates the importance of the programme for those firms. This is in turn a direct consequence of the general foreign exchange situation of the country.

14) Likely effects of not getting an allocation: Of the 27 companies in the sample, 22 said that they would have had to reduce output if they had not received the CIP/ISP. 3 companies said they would have had to reduce their labour force, while 2 companies said they would have closed down at least one of their operations; another 2 said they would have had to operate at reduced working hours; 2 companies said they would have had to cut on exports, and lastly three companies did not give an indication.

The replies to this question give an overwhelming confirmation of the importance of the allocations from the CIP/ISP. It may be concluded that the firms chosen as recipients do need the allocations to keep up employment, continue exports or continue operations.

15) Administrative expenses: None of the companies in the sample complained of high administrative costs. All of them said the Norwegian aid was the best run programme to date and that the NORAD offices in Harare were efficiently run in so far as the CIP/ISP programme was concerned.

16) Abnormal Delays: No abnormal delays were reported by most of the companies in the sample. 4 of the companies expressed concern over delays at the Port of Beira. A few companies importing steel expressed concern over the timing of the ISP and the rolling schedules of the suppliers. Lack of coordination in this regard was reported to have caused some delays.

17) Participation in other Norwegian-assisted projects: Participation in other Norwegian-assisted projects was found to be incidental. At times the link between the products of a company enjoying the CIP/ISP and Norwegian-assisted projects was indirect, in the sense that the company's output was being used as an input by a company whose output could be used in Norwegian sponsored projects. 20 companies said they did not participate in other Norwegian-assisted projects. One company said that its staff were being trained under the Norwegian aid. 4 companies said they assisted indirectly, whilst one company said it supplied NORAD Zambia with all its paint requirements.

It may be concluded that the Norwegian CIP/ISP does not serve as a support to other components in the development cooperation between the two countries. On the other hand, the case of paint to Zambia is an example of incidental fulfillment of the objective of regional cooperation.

18) Some other comments received from the participating firms: As may be concluded from above, as well as from other remarks made by the interviewed firms, companies are very positive about the Norwegian CIP/ISP programme in general. Consequently, they would like to see increases in available amounts. Beside that, some suggestions related to solving minor problems have been made.

Seven companies complained about problems engendered by the coordinating companies, but only one company actually called for the system to be scrapped. One firm suggested it could arrange its own customs clearing and shipping.

A more significant problem is the impossibility of being able to plan for the CIP/ISP allocation over years. The fact of having received an allocation one year, does not imply that the firms may rely on getting one the following years. A related problem is the delay between the granting of the allocation and actual delivery, 9-12 months: the companies cannot order deliveries until they have received the grant.

A common complaint from the companies is resentment at having to pay the 20% import surcharge, which they feel should not be imposed on "a gift from Norway". Another cost related complaint is the necessity to use BCCZ (in accordance with the MFEPD decision) for banking in connection with the ISP part of the programme. This increases transaction costs only slightly, but it may be easier to use one's own banker for all business.

Finally, a specific suggestion was received in relation to zinc: that imports of zinc should be allowed also from Zaire (avoided by the MIT due to possibility of re-exports from RSA), not only Zambia. This may be changed by the MIT and the firms together.

7.3 Analysis and Conclusions

In this section, the empirical data will be analysed in the context of the current situation in Zimbabwe and the region, as presented above, in order to arrive at conclusions in terms of past performance and future options of the CIP. After the next Section 8, on future alternatives, the conclusions and the options will be formulated in a summarised way in Sections 9.

Balance of Payments Support

The primary objective of the CIP/ISP is certainly fulfilled by its implementation. The CIP/ISP support may be seen as an additional import to industry in Zimbabwe, which in itself contributes to strengthen Zimbabwe, the region and to reduce dependence on South Africa. The increased imports due to the programme is a very worthwhile, albeit small in relation to total imports, contribution to the development of Zimbabwe at this point. Theoretically, the share of imports of the CIP/ISP could, according to the multiplier estimates, increase GDP by 0,3%.

By its grant nature the Norwegian CIP/ISP is, on the aggregate level, a net gain in the balance of payments.

Disbursements

Most donor organizations have an unofficial objective of disbursements: for each budget year the organization wants to fulfill its disbursement plans. In many assistance projects this may lead to contradictions with official objectives and failures in development achievements. In the case of the Norwegian CIP, being an addition to the foreign exchange resources of the country, the disbursement target in itself is wholly acceptable; there is no reason to delay disbursements. In this respect the CIP programme has been very successful, not only disbursing its budgets but often also additional funds allocated during the budget year. In 1987 this was the same for the ISP part, but it seems that the lesser degree of monitoring and involvement on the part of the NORAD office in Harare in the ISP (relative to the CIP and according to the agreement) may be insufficient for disbursements to be made for the whole amount of ISP funds in 1988.

Tying

Representatives of the two governments in Zimbabwe agree that in practice the CIP purchases are more or less tied to purchasing in Norway. This has come about for different reasons: historical, practical and administrative. On the Zimbabwe side the responsible officers went to the extent of claiming that the Norwegian CIP was in principle tied, although formally not tied. A further explanation of this is given below.

Promoting Regional Trade

For the more specific objectives the evaluation may only encompass two years of implementation, i.e. 1987 and 1988. It is too early to tell how well the programme will succeed in terms of the development of regional industries and trade in SADCC and PTA. Any programme needs more time to bring into effect a change in orientation, in this case from a general CIP to the present CIP/ISP with specific political objectives. Still, it is possible to observe that the increase in ISP already in the first year is very encouraging in face of the structural obstacles which exist to intra-SADCC trade.

By the new agreement ISP purchases immediately took a share of 27% of the total programme by directing 15 NOK million to purchases under the ISP head.

Delinking from South Africa

The few instances, and relatively insignificant amounts, of purchases from firms with RSA connections are, first, almost exclusively situated in the pre-agreement period (i.e the objective was not spelled out) and, second, may be an example of a necessity that takes time to replace. The case of the firm which was refused an allocations in 1987 due to RSA connections and later disconnected from RSA, may be an example of how the CIP/ISP has positively influenced the de-linking process, although this cannot be said with certainty.

It has been observed in the empirical survey of firms that one third of the sample was buying from Norway the same supplies as they used to buy from RSA. Although we cannot tell to what extent those firms have switched all their purchases from South Africa - we may even assume that they continue to buy also from RSA - their network of potential suppliers have grown and a process of further switching has been rendered possible.

Satisfaction of the Recipient Firms

This is all the more possible as the general contention of the firms is that they have not suffered any significant cost increases due to the programme's administrative routines or due to prices increases. It deserves to be mentioned that the recipient firms are quite satisfied with the Norwegian CIP/ISP, nominating it as the best of all CIPs.

Employment

In terms of employment, the CIP/ISP contributed by an average of $1600 per employee in the sample and represented an average of more than 20% of the companies' imports in 1987. Undoubtedly, the CIP/ISP constitutes an important element in keeping up roduction, employment and capacity utilisation in the recipient firms.

When it comes to the multiplier effects crossing over to other firms and sectors of the economy, there is no way to measure the specific impact of the Norwegian CIP. The way the programme is now handled, it is not explicitly geared to sectors with the highest multiplier effects. It is to be noted, however, that the chemical sector, which is the largest recipient sector of Norwegian CIP, on the aggregate level is regarded as having the greatest multiplier effects.

The systematic application of sub-sector criteria for efficiency in terms of impact on employment and foreign exchange gains could increase the benefits of the CIP, and in this regard the work of the group at NORAD, Harare deserves to be included in the discussions between the two countries. If, however, the allocation system overall is operating satisfactorily, a shift of the Norwegian CIP/ISP allocations may not bring any increased benefit to the country as a whole.

Increasing the specific benefits of the Norwegian programme should be taken as an end in itself.

Counterpart Funds

As far as the counterpart funds generated by the Norwegian CIP/ISP are concerned, the agreement does not state any monitoring or follow-up to make sure that the development projects started by those funds are in line with general Norwegian or Zimbabwean development objectives. It was found by coincidence, however, that there are projects in the agricultural sector, initiated by the GOZ, which are being funded from the Norwegian counterpart funds and which are clearly in line with common development objectives. Although this is far from a convincing argument that the GOZ is consequently using Norwegian CIP/ISP counterpart funds for such purposes, it still is a small piece of evidence indicating that there is no reason for worries on this score. The emphasis of the Norwegian CIP/ISP may therefore continue to be on the constraint-releasing aspect of foreign exchange, rather than the development impact of the counterpart funds.

Type of Goods Imported

In terms of the types of the imported goods, it has been shown[57] that imports involving technological transfer may cause problems in the CIPs in terms of inefficiencies due to incompatibility, excessive complexity, recurrent foreign exchnage requirements etc. In the case of the Norwegian CIP/ISP, the contents of imported goods are non-controversial due to its emphasis on intermediates.

