

# **The OECD/DAC's New Development Strategy**

**Report of the Issue-wise Study Committee  
for Japan's Official Development Assistance**

**vol. 3 Country Studies**

**March 1998**

**The Issue-wise Study Committee for  
Japan's Official Development Assistance on  
the "DAC's New Development Strategy (NDS)"**

**Organized by  
Japan International Cooperation Agency**



This report is based on the discussion and findings of the Issue-wise Study Committee for Japan's Official Development Assistance on the "DAC's New Development Strategy (NDS)" organized by the Japan International Cooperation Agency (JICA). The views expressed in the report are those of the members of the Study Committee and do not necessarily reflect those of JICA and its affiliated organizations.

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from:

the Institute for International Cooperation (IFIC)  
the Japan International Cooperation Agency (JICA)  
10-5 Ichigaya, Honmura-cho, Shinjuku-ku, Tokyo 162-8433  
JAPAN

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## List of the Committee Members

Chairperson	Yoshiaki ABE	Visiting Professor, Institute of Asia-Pacific Studies, Waseda University Visiting Development Specialist, JICA
Poverty	Hideki ESHO	Professor, Faculty of Economics, Hosei University
Cooperation Method	Akira KASAI	Special Technical Advisor, JICA
Cooperation Method	Kaoru HAYASHI	Senior Economist, Director for Development Assistance Studies Method, The Research Institute of Development Assistance, The Overseas Economic Cooperation Fund(OECF)
Zimbabwe	Katsumi HIRANO	Economist, Development Studies Department, Africa Project, The Institute of Developing Economies
Environment	Senro IMAI	Development Specialist, JICA
Ghana	Ichiro INUKAI	Professor, Faculty of International Relations, International University of Japan
Cambodia	Shigeru ITOGA	Coordinator, Economic Cooperation Department, The Institute of Developing Economies
Health Care	Etsuko KITA	Chief Field Support and Logistics, Emergency and Humanitarian Action, WHO (Formerly, Director, Expert Service Division, Bureau of International Cooperation, International Medical Center of Japan)
Education	Seiji UTSUMI	Professor, Faculty of Human Sciences Osaka University

(in alphabetical order)



## List of the Task Force Members

Chief	Nobuhiro KOYAMA	Development Specialist, Institute for International Cooperation, JICA
Advisor (Cambodia)	Naoko AMAKAWA	Current Affairs Department, The Institute of Developing Economies
Advisor (Ghana)	Tsutomu TAKANE	Development Studies Department, Africa Project, The Institute of Developing Economies
Advisor (WID)	Yumiko TANAKA	Development Specialist, The Institute for International Cooperation, JICA
Advisor (Zimbabwe)	Akio NISHIURA	Lecturer in African Studies, Soka University
Ghana	Kimio ABE	Third Regional Division, Planning Depart- ment, JICA
Aid Trends	Tetsuya HARADA	Country Officer, 2nd Division (Africa Region), Operations Department III, OECF (until August 1997)
Aid Trends	Ryouji KIMURA	Country Officer, 2nd Division, Operations Department III, OECF (since September 1997)
Cambodia	Hideaki MARUYAMA	First Regional Division, Planning Department, JICA (until September 1997)
Poverty	Hiromichi MURAKAMI	Research and Development Division, Institute for International Cooperation, JICA (until March 1997)
Health Care	Nakae NOGUCHI	Associate Development Specialist, Planning Division, Medical Cooperation Department, JICA
Poverty	Yuriko SATO	Deputy Director of Technical Personnel Devel- opment Division, Institute for International Cooperation, JICA

Aid Trends	Atsuko SAITO	Project Officer, Environment & Social Development Division, Project Development Department, OECF (Since September 1997)
Education Zimbabwe	Mitsuyo SHIDA	Research and Development Division, Institute for International Cooperation, JICA (Researcher. Japan International Cooperation Center)
Cambodia	Kazuyoshi SHINOYAMA	Research and Development Division, Institute for International Cooperation, JICA (since April 1997)
Aid Trends	Motoyuki TAKAHASHI	Project Officer, Project Planning Division, Project Development Department, OECF (until August 1997)
Overview	Hiroshi TANABE	Planning Division, Planning Department, JICA
Environment	Kunihiro YAMAUCHI	Deputy Director of Environment, WID and Other Global Issues Division, Planning Department, JICA

(in alphabetical order)



# Report of the Study Committee on the DAC's New Development Strategy

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[Writer]	
<Zimbabwe>	
Katsumi HIRANO	Chapter 2, 5, 6 and 1.1-1.3, 4.1-4.3
Akio NISHIURA	1.4-1.7, 4.4-4.7
Mitsuyo SHIDA	Chapter 3
<Ghana>	
Ichiro INUKAI	Chapter 4-6 and 2.1-2.5, 3.1, 3.2
Tsutomu TAKANE	Chapter 1 and 2.1
Kimio ABE	3.3
<Cambodia>	
Shigeru ITOGA	Chapter 5, 6
Naoko AMAKAWA	Chapter 1-3
Kazuyoshi SHINOYAMA	Chapter 4



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## Abbreviations

ADB	Asian Development Bank
AfDB	African Development Bank
AfDF	African Development Fund
AIDS	Acquired Immunodeficiency Syndrome
ASEAN	Association of South East Asian Nations
BHN	Basic Human Needs
CAS	Country Assistance Strategy
CEC	Commission of the European Communities
CG	Consultative Group
CIDA	Canada International Development Agency
CIS	Commonwealth of Independent States
CPP	Country Program Paper
DAC	Development Assistance Committee
DANIDA	Danish International Development Agency
DfID	Department for International Development
DSR	Debt Service Ratio
EU	European Union
ESAF	Enhanced Structural Adjustment Facility
FAO	Food and Agriculture Organization
GDP	Gross Domestic Products
GNP	Gross National Products
HDI	Human Development Index
HIV	Human Immunodeficiency Virus
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
ILO	International Labor Organization
IMF	International Monetary Fund
JOCV	Japan Overseas Cooperation Volunteer
LLDC	Least Less Developed Countries
NDS	DAC's New Development Strategy
NGO	Non Governmental Organization
NIEs	Newly Industrializing Economies
OAU	Organization of African Unity
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OECF	The Overseas Economic Co-operation Fund
PPF	Policy Framework Paper
PVO	Private Voluntary Organization
Sida	Swedish International Development Co-operation Agency
SIP	Sector Investment Programme

SPA	Special Program of Assistance for Africa
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Fund for Population Activities
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WFP	World Food Programme
WHO	World Health Organization
WID	Women in Development

<Zimbabwe>

AFC	Agricultural Finance Corporation
Agritex	Agricultural Technical Extension Department
AMA	Agricultural Marketing Authority
CFU	Commercial Farmers' Union
CMB	Cotton Marketing Board
COMESA	Common Market for Eastern and Southern Africa
CSC	Cold Storage Commission
CSO	Central Statistical Office
DEAP	District Environmental Action Programme
DMB	Dairy Marketing Board
DR&SS	Department of Research and Specialist Services
DST	District Strategy Teams
ECEC	Early Childhood Education Care
EPZ	Export Processing Zone
ESAP	Economic Structural Adjustment Programme
ETP	Employment and Training Programme
FPL	Food Poverty Line
GMB	Grain Marketing Board
MMCZ	Minerals Marketing Corporation of Zimbabwe
MTP1	Medium Term Plan for the Prevention, Control and Care of HIV/AIDS
NACP	National AIDS Coordination Programme
NANGO	National Association of NGOs
NCS	National Conservation Strategy
NEPC	National Economic Planning Commission
NPA	National Programme of Action for Children
OGIL	Open General Import License
PAAP	Poverty Alleviation Action Plan
PASS	Poverty Assessment Study Survey
PF-ZAPU	Patriotic Front-Zimbabwe African People's Union
PTA	Preferential Trade Area for Eastern and Southern Africa
PTC	Post and Telecommunication Corporation
TMB	Tobacco Marketing Board

SACU	Southern African Customs Union
SADC	Southern African Development Community
SADCC	Southern African Development Coordination Conference
SDF	Social Development Fund
SSN	Social Safety Net Program
TCPL	Total Consumption Poverty Line
ZANU-PF	Zimbabwe African National Union-Patriotic Front
ZEAP	Zimbabwe Environmental Action Programme
ZEPI	Zimbabwe Expanded Programme on Immunization
ZESA	Zimbabwe Electricity Supply Authority
ZIMCORD	Zimbabwe Conference on Reconstruction and Development
ZIMPREST	Zimbabwe Programme for Economic and Social Transformation
ZISCO	Zimbabwe Iron & Steel Company
ZMDC	Zimbabwe Mining Development Corporation

