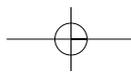
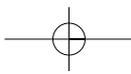
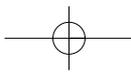
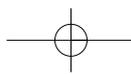


Zimbabwe







Zimbabwe

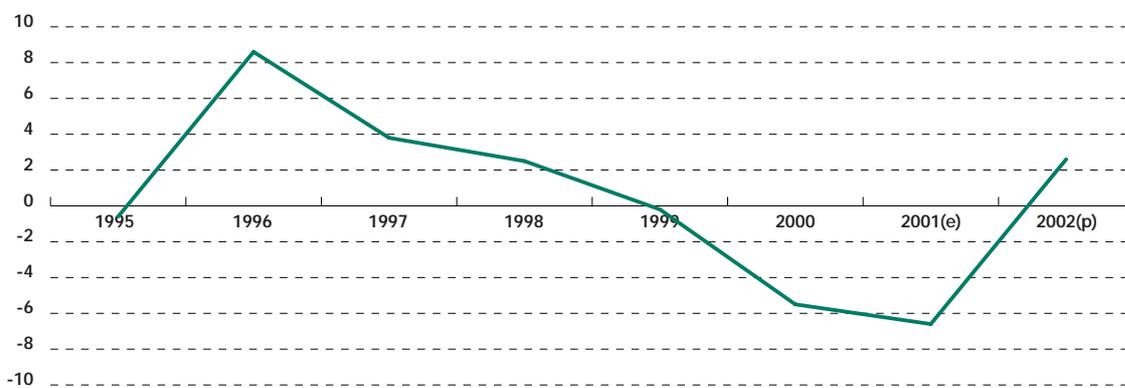
SINCE 1997, ZIMBABWE has been embroiled in an increasingly severe economic and political crisis and future prospects are worrying. The country is facing huge macroeconomic imbalances: in 2000, the fiscal deficit exceeded 20 per cent of GDP and inflation averaged 56 per cent, while the authorities sought to maintain an overvalued exchange rate. As a result, the growth rate is estimated to have sharply decreased to -5.5 per cent in 2000 and -6.6 per cent in 2001. In 2002, political developments will largely determine economic performance. A likely devaluation associated with a partial recovery of the agricultural sector might allow a slight rebound of the growth rate. Governance deteriorated as well in the run-up to the general elections held in June 2000, which were marred by violence and

large-scale intimidation. The invasion of some 1 500 farms by the War Veterans movement and the related death of five farmers led to an unprecedented political crisis — the worst since independence in 1980. The social context gives rise to concern with at least 1.5 million people living with HIV/AIDS, a society characterised by strong and persistent dualism, rising unemployment and collapsing healthcare and education systems. After a poor harvest in 2000/01, food shortages are forecasted for the first quarter of 2002 while the political temperature will rise during the campaign for the presidential election scheduled for March 2002. The outcome of this election will shape future political and economic scenarios.

Since 1997, Zimbabwe has been embroiled in an increasingly severe economic and political crisis

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Figure 1 - Real GDP Growth

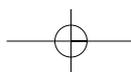


Source: Authors' estimates and predictions based on IMF data.

Recent Economic Developments

After a period of sustained growth, the macroeconomic situation in Zimbabwe has deteriorated markedly over the last three years, and since 1999 the country has been facing a deep crisis. Following a flat real GDP in 1999, the crisis has exacerbated and GDP declined by 5.5 per cent in 2000.

The ongoing crisis, the result of poor macroeconomic management and unsustainable fiscal policy, has further deteriorated through adverse external factors such as the competitiveness loss associated with the depreciation of the South African rand throughout the 1990s, the assets reallocation out of emerging markets following the Asian crisis, and by the adverse terms-of-trade effects of high oil prices and depressed



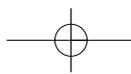
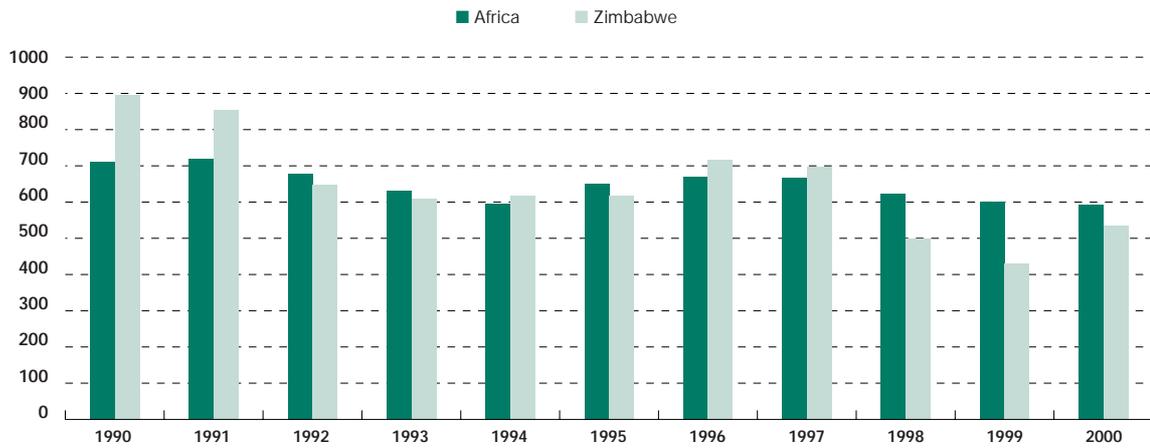