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[57]See, for example, Riddell, 1983.

Procedures

The annual process of implementation of the programme starts out, once the amounts have been agreed upon, by the Foreign Exchange Allocation Division of MIT making up a list of goods and firms after consultations with the sectoral divisions of the ministry. This entails a change from the earlier years before the CIP/ISP agreement, as the firms are no longer asked to file applications for grants from the Norwegian funds. Instead MIT allocates without applications, based on the information they have on the sectors and the firms.

Another change of procedures on the Zimbabwean side, following the new agreement, is that the allocation of the Norwegian funds is made by decision of the MIT division alone, i.e. the decision does not pass any inter-ministerial committee, such as the JAC.

This means that the procedures for the Norwegian CIP/ISP allocation in two ways deviate from the procedures for other allocations: no applications from firms and no decision by JAC (which is necessary for other ad hoc allocations *D* but not for basic allocations). This deviation may be good or bad: good because is simplifies processing and bad because the controls are less and different from other allocations. This issue should be discussed between the two governments. The reason for the deviation is the specific objectives attached to the Norwegian CIP/ISP.

The deliberations between the two parties take place in Harare. The NORAD office brings up questions and objections, if any, to the MFEPD. In this process a few problems of communication have been encountered due to hesitations as to which ministry in Zimbabwe should be the discussion partner of NORAD.

NORAD does not make any independent check on possible RSA connections of firms on the list. This is left to the Zimbabwe side. NORAD also tries to avoid get involved in any discussion regarding individual firms on the list. Instead it requires of that MIT justify its list in the terms specified in the agreement. Where the Harare NORAD office does get involved is mostly in the matter of the end-use products, where objections have been raised and differences have appeared between the two parties.

When it comes to the commodities on the list, it is striking that the opportunity of purchasing capital goods and services has never been used by Zimbabwe: according to MIT this is because there is no interest on their part in doing so. Given the current size of the overall programme, capital allocations for projects of some significance would use up all the available funds, depriving the current recipients of raw materials needed to make use of existing capacity.

Once the NORAD office in Harare and MIT have agreed (or agreed to disagree on some items) the list is passed on to INVA, in NORAD Oslo for approval. The final approval is given by the Director of the Projects Department. If he/she is in doubt, the matter is presented to the Director General of NORAD.

The procedures for handling the programme then differ between the CIP part and the ISP part in that the purchasing of the CIP part is partially handled by NORAD Oslo and coordinated by firms in Zimbabwe in cooperation with the NORAD Harare office, while the ISP is handled by the individual recipient firms themselves.

For the CIP, the purchasing is done by NORAD Oslo after preparatory work in Zimbabwe, by the firms and NORAD. According to INVA, the Zimbabwe companies usually call themselves for tenders, with pro forma invoices. They only submit to NORAD a copy of the tender they approve. If INVA accepts the terms and conditions of the pro forma invoice, the procurement process starts. If Oslo is in doubt regarding the terms, in principle an informal double-check in the market is carried out to determine whether terms and conditions are reasonable. Such double-checking rarely happens in practice. There are no firm criteria for when checking should take place. All the goods procured by the INVA office are sent through Beira. The tendered prices are all FOB, while the bill to be paid by the firm is CIF.

The Norwegian regulations allow a 10% price advantage to Norwegian suppliers. Provided that the quality and terms are otherwise competitive, the Norwegian price may be up to 10% above an international tender, and the Norwegian supplier will still get the contract.

INVA is not involved with what happens to the goods supplied to Zimbabwe. The provided goods are being sold to Zimbabwe companies, in local currency, at a price equal to the invoiced value + X %, but INVA never follows up to check the recipient, the end-use, etc. The end-use is checked by the Harare office before the list is approved, but no system for how this should be communicated to Oslo, or processed and evaluated, has been established.

When payment is applied for the consignment documentation (this applies to the ISP) is sent to the INVA office for approval. These documents include a Certificate of Origin. Upon receipt of the documents, INVA have the opportunity to check the details of the consignment. Normally the bank pays the supplier without any further intervention or delay.

7.4 ISP procedures in Zimbabwe

The ISP is administered by NORAD (Harare) and the firms themselves. For the banking of the ISP purchasing firms are obliged to use the Bank of Credit and Commerce of Zimbabwe (BCCZ) for letters of credit. Thus all allocations which are under the ISP programme pass through the BCCZ and Christiania Bank in Oslo.

In the commodity list made up by the MIT the country of sourcing is also given. It is each company's responsibility to identify a supplier in the stipulated sourcing countries. The list of companies together with a cover note (letter of allocation) is sent to the BCCZ by NORAD Harare and to the MFEPD. When the final list of companies is approved by NORAD (Oslo) the MIT

dispatches letters of allocation to the companies advising them of the allocation. On receipt of the letters of allocation, the companies approach the MTC for import licenses. From the potential suppliers the companies obtain pro-forma invoices which, together with the import license, they present to BCCZ for them to open a letter of credit. Before the letters of credit are opened, BCCZ requires that those importers who do not bank with them obtain a guarantee from their bankers. BCCZ charges a commission of 0.25% on the value of the letters of credit. Those who do not bank with BCCZ are also required to pay a commission by their bankers for the guarantee. Thus non-BCCZ importers suffer a double commission.

BCCZ in turn makes a blanket guarantee to MFEPD for the whole amount of the ISP. BCCZ also collects the counterpart funds on behalf of the MFEPD; it only started playing this role when the ISP programme started in 1987.

The use of the ISP funds is basically handled by Zimbabwe; therein lies the major difference between CIP and ISP programmes. MDC has a Zimbabwe ISP account in a major commercial bank in Norway, Kreditkassen. Payments to the suppliers are made from this account through a system of approved Letters of Credit.

Disbursements to the suppliers are made through Christiania Bank and Kreditkasse in Oslo. Payment to the suppliers is made upon presentation of the bill of lading or its equivalent, if an alternative mode of transport other than shipping is used. The importers pay the counterpart funds at the point when the exporter is actually paid. The counterpart funds, therefore, do not necessarily tie in with the amounts indicated on the letter of credit because of exchange rate changes and price fluctuations, the differences being greater when a long time elapses between placing an order and actual shipment, and also when the suppliers quotes the prices in US$ or Pound Sterling. No cases of default payments have been reported resulting from these variations.

At the time of the study the only problems pointed out from the banker's point of view were:

(a) importers receiving the letter of allocation before BCCZ obtains a copy, (this has occurred when the CIP/ISP agreement has not yet been signed), leading to delays in the processing of letters of credit;

(b) delays in approaching BCCZ for letters of credit: thus for example BCCZ got the letter of allocation on the 4th of October for the 1988 allocation and by the 28th. of November only 12 out of the 26 companies that received an allocation had approached the bank for letters of credit.

In relation to this latter point it should be noted that the NORAD office in Harare has not been monitoring this aspect of the ISP. The ISP should be run by the firms themselves. This partly explains the delays as compared to the CIP, where NORAD is heavily involved and monitors the implementation.

7.5 Some comments regarding the implementation of the CIP & ISP

a) By comparing the principles, objectives and guidelines defined in the Agreement and the Agreed Minutes, with the list submitted by the Zimbabwe Government, one finds a certain discrepancy. The impression is that there is a gap between the policy behind the CIP/ISP agreement, and the actual thinking going into preparing the annual CIP/ISP list. For example the 1988 list is argued mainly from a rather national Zimbabwe angle; the important "strategic regional" dimensions are not obvious at all. It is not clear whether this is deliberate, or possibly a result of weak communication from the policy level to the operative level in government where the lists are actually prepared and put together. It is very probable, however, that the Zimbabwe government simply treat the matter in a way where the CIP is regarded as a tied support to Zimbabwe's national development, while the ISP is seen as the instrument for the regional aspects of the objectives.

b) The contents of the final, approved CIP/ISP lists are included in the draft lists submitted from the GOZ. MDC's processing of the Zimbabwe list is thus a matter of selection. This processing is done by the NORAD/Harare office. INVA is usually not participating actively in the ex ante sense of information, but is informed by documentation ex post by the Harare office. INVA is thus a very passive partner in the overall process, and functions more as a procurement office than anything else. The situation has now changed, anyway, due to new organisation of the MDC.

c) There is no active quality control from MDC's side. One assumes that if the quality of a particular consignment was not up to the expectation, that the Zimbabwe side "would let INVA know". Such information has never been given to INVA from Zimbabwe. On the other hand it is clear from the study that they would immediately be communicated to the NORAD Harare office.

In general, the limited role of INVA is explained by a lack of capacity according to INVA. Also, they do not really see any reason why INVA should follow up or control more actively than what has been customary so far. This is again explained by the active participation of the Harare office.