<Ghana>

ECOMOG	ECOWAS Monitoring Group
ECOWAS	Economic Community of West African States
ERP	Economic Recovery Programme
FCUBE	Free Compulsory Universal Basic Education
FUSMED	Funds for Small and Medium Enterprise Development
GLSS	Ghana Living Standards Survey
MTADS	Ghana Medium Term Agricultural Development Strategy
NACP	National AIDS Control Programme
NCCK	National Christian Council of Kenya
NDPC	National Development Planning Commission
NLC	National Liberation Council
ORS	Oral Rehydration Salt
PAMSCAD	Programme of Actions to Mitigate the Social Costs of Adjustment
PBC	Produce Buying Company
PEED	Private Enterprise and Export Development
PHC	Primary Health Care
PNDC	Provisional National Defence Council
VPP	Village Politechnique Plan

<Cambodia>

AFTA	ASEAN Free Trade Area
CDC	Council for the Development of Cambodia
CMAC	Cambodian Mine Action Center
COMECON	Communist Economic Conference
CVAP	Cambodia Veterans Assistance Program
ICORC	International Committee on the Reconstruction of Cambodia
NPRA	National Programme to Reform the Administration

<b>NPRD</b>	<b>National Programme to Rehabilitate and Develop Cambodia</b>
<b>PIP</b>	<b>Public Investment Program</b>
<b>RCAF</b>	<b>Royal Cambodia Armed Forces</b>
<b>SEDP</b>	<b>Socioeconomic Development Plan</b>
<b>UNTAC</b>	<b>United Nations Transitional Authority in Cambodia</b>

# Republic of Zimbabwe

*Source: The Economist Intelligence Unit (1998).*

# 1. Socio-economic Conditions in Zimbabwe

## 1.1 Introduction

Zimbabwe has an advanced economy among African countries, with its well-developed manufacturing, high-productivity commercial agriculture, mining of a number of mineral resources, well-advanced financial institutions, tourism, and developed infrastructure.

Its economic power, however, has been declining since the latter half of the 1970s. Fig. 1.1.1 shows rates of economic growth and inflation over time. The rate of economic growth shows a declining tendency, while that of inflation shows a rising tendency, as shown by the regression lines. The Zimbabwean economy has shown typical supply-restricted stagflation since it became independent in 1980, with the declining economic growth rate being accompanied by aggravated inflation. In addition, the sharp devaluation of the Zimbabwean dollar (Z dollar, hereafter) in the first half of the 1980s and the beginning of the 1990s caused little increase in the GDP, in terms of U.S. dollars, following the attaining of independence (Fig. 1.1.2). As the rate of population increase exceeded 3%, per capita income sharply dropped from US\$870 in 1981 to US\$500 in 1994. Zimbabwe is now classified as a low-income country, despite its middle-income country-like economic structure.

Nevertheless, the Zimbabwean economy has been booming in terms of the investment cycle since the end of the 1980s, as shown in Fig. 1.1.3. In particular, the liberalization policy introduced in the 1990s allowed economic entities having affluent resources (e.g. large-scale farms and foreign-affiliated enterprises) to make capital investment, turning the country's economic conditions for the better. On the other hand, capital-intensive investment does not increase employment, and the share of labor's remuneration in GDP has been declining. (Fig. 1.1.4).

**Table 1.1.1 Major Economic Indicators**

	1990	1991	1992	1993	1994	1995(*)		1996(**)
Real growth rate:								
GDP	7.0%	5.5%	-9.0%	1.3%	6.8%	0.1%	US\$6.5 billion <sup>(b)</sup>	7.3%
Manufacturing	5.9%	2.9%	-8.5%	-7.8%	10.0%	-11.5%	Contribution rate <sup>(b)</sup>	4.0%
Agriculture	12.1%	1.0%	-23.2%	27.1%	7.3%	-7.3%	15% <sup>(b)</sup>	21.4%
Mining	0.3%	-0.2%	-2.8%	4.9%	3.3%	5.3%	6% <sup>(b)</sup>	0.1%
Rate of export increase	7.0%	16.7%	-6.9%	9.2%	21.8%	-1.1%	US\$2.2 billion <sup>(c)</sup>	8.0%
Rate of import increase	14.6%	33.2%	9.7%	-13.9%	21.7%	0.3%	US\$2.1 billion <sup>(c)</sup>	0.4%
Rate of employment increase	2.2%	4.4%	-0.6%	0.3%	1.9%	-1.9%	1.24 million	0%
Rate of inflation	12.4%	23.3%	42.1%	27.6%	22.3%	22.6%		21.4%
Exchange rate to the U.S. dollar <sup>(a)</sup>	0.4	0.29	0.19	0.15	0.12	0.11		0.1
Per capita GNP (in U.S. dollars) <sup>(b)</sup>	640	650	570	520	500	540		-

(\*): provisional

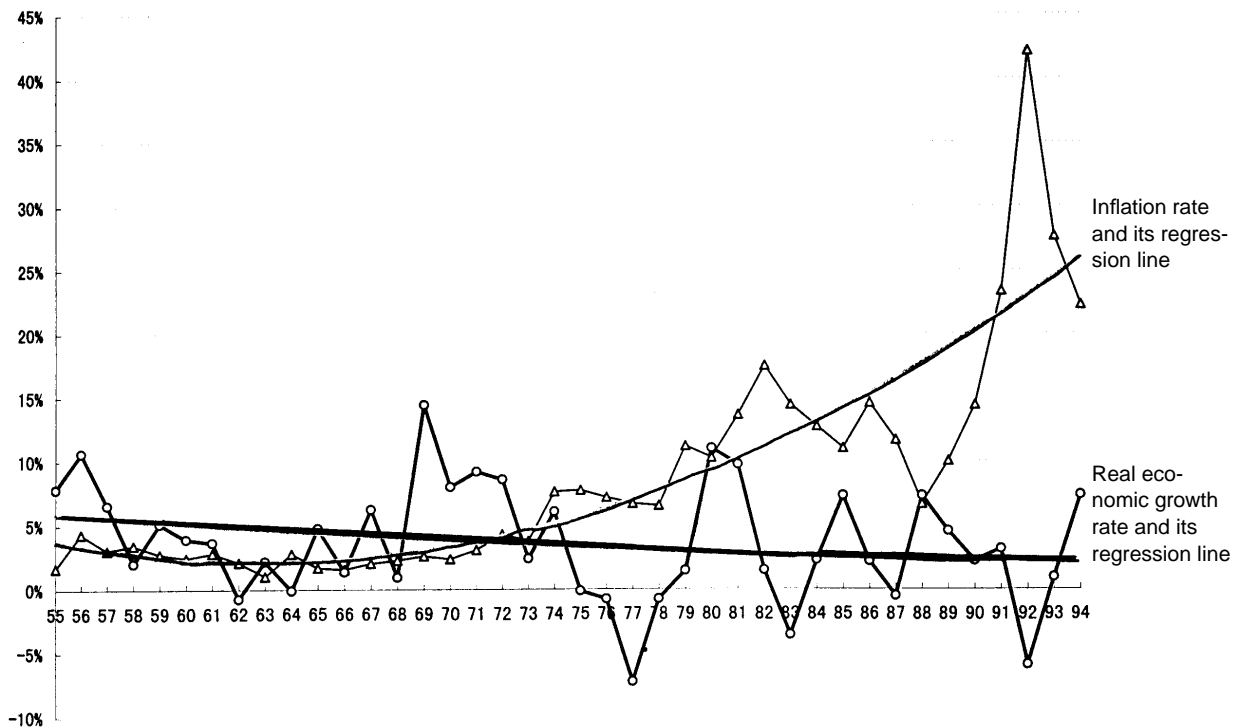
(\*\*): estimate

Source: Zimbabwe CSO. 1985-1996; (a) IMF; (b) World Bank; (c) EIU.

(Note) The Central Statistical Office (CSO) published the National Account 1985-1996 in 1997, renewing its macroeconomic statistics series. As a result, continuity was lost for the statistical value of the production account and the expenditure account, with 1995 and 1992, respectively, as boundary lines. It is therefore only possible to get a coherent view of the historical trends of the economic growth rate and the investment cycle until 1994 and 1991, respectively.



