Economic Policies in Southern Africa

Mozambique, Zambia, Zimbabwe

October 6 , 2011

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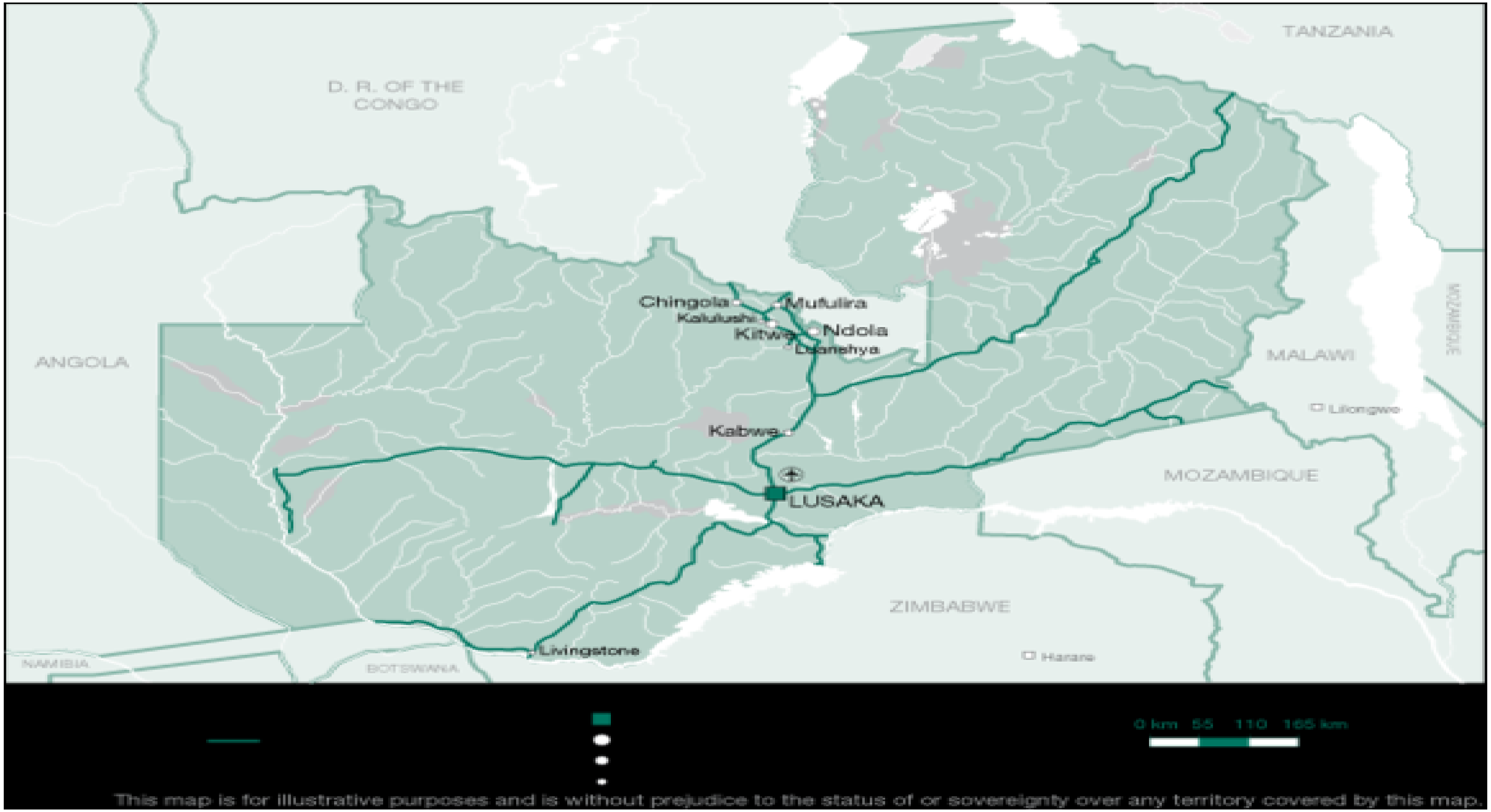
Zambia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This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

Background

- Zambia like many sub Saharan countries adopted the Structural Adjustment Programmes an instrument for establishing macroeconomic stability and sustainably servicing its debts. As a result key measures in economic reforms were undertaken most of which rescinded socio economic progress to date in common with SAP experience

- As part of fiscal discipline and the cash budget system, government focused on ‘economic sectors’ to generate wealth for future distribution, and upon advise of international consultants Zambia reduced its budget allocations to social sectors. To cushion the budget cuts, the country introduced punishing cost-sharing mechanisms in the provision of services affected by the budget cuts.