INVA has not found reason to demand SGS certificates for quality control. No independent organization checks the consignment on arrival, to verify whether the consignment is in accordance quality-wise with the agreement. According to NORAD, Harare, however, the companies would let NORAD know in case anything is wrong.

d) The "services" component of the CIP programme has never been used. Neither INVA nor the NORAD Harare office have actively promoted the use of this component, although Oslo views it as an important factor.

7.6 Comparative Analysis of Alternative Forms

As a general rule foreign exchange without any conditions at all is preferred by the recipient to assistance with conditions: the more conditions, the less alternative uses are possible, which means that the opportunity cost of the funds is rising. In this sense the value (economic value cf. Annex 3) of general BOP support is the highest of all aid funds. The lowest value is attached to funds with very strict conditions on its use in specific applications. In this sense, the foreign exchange given to project support carries the lowest economic value for a country where foreign exchange is a scarce resource[58].

The Norwegian CIP/ISP to Zimbabwe is very close to BOP support: in spite of the political objectives attached to the funds the available room for choice of commodities is large enough to keep the value of the funds on high levels.

To the extent that the conclusion of this report is correct, i.e. that foreign exchange for imports to industry has a high development impact in the current economic situation of Zimbabwe, it is true that any further conditions imposed on the funds would tend to reduce their value for Zimbabwe in terms of the development objectives.

In many countries CIP funds are used to support project cooperation. Unfortunately, this often leads to misjudgements as to the returns on the projects, which are in fact subsidized by the CIP funds. In the case of the Norwegian CIP/ISP to Zimbabwe we have found no such links to projects supported by Norway.

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[58] This analysis assumes that it is difficult to move resources into alternative uses, which may often be the case due to institutional and manpower constraints. Where funds are more "fungible", project aid is in effect funding not the actual project, but the least desirable project undertaken. Suppose, for example, there are 5 projects and funds for only the first 3; a donor gives tied aid for B, which allows finance to spread to D. Untied aid of an equivalent amount also allows D to come on stream. It is only of the donor selects project E that there would be a difference.

One example of difficulties in ongoing other projects was pointed out to the team during the study. In water development supported by Norway there is a lack of cement for construction purposes. A suggestion would be to import cement with the CIP funds in order to improve the efficiency of the water programme. For anybody to do so, it should first be investigated whether the returns expected in the water programme could really outweigh the advantages of the present CIP/ISP funds with almost no strings attached. Unless this is done and the water project is proven to giver higher social and economic returns, the water programme should get its cement on its own merits only[57].

This may be said to be a general consequence of our first statement in this section; therefore it must be concluded that any diversions from the current CIP/ISP to more specified programmes or projects will entail a reduction of the shadow price of the funds involved. This reduction must be compensated by higher returns in order to justify such a diversion, i.e. the project must be highly productive.

Another interesting idea which has been considered by the team is the possibility of diverting the CIP/ISP funds to the other SADCC countries and tie them to purchases from Zimbabwe. This would certainly increase demand for Zimbabwe's export products and in this respect contribute more directly and in the short run to an increase of intra-regional trade in SADCC. It would, however, mean that the counterpart funds would be generated in the SADCC trading partners, and thus is unlikely to be an idea which would be welcomed by the Zimbabwe Government.

Another problem with this suggestion is that the objective of the Norwegian CIP/ISP in Zimbabwe is not just to increase intra-regional trade. The objective is more complex: to reduce dependency on RSA and support strenghtening of the region's production and trade. Zimbabwe's bottleneck for its supply of foreign exchange is not exports; in order to increase its exports Zimbabwe must import; in order to develop its industrial base further Zimbabwe must import; the demand structure of the SADCC countries do not coincide to any significant extent with the sectors that need to be developed on the supply side in Zimbabwe. From the point of view of Zimbabwe's present support from Norway, therefore, this suggestion cannot take the role of replacing what Zimbabwe is now receiving in benefits.

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[57] Taken to its logical extreme, this argument would require that the water programme be scrapped altogether in favour of CIP/ISP assistance. Besides the difficulty of measuring socio-economic returns with sufficient precision to make such a comparison, there may be other reasons (such as less risk, deployment of expertise etc.) for maintaining a more balanced strategy.

Quite another question is, of course, that existing Norwegian CIP funds to other SADCC countries could be tied to purchases in Zimbabwe for such products where it is known that Zimbabwe is competitive[40] and could serve as a supplier in a process of delinking from RSA.

In general, however, the best means of encouraging intra-SADCC trade and to give advantages to Zimbabwe - in 1983 selling 90% of its manufactured products in Africa[41] - would be to un-tie the CIP funds from donor countries given to SADCC countries (almost always tied to purchases in the donor countries, Noway being very much an exception) and to support programmes to finance intra-SADCC trade.

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[40]Consideration might be given to extending the 10% price margin allowed to Norwegian suppliers on the CIP programme to SADCC suppliers on the various suggested forms of ISP programme.

[41]Valdelin & Ndoro, 1983.

8. THE PROSPECTS OF THE CIP/ISP

Although we may draw conclusions of past performance of the CIP/ISP from the evaluation, it would be futile to formulate any options for the future without trying to foresee major changes that could occur in the programme's economic and political environment. For the options, we have also to be aware of possible ways to relate the CIP/ISP to other assistance programmes.

This section is an effort to set out some of the possible changes. The independence of Namibia and the abolishment of apartheid in South Africa will have consequences for Zimbabwe. This question is analysed in terms of consequences for the CIP/ISP. The alternative forms of Norwegian assistance are also discussed.

But first we will try to present some ideas as to what may happen in Zimbabwe's own internal economy. First, we will mention what may become an interesting opportunity for alternative assistance to Zimbabwe in the context of its relation to RSA, i.e. delinking programmes. The second issue is the future economic policy of the GOZ. An interesting debate is going on around two major alternatives for policy: one would be to keep but improve the present interventionist means of planning by controls of investments, foreign exchange and prices. The other would be a complete liberalisation along the well-known lines of the IMF and the World Bank, who have been advocating such a programme in Zimbabwe as well. Between the two extreme alternatives there are of course many issues of combinations, the timing of changes, measures to handle the problems of adjustment and so on.

One thing is sure, however: some change of present policies is needed. Riddell, who is convincingly arguing for continued controls and against liberalization[42], makes the following paradoxical statement at the end of his analysis: "There are such serious problems with following the laisser-faire approch to macro-planning and furthering industrial growth in Zimbabwe that such a framework for future industrial expansion needs to be rejected. Yet if the current interventionist system is maintained unadapted and unchanged, the growth rate of Zimbabwe's manufacturing sector over the next decade could well prove to be lower than if the laisser-faire approach were to be adopted."

8.1 Delinking Policies of the GOZ

Throughout this report many explanations may be found as to why Zimbabwe has not been delinking from RSA faster than it has. The estimated price hikes in imports of 10-20 percent[43] are serious in themselves; but far more important would be the problems of spare parts for installed plants, loss of exports, possible

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[42]Ridell, 1988.

[43]Pakkiri, Robinson & Stoneman in Stoneman ed (1988).

transport disruptions etc. This means that the cost of delinking may become very high, were it carried out in an abrupt and non-planned way.

Meanwhile, the necessity of de-linking imposes itself, not only for political reasons, but also for future competitive reasons (cf. 8.3 below). Therefore, it should be no surprise that the GOZ is seriously studying the costs, benefits and the possible means of de-linking from RSA and is formulating strategies for gradual de-linking. Whether this process will lead to a formal plan which will be made public and will be used to request donor support, is not at this stage clear.

A major delinking programme would require foreign assistance and it this would certainly be in line with the Norwegian objectives for the CIP/ISP. It is therefore of utmost importance in the planning of future assistance to keep informed about developments in this area and to be prepared to support such a programme.

8.2 Liberalization

Recently the term "liberalization" has become important in the discussions on Zimbabwe's economic prospects. One reason for including a section on liberalization in this report is that at the time of writing a major study on the issue was being conducted in the country[44]. Liberalization is on the agenda of all economic and political analysis while waiting for the results of the study to be published. For the moment we are not able to draw upon any of the results of the study, as the work is still being kept confidential.

Nevertheless, it is necessary to draw attention to the issue of liberalization at this stage of planning future assistance programmes in order to avoid surprises in the likely event that some changes to the current trade regime are made following the study.

This section presents a review of what may be understood by liberalization in the present Zimbabwe context and points to some of the major issues and options facing policy-makers. By doing so, we hope to form the basis for some conclusions as to the future prospects of CIP-programmes, relative to the merits of alternative forms of support.

Liberalization is intended to serve as a label for a package of policy changes with the common denominator *D* in economic terms *D* of being instruments to decrease protectionism and increase competition.