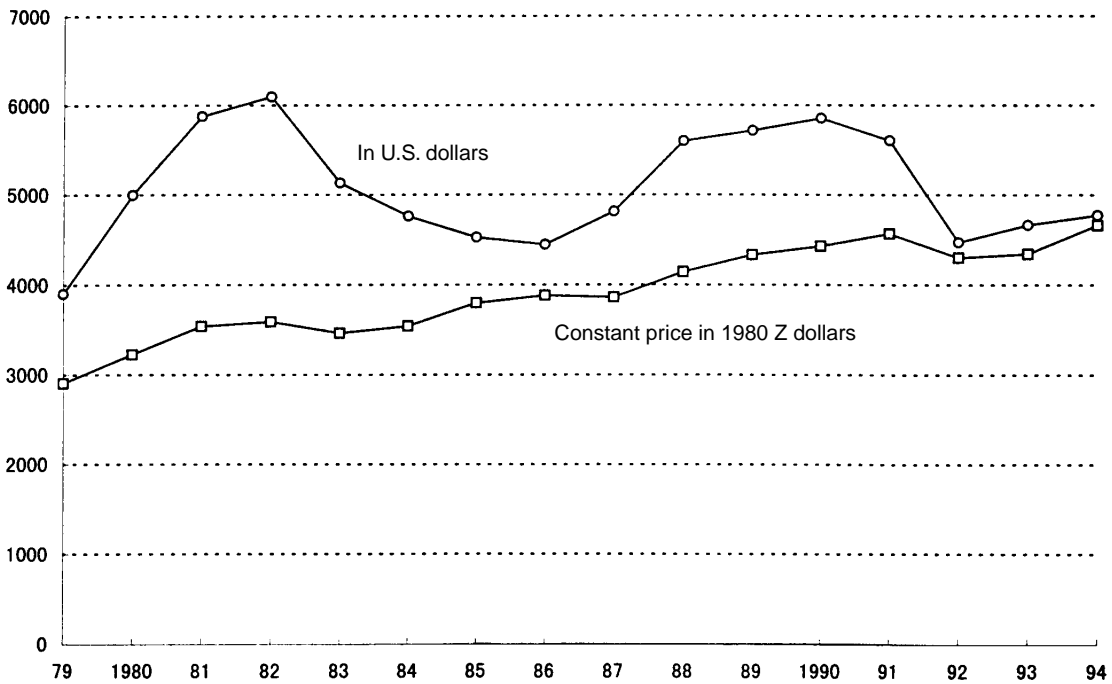
**Figure 1.1.1 Changes in Real Economic Growth Rate and Inflation Rate**



Source: calculated from the original data published by CSO. As the 1997 revision of the national economy calculation method caused continuity of the GDP value to be lost, with 1995 as the boundary line, results until 1994 are shown here.

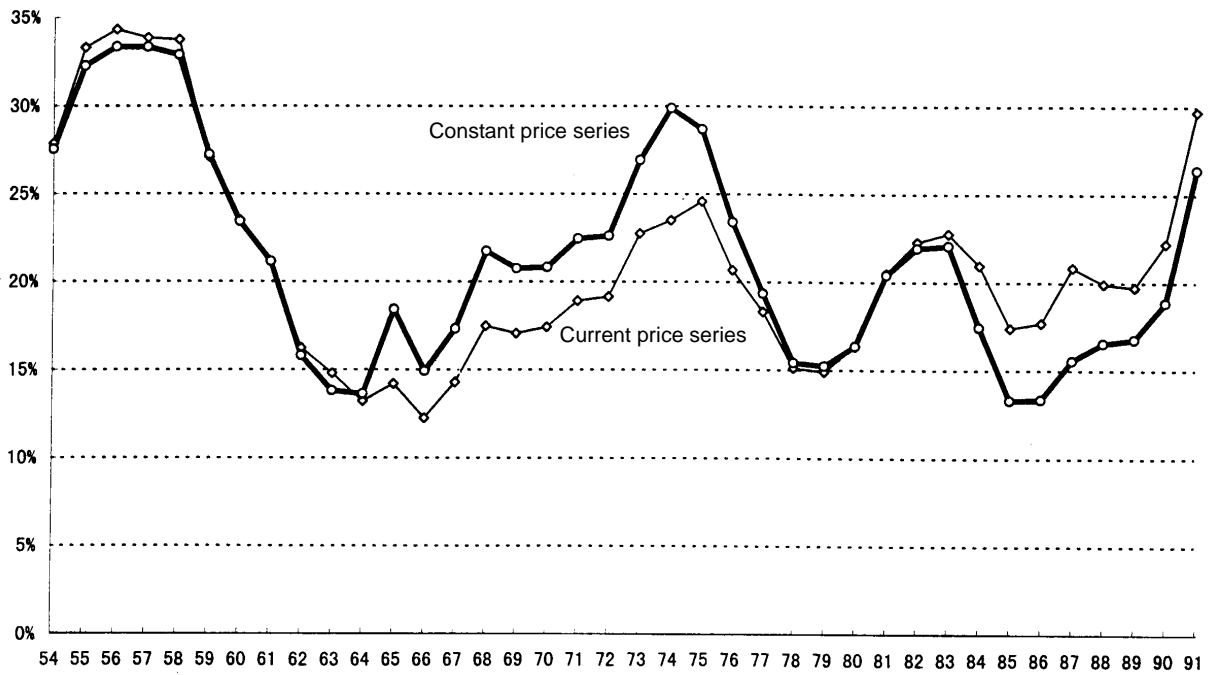
**Figure 1.1.2 GDP in U.S. Dollars and GDP Deflated with the 1980 Constant Z Dollar**

(million dollars)



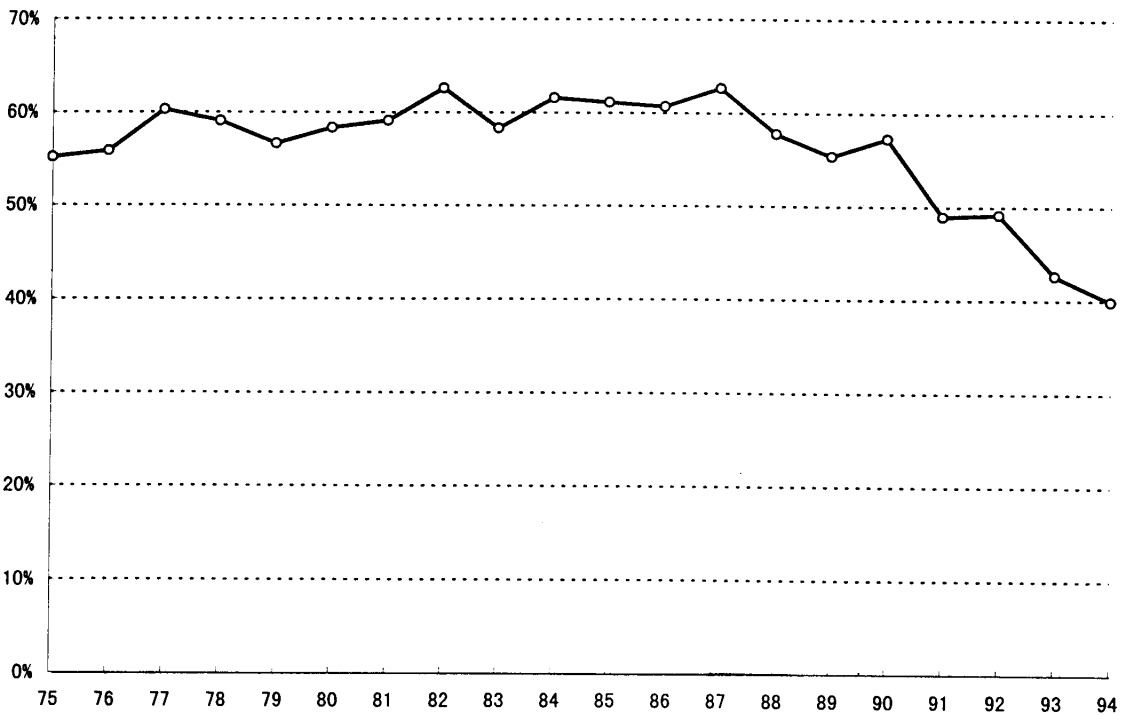
Source: CSO; IMF

**Figure 1.1.3 Ratio of Total Fixed Capital Formation to GDP**



*Source: calculated from original data published by CSO. As the 1997 revision of the national economy calculation method caused continuity to be lost in the national expenditure account, with 1992 as the boundary line, results until 1991 are shown here.*

**Figure 1.1.4 Change in the Share of Labor's Remuneration in GDP**



*Source: calculated from original data published by CSO*

People employed in the formal sector, which can be statistically identified, amounts to 1.23 million, accounting for only one-fourth of the total labor force. It is estimated that there is net entry of more than 30,000 people in the labor market annually, but most of them are engaged in communal farming or the informal sector, as there is no substantial change in the employed number in the formal sector. A labor force survey conducted in fiscal 1986/87 estimated the rate of male unemployment at 11%, that of female unemployment at 26%, and that of young people in cities at 46%. It is certain that the present rates of unemployment are getting worse, making the poverty issue in Zimbabwe increasingly serious.

## **1.2 Manufacturing**

The Zimbabwean economy is characterized partly by its highly self-sustaining manufacturing sector, which has a capacity to produce around 6,500 kinds of items. Manufacturing is the country's largest industry sector, producing 30% of the total output, accounting for 33% of exports, and supporting 16% of employment (1994).