- Before the 1990s, government subsidized the supply of agricultural inputs, (seed, fertilizer, credit); it subsidized transportation of inputs and organized marketing. After 1991, the pace of SAP implementation accelerated. Supply of agricultural inputs and marketing were completely liberalized. Farmers had not prepared for such changes. The study carried out in the North (Kasama) and South (Choma) revealed that the switch in crop marketing, from centrally controlled buying and selling, had not been preceded by any educational programs to appraise small-scale farmers on how the market system operates

- The Government completely withdrew its support to the provision of primary education. The burden was shifted to the household where almost 100% of primary school requirements were pushed. At secondary and tertiary levels, some form of cost-sharing was introduced. Thus, as privatization of parastatals accelerated, with more people taken out of formal employment and less money (through salaries) going to households, a number of households.

- Zambia has since abandoned the short term PRSP framework document to articulate its long-term development objectives in the National Vision 2030. The National Vision is “to become a prosperous middle income country by the year 2030.” The Vision 2030 identifies a number of development goals, which include: (a) reaching middle-income status; (b) significantly reducing hunger and poverty; and (c) fostering a competitive and outward-oriented economy. In order to implement its vision, the government has since developed medium term plan known as the fifth national development plan (the FNDP).

- The projected 6.6% growth in Zambia's GDP in 2010 is up from 6.4% in 2009. Agriculture, tourism, construction, manufacturing and mining are driving growth which is expected to expand by 6.5% and 6.7% in 2011 and 2012 respectively.
- To consolidate the improving economy, the Zambian government is directing more resources to stimulating growth and diversifying the economy. Much of this follows the problematic export driven model of growth. The government states that to get through the international economic troubles and get growth back to pre-crisis levels.

- Under its 2011-13 Macroeconomic Framework, the government will focus on maintaining stability and building on the achievements of the last framework. The Sixth National Development Plan sets out the key economic objectives of: i) expanding and diversifying the economy; ii) keeping inflation to single digits; iii) increasing domestic revenue mobilisation; iv) reducing commercial lending rates; v) maintaining public debt sustainability; vi) and increasing productive employment.