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[44]The study was undertaken at Government's request by a Government Interministerial Study Group, together with foreign consultants from the Centre for International Economics in Australia.

The economic background of the liberalization debate in Zimbabwe as it concerns the manufacturing sector should be sufficiently clear from Sections 4 and 5 of this report. The key policy factors determining industrial development since 1980 have been the foreign exchange allocation system, the price control mechanism and the investment policy.

Briefly summarized, the industrial sector has been characterized by slow growth and too low investment levels. The present industry is oriented towards domestic markets, with firms covering a spectrum from very low efficiency to efficiency of the highest international standard, both types surviving profitably under the current system.

In order to influence the development towards higher investments and faster growth the government has tried to influence the key factors mentioned above.

The investment policies have changed so as to be less protective to existing firms, i.e. to encourage existing industries to expand into other lines of business so long as they were export generating, import substituting or employment generating. Government is also actively reviewing its investment guidelines to improve its investment climate for both domestic and foreign investors.

As soon as the investment policy is accepted as sufficiently reformed, the remaining key factors are domestic prices and export promotion (strongly related to the price of foreign exchange, i.e. the remaining issues are prices).

In the latter field the government in 1982 started a policy to induce firms to become more aggressive on export markets. The initial step was the 1982 devaluation by 20% of the Zimbabwe dollar and the adoption of a more flexible exchange rate policy (in practice implying continuous depreciation of the currency) to increase export competitiveness. This was combined with an export incentives scheme.

In April 1983 the Export Revolving Fund (ERF) was established through a US$70.6 million loan from the World Bank. A restriction on participation was a ceiling for import contents of the products of the participating firms (70%). Apart from that, the ERF actually leads to a situation whereby participating exporters benefit from a guaranteed supply of foreign exchange. The ERF credit was used by 1985, but the ERF itself continues on revolving basis.

It should be noted that this was a first move away from the administrative system of foreign exchange allocations prevailing in the country.

In 1987, the Government introduced a new element in the foreign allocation system. In order to enhance growth for the domestic market and increase the scale of the operations of exporters

(increased capacity utilization) Supplementary Allocation was allowed for exporters, by which they could obtain additional foreign exchange, based on their export performance, to increase production for the domestic market.

During the period of the above-mentioned reforms the foreign exchange allocations from the ERF have been increasing by 25-30% per year, while exports have also grown, but not at the same rate. This may have many explanations. Undoubtedly, one important explanation is the orientation towards domestic markets mentioned above: selling on the domestic market protected from competition, many Zimbabwe firms are operating at cost levels which are not internationally competitive. At the same time, this has been countered by the foreign exchange allocation system encouraging exports - even at prices below cost - for their own sake; or rather exports with the purpose of obtaining allocations of foreign exchange from the ERF for the purchase of necessary inputs and spare parts for a production where the profits are generated by the domestic market.

One conclusion which stands out from the above description of the current situation is that industry as a whole in Zimbabwe needs to be moved to efficiency levels where it can compete internationally on the basis of comparative cost advantages. The simplest way, in economic policy terms, to achieve this is to reduce protectionism for the domestic market and increase competition.

Although such measures seem to be rather obvious cures to the inefficiency - i.e. the cure being liberalization of price controls and the foreign exchange allocation system - it is not at all evident how they should be implemented. From an economic point of view the implementation must not lead to de-industrialization, and from social and political points of view the social costs to society must be minimized.

There is an imminent danger of too rapid an increase of imports in, for example, a situation of accumulated suppressed consumer demand, although this could be countered through indirect taxes. Another consequence to be expected is the closure of industries not competitive enough to survive. Some of those industries may be producing today although internationally they do not have any comparative cost advantages. They will have to be closed down. Others may be based on such advantages but by low cost-efficiency still be in the zone of too hard competition from abroad. Such manufacturers may need to be supported by government while they pass a stage of increased efficiency, by being allowed to refurbish their plant and equipment in order to be able to exploit the comparative cost advantages they enjoy. Another area of impact of liberalization is short term effects on employment. By the elimination of industrial plants, employment may be reduced. Such problems must be tackled if liberalization is carried out, as well as problems in terms of budget policy, financial policy, foreign exchange rate policy and domestic price policy.

All of the above-mentioned social cost and policy consequences of liberalization must be accounted for in the event of the the abolition of controls. This is why the on-going study is necessary for policy-makers before the issue of liberalization may be settled. The pace, the means and the order of events in reforming the economy must be analyzed before such far-reaching measures may be evaluated. The alternative of adopted and changed control systems may still survive.

For the evaluation of the Norwegian CIP/ISP and its forward-looking aspects, the liberalization issue brings up a few points to consider for the future. First of all, liberalization will not by itself reduce the strain on the balance of payment of Zimbabwe. A CIP, by its addition to the country's foreign exchange, will still be justified in economic terms, particularly during the transition to a more liberal regime. The CIP/ISP programme should, however, be made as flexible as possible, in order to adapt to changed needs and circumstances as the liberalisation process unfolds. In the longer term, with a faster depreciation of the currency and greater incentives both to export and to substitute for imports, the industrialisation process should be intensified and there will then be no further need for CIPs.

Second, and this is of some importance to assistance policy makers, the above analysis of the industrial development problems implies the importance of the CIPs: it is often stated that the balance of payment problems of Zimbabwe are relatively restricted compared to other developing countries. We may conclude that the balance of payments of Zimbabwe has been well managed in order to avoid serious deficits; the result is import restrictions. In the administrative foreign exchange allocation system, the size of imports in any given year is decided as a residual in the balance. And it is precisely this restriction on imports that has become a major obstacle to industrial investments and growth. In the event of liberalization, imports will grow at the rate dictated by the needs for industrial growth. In actual fact, Zimbabwe has been able to maintain its credit worthiness and ensure balance of payments equilibrium by cutting back on imports. This of course has had the impact of reducing investment, with the result of low growth in the economy. This is a strong argument for continued support through CIPs.

8.3 CIP/ISP's and the Consequences of Liberation in South Africa

This section raises some of the potential issues which need to be considered in relation to this topic. It does not attempt to quantify any issues but is simply trying to identify them.

Current CIPs, particularly by NORAD, are aimed in part at reducing Zimbabwe's dependence on South Africa. Presumably liberation of South Africa would remove the political aspect of this objective. However, potentially economic dependence could increase, once the moral obstacles to trade with RSA are removed. There is the danger that Zimbabwe industries whose viability is currently dependent on RSA industries will be swallowed by RSA firms, particularly if CIPs are removed overnight.

It is thus important that if CIPs are to be removed, they are phased out systematically and over a period of time.

It is also important that the question of future competitiveness between CIP-receiving firms and RSA rivals is considered as a criteria for determining the allocation and use of CIPs now. This would probably entail more emphasis being placed on capital refurbishment than at present.

It is equally important that recipients of CIPs at present are made aware of what likely post-liberation policy will be.

There may be a case for continued use of CIPs after liberation, to help balance RSA dominance in the region. However, if there is this objective, it is probably better achieved by direct assistance to industries, rather than through CIPs.

In a sense the case for CIPs after liberation will become the standard case used to support the CIP in any other developing country.

8.4 Alternative Forms of Norwegian Aid

In the global context the MDC presently runs some other types of assistance programmes sharing some features with the CIP, as well as being potential complements to it. Although some differences are imminent, there are probably co-ordination benefits to be made if the programmes were integrated more efficiently.

NORAD's department for commercial and industrial cooperation (I&N), Oslo is managing two sets of support instruments aimed at promoting productive development in the Third World: investment support (IS) and mixed credits (MC).

The IS consists of several components. It is extended to Joint Ventures (JV) between Third World interests and Norwegian interests in the productive sector. The components comprise loans (subsidized, long term exchange rate regulator), grants (to productive support, infrastructure) and training subsidies. By 1989 they are expected to include also investment guarantees.

In order to qualify for support from I&N the individual JV should meet a number of development criteria, such as financial soundness, local inputs, net foreign exchange earner, employment creation, and others).

It has been observed that the IS type of projects could tie in neatly with CIPs. A JV project in Zimbabwe, qualifying for IS, would probably also fit into the CIP criteria.

So far, very few JVs have been established in the SADCC region by the IS programme. The lack of foreign exchange to finance imports of inputs to production, as well as lack of finance for intra-regional export from production are probably among the important explanations of the lack of projects. A combination of IS instruments and a selective set of CIP instruments could help

in overcoming such barriers to entry: the CIP could supply critical inputs or make up part of the market for a new project.

The MC facility is a combination of commercial export financing and some ODA funds to soften the overall credit terms. In this case the individual project should fulfill the development criteria in order to qualify for the MC support.