Figure 2 - GDP Per Capita in Zimbabwe and in Africa (\$ current)



Source: Authors' estimates based on IMF data.

commodity earnings in 1998/99. Moreover, by the end of 1999 governance conditions had further depressed an already difficult situation. Agriculture, manufacturing, mining and tourism — the economic growth engines — have been the sectors most affected by the crisis.

High levels of spare capacity in manufacturing, one of the most diversified in the African continent, during 1999 and 2000 were mainly the result of the gradual erosion of competitiveness. Despite a 24 per cent devaluation of the currency in August 2000, the volume of industrial production fell by 4.8 per cent during 2000 following a 7.5 per cent decline in 1999. The reduction of foreign commercial credit lines and shortages of foreign currency have further dampened an already depressed sector. As a result, manufacturing is operating well below capacity and at least 400 firms closed during 2000. In 2001 uncertainty regarding the respect of the rule of law extended to the sector through threats of forced reintegration of dismissed workers in the face of the intimidation by the War Veterans movement. Business confidence is therefore declining and private investment falling.

Despite the good harvest of 1999/2000, the agriculture sector has decelerated from 3.5 to 2.5 per cent in 2000. Farm invasions began in February 2000 and part of export crops did not reach the market. Tobacco earnings, the most valuable crop and leading

export, dropped from US\$608 million to US\$465 million in 2000, partly reflecting depressed world market prices. In 2001, the tobacco crop declined by an estimated 20 per cent in volume, to 190 million kilograms from 236 million in 2000. Most crops were adversely affected by poor weather and war veteran activity which disrupted planting and production on many commercial farms. Banks were also reluctant to extend credit to farmers whose land had been occupied or "listed" for compulsory acquisition. Therefore, investments in the sector are likely to drop drastically and, despite stability of international prices of tobacco, agricultural production in 2001 would probably be 10 per cent less than in 2000. The reintroduction of the Grain Marketing Board as a monopoly to distribute and price maize, and wheat, together with an expected 35 per cent fall in maize production may threaten the country before the next crop season in May 2002.

Mining, representing 2 per cent of GDP and 45 per cent of country's foreign earnings in 1999, has been seriously affected by the general downturn of the economy and in 2000 it declined by 11 per cent. Gold production — accounting for about a half of the total value of the mining sector — passed from 27.6 tons in 1999 to 22.1 tons in 2000 as a result of declining international prices and the overvalued exchange rate. Indeed, gold producers, while they must sell the entire production to the Central Bank, have to acquire part

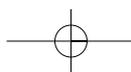
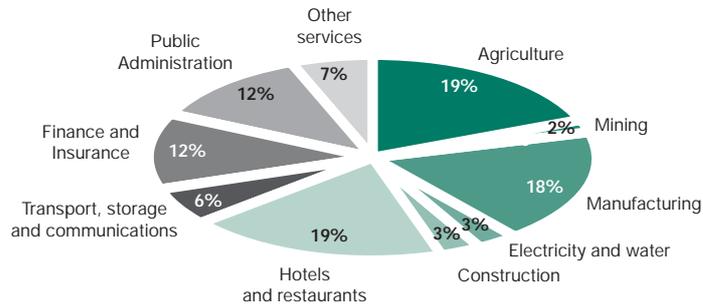