Table 1.2.1 shows a comparison of various countries' industrial structures. Among African countries, the percentage of manufacturing in overall industry is highest in Zimbabwe, having a relative ratio comparable to Russia and Thailand. Mauritius, South Africa, and Zimbabwe, where the percentage of manufacturing exceeds that of agriculture, can be called the three biggest industrialized nations in Africa. Zimbabwe is, however, different from the others as the per capita GNP is extremely low despite the high ratio of manufacturing.

**Table 1.2.1 Industrial Structures of Nations of the World (1995)**

	Per capita GNP (\$)	Manufacturing (%)	Agriculture (%)	Mining & primary processing (%)	Services (%)
China	620	38	21	10	31
Malaysia	3890	33	13	10	44
Russia	2240	31	7	7	55
Zimbabwe	540	30	15	6	48
Thailand	2740	29	11	11	49
Republic of Korea	9700	27	7	16	50
Singapore	26730	27	0	9	64
Poland	2790	26	6	13	54
Indonesia	980	24	17	18	41
South Africa	3160	24	5	7	64
Brazil	3640	24	14	13	49
Hungary	4120	24	8	9	59
Japan	39640	24	2	14	60
The Philippines	1050	23	22	9	46
Mauritius	3380	23	9	10	58
Turkey	2780	21	16	10	53
U.K.	18700	21	2	11	66
India	340	19	29	10	41
Mexico	3320	19	8	7	67
France	24990	19	2	8	71
Cote d'Ivoire	660	18	31	2	50
Colombia	1910	18	14	14	54
U.S.A.	26980	18	2	8	72
Pakistan	460	17	26	7	50
Venezuela	3020	17	5	21	56
Sri Lanka	700	16	28	9	52
Egypt	790	15	20	6	59
Senegal	600	12	20	6	62
Kenya	280	11	29	6	54
Bangladesh	240	10	31	8	52
Tanzania	120	8	58	9	24
Ghana	390	6	46	10	38
Nigeria	260	5	28	48	18
Botswana	3020	4	5	42	48

*Note: Shaded rows show sub-Saharan African countries*

*Source: World Bank (1997b).*

### 1.2.1 Structural Characteristics

Table 1.2.2 shows the percentages of employees in the manufacturing sector out of the total populations for various countries in descending order. Generally, these ratios are very small in African countries, not reaching even 1%, but Mauritius, South Africa, and Zimbabwe are exceptions. The figure for Zimbabwe is nearly the same as those of Latin American countries. For South Africa and Zimbabwe, however, the figures have been declining since the 1970s, as is also true for most other African countries, and capital-intensive production processes have not contributed to the expansion of employment.

Table 1.2.3 shows ratios of average wages in the manufacturing sector to per capita GNP in countries of the world. In Asian countries, where full employment has been achieved, average wages are generally close to respective per capita GNPs. Viewing this as an indicator of wage gaps among industries, wages are high in the manufacturing sector in African countries, both relatively and absolutely, and Zimbabwe is not an exception. Although the per capita GNP of Zimbabwe is smaller than that of the Philippines, the average wages in the manufacturing sector are higher than those in Malaysia and Thailand. In other words, a small number of workers are employed in the manufacturing sector, and the wages paid were several-fold higher than the general standard. This is the reality of the manufacturing sector in African countries, including Zimbabwe.

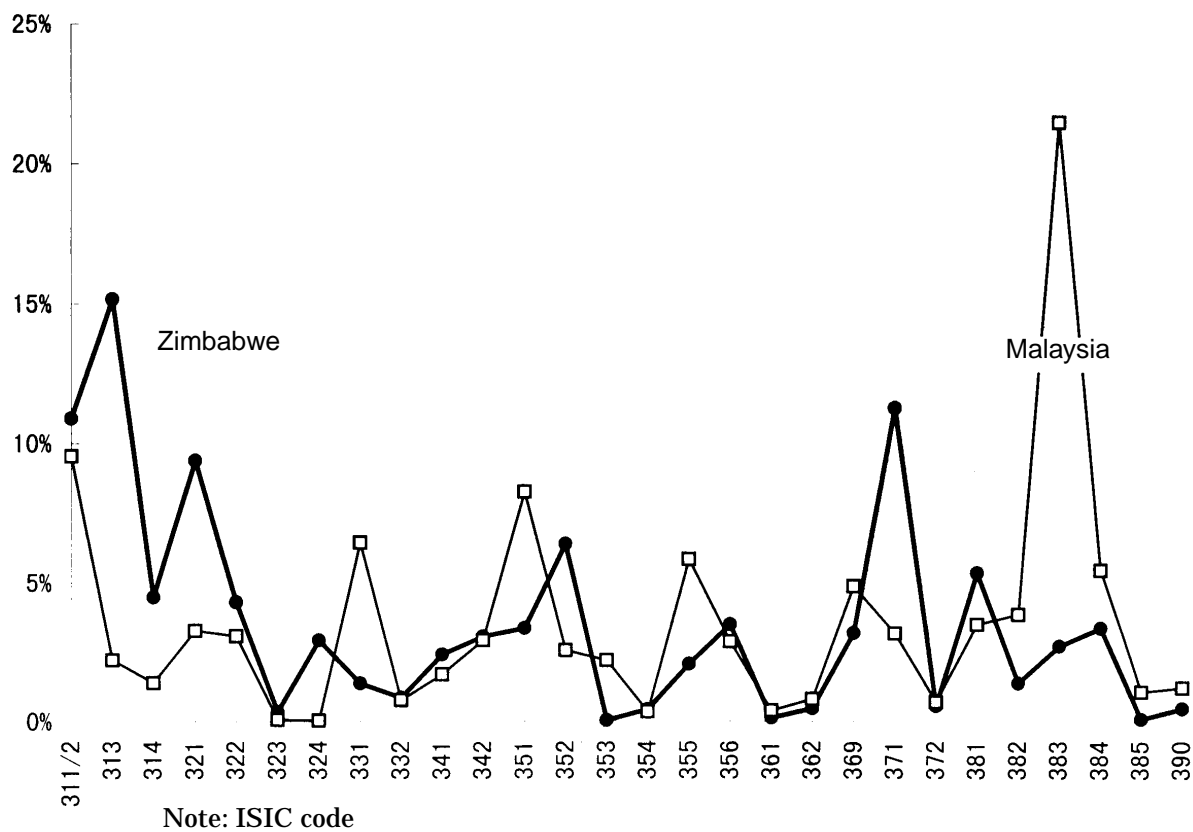
Next, we will examine the difference between Zimbabwe's manufacturing sector and that in Asian countries. Fig. 1.2.1 shows the manufacturing sectors in Malaysia and Zimbabwe broken down with value-added production shares by each sub-sector, in accordance with the International Standard Industrial Classification (ISIC). It shows that Zimbabwe has peaks in beverages and iron & steel, while Malaysia has a peak in electric appliances. Beverages mainly consist of soft drinks and beer produced by foreign-affiliated enterprises, and iron & steel are produced by the Zimbabwe Iron & Steel Company (ZISCO), a parastatal established in accordance with the country's import substitution policy. These enterprises are classified as capital-intensive process industry, in which the capital equipment ratio per worker is high, making high wages possible.

The capital-labor ratio in Zimbabwe is said to be higher than that in South Africa, by as much as 30% <sup>(1)</sup>. As labor-intensive industries have not been developed, unlike in Asian countries, an overall income increase through full employment has been impeded.

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<sup>(1)</sup> World Bank (1995b), p. 121.

**Figure 1.2.1 Structure of the Manufacturing Sector in Zimbabwe and Malaysia**  
 (Sub-Sector Value-Added Production Ratio in 1990)



Source: UNIDO (1993).