The grant element of the MC varies. In the case of Zimbabwe it has been estimated that it would be at least 35%. There is no formal upper ceiling to the grant element. The MC is tied, in the sense that 70% of the goods purchased must have Norwegian origin and the commercial part of the credit must be backed by an Export Guarantee. It is believed that the MDC will introduce a new export guarantee scheme in 1989.

Zimbabwe and the other SADCC member states have in cooperation with the Nordic countries decided to establish a counter-trade programme. The scheme will be administered by a Swedish parastatal firm, specializing in the area, SUKAB, which is about to establish an office in Zimbabwe. The coordination between the counter-trade programme and other support mechanisms will be crucial in order to avoid de facto competition, e.g. between CIP imports from donor countries and counter-trade imports from other developing countries. As the CIP is based on grants, while the counter-trade has to be paid for, the recipient countries would prefer CIP. The Swedish CIPs to SADCC countries will, for example, be partly tied to purchases in Zimbabwe in the future. It is likely that the individual CIPs, including Norway's, run the risk of being counter productive to the development of the new counter-trade programme, which is favouring trade between developing countries, unless some planned and coordinated integration is established between the CIPs and the new programme.

In early 1989 it is expected that SADCC and the Nordic countries will reach a final agreement on the establishment of the NORSAD fund. This fund will pre-finance inputs to export oriented production. Companies to qualify would be JVs in SADCC, in this case JVs between SADCC and Norwegian interests. The JV firm will be able to borrow funds from the NORSAD fund to finance imports of inputs to produce goods for exports. The exports proceeds will be used to repay the credits from the fund.

This new arrangement is also related to on-going CIPs in that the CIPs, first, are contributing to the same type of supplies and, second, could constitute a demand factor for the products produced with NORSAD credits.

8.5 Needs for coordination of industrial support and private involvement

The examples above point to the fact that there is a need to formulate and operate the Norwegian CIP/ISP to Zimbabwe (and other SADCC countries) in close coordination with the other instruments that NORAD is financing or participating in. A

careful use of the CIP/ISP mechanism could be instrumental in achieving other MDC objectives than those directly reflected in the CIP/ISP agreement itself. Mutual coordination between support instruments would alsc reduce counterproductive effects, which could otherwise be the result.

A separate study would be needed to analyse all the various instruments involved, and how they ought to be formulated and operated in order to comprise a mutually supportive set of instruments. A closer coordination would also have organizational impact in NORAD itself: currently various instruments are operated by different departments with small or no implementing coordination. The intention here is to throw some light on the fact that the Norwegian CIP/ISP to Zimbabwe must not be seen in isolation. Rather that it is an instrument that could be used actively in connection with other NORAD programmes, notably the drive to establish activities in the productive sectors of the SADCC countries. NORAD ought to take the CIP/ISP dimension into full consideration when putting the final touch to the NORSAD and the counter-trade agreements.

Of course, most of the above arguments are being derived from a technical point of view, i.e. in terms of economic impact on economic development: it must not be forgotten that the present CIP/ISP agreement with Zimbabwe is a political programme. Its primary objectives are not technical, but political. From this point of view the CIP/ISP cannot be integrated with other non-political programmes in any simple way. A future integration must consider the political nature of the CIP/ISP as well as how this dimension will change when Namibia and South Africa are liberated.

9. CONCLUSIONS ON THE PAST CIP/ISP AND FUTURE OPTIONS

9.1 The CIP/ISP in the Past

This evaluation has shown that, at the macroeconomic level, the Norwegian CIP/ISP has, together with CIPs of other countries, played an important role in easing Zimbabwe's balance of payments problems and the foreign exchange constraints arising therefrom. Although it has not been possible to quantify precisely the growth impact of these programmes, it is clear that they have allowed higher growth, particularly in the manufacturing sector. Growth in this sector has important multiplier consequences for the rest of the economy.

The Norwegian CIP/ISP has also played a role in the restructuring of Zimbabwe's trade. Firstly, it has assisted in attempts to disengage from trade with South Africa; a third of investigated firms used the CIP/ISP to replace purchases from RSA with those from Norway. Secondly, the ISP component of the programme is helping to strengthen Zimbabwe's trade with other developing countries and particularly with the SADCC/PTA region. At the level of the recipient firms, the CIP/ISP has helped maintain or expand employment and production and thus increased capacity utilisation.

Although there is no agreement or monitoring of the use of the counterpart funds created by the programme, it has been established that at least part of them are used for development projects along the lines of general Norwegian and Zimbabwean development objectives.

As might be expected, the programme is popular with both the Zimbabwe government and the recipient firms, both of which wish to see it continue and be expanded. Government has only praise for the programme that is appreciated and non-controversial. The recipient firms are happy about the programme and consider it to be the best of all similar programmes. Their suggestions for improvements concern details. The programme is well managed at a low administrative cost per dollar spent.

Despite this favourable evaluation, there are some areas towards which second order criticisms might be directed. First, despite the formal agreements, there does appear to be a de facto understanding that CIP purchases are tied to Norway. The Zimbabwe side conceives the programme as tied and the Norwegian side admits that, in spite of their repeated explanations to the contrary, the programme in practice tends to get tied for practical reasons. The programme would not be manageable at low administrative cost unless most of the purchases were coordinated by firms in Zimbabwe and directed towards one buyer and a small number of suppliers in Norway.

When it comes to the regional impact of the programme, it is likely that measurable effects on trade and production in the other SADCC countries - apart from the direct purchases - are negligible. On the other hand, Zimbabwe's geopolitical role in the regional struggle is crucial, both militarily, politically

and economically. Hence, the economic benefits of the programme for Zimbabwe may be the sole basis for justifying the regional role of the programme: to the extent that the programme is important for Zimbabwe's economy, it is important for the region.

Secondly, contrary to expectations on both sides, the specific objectives of the agreement have led to a special procedure within the Zimbabwe administration for the processing of the Norwegian CIP/ISP. The absence of formal applications of firms and the decision-making by only one division within one ministry means probably a reduction of administrative cost and delays, but may also raise doubts as to the fairness of the procedure. The allocating unit simply allocates to the same firms which have historically received allocations. The seems to be the result of the fact that the funds are considered as tied to Norway in combination with the fact that the ministry has "assigned" a given sector (basically chemical sub-sector) to purchases from Norway. Other sectors are assigned to other donor countries.

This procedure does to some extent mitigate a third criticism, raised by the firms. This is that because of the annual nature of the programme, firms cannot make longer-term plans based on assured supplies through the CIP.
INVA has on several occasions tried to overcome this difficulty, but there are problems on the Zimbabwean side.

Finally, the criterion that selected commodities should be "strategic" is vague and opens up the possibility of controversy. Since all the commodities are inputs and raise output, they can all in some sense be regarded as strategic. However, the NORAD office in Harare has on occasion objected on the basis that the final output was not "strategic". MIT has never explicitly stated its criteria for selection.

Apart from meeting some of these specific criticisms, the main general area where improvement may be necessary is with regard to the issue of striking a balance between mutual confidence and control. Should the donor be confident of the recipient government in some areas - counterpart funds for example, in this case - while at the same time trying to control the details of the choice of commodities by discussing the end-use? Should the recipient neglect the agreed upon justifications in terms of common objectives - while at the same time using the counterpart funds for very good purposes in terms of common objectives without even informing the donor[45]?

9.2 Options for the Future

Since the evaluation of the Nowegian CIP/ISP after only two years of full implementation is so encouraging, the most obvious option is to continue it unchanged. The programme has obviously contributed to fulfilment of the established objectives and could be continued unless there are major changes in the economic and

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[45]These issues are also discussed in the dairy evaluation and the Country Study.

political context of the programme (cf below) in Norway or Zimbabwe.

However, even if it is decided to continue support without major changes, some clarifications could be made:

First, the issue of the CIP being tied or not tied to Norway should be resolved. If the practically tied situation is the only one that could be handled, it could be worthwhile to make the programme tied also in principle, while at the same time increasing the ISP part and maybe the total CIP/ISP component of the annual country allocation.

Second, the criterion of "strategic" or essential goods needs to be defined to avoid controversy over the end-use products. A simple way would be to agree to adopt the same criteria as are already used by the committees, e.g. the MTC committee for basic allocations which has an established priority list.

Third, the distribution between sectors could be altered on the basis of multiplier effects if the two parties decide that such a change would be to Zimbabwe's benefit and agree on a common conception of where the multipliers are larger.

If the political pressure in Norway to reduce that part of the annual allocation to Zimbabwe going into CIP/ISP were to increase, a major option for the future would be to support the Zimbabwe government programme for delinking from RSA. It is not clear whether parts of this programme will be made public during 1989, in order to be open for donor participation. Support to this programme would be wholly in line with the present political objectives of the Norwegian CIP[46].