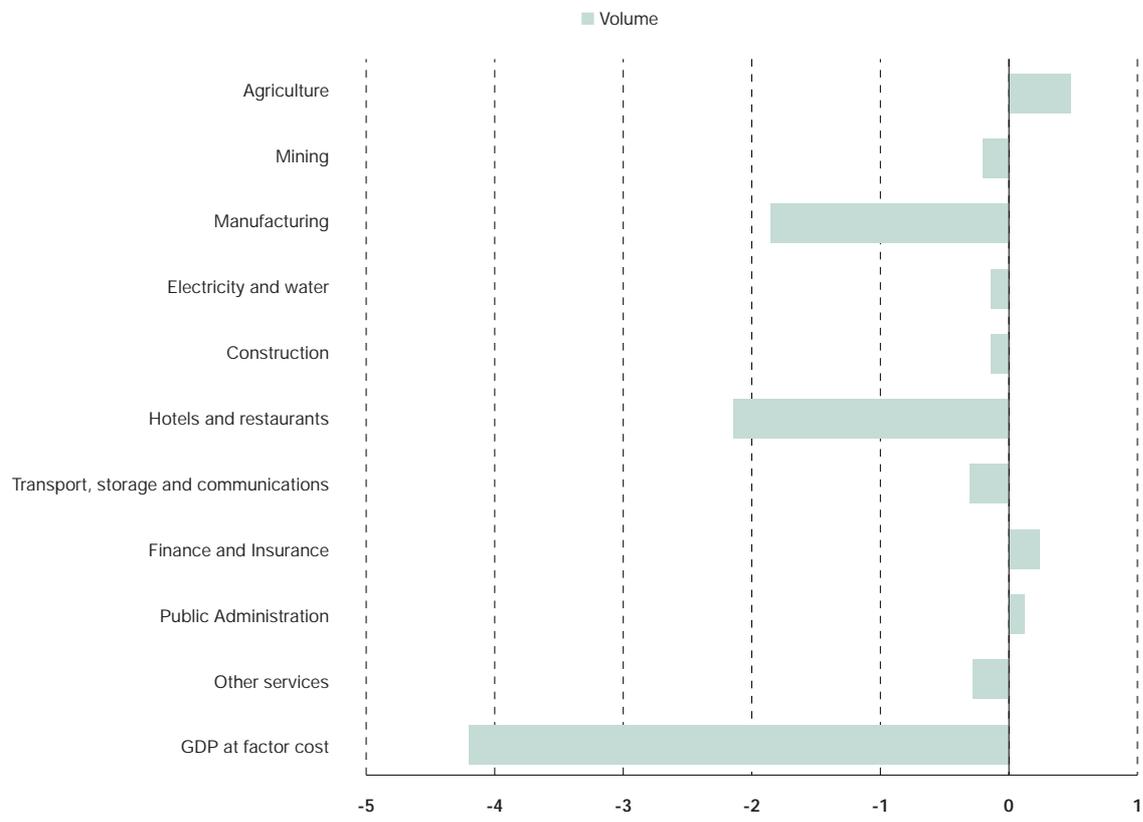
Figure 3 - GDP by Sector in 1999^a



a. Figure 3 is related to 1999 since the data available for 2000 are not comparable with the aggregated data available from other sources (IMF and World Bank).

Source: Authors' estimates based on IMF data.

Figure 4 - Sectoral Contribution to GDP Growth in 2000^a



a. Data for Figure 4 are at factor cost. Therefore real GDP growth is different from the real GDP at market prices reported in Figure 1. No consistent data were available for sectoral price evolution.

Source: Authors' estimates based on IMF data.

of the imported inputs with a premium on the parallel exchange rate market. In April 2001, the government introduced a gold price support scheme which was revalued upwards in August 2001 and had the effect of increasing the effective exchange rate received by gold

producers to Z\$108 to the US dollar, that is almost twice as much as the official exchange rate.

The tourism sector has been the most deeply affected by the political and social unrest. The sector, second

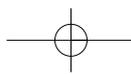


Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	19.7	17.2	10.0	4.3	3.3	2.9
Public	-0.2	2.5	4.0	3.5	0.8	0.8
Private	19.9	14.7	6.0	0.8	2.5	2.1
Consumption	83.0	84.6	85.3	92.8	95.9	98.1
Public	18.0	15.6	29.1	24.9	26.3	25.3
Private	65.0	69.0	56.2	67.9	69.6	72.8
External sector	-2.7	-1.8	4.7	2.9	0.8	-1.0
Exports	38.2	45.9	45.1	30.0	28.0	26.7
Imports	-40.9	-47.7	-40.4	-27.1	-27.2	-27.7

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

in 1999 as a source of foreign exchange, is facing a strong decline after a continuous increase during the 1990s. Activity has dropped by 11 per cent in 2000 and tourist arrivals have been down by 60 per cent. The current political situation is hampering the development of the sector and preliminary estimates for 2001 are projecting a further decrease in the tourism activity.

The recent crisis has changed the demand structure. From 2001 on, gross capital formation represents about 3.1 per cent of GDP, around 16 percentage points less than in 1995. The confidence crisis of the private sector coupled by spare capacity has implied a slash down of private investment from 19.9 per cent of GDP in 1995 to around 2.3 per cent in the years following 2000. External demand has changed severely as well. Already weak exports have faced an erratic exchange rate policy while foreign currency shortages crippled the level of imports. Consequently, imports fell from 40.4 per cent of GDP in 1999 to 27.1 per cent in 2000 as exports were cut down to 30 per cent (compared with 45.1 per cent in 1999). In 2001 and 2002, despite a slight recovery of exports, both export and import patterns remain below the initial trend.