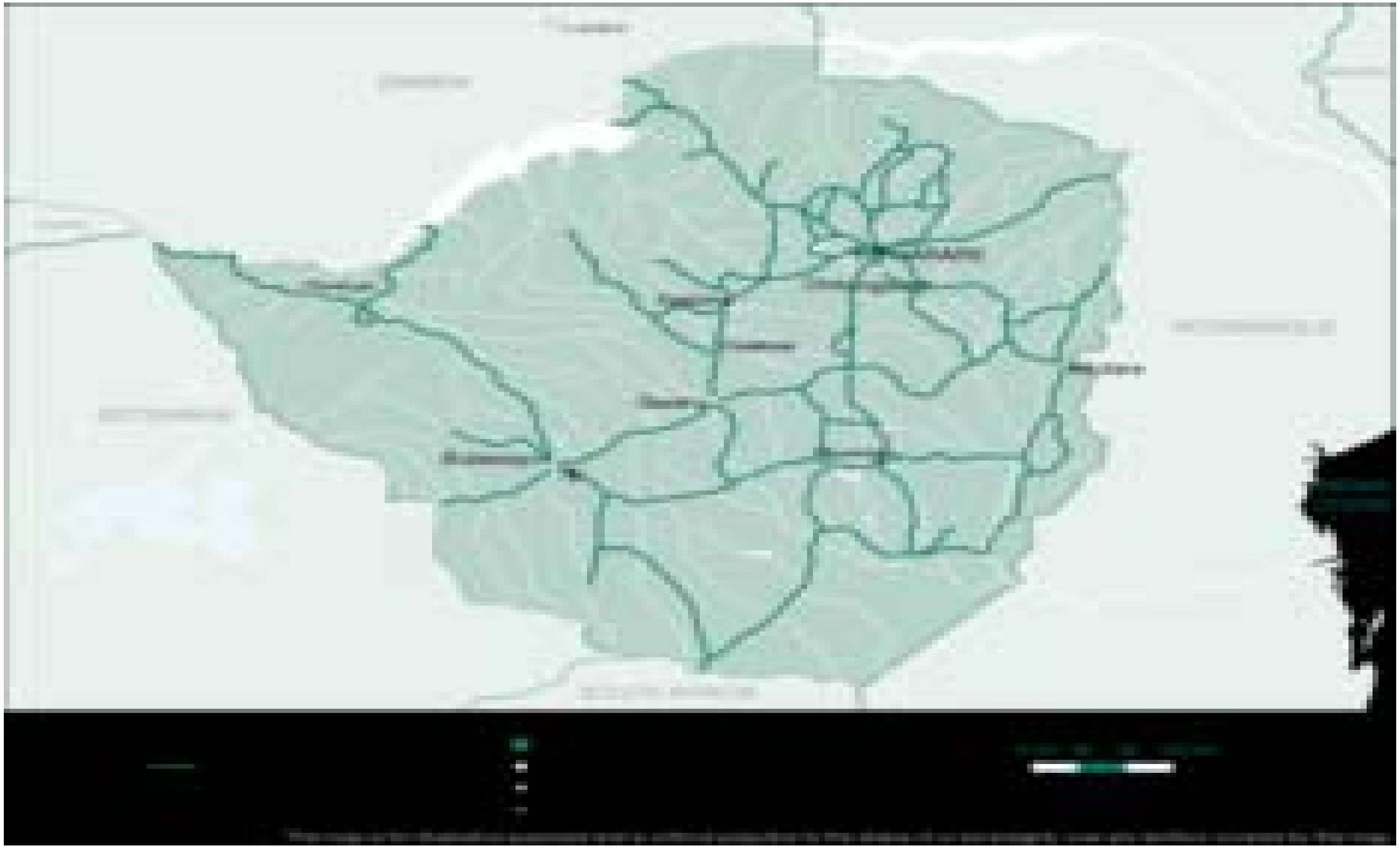
- The government also plans a comprehensive reform of the tax system, aiming to ‘broaden the tax base’ and increase revenues. Of the 2010 national budget of 16.7 trillion Zambian kwacha (ZMK), some ZMK 12.1 trillion is expected to come from domestic revenue collection, about 72% of the total budget. About ZMK 2.42 trillion, or 14.5%, will be raised from grants. About ZMK 2.18 trillion, or 13.1%, is expected to be financed through domestic borrowing. General public services were to take up 32.1% of the national budget, slightly higher than the 31.8% share in 2009. The increased fiscal deficit will be financed primarily through sustainable external borrowing.

- Monetary policy in 2010 aimed for stability – maintaining single digit inflation while ensuring adequate levels of liquidity for the growing economy. The financial crisis left little room for monetary manoeuvre. The Bank of Zambia shifted from strict use of monetary aggregates to short-term interest rates to anchor monetary policy. To help financial markets, the central bank introduced an overnight lending facility for commercial banks.
- The Bank of Zambia is trying to reduce interest rates. On average, commercial bank lending rates declined from 29.2% in December 2009 to 26.8% in September 2010. Rates remain far too high for small and medium enterprises. The Bank of Zambia is trying to find ways to reduce the gap between central bank interest rates and those used by commercial banks for lending.

- Zambia’s exports are still heavily dependent on copper. The financial crisis slowed demand for Zambian exports and reduced its trade surplus. New partnerships with China and India are expected to restore and increase demand for Zambia’s natural resources and guarantee increasing trade surpluses. However, the additional surplus will not cover the deficits in services and income balances. Additional foreign direct investment is expected from China which has invested heavily in mining and infrastructure such as hydro electricity generation projects.

- Strategy to make Zambia a middle-income country by 2030 partly involves reducing dependency on aid. However, Zambia has committed to require substantial economic growth, export led diversification and expansion of the domestic revenue base. The government is seeking to strengthen public financial management and ensure that domestic and external resources are utilised in an accountable, efficient manner. This often compromises sovereignty of policy making
- Despite tighter fiscal management, external borrowing is expected to increase significantly from 2008-13 to finance the economic infrastructure which the government has made a priority. Most of the funds will go to the rehabilitation of roads, bridges, power generation projects, schools and hospitals. About USD 2 billion was expected to be contracted to support the financing of various infrastructure projects in 2010. The contracted figures will increase Zambia's debt to GDP ratio from 9.1% in 2009 to about 14.9% of GDP in 2010.