As has been indicated, there is currently a debate in Zimbabwe on liberalising its trade regime. A Government-commissioned study on the subject has already been presented to the authorities, but has not yet been released for public debate. Clearly, any major reforms to the trade regime could have significant implications for the CIP/ISP programme. It is difficult to anticipate these implications without knowledge of the detailed reforms proposed. It is, however, likely that any transition to a more open regime will require balance of payments support. CIPs could therefore continue to assist, at least in this transitional phase. There would probably also be a need in this phase for assistance to improve efficiency of firms, to which the CIP could also contribute.

However, if the allocation system is radically reformed or even done away with, the mechanisms for implementing the political objectives of the CIP/ISP would have to be changed. There is thus a need for a large measure of flexibility to be assured in

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[46] It should not, however, be done uncritically. See the Country Study for comments on the proposed Norwegian purchase on behalf of the Zimbabwe Government of the South African interest in Sable Chemical Industries.

the CIP agreements and procedures. Support for favoured, strategic sectors could no longer be done by selectively easing their foreign exchange constraint, but would probably require more direct forms of support, such as joint ventures with suitable partners.

In the event that the desired objectives of the present CIP/ISP are achieved by the liberation of Namibia and South Africa, it is probably best to use the present CIP/ISP funds in the same way as in the case of liberalisation of trade and prices: direct engagement in sub-sectors to support industries which will have problems in the face of competition from South Africa.

ANNEX 1

T E R M S O F R E F E R E N C E

FOR

EVALUATION ZIB 404 : COMMODITY IMPORT PROGRAMME IN ZIMBABWE

27.04.1988

1.00 BACKGROUND

The Commodity Import Programme, hereinafter called "CIP", has since 1983 been a major component of the Norwegian country programme for Zimbabwe, and this form of support is expected to play an important part in the future Norwegian/ Zimbabwean bilateral development cooperation.

Under the current CIP scheme Norway provides foreign exchange for import of industrial/commercial inputs to companies in Zimbabwe, and the recipient firms in turn pay the corresponding amounts in Zimbabwean currency to the Government of Zimbabwe.

From 1983 to 1986 the programme was co-ordinated by the Norwegian Embassy and consisted of the import of raw materials from Norway together with two commodities imported from the SADCC region. Thus in 1987 the programme took on a different profile. The objectives and selection criteria were adjusted and specified to be closely linked to the geopolitical situation in the region and a direct support to the SADCC objectives of reducing economic dependence on South Africa and strengthening regional cooperation. Simultanously a new component was introduced in the form of an Import Support Scheme which became operational towards the end of 1987. Under this agreement, companies may import goods from SADCC/PTA region or other developing countries and four different commodities were introduced under the 1987 Import Support Programme.

As is the case with most commodity assistance/import support schemes, the nature of the CIP is such as may be said to have a fairly wide range of objectives, and in this context it is of great concern to the Norwegian Ministry of Development Cooperation (MDC)

- to maintain an acceptable degree of balance between the various project (or part) objectives, and
- to ensure that the sum of part objectives at any time are covered by the framework of the principal goals of Norwegian development assistance policies.

To this end the MDC, in full agreement with the Government of Zimbabwe, now intends to carry out an evaluation of the CIP in Zimbabwe.

2.00 SCOPE OF WORKS.

The evaluation team shall aim at providing an independent and comprehensive analysis of the background, objectives, achievements, effects, and administrative procedures of the Norwegian CIP scheme in Zimbabwe.
Special emphasis shall be put on reviewing the current programme in the light of experience in general, and of Norway's principal concern regarding the development of the SADCC sub-region in particular.
The evaluation report will form the basis for considerations by the MDC for possible future policy directions for the utilization of the CIP grants.
The report will also be input to the forthcoming country study on Norwegian development assistance to Zimbabwe.

3.00 TASKS TO BE CARRIED OUT BY THE EVALUATION TEAM.

The works shall include but not necessarily be limited to the following points:

3.10 Programme Description / Particulars of the CIP in Zimbabwe.

3.11 Objectives:

a) Outline the Norwegian policies and objectives forming the basis for the introduction of the CIP in Zimbabwe, and assess the relevance of such policies and objectives to the principal goals of Norwegian development assistance.

b) Describe the role of and justification for the Norwegian CIP, as seen by the Zimbabwean authorities.

3.12 Contents and allocations:

a) Give an overview of the Norwegian CIP to Zimbabwe over the past 4-5 years. As far as possible the annual allocations will be broken down to show the types of commodities, reciepient sectors, companies, etc..

b) Describe and discuss the criteria for allocation of CIP funds as applied by Norway.

c) Describe and discuss the criteria for allocation of import licenses under the CIP as applied by the Zimbabwe authorities.

d) Describe and discuss the main points of the administrative procedures, regulations, and possible conditions/restrictions applied by both countries in the execution of the CIP.

3.13 CIP in international context.

a) Give a brief overview of other CIP or relevant balance of payment support prorammes provided by other major donors in Zimbabwe, and review the Norwegian CIP in this international setting in terms of volume, policies, objectives, priorities allocation criteria, etc.

b) Discuss the extent and quality of coordination and cooperation among donors and between donors and the Zimbabwean authorities.

c) Discuss as a whole the international commodity/import support to Zimbabwe in view of the country's need for delinkage from S.A., and for foreign exchange / balance of payment support.

d) Examine and analyse the Norwegian and international commodity/import support to Zimbabwe in relation to the role played by the country in relation to the geopolitical and geoeconomic situation in the region, with particular reference to the SADCC-objectives.

3.20 <u>Use and Effect of the Norwegian CIP in Zimbabwe</u>.

3.21 Production and consumption level:

a) Assess, as far as possible, the effects of the CIP imports on local production within the relevant sectors, i.e.

- dependencies and/or neglect of local alternatives created by CIP
- capacity utilization of recipient companies
- companies' economic viability

b) Assess the CIP's import support scheme with particular focus on:

- selection of goods (priorities)
- relation to the PTA-trading mechanism

c) Assess whether the imported commodities have been of relevant and satisfactory quality, and have been supplied at competitive prices in accordance with Norwegian guidelines.

d) Assess the recipient companies' abilitiy, efforts, and possible problems in meeting their financial obligations to the Zimbabwe Government.

3.22 Macro-economic level:

a) Discuss the effect of the Norwegian CIP on on Zimbabwe's macro-economic situation, primarily the foreign exchange situation as well as capacity utilization in the sectors receiving the imported inputs.

b) Discuss the Norwegian CIP grants as a means of contributing to the reduction of national and regional economic dependence on South Africa and as a means of promoting trade and other forms of economic cooperation in the SADCC- and PTA region.

c) Examine the impact of the input of Norwegian funds on Zimbabwe's budget, and, if possible, determine to what extent local counterpartfunds are being earmarked for special purposes.

d) Discuss the appropriateness of project versus non-project assistance in the country' present situation as well as the desirability of combining these types of Norwegian aid.

3.30 Administrative Routines and Procedures.

3.31 Evaluate the adequacy of Zimbabwean and Norwegian routines and procedures for CIP regarding planning, issuing of import permits, procurement, payment, handling, control, and distribution of commodities in Zimbabwe.

3.32 Assess the appropriateness of the present division of work between the donor agency, Zimbabwe Government ministries, banks, suppliers and recipients.

3.33 Evaluate the adequacy of Zimbabwean and Norwegian criteria for selection of types of commodities, suppliers and recipients. If applicable, discuss the desirability of readjusting the current systems to facilitate improvements in effectiveness as well as efficiency.

3.40 Recommendations.

On the basis of the above the evaluation team shall discuss options for possible restructuring of the Programme, with special regard to

- policies and objectives,
- concentration/deconcentration (geographically, commodities, sectors, target groups etc.),
- selection criteria and administrative procedures,
- any other aspects arising from the evaluation.

4.00 PREMISES - IMPLEMENTATION - REPORTING.

4.10 Premises.

The evaluation will be based upon desk studies of programme documentation and related papers, as well as field studies and interviews with official staff and persons concerned with commodity aid and import support activities at ministry and private levels.

The field work itinerary shall be planned after consultation with MDC resident representative and the Zimbabwe authorities.

4.20 Work Programme.

The work will be organized in three phases as follows:

I - Collection and processing of information,
- planning of the field studies (see 4.10),
- preparation of a brief Inception Report, including possible comments to TOR, detailed plans for the field studies, and a revised budget for the evaluation.

II - Field Studies.

III - Preparation of Draft Final Report
- hearing round in DUH/NORAD
- completion of the Final Report.

The Draft Final Report should be submitted to MDC by 1 November 1988.

4.30 Time limits.

The person hour requirements and the timing for presentation of the reports will be stipulated in the Consultancy Agreement.

4.40 Implementation Team.

To be indentified in the Consultancy Agreement.