**Table 1.2.2 Ratio of Employees in the Manufacturing Sector to the Total Population (1990)**

	a. Number of employees in the manufacturing sector (thousand)	b. Total population (thousand)	a/b
Singapore	355	3,000	11.8%
Mauritius	122	1,100	11.1%
Japan	11,075	123,500	9.0%
Republic of Korea	2,975	42,800	7.0%
U.S.A.	17,269	250,000	6.9%
Thailand	2,359	55,800	4.2%
Malaysia	738	17,900	4.1%
South Africa	1,462	35,900	4.1%
China	34,168	1,133,700	3.0%
Brazil	3,962	150,400	2.6%
Mexico	2,145	86,200	2.5%
Bolivia	169	7,200	2.3%
Zimbabwe	198	9,800	2.0%
Colombia	486	32,300	1.5%
The Philippines	900	61,500	1.5%
Botswana	19	1,300	1.5%
Gabon	16	1,100	1.5%
Indonesia	2,378	178,200	1.3%
India	7,746	849,500	0.9%
Kenya	193	24,200	0.8%
Zambia	61	8,100	0.8%
Senegal	46	7,400	0.6%
Malawi	46	8,500	0.5%
Ghana	76	14,900	0.5%
Tanzania	121	24,500	0.5%
Cote d'Ivoire	53	11,900	0.4%
Congo	10	2,300	0.4%
Cameroon	50	11,700	0.4%
Nigeria	400	115,500	0.3%

*Note: Shaded rows show Sub-Saharan African countries*

*Source: UNIDO (1993); UN (1992).*

**Table 1.2.3 Ratios of Average Wages in the Manufacturing Sector to per capita GNP (1990)**

	a: Per capita GNP (\$)	b: Average wages (\$)	b/a
Mauritius	2,250	1,844	0.82
Singapore	11,160	10,800	0.97
Botswana	2,040	1,994	0.98
Japan	25,430	26,368	1.04
China	370	500	1.35
Malaysia	2,320	3,240	1.40
Brazil	2,680	3,878	1.45
U.S.A.	21,790	33,565	1.54
Indonesia	570	925	1.62
Republic of Korea	5,400	9,353	1.73
Colombia	1,260	2,359	1.87
Mexico	2,490	5,373	2.16
Thailand	1,420	3,523	2.48
The Philippines	730	1,909	2.62
Ghana	390	1,047	2.68
Tanzania	110	319	2.90
South Africa	2,530	7,706	3.05
Bolivia	630	2,200	3.49
Gabon	3,330	11,775	3.54
India	350	1,592	4.55
Nigeria	310	1,443	4.65
Congo	1,010	5,354	5.30
Kenya	370	2,054	5.55
Zimbabwe	640	3,939	6.15
Malawi	200	1,283	6.42
Senegal	710	5,156	7.26
Cameroon	960	7,281	7.58
Cote d'Ivoire	750	7,777	10.37
Zambia	2,250	1,844	0.82

*Note: Shaded rows show Sub-Saharan African countries*

*Source: UNIDO (1993); World Bank (1992).*

## 1.2.2 Production Trends

Fig. 1.2.2 shows the changing rate of moving averages for the time-series of GDP, manufacturing production, and agricultural production, and their cyclical fluctuations are compared by removing short-term changes. At peaks of economic activity, the growth rate of the manufacturing sector is always higher than the economic growth rate, and the time series of manufacturing is almost in accord with that of GDP. This shows that manufacturing, not agriculture, has determined the overall trend of the Zimbabwean economy and has driven its growth. In fact, average annual growth rates between 1954 and 1991 were 3.57% in GDP, 5.21% in manufacturing, 1.88% in agriculture, and 4.05% in mining, with that in manufacturing being highest.

**Figure 1.2.2 Changing Rate of the Moving Averages in GDP, Manufacturing and Agriculture**

Manufacturing  
GDP  
Agriculture

*Source: Calculated from original data published by CSO.*

Table 1.2.4 shows gross production values by sub-sector and their ratios to the total production in the manufacturing sector. Main industries include the food industry backed by advanced agriculture, and the metal industry provided with abundant minerals. The chemical industry was formed in the period from the end of the 1950s to the beginning of the 1960s as part of import substitution. The textile and apparel industry grew rapidly in the 1960s, supported by internal demand as a result of economic sanctions against Rhodesia. Production values are high in basic metals and alloys, textiles, automobiles, beer and clothing, and main exports include ferrochromium, cotton yarn and clothing. The chemical, paper, machinery and transport equipment industries are in highly adverse trade balances, while the other manufacturing industries are generally in favorable trade balances.



**Table 1.2.4 Gross Production Values of Manufacturing Sub-sectors (1993)**

Gross production value (million Z dollars)		Share
Food	5329.6	22.9%
Beverages/tobacco	2523.4	10.8%
Textiles/cotton yarn	2584.1	11.1%
Clothing/shoes	1394.6	6.0%
Wooden products/furniture	691.5	3.0%
Paper/printed matter	1132.9	4.9%
Chemical/oil products	3153.6	13.5%
Nonferrous metal products	740.2	3.2%
Iron & steel products	4107.1	17.6%
Transport equipment	1387.5	6.0%
Other products	261.3	1.1%
<b>Total</b>	<b>23305.8</b>	<b>100%</b>

*Source: CSO.*

It must be further pointed out that the growth of Zimbabwe's manufacturing sector has been supported by foreign capital flowing into the country. In key industries, including metal processing, food, and beverage industries, the presence of foreign capital is especially prominent. At the time of that independence was achieved, 25% of the total capital stock in Zimbabwe was said to be South African capital, which controlled 60% of manufacturing. UK capital is also almost on the same scale as this <sup>(2)</sup>.

### **1.2.3 Stagnation and Structural Adjustment**

Since the end of the temporary prosperity attained immediately after independence, the manufacturing sector has been increasingly stagnant, except in 1985, when increased agricultural production benefited the sector.

#### **(1) Causes of stagnation**

The largest cause was that the government became too large. Government spending, accounting for one-half of the GDP, was supported by government borrowing. As the insurance companies and pension funds were obliged to appropriate 55% of their original capital to purchase government bonds, the domestic capital market was always in a tight situation. Precious foreign money was absorbed in government consumption and debt-servicing, and the allocation of foreign money to private businesses has been decreasing since 1982, showing typical crowding-out.

Government intervention in economic activity has also expanded. In 1985, the government began prohibiting, through labor-related laws, enterprises from dismissing employees without government approval. An employer cannot dismiss an employee (even if that employee has committed a misdeed) without permission of the authorities, following an investigation by the Labor Supervision Department. Employers were also obliged to raise

<sup>(2)</sup> Stoneman (1981), pp. 118-119.

wages annually for workers whose earnings were below a certain level, irrespective of their skill and capability. These provisions, being far stricter than the ILO standards, virtually prevented enterprises from employment adjustment. In addition to this, comprehensive price control made it impossible for enterprises to determine their scales of earnings. The after-tax profit in enterprises producing price-controlled goods was 7%, which was below deposit rates.

## **(2) International competitiveness**

According to the World Bank survey on competitiveness of Zimbabwe's manufacturing sector <sup>(3)</sup>, foods, beverages, and tobacco were the most competitive, followed by chemical products and nonferrous metals. Prices of clothing and textiles were not very competitive, and iron and steel lacked international competitiveness. The main export market for Zimbabwe's manufacturing sector, except the metal industry (which is geared for industrialized countries) has been African countries around Zimbabwe. Product prices have been comparatively high, and sales have been maintained by high product quality.

The largest impediment to product competitiveness is the superannuation of production equipment. As foreign currency shortages and the worsened investment environment since the late 1970s have restrained capital investment, the vintage of production equipment is, on average, estimated to be more than 15 years old.

## **(3) Effects of the structural adjustment program**

As a tendency towards stagnation became clear in not only the manufacturing sector but also other sectors, the government started the structural adjustment program in the 1990s, formulating new policies for deregulation and economic liberalization. The 1990 Administrative Ordinance permitted employers to dismiss employees for financial reasons, in addition to disciplinary dismissals. The determination of wages was left to collective bargaining between labor and management.

In trading, the Open General Import License (OGIL) was established, under which import permission was not required, and the Export Retention Scheme was introduced, which allowed exporters to import goods at their own discretion. In 1994, the foreign currency quota system was abolished. Tariff rationalization especially favored the import of capital goods. Price controls were mostly removed.

As a consequence, imports of machinery and transport equipment increased rapidly, as shown in Fig. 1.2.3, and investment became active. Total imports expanded, tripling in real value between 1987 and 1995, and the ratio of imports to GDP increased from 22% to 46% (1994) <sup>(4)</sup>. A sharp increase of imports from South Africa mostly contributed to this. During this period, imports from South Africa increased by 540% in real value, increasing the share in total imports from 19% to as high as 38%. A considerable increase after 1991 seems to have resulted from improved regional conditions accompanying South Africa's democratization. The rapid increase of employment in the construction sector (82% from 1987 to 1993), in addition to expanded importation of investment goods, indicates activated private investment.

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<sup>(3)</sup> Jansen (1993).

<sup>(4)</sup> Based on former CSO statistics.

**Figure 1.2.3 Breakdown of Import (in 1980 price)**

Million Z dollars  
Machinery & transport equipment  
Chemical products  
Mineral fuels  
Food

*(Note) No data have been published for 1989.*

*Source: CSO.*

### **1.3 Agriculture**

The agriculture sector produces around 15% of the GDP, maintaining food self-sufficiency at 95% and providing raw materials for the textile and food processing industries. The export of tobacco leaves, which are the largest exports from Zimbabwe, sugar, and cotton yarn, produce 30% of foreign currency earnings. Agro-related products account for nearly half of the country's exports. Apart from the aspect of production, agriculture is especially important in Zimbabwe in that 68% of the total population lives in rural areas, which absorbed 26% of the formal employees, and 67% of the work force (in 1994). In other words, the living foundation of most of the people is built on agriculture.