Macroeconomic Policy

Fiscal and Monetary Policies

The country's fiscal situation over the last decade has been characterised by a high and persistent budget deficit, on average around 8 per cent of GDP. After

efforts in 1998 to reduce the fiscal gap, the situation has worsened again since 1999. Overall deficit has grown to 10.5 per cent of GDP in 1999 and to 21.3 per cent in 2000. Rising interest payments fuelled by high inflation and a 69 to 90 per cent upsurge in public wages — just before the June 2000 election — have been the main elements responsible for such a steep increase. Other sizeable overruns have been registered in the defence outlays that have been estimated at 4.8 per cent in 2000, against 3 per cent in the original budget.

Sustained inflation, an overvalued exchange rate, almost no access to external debt and the skyrocketing deficit have changed the structure of public debt. External public debt represented 41 per cent of total public debt in 2000 from a share of 71 per cent just two years before. The share of domestic public debt has increased accordingly and in 2000 the interest payments on domestic public debt absorbed almost 60 per cent of total revenues. The impact of this on the economy has been cushioned by sustained inflation, so that total public debt as a ratio of GDP fell by 18 per cent between 1998 and 2000 to 69 per cent of GDP.

In early 2000 the government prepared an 18-month economic programme — the Millennium Economic Recovery Plan (MERP). Although it contains useful medium-term objectives, the lack of clear priorities, sequencing and binding targets reveals the difficulties of using a medium-term budgetary instrument in the current economic situation. The 2001 budget, announced in November 2000, has

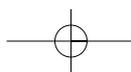


Table 2 - Public Finances (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Total revenue and grants^a	25.4	33.2	28.3	28.5	30.9	30.9
Tax revenue	21.4	29.2	25.9	25.7	28.0	28.1
Total expenditure and net lending^a	34.9	35.7	38.8	49.9		
Current expenditure	30.5	33.3	33.3	47.3		
<i>Excluding interests</i>	<i>21.3</i>	<i>23.4</i>	<i>23.2</i>	<i>30.1</i>	<i>31.8</i>	<i>30.7</i>
Wages and salaries	10.3	12.7	13.2	15.3	16.5	15.8
Interest	9.2	9.9	10.1	17.1		
Capital expenditure	4.3	1.8	4.0	2.1	2.1	2.1
Primary balance	-0.2	7.5	-0.4	-4.2	-3.6	-2.4
Overall balance	-9.5	-2.4	-10.5	-21.3		

a. Only major items are reported.

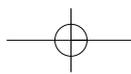
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

targeted an overall deficit of 15.5 per cent of GDP, 6 percentage points less than in year 2000. The achievement of such reduction in a context of negative growth and declining revenues relies on a five-pronged strategy. With the operational tool of a cash budgeting system limiting expenditures to budgeted resources, a cap on public wages is likely to be introduced allowing a maximum 15 per cent nominal increase. Domestic debt is planned to be restructured through a switching from Treasury bills (T-bills) to longer-term government stocks at lower interest rates. Public employment is likely to be reduced and the divestiture of some public enterprises is expected to raise privatisation proceeds. Nevertheless, events that occurred during 2001 have threatened the implementation of this ambitious programme. The unbudgeted gold price support — offered to the mining sector in April 2001 and increased in August 2001 — is likely to drain a portion of public resources. A 70 per cent increase in fuel prices in June 2001 is likely to increase inflationary pressures, undermining the programmed public wage policy. The primary deficit is expected to improve in 2002 as reforms aimed at cutting down expenditures are becoming operational.

Since January 1999, monetary developments have been influenced by the government's rising borrowing requirements. In 1999 broad money grew by 30 per cent. The Reserve Bank of Zimbabwe (RBZ), in July 1999, doubled the reserve requirement and widened the margin between the benchmark bank rate and the

T-bills rate by five percentage points, in an attempt to dampen further monetary expansion. As a result, interest rates surged to 17 per cent in real terms, crowding out the private sector's access to credit. In August 2000, monetary policy was eased to avoid further crowding out of the private sector. The margin between the bank rate and the Treasury bills has been subsequently reduced to one percentage point and commercial banks have been allowed to use part of their statutory reserves to finance credits to targeted sectors. As a result, M3 had further increased to 59.9 per cent by the end of 2000. The easing of monetary conditions allowed the central bank a more aggressive policy to meet the government requirements of a restructuring of the public debt. Through the enforcement of the 45 per cent statutory requirement for the holding of long-term government paper by institutional investors — such as pensions schemes and mutual funds — the RBZ has been able to reduce the interest rate of the 90-day T-bills from a level of 68 per cent in December 2000 to a level of 11 per cent in April 2001, though this increased modestly to 17 per cent by September. Despite policies which have eased fiscal requirements, in a situation characterised by high and increasing inflation, the potential hangover in 2002 for those institutional investors could be severe.