4.50 Language.

All reports and documentation shall be presented in English.

ANNEX 2. LIST OF REFERENCES

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ANNEX 3. SOME NOTES ON THE PRACTICAL USE OF CBA

The economic evaluation of the impact of the CIP deserves some remarks in this report. In interpreting the reference to "macro-economic" and "micro-economic" effects of the CIP, it is here understood that those terms should not be taken in the strict sense of economic theory. Rather they must be taken as indications of levels of aggregation, i.e. the term macro-economic effects refers to the economic impact of the CIP on the global aggregate level of the national economy of Zimbabwe, while the term micro-economic effects regards the economic impact on the recipient firms.

Further, "economic" is interpreted strictly as meaning economic (including opportunity cost) as opposed to financial. As has been noted earlier[47], the evaluation of the CIP in this economic respect cannot be done within the constraints of the present study, for conceptual reasons, on the one hand, and for reasons of sheer magnitude of the effects of the CIP, on the other hand.

Generally speaking, a few notes of caution as regards economic analysis (as opposed to financial analysis, where no opportunity costs are involved, but basically only cash flows) are needed here. As soon as we want to carry out an economic evaluation of the quantitative consequences of a given assistance programme, it may be taken for granted right from the start that the developing country in question is strongly characterized by deviations from the theoretical model of equilibrium that forms the basis of the micro-economic analysis. External economies are present, production factors are not fully employed or mobile, prices may be partly administered, and so on. This means that the economic costs of goods and services are not simply reflected by prices; opportunity costs deviate from actual prices. Consequently, opportunity costs must be estimated by the analyst. Those assigned costs are often called "shadow prices" in the development jargon, and the analysis based on such economic reasoning is called cost/benefit analysis (CBA) or, in order to indicate that the whole of society's economic effects are included, social cost/benefit analysis (SCBA).

The most well-known opportunity costs are those of labour, money and foreign exchange. Unfortunately, a wide-spread use of non-professional jargon in these terms may lead some to believe that SCBA is a simple matter of assigning shadow prices to the three items mentioned above, only to go on with a financial analysis using those estimated prices. As a matter of fact, those estimates are very hard to make. The reason is that the estimate of opportunity costs always involves the comparison of wo situations, i.e. the status quo and a conceptual situation deviating from status quo in certain, at best well-defined, respects. The definition of the two compared states of the

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[47]Cf. Inception Report, ibid.

economy is the key element in any serious SCBA. Unless such definitions are worked out by professionals and profoundly discussed with planning authorities and policy makers, we will end up in a situation where each individual analyst will work with his own personal shadow prices; the extreme case arises whereby every analyst arrives at different conclusions.

The example of SCBA for investment analysis (project planning) may illustrate the point. As was mentioned above, it is common knowledge that the opportunity cost of capital is a key factor in investment analysis. The models to apply are straight-forward and easy to communicate or teach at educational institutions. However, the outcome of the analysis will most of the time be highly sensitive to the level of the opportunity rate of interest. SCBA of investments always involves the comparison of alternatives, alternative projects or alternative designs of a given project in terms of scale, equipment, operations and finance, for example. This comparison is according to the text books made in terms of net present value or internal rate of return of the project. The criterion of comparison is the opportunity cost of capital, on the macro economic level (often called the social rate of discount). These criteria may refer to different levels of aggregation, national as well as project level. In the ideal world where this method is applicable without any major problems, the interest criterion has been postulated by professional economic analysis at the national, central planning level of the country and is applied by all analysts to compare investment alternatives. In the real world, more often we see situations where various analysts basically come up with the own estimate of a "reasonable" social rate of discount which decides whether the project deserves to be implemented or not: all economic comparison between projects become illusionary and real economic planning will be rendered impossible. Still, every investment analysis may be perfectly well done in its own right.

In an effort to avoid the basic pitfalls pointed at above *D* and simultaneously try to arrive at conclusions at least as to the directions of the effects of the CIP - we have deemed sufficient here to estimate the employment effects of the CIP on the surveyed firms (these are our "micro-economic effects") The net effects on the foreign exchange flows caused by the CIP on the national level (constituting our "macro-economic effects") will not be quantified as the total CIP flow is far too small to be the subject of a SCBA exercise. It is left to the decision-makers to assess whether those effects are sufficiently positive or not. As both employment and foreign exchange effects must necessarily be modest in relation to the manufacturing sector as a whole, there is no point in trying to carry out an exercise that we judge not to produce any significant results.

In order to avoid evaluations where the CBA criteria is applied ex post to a project, that was not intended to be measured in such terms (e.g. due to other objectives, other time spans), nor designed for such analysis in terms of its monitoring system (e.g. no economic targets or reporting while implementing) it should be taken as a rule of thumb to build into the planning and monitoring system of projects, where the criterion of SCBA is intended to be applied, objectives and targets enabling the managers and evaluators to use the criterion from the start of the project[48].

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[48]The main reason to avoid this is that such evaluations most of the time are beside the point (as defined by the original project design) and thus not valid for decision-making, and that they according to our experience almost all of the time will lead to disastrously negative outcomes of the evaluation. This is so, because such projects are not operated with the SCBA criteria as the guiding principles.

ANNEX 4. NORWEGIAN FIRMS AND THE CIP TO ZIMBABWE

1. Introduction.

There are two major reasons for why it is of interest to have a close look at the Norwegian firms involved with the CIP programme to Zimbabwe (CIPZ).

First, what is the importance to the Norwegian firms (and their local environment) of getting the CIPZ delivery contracts ? Do the CIP contracts have an impact on the firms ? Are they for example small firms in rural Norway for which a CIPZ contract is significant for the firm and the community ?

The second reason relates to the MDCs wish to actively use Norwegian industrial companies as a tool in developping the productive sectors in the recipient countries. Are the Norwegian CIPZ firms involved as a tool in the development process, or do they just have a passiv supply role ?

2. The importance of the Zimbabwe CIP to the Norwegian firms.

About 10 Norwegian companies have been/are involved in the Norwegian financed CIPZ programme. Most of them are, generally speaking, among the largest industrial corporations in Norway. The majority of products exported to Zimbabwe under the CIP arrangement are, again generally speaking, produced in areas of Norway with very dense industrial activity.

Most of the companies have been supplying to the CIPZ programme for several years; there is a high degree of stability. The majority of the supplies come from companies that are if not the only one in Norway, at least the dominating producer of that product.

The by far most important commodity groups are paint raw materials and plastic raisins, making up 29% and 31% respectively, of the total CIP expenditure up to 1988. These 60 % of the accumulated CIPZ are supplied by four companies. For one of them, the CIP delivery to Zimbabwe in 1988 represented less than one tenth of a percentage of their annual production in Scandinavia, and one twentieth of a percentage of their global installed capacity. The same company had a full capacity utilisation in 1988.

Another of the four companies spent half a percentage of their production capacity to meet the Zimbabwe order. The CIPZ contract is their only delivery to the third world.

The third company delivers in average 3 % of their production to the CIP programme in Zimbabwe. They have no other contracts in Africa.

To the fourth company, the CIPZ represents 2 % of their exports. They have no other supplies to Africa.

3. The Norwegian firms and their involvement in the productive sector in the third world.

Some of the major firms involved are organised in separet divisions; divisions that in several cases operate rather independant from each other; almost like separate companies. This means that actions or geographic orientation for one part of the firm is not necessarily relevant for, or even known by, other parts of the same firm. It is therefore not correct to generalise by talking about company experience and company policy. It is the relevant division, or part of the firm, that matters.

In simple marketting theory the student learns that exports is the first step in the process of establishing production abroad. The market is built up through export orders, and knowledge and confidence concerning the local conditions develop through the trade relationship. After a while the production may move closer to the market.

In practice this is far from always true. Only in one of the about ten cases included above has there been shown any active interest from the company involved, in establishing production in Zimbabwe (or any other CIP receiving country).

This is probably best explained by the goods and the production structures involved. The very major product lines involved in the CIP to Zimbabwe, are chemical industrial items that require massiv installations and enourmous production volumes to reach economics of scale. The Norwegian market alone (which is many times the size of the SADCC market), becomes small for some of these plants. I.e. the Zimbabwe CIP (or the regional) market is for several chemical products not large enough to warrant the moving of production units.

Another aspect is that many companies perceive NORAD as the market; i.e. Oslo. Therefore, as a logical consequence, there is no point in considering moving production.

Most companies are probably not aware of the other support instruments that NORAD makes available to Joint Venture establishments in the third world; instruments that make productive establishments more feasible and attractive.

4. Conclusions.

Several lessons could probably be drawn from the CIPZ experience regarding the Norwegian companies.