Zimbabwe's agriculture has two conspicuous characteristics. One is its distinct dual structure of large-scale commercial farms managed mainly by white people and small-scale farming by black people; the other is considerable fluctuations in yields due to uncertain rainfall, which causes periodic droughts that severely affect agriculture in the country.

#### **1.3.1 Dual Structure**

##### **(1) Large-scale commercial farmland**

Table 1.3.1 shows the distribution of land and population. As a result of land usurpation during the colonial period and governance by a white minority, about 4,500 commercial farms, including those managed by companies, occupy 29% of national land and 60% of land most suitable for agriculture, employing 300,000 workers. Farm area exceeds 2,200 ha on average, but only less than 5% of this extensive area is under cultivation. As the ratios

between fallow and cultivation in these large-scale commercial farmlands range from 21% to 125% <sup>(5)</sup>, more than 80% of the large-scale farmlands are not utilized for planting even at a conservative estimate. Important products include tobacco, sugarcane, cotton, maize, wheat and soybean, which are cultivated under irrigation.

**Table 1.3.1 Distribution of Land and Population (unit: 1000 ha)**

	Population	Percentage	Occupied area	Percentage	Natural Region (Note)				
					I	II	III	IV	V
Large-scale commercial farms	1176586	11.3%	11220	28.7%	200	3690	2410	2430	2490
Communal areas	5352304	51.4%	16350	41.8%	140	1270	2820	7340	4780
Resettlements	426687	4.1%	3290	8.4%	30	590	1240	810	620
Small-scale commercial farms	170167	1.6%	1380	3.5%	10	240	530	500	100
State-operated farms	–		500	1.3%	10	10	160	60	260
Urban areas, national parks, etc.	–		6330	16.2%	310	60	130	3640	2190
<b>Total</b>	<b>10412548</b>	<b>100%</b>	<b>39070</b>	<b>100%</b>	<b>1.8%</b>	<b>15.0%</b>	<b>18.7%</b>	<b>37.8%</b>	<b>26.7%</b>

(Note) *NR I: Diversified farming is possible, based on a mild climate and annual precipitation of more than 1000 mm.*

*NR II: Intensive farming is possible, with annual precipitation between 750 and 1000 mm.*

*NR III: Semi-intensive farming is possible, with annual precipitation between 650 and 800 mm.*

*NR IV: The cultivation of drought-resistant crops is possible, with annual precipitation between 450 and 600 mm, under easy influence by droughts.*

*NR V: Cattle and game ranching is possible because of little rain and high temperatures, due to altitudes not exceeding 900 m.*

Sources: CSO (1989) etc.

## (2) Communal areas

Communal areas mainly consist of areas that do not have much rain, accounting for 40% of national land. Five million people in 1.1 million households -- half of the entire national population -- live in such areas. They are typical smallholder farmers: 78% of these households possess less than 3 ha of land, and 21% have less than 1 ha. They mainly produce staple grains, such as maize, sorghum and millet for themselves, and surplus is sold to obtain cash earnings. They also cultivate cash crops such as cotton, groundnuts, and sunflower. Their farming depends on rain water, with only 7,000 ha being irrigated (0.3% of cultivated lands).

Communal farmers are roughly classified into three groups <sup>(6)</sup>. The High-Performance Group (HPG), accounting for 10%, cultivate cash crops, such as cotton and oil seeds, in addition to maize. It has comparatively higher production with the introduction of modern agri-technology and investment. The Medium-Performance Group (MPG), accounting for 50 to 60%, use no smaller investment than HPG, but poorer climatic and environmental conditions result in lower productivity. The remaining 40% are the Low Performance Group (LPG), who use little investment and who do not adopt cultivation techniques recommended through extension service.

<sup>(5)</sup> Report of the Commission of Inquiry into Appropriate Agricultural Land Tenure Systems (1994b). p. 123.

<sup>(6)</sup> *Ibid.* pp. 110-111.

This indicates the difference of Zimbabwean smallholder farmers from those in many other African countries, where they are totally excluded from modern agricultural technologies. Fertilizer input in Zimbabwean agriculture, for example, is midway between the African average and the world average (Fig. 1.3.1). That is, even communal farmers are benefiting from modern agricultural technologies to some extent. Unfavorable production conditions and the limited technology extension can not easily lead to the improvement of their productivity.

**Figure 1.3.1 Fertilizer Input per ha (kg)**

World average  
Zimbabwe  
African average

*Source: FAO, Fertilizer Yearbook.*

Table 1.3.2 shows a comparison of the unit yields of major crops. The year 1981 had usual rainfall, while 1983 was a drought year. The production in communal areas did not reach the sub-Saharan average, and especially, maize was not drought-resistant. On the other hand, productivity in commercial farmland exceeded world averages in most crops. Wheat and tobacco exceeded industrialized country averages. This is the dual structure of Zimbabwean agriculture.

**Table 1.3.2 Yields of Major Crops (kg/ha)**

		Commercial farmland	Communal areas	African average	World average
Maize	1981	5044	1000	1455	3370
	1983	2201	271	1131	2939
Sorghum	1981	2705	550	730	1507
	1983	982	157	586	1285
Tobacco	1981	1757	531	893	1459
	1983	2015	460	909	1402
Groundnuts	1981	1456	333	827	1101
	1983	855	125	603	1029
Cotton	1981	1901	763	919	1305
	1983	1677	500	891	1344
Soybean	1981	2135	750	995	1749
	1983	1432	500	989	1626
Wheat	1981	4981	–	1160	1914
	1983	5151	–	899	2306

*Source: CSO (1989).*

### **(3) Small-scale commercial farmers**

Zimbabwe also has small-scale commercial farmers and resettlement schemes which are classified into neither large-scale commercial farmland nor communal area farming. About 10,000 small-scale commercial farmers now possess more than 120 ha of land each, employing 20,000 workers. These farms were designated as areas that native people could purchase for commercial farming during the colonial period. The unit yield for maize is 1.6 t/ha, which, though exceeding the average of communal farms, is far less than that of large-scale commercial farmland. For these small-scale commercial farmers to survive, it is said that they must double the scale of business.

### **(4) Resettlement scheme**

The resettlement scheme refers to planned settlements opened in 1982 for returned refugees and the poorest people in communal areas. Under this program, black farmers were settled in former commercial farmland or state-owned land. This scheme is classified into one for individuals and another for cooperatives. An individual settler is given 5-6 ha of farmland and a house, and he is allowed to graze five cattle. Irrigated areas total 1,000 ha (0.6% of cultivated land), and major products are maize, sorghum, millet, cotton, groundnuts and sunflower, as in communal areas. The productivity for maize exceeds that in the communal areas' average.

Resettled lands now account for 8% of national land, absorbing 4% of the country's population. This is, however, far below the original policy goal, failing to become a means of land reform aimed at breaking down the racial dual structure.

## 1.3.2 Production Trends

### (1) Maize and food grain

Maize is the staple food for black people in Zimbabwe, and it is cultivated in 60% of the total planting area, accounting for 80 to 90% of the total production volume of food grain. Important grains other than maize include sorghum in communal areas, and wheat in large-scale commercial farmland. Black smallholder farmers live on these food grains.

Table 1.3.3 compares per capita grain production among African countries and regions of the world. Taking into account that the years 1981 and 1993, which had usual rain, were good harvest years, production in Zimbabwe well exceeded the Sub-Saharan average and did not fall behind other developing countries. Zimbabwe can therefore be regarded as a country equipped with a good self-sustaining capacity in food, under African standards. It must be noted, however, that production capacity was much lower in 1993 than in 1981.

**Table 1.3.3 Per capita Grain Production (kg)**

	1981	1993
Zimbabwe	438	252
Cote d'Ivoire	102	118
Ethiopia	180	140
Ghana	59	94
Kenya	162	135
Nigeria	124	188
Senegal	154	116
South Africa	589	394
Tanzania	75	122
Sub-Saharan Africa	164	149
North & Central America	1090	773
South America	299	281
Asia	251	268
Europe	506	517
World	366	347

*Source: FAO, Production Yearbook*

The change in per capita grain production (Fig. 1.3.2) shows a distinct feature of Zimbabwe. The graph shows violent fluctuations since independence in 1980, under serious influence by precipitation and at the same time the per capita production shows a declining tendency. The annual rate of decline, calculated from the linear regression line in the figure, is -3.57%, which exceeds the rate of population growth. This shows that there can be another factor besides population growth in the declining tendency of grain production per capita.

### Figure 1.3.2 Per capita Grain Production (kg)

World  
Regression line  
Zimbabwe  
Africa

*Source: FAO, Production Yearbook*

This factor can be identified in Fig. 1.3.3. Since independence was attained, maize planting has been reduced in large-scale commercial farmland, while the sales share of maize from communal areas have been increased rapidly. This has produced a situation in which maize is cultivated mainly by black smallholder farmers. Therefore, drought resistance in grain production has been lost and productivity has lowered, reflecting the aforementioned dual structure.