Zimbabwe



Background

- Apart from its relative size, the manufacturing sector was diversified such that at the advent of independence, industry already consisted of some 1,260 separate units producing 7,000 different products. This relatively high level of economic diversification is also reflected with respect to the relatively broad export base, with agriculture accounting for 41% of export earnings in 1984, followed by manufacturing at 32% and mining (27%). Thus, the economy that the new independent state inherited was far from the typical mono-cultural economy that most SSA economies are. Out of the 37 African countries whose trade statistics are reported in the 1997 World Development Indicators, 31 derive in excess of 70% of their export earnings from primary commodities (1993statistics).

- The manufacturing sector, which was largely seen as the dynamic aspect of the economy, had its own contradictions. Firstly, the import substitution industrialisation strategy, which had performed well during the sanctions period, (particularly during the fastest growth period of 1966-74), was already showing signs of severe stress by 1980. All easy and moderately hard industrialisation had been exhausted by 1975

- When it became clear that the economy was not generating sufficient jobs, especially in the context of depressed investment, government adopted a more market driven reform programme, the Economic Structural Adjustment Programme (ESAP) in 1991. It needs to be pointed out that civil society was not consulted in the design of ESAP, and in fact, most resented the programme

- The establishment of a Government of National Unity (GNU) in February 2009 and the adoption of macroeconomic stabilisation policies including the multi-currency regime resulted in early signs of economic recovery. GDP growth was estimated at 8.2% in 2010 and 7.8% in 2011, driven by rapid expansion of mining output and exports, and agriculture

- Mining output has risen – 8.5% in 2009 and a record level of 47% in 2010 largely due to increased mining investment. Agricultural output rose 15% in 2009 and 34% in 2010, largely from a doubling of tobacco production. Manufacturing growth, however, slowed down to less than 3% in 2010 compared to 10% in 2009.

- Following the adoption of the multi-currency regime, consumer prices fell by 7.7% during 2009, before rising by 2.5% in the first ten months of 2010. Inflation is estimated to have averaged 4.9% in 2010 – year-on-year inflation was 4.2% in November 2010 – and is officially forecast to increase marginally to 5.9% in 2011. However, food inflation remains a problem with food prices up 7.3% in the year to December 2010.

- The multi-currency system has had mpact on industry competitiveness as manufacturing is heavily import-dependent and 50% of Zimbabwe's imports come from South Africa. The strengthening of the South African rand against the dollar has increased input costs significantly. While firms continued to shed jobs in 2010,businesses faced strong wage inflation pressures attributable to high living costs. The poverty line for a family of five is estimated at USD 500 a month by Zimbabwe Statistics, which trade unions have set as their +target minimum wage.

- All sectors of the economy continue to be constrained by Zimbabwe’s infrastructure deficit. Power generating capacity is lower than it was in 1980. Power outages are frequent and widespread, exacerbating cost pressures and threatening product quality and delivery schedules. Water supply and fixed line telecommunications aralso problems. However, cell phone penetration rates are very high and rising rapidly. The country’s largestmobile phone operator, Econet, boasts more than 5 million subscribers in a population of about 12.5 million.

- There is also current attention on aws which state that all companies with more than USD 500 000 in assets must submit proposals to ensure that indigenous Zimbabweans own 51% of the business within five years. By the end of 2010, some 620 companies had submitted proposals. Business leaders have opposed the programmes and the government softened its stance by appointing 13 committees to make recommendations on local ownership procedures for different industries