One is that if the Norwegian Government wants to integrate the CIP as one of several instruments into their coordinated approach to developing the productive sectors in the third world, great attention should be paid to the selection of products to be supplied under the CIP, and the selection of Norwegian companies

to do the supplies. The current company selection based on a price competition is too narrow, and would have to be dropped. Other criteria should be developed. CIPZ funds could be used for inputs from productive subsectors less dependant on megasized investments and markets.

Secondly, the set of Joint Venture support instruments should be presented actively, in an integrated context, to relevant Norwegian CIP companies, to make them better aware of resources and potentials open to them. Implicit in this process would be that NORAD would expect suppliers that become involved, to also show some committments as to local follow up and production. The CIP represents a market; access to which should depend on the localisation of production. Conversly; by relocating production, access to the CIP market could be guaranteed to a certain extent; both in terms of volume and hard currency for emerging joint ventures.

EXECUTIVE SUMMARY
COMMODITY IMPORT/IMPORT SUPPORT PROGRAMME

The Programme

The Norwegian commodity import programme (CIP) in Zimbabwe began in 1982. It was introduced as part of the overall Norwegian programme of assistance to Zimbabwe because of a perception that Zimbabwe's development was being retarded by a severe foreign exchange bottleneck.

Following the review of Norway's support to Zimbabwe, the CIP programme was reformulated in 1987 with specific objectives reflecting the new priorities which had been established. The current CIP agreement states that "the objective of the CIP is to support strategic supplies and production with a view to decrease the economic dependence on the Republic of South Africa and to stimulate the development of regional complementary industries and trade". The Import Support Programme (ISP) was introduced in 1987 precisely to address the last objective of fostering regional trade. Whereas the CIP allows for procurement from any source country, the ISP is restricted to developing countries with a clear preference being expressed for SADCC countries.

In the case of commodities on the CIP, the main criteria are that the end-use product arising should be "strategic", which is not precisely defined and that the company involved should not have South African connections; there is no requirement that procurement be made in Norway. In practice, however, the Zimbabwe Ministry of Industry and Technology, which is responsible for recommending the commodities and companies to be involved, has maintained an orientation to sourcing from Norway, despite NORAD repeatedly explaining that the programme is not tied. The *de facto* arrangement does have certain advantages, however, in that the programme would not be manageable at low administrative cost unless most of the purchasers were coordinated by firms in Zimbabwe and directed towards one buyer (NORAD) and a small number of suppliers in Norway. With the exception of the bulk milk tanks and some components for telephones, all the commodities supplied through the CIP have been raw materials.

Industry

To give some idea of the range of industry in Zimbabwe, according to Government figures, the manufacturing sector produces over 6 000 separately identified products, ranging from abattoir equipment to zip fasteners. These are produced by a relatively small number of geographically concentrated firms, some with turnovers in excess of $ 1000 m pa.

The volume of output in the manufacturing sector as a whole has grown at an average annual rate of 2. 6%. However, this sluggish average growth has been characterised by extreme fluctuations on a year by year basis and across sub-sectors. Growth, in the sector as a whole, was concentrated in

three years —1980, 1981 and 1985. In the period 1982-84 there was actually a decline in the volume of output. Since 1985 growth has been positive but low.

From 1980 to 1987, the highest volume growth rates have been in textiles and ginning, non-metallic mineral products, clothing and footwear. The most sluggish growth has been in wood and furniture and transport equipment. Most sub-sectors have followed the same growth cycle as the sector as a whole.The downturn in the food industry came a year later than the rest of the economy, transport equipment has declined steadily and rapidly since the post- Independence boom.

Modest growth rates for the manufacturing sector not only reflect fluctuating demand and problematic supply factors, but they are also the result of the changed relationship between the state and the economic agents involved. The UDI period had been characterised by an exceptionally close alliance between the government of the day and the captains of industry, and this had been conducive to very rapid growth in manufacturing output when external factors were also favorable Although the new Government's policies did not turn out to be significantly different, any economic state policy rests on a political base and transformation of that base implies that the same measures may not produce the same behavioural response and results.

Part of Government's concern has been about the high degree of foreign ownership in the sector; active measures to change this situation have been taken with Government, usually through the industrial Development Corporation. Apart from significant shifts away from South Africa,the close relationship between many companies and their South African counterparts remains and constrains the options for sanctions and planning for the post-liberation era.

There is one respect in which performance from the manufacturing sector has been impressive and that is in exports. This is usually attributed to the Export Revolving Fund, which allows exporters to acquire the imported inputs required for production. The Fund has been in operation since 1985 and growth, particularly of non-conventional manufactured exports, has been significant.

More recently, an additional incentive scheme has been introduced in the form of foreign exchange retentions being allowed out of incremental exports, the proceeds to be used to import inputs for production to satisfy the local market. As prices are generally higher on the domestic market than for exports, despite the effective post-tax 18% export premium paid since 1983, this scheme is expected to result in further increases in manufactured exports occurring.

This process, backed by complementary measures for agriculture and mining is intended progressively to relax the foreign exchange constraint

which, at the macro level, is the principal determinant of future growth. The alternative policy being advocated by the multilaterals is that of rapid import liberalisation, i.e. a sharp increase in imports backed initially by new loans, further exchange rate devaluation and rapid harmonisation of domestic and international prices. Import liberalisation is the logical conclusion of one side of the debate about the relative efficiency of Zimbabwean manufacturing which has been going on between the Government and the World Bank since 1980.

Evaluation

The availability of foreign currency has been, and remains, the single and most important constraint on economic performance in Zimbabwe. From Zimbabwe's viewpoint, the primary role of CIP is to relieve the balance of payments constraint. Furthermore, since the commodities supplied are raw material and not sophisticated capital goods which would require spare parts and replacement in the future, the programme also does not entail any on-going foreign exchange outlay to be made by Zimbabwe.

The evaluation carried out in this study suggests that the programme has been successful in meeting its objectives. It has contributed to maintaining and increasing employment and production in recipient firms and has improved their capacity utilisation. This in turn has had some knock-on effects on the rest of the economy, although these have been difficult to quantify. The ISP has improved Zimbabwe's imports from the rest of the region.

There would appear to be some concern in Norway about whether this growth-oriented aspect of CIP programmes, seemingly targeted to formal sector firms, is consistent with Norwegian development assistance principles. Relieving the balance of payments constraint has a positive impact on output and employment and on the environment, through reducing pressure on the overcrowded peasant farming areas. In addition, the counterpart funds generated by the CIP assist Government in sustaining its social and development objectives. In such a situation, it is not so much the companies in the industrial sector which actually receive the items imported under the CIPs which are the beneficiaries, but the economy and society as a whole.

In respect of the specific objectives that Norway has articulated for the CIP/ISP since 1987, performance has been more mixed. Although not an articulated objective, it is interesting to note that the programme has helped increase trade between the two countries.

To obtain the viewpoint of the firms which have received commodities through Norwegian CIP/ISP, 27 of the 62 companies involved were interviewed in the course of the evaluation. The opinions expressed about the Norwegian CIP/ISP were uniformly positive. Very few problems had been encountered, as the programme had been well run, supplying goods of

satisfactory quality at reasonable prices. These raw materials made it possible to maintain and expand capacity utilisation, employment and output. Approximately one third of the firms interviewed had switched away from South Africa as a source of supply as a result of the CIP/ISP programme.

The programme is welcomed by the Zimbabwe government and the private sector, both of which would like to see it continued and expanded. Although there is no perceived need for major changes to the programme, several modifications in detail could be made: some procedure could be introduced allowing recipient firms to undertake forward planning in the knowledge that they will continue to receive assistance from one year to the next; the vague notion of "strategic" imports could be clarified; and the perception that the CIP is *de facto* (although not *de jure*) tied to procurement of goods from Norway, could be tackled.

Finally, although the CIP/ISP is functioning well and should be continued, it will have to be reviewed in the light of major political and economic changes which seem likely in the future. Firstly, the whole South African question with prospects for both escalated instability in the region and later the emergence of a politically acceptable post-apartheid regime, will force such a revision. Secondly, the current assessment of the trade regime by the Zimbabwe government, and the prospects for some reform tending towards liberalisation of imports, will also require a re-thinking of the CIP/ISP. To prepare for this, future agreements and procedures should be as flexible as possible. New mechanisms of support, complementary to the CIP/ISP and oriented to assisting in the delinking from South Africa, should also be considered.

These would include encouraging Norwegian firms to enter joint ventures with Zimbabwe companies breaking away from South Africa or preparing for a dramatic change in competitive conditions once South Africa is liberated. A regional perspective is important so as not to further enhance Zimbabwe's industrial dominance when one or more of the other SADCC countries may have a comparative advantage in a particular industry. To gain maximum complementarity between different instruments and programmes, the design of regional trade initiatives, such as the NORSAD fund, could take into account the CIP/ISP possibilities.