Notwithstanding efforts in market clearing operations, the Zimbabwe dollar remains substantially overvalued. In August 2000, the RBZ abandoned the fixed peg of Z\$38 to the US dollar that applied from



January 1999. A 24 per cent step devaluation as well as periodic devaluations based on inflation differentials with trading partners have been introduced. Despite depreciation by 31 per cent *vis-à-vis* the US dollar by the end of 2000, the Zimbabwe dollar has remained above its market clearing value. Moreover, the monetary policy of artificially lowering interest rates introduced in 2001 is adding pressures on the exchange rate. Importers can now borrow at a negative real interest rate. As a result, the parallel exchange market, so far crucial for the functioning of the economy, registered a steep premium increase by mid-2001, from a 25 per cent premium toward the end of 2000, to a 265 per cent premium in September 2001, the US dollar being exchanged above Z\$200, while the official exchange rate is still at Z\$55 per US\$1, with additional negative consequences on the financial sector.

After a period of sustained inflation of 21 per cent during 1995-1997, inflation accelerated in 1999 and peaked at 70 per cent in October 2000. The tighter monetary policy implemented during the first half of 2000 dampened inflationary pressures. Nevertheless, the August 2000 devaluation, coupled with the easing of monetary policy, has had the effect of putting inflation on an upward trend. In 2001 the situation has worsened owing to the steep increase in fuel prices and a subsequent increase in public utilities prices. In September 2001, the RBZ announced a 76 per cent inflation rate for August and the yearly inflation target of 57 for 2001 is likely to be revised upward. The rate is expected to attain 69.8 per cent in 2001 before receding slightly to 62.3 per cent in 2002.

External Position

Zimbabwe is a relatively open economy with trade accounting for more than 70 per cent of gross domestic product. In the last decade Europe (especially the United Kingdom and Germany) has been growing as Zimbabwe's primary export market, overtaking Africa. As such, European markets accounted for 38 per cent of export value growth in the 1990s. Nevertheless, the SADC area — South Africa in particular — is still a significant market for Zimbabwe's exports and can be considered crucial for manufactured products. South

Africa — with the opening up of its economy which began in 1994 — has emerged as the major exporter to Zimbabwe's economy. In particular, South Africa provides a major share of the country's energy requirements. Exports are essentially agriculture products (tobacco, sugar, maize and cotton) and mining (gold, ferrochrome and nickel). Manufacturing has declined in recent years, passing from almost 30 per cent of total exports in 1995 to 21 per cent in 1999.

Despite major efforts pursued in the last ten years to liberalise trade, Zimbabwe is still characterised by a quite restrictive trade regime. The foreign exchange allocation system relaxed at the beginning of the decade has been recently restored in the form of stringent foreign exchange controls as a measure to regulate the growth of imports. A system of permits and monopolies for exports is still active: the Grain Marketing Board has the monopoly for maize exports and gold is exported only by the RBZ. On the other hand, a simplification of the structure of import tariffs and a reduction in the average and maximum tariff rates were introduced in September 2000 with a new import tariff schedule.

The country's external position seriously deteriorated in 1999 and 2000 reflecting the combined impact of the freeze on foreign assistance and declining exports. Foreign assets reserves started to fall off at the beginning of 1999 as a result of the overvalued exchange rate, erosion of competitiveness, depressed commodity prices and a standstill in external financing. As a consequence, imports fell drastically from US\$2 billion to US\$1.7 billion: the outcome was a positive current account of 0.3 per cent of GDP in 1999, after a 5.6 deficit registered in 1998.

In 2000 the external position deteriorated further. In addition to the factors responsible for the bad performance of the previous year, the general downturn of the economy and the land crisis have contributed to the worsening of the situation. Export earnings from the agriculture sector have diminished and fuel and electricity shortages have had a negative impact on an already weak mining sector. As a consequence exports in 2000 fell from US\$1.92 billion to US\$1.79 billion. In the wake of the recent political violence, tourism