### Figure 1.3.3 Quantities of Maize Sold from Large-scale Commercial Farmland and Communal Areas

Large-scale commercial farmland  
Communal area

*(Note) Percentage figures show shares of communal farmers in the total sales of maize.*

*Source: GMB (1991).*



## (2) Leaf tobacco and commercial crops

Fig. 1.3.4 shows the change in sales of major agricultural products in 1980 prices. It clearly shows a decrease in maize and an increase in tobacco. This tendency is conspicuous in the 1990s. Table 1.3.4 shows the change in tobacco leaves production. In the 1980s, the production of tobacco leaves focused on improved unit yield, while yields increased rapidly in the 1990s from extended planting areas, with the nation's world share being increased to the level of 3%. Zimbabwe is now the world's sixth largest producer of tobacco leaves, showing the highest productivity among countries producing more than 100,000 tons of this product (1996). That is, the diversified production forms that characterized Zimbabwean agriculture in the 1970s and 1980s have been lost, and monoculture of tobacco is advancing, as was the case in the 1960s.

**Figure 1.3.4 Sales of Major Agricultural Products to Parastatals (in 1990 price)**

(1,000 Z dollars)  
Leaf tobacco  
Sugar  
Cotton  
Maize

*Source: CSO, Quarterly Digest of Statistics.*

**Table 1.3.4 Changes in Tobacco Leaves Production**

Year	Planted area (1,000 ha)	Yield (kg/ha)	Production (1000 mt)	Worldwide share
79	62	1846	114	2.1%
1980	66	1899	125	2.4%
81	44	1764	78	1.3%
82	50	1844	92	1.3%
83	51	1969	100	1.7%
84	55	2284	125	1.9%
85	54	2032	109	1.5%
86	59	1979	117	1.9%
87	66	2002	131	2.1%
88	62	2009	124	1.8%
89	58	2254	130	1.8%
1990	60	2325	140	2.0%
91	72	2493	179	2.4%
92	87	2433	211	2.5%
93	93	2194	205	2.5%
94	74	2463	182	2.8%
95	82	2416	198	3.1%
96	86	2413	207	3.2%
Rate of change between 1979 and 1996	38.7%	30.7%	81.6%	

Source: FAO, *Production Yearbook*.

### (3) Instability in food production and widening gaps

While the large-scale commercial farming sector has been increasing its profits by shifting production from maize, whose producer price is low, to tobacco, whose international market is active, the earning power of black smallholder farmers, who depend on maize, has been gradually declining. This means that the dual structure in Zimbabwe's agriculture has been increasingly reinforced, instead of being dissolved. At the same time, supplies of maize and food crops, which increasingly depend on black smallholder farming, have become more unstable due to periodic droughts, and the productivity has declined.

Zimbabwe's capacity of self-sustenance in food was once pointed out as a success story of African smallholder farmers, as they expanded sales of maize remarkably after independence was attained, but in actuality the capacity is facing a critical condition.

### 1.3.3 Institutions and Organizations

#### (1) Marketing Board

There is a public marketing board for each agricultural product. Four boards: the Grain Marketing Board (GMB), the Cotton Marketing Board (CMB), the Cold Storage Commission (CSC), and the Dairy Marketing Board (DMB), are controlled by the Agricultural Marketing Authority (AMA), an extra-departmental organization of the Ministry of Agriculture. The private sector fully deals tobacco leaves, however, producers are required to be

registered with the Tobacco Marketing Board (TMB), which is under direct control of the Ministry of Agriculture.

Most agricultural products were purchased at official prices through public marketing boards, but an institutional reform was initiated when a structural adjustment program started. Price controls and the exclusive purchase system were phased out. Though export and import of maize are still controlled by the GMB, all of the public corporations, including the GMB, have been reorganized into parastatals, and CSC stocks are publicly offered to the private sector.

## **(2) Agricultural Finance Corporation (AFC)**

A number of organizations, including private banks, private enterprises, cooperative associations, and NGOs, are financing agriculture. Bank lending has rapidly increased since 1990, accounting for 70% of the total lending to the agriculture sector (1995).

The AFC is the public organization specialized in farmer financing under the jurisdiction of the Ministry of Agriculture. Lending targets of the AFC, (having been a lending institution for white farmers before the country attained independence) are black small-holder farmers and small-scale commercial farmers. In real value, divided by the rate of inflation, the AFC's total lending grew steadily until 1987, but then declined sharply to as low as the level at when independence was attained. Its share in the total lending to the agriculture sector also declined to 16%.

## **(3) Agricultural research and extension**

The Department of Research and Specialist Services (DR&SS) of the Ministry of Agriculture is the largest agricultural research institution in Zimbabwe. The institution has 138 specialists and it received 8% of the ministry's budget in fiscal 1995/1996. This corresponds to 0.4% of the total value of agricultural production, almost 0.5%, which is the low-income country average<sup>(7)</sup>. In addition to this, the International Maize and Wheat Improvement Center (CIMMYT, abbreviated in Spanish) has a branch near Harare, and the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) has a branch in Bulawayo. The Commercial Farmers' Union (CFU), an organization of large-scale commercial farmers, has its own research institution, the Agricultural Research Trust.

Agricultural Technical and Extension Services (Agritex), established through the integration of three departments in 1981 (one year after independence), provides extension services. Its main service is technology extension in communal areas. One extension worker is in charge of 768 farmers. Compared to the situation in Asia, where the extension worker-farmer ratio is 1 : 2087<sup>(8)</sup>, Zimbabwe's is a greatly advanced institution. The budget of Agritex accounts for 34% of the Ministry of Agriculture budget, and 11% of the total agricultural production. These percentages by far exceeds the low-income country average<sup>(9)</sup>.

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<sup>(7)</sup> Robert E. Evenson (1987). Tables 3, 4, 5.

<sup>(8)</sup> RAPA (1990). pp. 4-5.

<sup>(9)</sup> The proportion of spending for public sector extension services to the total value of agricultural production is 0.44% in low-income countries, 0.92% in middle-income countries, and 0.62% in high-income countries, on average (Evenson (1987))

## **1.4 Mining**

### **1.4.1 Importance of Mining**

Forty kinds of mineral resources have been identified in Zimbabwe, and about 30 of them have been commercialized. Ore deposits exist in and around the Great Dike, which runs vertically through the country, and in eastern regions. In western regions, reportedly, little progress in exploration has been made.

Mining is important in the Zimbabwean economy, chiefly, for its ability to earn foreign currency. Although the contribution of mining to the GDP was 6.9% in 1994, which was lower than the 8.8% share at the time independence was attained, mineral products still accounted for about 45% of total exports. Major mineral products include gold, nickel, asbestos, coal, copper, chromium, cobalt, silver, iron ore, and tin, of which more than 90% is exported, except for coal and iron ore, which are consumed within the country. As a result, about half of the annual transport by the National Railways of Zimbabwe (NRZ) are mineral products. The total number of employees in the mining sector in 1995 was 59,000 (4.7% of employed people in the formal sector). This amounts to increase of 7,700 people since 1990. The mining sector has seen a considerable increase in investment. Specifically, in 1995, 42% of total investment went into the manufacturing sector and 13% into mining. In 1996, the amount of investments was reversed (the first nine months): 49% to mining and 8% to manufacturing. This was mainly a result of increased investments in the Hartley Platinum Mine Project.

Zimbabwe retained its Mining and Mineral Products Act (enacted in 1961) after independence was attained, permitting a wide range of mining rights for foreign capitals. Even today, capitals from Europe, the U.S., and South Africa have very large shares in mining. For instance, a locally incorporated company of South Africa's Anglo American Corporation produces nickel and chromium. The government, however, strengthened its interventions in the distribution of mineral products. In 1982, the government established the Minerals Marketing Corporation of Zimbabwe (MMCZ) and placed all mineral products except for gold, silver, and platinum, under its exclusive control. Gold and silver are managed by the Reserve Bank of Zimbabwe (RBZ). In 1983, the following year, the government established the Zimbabwe Mining Development Corporation (ZMDC) for project coordination and prospecting. These interventions reflected the socialist line of the Mugabe Administration.

Major mining companies in Zimbabwe include Anglo American (a South African affiliate mentioned above), producing nickel and chromium; Rio Tinto Zimbabwe (RTZ, a UK affiliate), producing nickel and gold; Lonrho (another UK affiliate), producing gold and copper; Casmyr (a U.S. affiliate), producing gold; Turner & Newall, producing asbestos; and Cluff Mineral, producing gold.