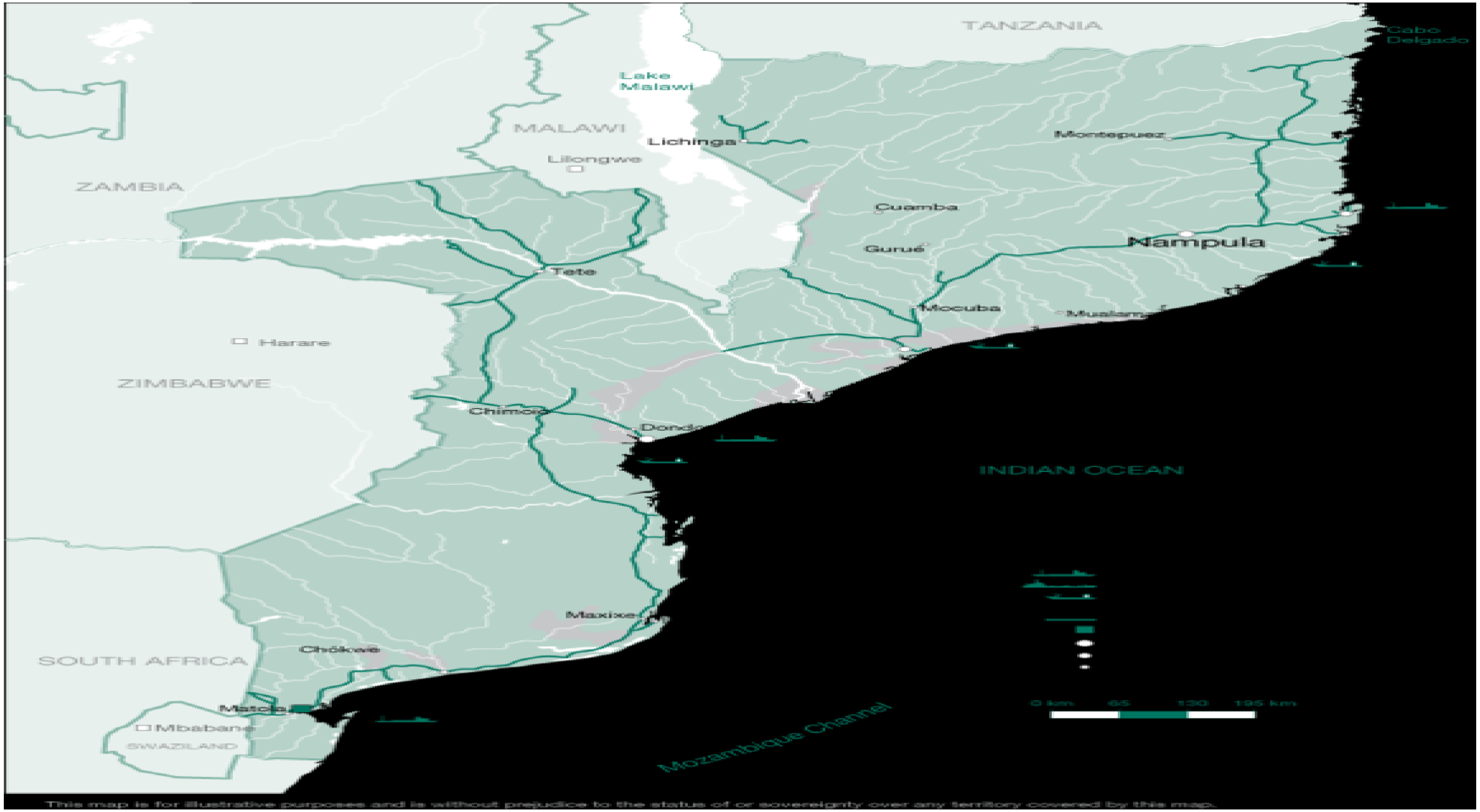
- In March 2011, the government published "Regulations in the Mining Sector". The Regulations specify that indigenisation policy will have to apply to every business in the sector where the value of assets is equal to USD 1 or above (even though the initial threshold was USD 500 000). The value of the shares to be disposed of will be calculated on the basis of valuation to be agreed between the government and the business concerned and will take into account the ownership of minerals to be exploited or proposed to be exploited

- in February 2009 the national unity government published a Short Term Emergency Recovery Programme (STERP) which included measures to “democratise” administrative and government processes, social protection focusing on food security, health and education, and major reform of the agriculture sector. The programme promised to eliminate multiple farm ownership, eradicate
- inefficiencies, improve gender equality and free up to 2 million hectares of unused or under-used land.

- A follow-up programme, STERP II, published in December 2009 set out a three-year macroeconomic and budget framework for 2010-12. This was revised in the 2011 budget when growth forecasts were upgraded and the finance minister set out his “Fair Economy” vision based on the need for shared development and shared transformation.