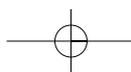


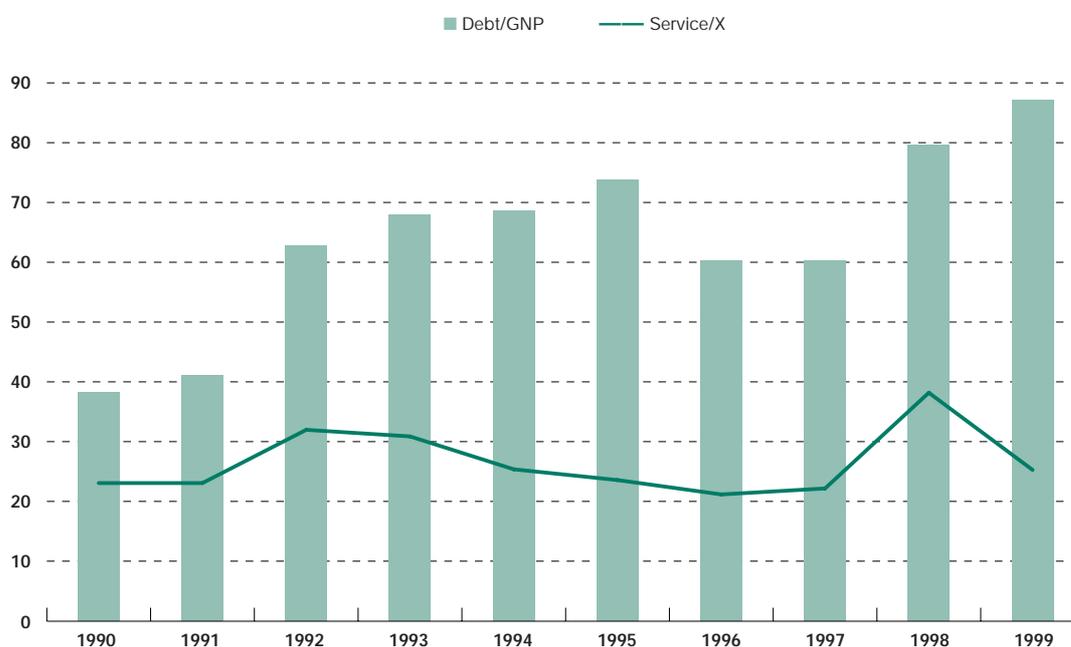


Table 3 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	1.2	-1.5	4.5	3.3	1.2	-0.2
Exports of goods (f.o.b.)	31.1	30.4	34.4	24.2	21.4	20.4
Imports of goods (f.o.b.)	-29.9	-31.9	-30.0	-21.0	-20.2	-20.6
Services	-3.5	-0.6	0.4	-1.1		
Factor income	-4.5	-5.5	-6.4	-5.9		
Current transfers	1.7	2.1	2.0	1.1		
Current account balance	-5.1	-5.6	0.3	-2.7		

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Figure 5 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



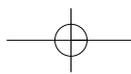
Source: World Bank (2001), *Global Development Finance*.

receipts fell sharply in 2000 with a negative impact of the services account which passed from a surplus of US\$21 million to a deficit of US\$80 million. As a result, the current account has registered a deficit of 2.7 per cent as a percentage of GDP. A slow recovery is expected to start from 2001.

Foreign direct investment was not an important component of total investment until the early 1990s, when, with the opening of the economy and the establishment of the Zimbabwe Investment Centre (ZIC) in 1989, FDI inflows started. After having

reached the level of 16.7 per cent of total gross domestic investment in 1997, the flows of foreign investment have declined substantially and virtually vanished in 2000 owing to macroeconomic mismanagement and to the governance crisis.

Financial budgetary support from international official and commercial lenders has been widely used by Zimbabwe since its independence. Although on paper the stock of foreign debt has remained unchanged since 1997, reflecting the cutback in aid inflows and lending by multilaterals, the country's offshore



obligations have risen sharply with the build-up of foreign arrears. As a consequence, the stock of total external debt reached \$4.6 billion in 1999, equal to 87 per cent of GDP. In terms of structure, external debt, being around 80 per cent public, is overwhelmingly medium- and long-term debt. Half of the public external debt is owed to multilateral institutions, notably the World Bank and the IMF, while the rest of it is contracted with foreign governments and to a lesser extent with private creditors. Foreign exchange shortages of the last two years have made debt repayments increasingly difficult and by mid-1999 the government had defaulted on its external debt commitments.

Structural Issues

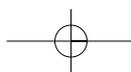
With quite a diversified economy compared with other African countries, Zimbabwe was, until the beginning of the 1990s, structurally characterised by strong state intervention and rigid controls over prices. The gradual liberalisation of the economy which occurred through the 1990s has partly lifted the degree of state intervention. Nevertheless, core areas are still strictly controlled and the context of economic downturn has not helped the implementation of planned reforms.

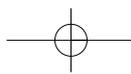
Although the government's decision to privatise public enterprises has been announced as part of the liberalisation process started in 1991, the Privatisation Agency (PAZ) was not established until September 1999. The larger SOEs are related to public utilities in the energy sector (both in provision and distribution), air and railway transport, and other strategic sectors such as telecommunications, industrial development, financial services and the banking sector. Progress in privatisation has been made since 1997, and with the official launch of PAZ the programme is supposed to be accelerated. In 2000 the PAZ began to set up the regulatory framework of the privatisation programme through successive releases of the privatisation manual which sets the rules of the privatisation policy. According to PAZ officials the privatisation process should be implemented through the following patterns:

in 2001 a *fast track* divestiture of firms already listed on the stock exchange such as some subsidiaries of the Industrial Development Corporation (IDC) will occur; at a second stage public utilities will be divested; then parastatals which have some social functions (like universities and colleges) will be privatised. So far, the whole process is lacking a government blueprint and time constraints. The three-year programme set by the government is expected to give total proceeds of Z\$28 billion (equivalent to US\$0.5 billion at the official exchange rate of Z\$55:US\$1) with an amount of Z\$22 billion (US\$0.4 billion) for the year 2001. In April 2001 the proceeds amounted to Z\$5 billion only.

The level of transport infrastructure in Zimbabwe is well developed and the road network, with 15 000 km of tarred roads, is extended throughout the country. A landlocked country, Zimbabwe has direct links to Zambia and South Africa through a railway system. The National Railways of Zimbabwe (NRZ), a SOE, was reformed with World Bank aid in the mid-1990s and discussions are currently under way related to the concession strategy to be followed. Air transport, with two international airports and two state-controlled airlines, is also quite well developed. A new international air terminal in Harare was inaugurated in 2001. The national carrier, Air Zimbabwe, is experiencing financial problems, but these have been eased recently owing to the withdrawal of most major international carriers from Zimbabwe, except British Airways and South African Airways. Also the requirement that travellers must pay for air tickets in hard currency has diverted traffic away from international carriers to Air Zimbabwe, which sells tickets in Zimbabwe dollars. The airline's 2000 debt is estimated around Z\$400 million (US\$7.2 million) and the scheduled privatisation of the company is unlikely to be feasible in the near term.

The highly unequal distribution of land has always threatened social cohesion since the inception of independent Zimbabwe, and the land issue has become the dominant concern in the last four years. Twenty years after the proclamation of independence in 1980, the realisation of a more equitable distribution of land





has still not been achieved. The distribution of land is still characterised by some 4 500 large-scale commercial farms, owned for the most by white farmers, living on 11 million hectares (ha) of the most fertile and best-irrigated land. On the other hand, 1.2 million households, around half of the population, are living on 16.3 million ha of communal poor quality, drought-prone land. In addition, according to the World Bank, about 40-50 per cent of the high potential arable commercial land is left unused for various reasons, including restrictions on the subdivision of land, the allocation of water rights and the absence of a land tax. The resettlement process began soon after independence to achieve a more equitable land distribution. Nevertheless, after a period (1980-1984) of fast resettlement, the process slowed down by the mid-1980s. As a result, until 1997 the Government had redistributed only 3.5 million ha of commercial land, equivalent to 10 per cent of arable land and 25 per cent of the pre-independence white-owned land. In a context of economic downturn with a subsequent lack of financial resources to fund the high cost of the resettlement process, growing political and popular discontent led the government to decide a more radical policy of land reform. In November 1997, the *willing-buyer-willing-seller* system had been abandoned and replaced by the government announcement of 1 471 commercial farms (almost 40 per cent of white-owned land) for compulsory purchase. The decision plunged the country into considerable confusion. Despite the International Donors' Conference held in Harare in September 1998, where all major donors, government and stakeholders agreed on a two-year *Inception Phase*, the situation has worsened over the last three years. In mid-2000, the government launched the *Fast Track Development Programme* covering 5 million ha and 150 000 families, compared with 3.5 million ha and 73 000 families, resettled so far, with the new principle of compensation for capital improvement and not for the value of the land, but by September 2001, over 9 million ha of commercial farmland had been listed for acquisition.

Against a background of increasing politicisation of the land issue, the likely prospects are disruption and uncertainty followed by sizeable output losses and

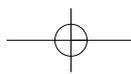
unemployment of agricultural workers. Nevertheless, the land reform process still relies on its core principles: agreement between stakeholders, and adequate support (infrastructure, seeds, fertilisers and credit) to resettled households to avert decline in the yields.

Political and Social Context

The presidential election scheduled for April 2002 is a big challenge for Zimbabwe's democracy. By 2000 the ruling party ZANU-PF (Zimbabwe African National Union-Patriotic Front) and President Mugabe, the country's chief executive since independence, have been challenged by a strong opposition, after having dominated the country scene for 20 years. Economic discontent, the negative impact of the 1990s reforms on the people's living standards and rising corruption within a group which has ruled the country for 20 years have led to the rise of popular opposition to the government with subsequent violent riots and strikes during 1998. As a response to this discontent, the Zimbabwe Congress of Trade Unions (ZCTU) formed the Movement for Democratic Change (MDC) in September 1999. Since then, with the NO vote at the Constitutional Referendum — promoted by Mugabe — held in February 2000 and with the national election held in June 2000 where the MDC won 57 of the 120 contested seats, Mugabe and the ZANU-PF have been confronted by an organised and strong political opposition.

The responses so far have been disconcerting. Over 30 deaths attributable to political violence were reported in the run-up of the June 2000 elections and the politicisation of the land issue led to occupation of farms and to the deaths of five white farmers. Members of the National Liberation War Veterans Association, together with pro-ZANU-PF younger people, are being increasingly involved in the farm invasions, and their role in the run-up of the 2002 presidential election is puzzling. During 2001 political tensions are intensifying and potential food shortages at the beginning of 2002 are threatening the livelihood of the population leading to an unsustainable political and economic situation. In the present context there are fears of a rapid escalation





of the current political violence in the run-up to the next round of election.