- South Africa, Zimbabwe's largest trade Partner, dominating imports and exports and traditionally being the largest foreign investor. It is particularly visible in gold and platinum mining.
- China has become a more visible trade partner with 4% of imports and 3.4% of exports. India accounts for 0.85% of imports and 1.4% of exports while the United Arab Emirates provide 0.6% of imports and buy 1.2% of Zimbabwe’s exports.

MOZAMBIQUE



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Tete
Mocuba
Harare
ZIMBABWE
Chimoio
Dondo
INDIAN OCEAN
Maxixe
Chókwè
SOUTH AFRICA
Matola
Mbabane
SWAZILAND
Mozambique Channel
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Background

- Mozambique is one of the countries with the lowest human development index, ranking 170th on a list of 175 countries10. Between 1996 and 1999, Mozambique registered a very positive macroeconomic performance as a result of the transition since 1992 to a period of peace and stability as well as the economic reforms initiated in 1987. I

- Inflation fell to single digit figure and the annual GDP growth rate of real was above 10%. This macroeconomic performance however suffered a setback in 2000 as a result of the floods that affected the country. Nearly 70% of the population still lives in absolute poverty2 and there is a greater incidence of poverty in rural areas (71.2%), as opposed to 62.0% in urban areas (Republic of Mozambique, 2001, WHO, 2008).

- The current target of the Government, therefore, is to maintain a broad-based GDP growth rate of not less than 8% per annum, with an inflation rate of between 5%-7% per annum. The country's geographical characteristics are favourable to agriculture, involving more than 70% of the population, which contributes to about 30% of the GDP

Economic growth is influenced by the contribution of mega-projects such as the Mozal aluminium smelter plant, and the gas pipeline to South Africa. This growth will go a long way towards effective poverty reduction. The government's vision for the fight against poverty, based on its Action Plan for the Reduction of Poverty in Mozambique, 2001-2005 (PARPA), comprises accelerated economic growth and consolidation of the country's economic development.

- Growth in 2009 had been achieved despite a drop in aluminium prices, offset by massive inflows of foreign direct investment (FDI) in coal projects, whereas in 2010 the economy benefited from both FDI and recovering aluminium prices. In addition, coal extracted from the “mega-projects” in Tete province will start adding to exports in 2011.

- The inflation rate hit double digits in 2010, as a result of the scrapping of fuel subsidies in March-August 2010, the rise in international oil and food prices, the depreciation of the currency against the US dollar (USD) and the South African rand (ZAR), a poor agricultural year and loose monetary policies

- The government’s ambitious public works programme over the next few years is expected to result in a substantial widening of the deficit. Capital expenditure should rise by over 1.5 percentage points of GDP between 2008 and 2012. Public investment funded by non-concessional loans will focus on infrastructure based on public-private partnerships (PPPs) along the development corridors.

- Such projects will absorb all fiscal space over the 2011-13 period, favouring in a first stage large foreign investments linking extractive areas with the coast. Agriculture and SME jobs are expected to benefit through spill-over effects along the development corridors. Donors continue to support human development, although their budget contribution, which accounted for almost 50% of revenues in 2010, will start being phased out

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- Mozambique’s new growth model remains based on extractive industries. Two Industrial Free Zones (IFZs) will be created in Nacala in 2011, followed by five more IFZs and one Special Economic Zone (SEZ) before 2014.
- The extent to which this model will create positive effects that benefit the population is yet to be proven, after the government’s failure to promote domestic manufacturing and services around existing mega-projects.Previous experiences with EPZs should provide a warning

- Following the 30th Southern African Development Community (SADC) summit in August 2010, the launch of the SADC customs union, originally planned for 2010, was postponed to 2012 to allow further study of the impact of such a reform on member states. The SADC member states nonetheless reaffirmed their commitment to set up a monetary union in 2016. In 2010, Mozambique continued to remove tariff and non-tariff barriers and to harmonise its trade policies with those of SADC's Free Trade Area, in force since August 2008.

- The European Union (EU) and SADC discussed the benefits of an Economic Partnership Agreement (EPA) in March 2010. Mozambique, Botswana, Lesotho and Swaziland were invited to complete internal procedures to bring the June 2009 interim agreement into force. These four countries, however, vowed not to implement the interim EPA until the EU addresses grievances raised by Namibia, South Africa and Angola. Under the EPA, Mozambique would improve its access to EU markets with respect to the 2001 Cotonou agreement, but would also give legally binding commitments concerning imports from the EU.