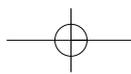
International relations over recent years have been characterised by Zimbabwe's military involvement in the DRC war and by rising international concerns related to the internal political situation. Zimbabwe has been fighting in DRC since 1998, in support of President Kabila, and by mid-2001 an estimated 12 000 troops had been sent there. Following the assassination of Laurent Désiré Kabila in January 2001, the 1999 Lusaka peace accord is more likely to be implemented. Indeed, Zimbabwe reduced its deployment by 3 000 troops in mid-2001. International concerns have risen in the last two years in relation to the violent clashes during the 2000 general elections. By 2001 the situation had been aggravated by the War Veterans' actions, including threats against foreign embassies and aid agencies. In August 2001 Denmark decided on an immediate freeze on all development aid co-operation with the Zimbabwean government. As the situation deteriorated, South Africa and Nigeria stepped up their involvement in the dispute between Zimbabwe and several OECD countries, which led to an agreement reached in September 2001 at a meeting of Commonwealth Ministers in Abuja, Nigeria. The Abuja agreement provides for the withdrawal of settlers from unlisted — or illegally listed — farms, as well as a return to the rule of law. After this Abuja Declaration, designed to resolve the land crisis peacefully, the South African government initiated a high-level conference in Harare in September 2001, to ensure its speedy implementation.

Zimbabwe's society is characterised by a persistent and increasing dualism in which the richest 20 per cent of the population receive 60 per cent of total income. Moreover, the recent economic crisis and the parallel squeezing of national resources available for social services are hampering the sustainability of the highly developed health care and education systems that placed Zimbabwe at the forefront of the continent ten years after independence. The spread of HIV/AIDS among the population is erasing the gains in life expectancy achieved in the last 20 years and the high prevalence of HIV-AIDS among the population is disorganising the health care system.

Inequalities between rural and urban areas are still large. According to a recent (1995/96) World Bank study, the incidence of poverty was equal to 48 per cent in rural areas compared with a level of 7.9 per cent in the urban areas. Moreover, all major indices of poverty — incidence, depth and distribution sensitive measure of severity — increased during the first part of the 1990s by more than a quarter. The absence of reliable data does not allow an accurate monitoring of the present situation. Nevertheless, some indicators suggest a worsening of the poverty context. Given the relatively high growth elasticity of poverty (0.68) and of extreme poverty (1.2) to growth, it is likely that poverty has increased in the last five years. The 1996-2000 average GDP growth of 1.8 per cent is far below the 4.7 per cent per year required to prevent the increase of the total number of extremely poor.

With 25 per cent of the adult population living with HIV/AIDS in 1999, Zimbabwe is one of the most infected populations in the world, overtaken only by Botswana and Swaziland. UNAIDS estimates that 1.5 million people are living with HIV/AIDS. Teachers and health workers are the most affected population and life expectancy will decline from 66.5 to 42.9 years during the 2000-2005 period as a result of HIV/AIDS. Another serious effect of HIV/AIDS is the number of orphans. By the end of 1997 the number of living orphans was 360 000, by 2010 1.2 million orphans (10 per cent of total population) are likely to have a severe impact on social services and on the country's social cohesion. Although estimates of the economic impact are unclear, preliminary studies suggest a drop of 1 per cent in per capita output yearly growth. In order to fight the threat, an AIDS levy (a 3 per cent pay-as-you-earn tax) and a corporate tax were introduced in 2000. In 2001, Parliament instituted an AIDS Council, which is mandated to implement the national strategy against HIV/AIDS, and to disburse the funds. So far, the lack of a clear agenda has prevented the implementation of an effective strategy partly because some of the ministries have not developed their own plan, precluding the actual disbursement of funds. In June 2001, the Minister of Health estimated that there would be zero population growth in 2002, because of the heavy incidence of HIV-AIDS.





By African standards, the education system has made tremendous progress since independence, and now Zimbabwe enjoys a well-educated population. The most dramatic achievements in providing education were made in the first decade, between 1980 and 1990. The number of primary and secondary schools increased by 42 per cent and 662 per cent respectively and enrolments increased by over 200 per cent across the whole system. Since 1990, the main achievements have been related to the quality of teaching. The share of trained teachers in primary and secondary schools passed from 50 per cent in 1990 to 77 per cent in

primary schools in 1997 and to 89 per cent in secondary schools in 1996. As a result of this dramatic progress primary education is free and universal and about a half of the 12-16 age group was enrolled in secondary schools in 1994. The adult literacy rate has increased accordingly, passing from 70 per cent in 1980 to 89 per cent in 2000. Nevertheless, the effect of the spread of HIV/AIDS on the education system is threatening the results achieved. Teachers are one of the most affected categories and the increasing number of orphans is likely to have a negative impact on the school population.