### **1.4.2 Trends in Major Mineral Products**

The production of gold was 660,000 ounces in 1994, making Zimbabwe the fifth or sixth largest gold-producing country in the world. Currently 800 gold mines are in operation. The value of gold produced in 1995 was 2.6 billion Zimbabwe dollars (hereinafter referred to as Z\$), and this accounted for as much as 42.6% of the total mineral products (Table 1.4.1). Gold is one of the most important exports of Zimbabwe (in addition to tobacco and foods) and the value of gold exported in 1995 reached Z\$2.1 billion. In Zimbabwe, the

production of gold increased steadily in the 1980s, marking an increase of about 38% between 1986 and 1994. Production in 1996 declined from the preceding year.

**Table 1.4.1 Changes in Value and Amount of Major Mineral Production**

	Amount			Value (million Z dollars)		
	1993	1994	1995	1993	1994	1995
Gold (thousand ounces)	598	660	770	1393.2	2039.2	2567.1
Silver (thousand ounces)	387	354	504	15.9	21.2	24.1
Nickel (thousand tons)	11.9	13.5	10.9	369.1	631.5	738.9
Asbestos (thousand tons)	157	152	169.7	475.7	515.7	586.5
Coal (thousand tons)	5,285	5,469	5,539	404.8	453.1	557.1
Copper (thousand tons)	8.1	9.3	8.1	87.8	155.1	188.6
Chromium (thousand tons)	252	516	707.5	54.9	136.2	197.4
Cobalt (thousand tons)	0.11	0.13	0.11	12.9	31.5	42.8
Iron ore (thousand tons)	3,750	4	311	40.1	0.2	53.1
Tin (thousand tons)	658	82	0	22.0	3.0	0
Other minerals	–	–	–	149.6	230.9	293.7
Total	–	–	–	3,026	4,218	5249.4

*Source: CSO (1997b).*

Nickel is the mineral product whose production increased the most. Between 1986 and 1994, it increased 39% in quantity and a 10.4-fold increase in value. The recent production of nickel ranks tenth to twelfth among other nations worldwide. The market for nickel was adversely affected by increased exportation from the Commonwealth of Independent States (CIS) to the world market between 1990 and 1993, which lowered the international nickel price by 40%. The demand came to exceed supply, and the production of nickel began recovering from 1994. In April 1996, Mitsui & Co., Ltd. and Japan Metals & Chemicals Co., Ltd. established a joint venture with Zimbabwe Alloys Corp., a locally incorporated affiliate of Anglo American Corporation of South Africa, to launch nickel production.

Zimbabwe's asbestos production ranks third among other nations worldwide, and the estimated amount of asbestos deposits is large. The demand for asbestos as a construction material declined sharply after it became regarded as contributing to environmental pollution, under increasingly stricter environmental standards in industrialized countries. Production remained low, due to stagnant demand, with a peak in 1987 of 193,300 tons. The production of asbestos, however, showed a tendency to recover from the end of 1994, because of increased demand in Asian countries, such as Indonesia and Thailand.

Zimbabwe produces coal of comparatively good quality in the Hwange and other regions, and the estimated amount of coal deposits is large. Coal is consumed in thermal power generation and domestic industries in almost equal quantities. Trouble with a coal planer machine, a partial shutdown of operations at Zimbabwe Iron & Steel Corporation (ZISCO) in 1994, adversely affect the demand for coal. The demand recovered after partial rehabilitation of the machine in 1995.

Zimbabwe produces 710,000 tons of high-quality chromium, the third largest amount in the world. The amount of chromium deposits is estimated to account for more than one-

third of the world's reserves. Chromium deposits are thought to exist mostly in the Great Dike. Chromium is important because it is domestically processed into ferrochromium and ferroalloys. Ferroalloys earned foreign currency amounting to Z\$940 million in 1994, which corresponded to fourth place in the country's exports. In 1995, they marked 22% increase in production quantity, and 59% increase in production value, compared with the preceding year. However, the international price for chromium fluctuates sharply like nickel and it declined by 25% between 1990 and 1993, when exportation from CIS increased.

The production of copper declined to below 50% between 1986 and 1993. In 1994, the increased international price of copper brought about a recovery in quantity and value of production. But the capacity utilization rate is low, and the earnings from that business are not favorable.

Demand for iron ore was stagnant because of the trouble in the ZISCO in 1994, but it began recovering after operations were resumed in 1995. As the construction of an iron ore crushing plant is planned along the border with Mozambique, demand is expected to increase in the future.

### **1.4.3 Potential and Challenges in Mining**

The recent largest development in Zimbabwe was the project for the Hartley Platinum Mine, situated 80 km south of Harare. Capital investment in the project amounted to Z\$1.8 billion. It was financed mostly by foreign countries, with 30 percent provided by stocks issue and the remaining 70 percent by bond flotation. This was the largest outlay for a project implemented by foreign capital. Two Australian companies (The Broken Hill Pty. Co., Ltd. (BHP) and Delta Gold) are in charge of development. It was planned to start producing metals of the platinum group and gold in March 1997, but operation was postponed to mid-1997, as the weathering of rock surface was much worse than expected.

If full operation was achieved by the end of 1997, the mine was expected to annually produce 150,000 ounces of platinum, 110,000 ounces of palladium, 12,000 ounces of radium, 23,000 ounces of gold, 3,200 tons of nickel, 2,300 tons of copper and 35 tons of cobalt. Full operation will make Zimbabwe the second largest platinum producer in the world (following South Africa) and the third largest gold producer (following South Africa and Ghana). These products are also expected to earn \$9 billion in foreign currency.

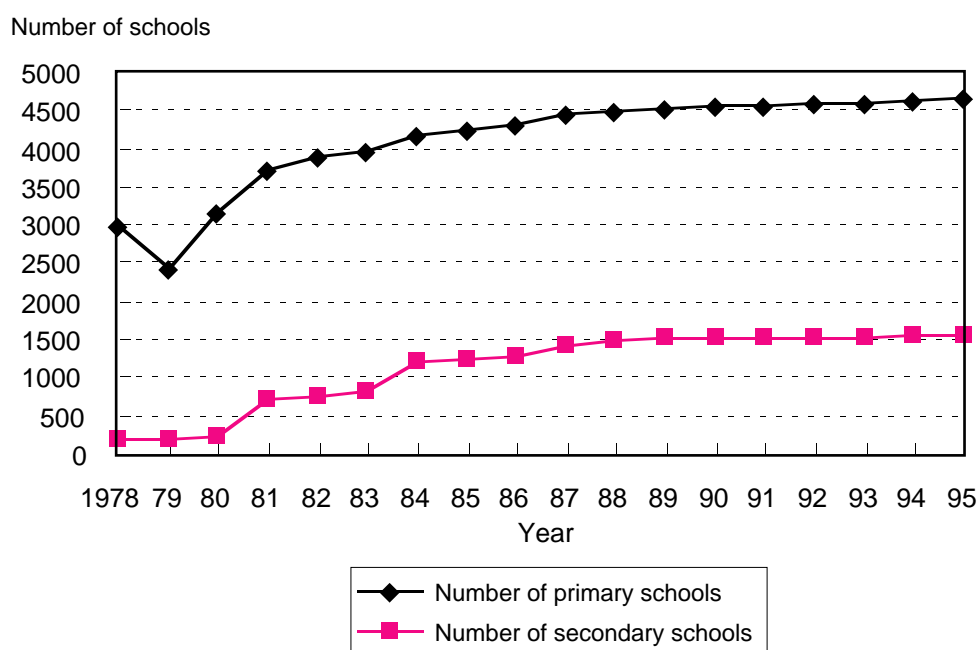
Mining is faced with three problems. First, superannuated equipment has reduced production efficiency. It is therefore necessary to increase capital investment. The second problem is inefficient operation by the MMCZ, which has an exclusive position in sales. There is need for the MMCZ to be abolished or for the entry of private capital to be allowed. The third problem is a shortage of engineers. Mine development requires engineers and specialists equipped with high technical capability and broad knowledge. Training provided in the Mining Engineers Training Center in Bulawayo needs to be improved, and its facilities need to be expanded.

## 1.5 Social Infrastructure

### 1.5.1 Educational Facilities

Zimbabwe has made remarkable progress in the education sector since its independence in 1980. Primary school enrollment almost doubled from 1,236,000 children in 1980 to 2,483,000 children in 1995. Secondary school enrollment increased more rapidly, increasing tenfold from 74,000 students in 1980 to 711,000 students in 1995. Fig. 1.5.1 shows the change in the number of primary and secondary schools. The number of primary schools increased from 3,161 in 1980 to 4,539 in 1990. The construction of new school facilities was more active for secondary education. The number of secondary schools, which was 197 in 1980, more than tripled to 694 in the following year. As there were 1,512 secondary schools in 1990, this amounted to a 7.7-fold increase. In the 1990s, however, the number of newly constructed schools declined sharply. Only 13 secondary schools were established in the five years from 1990 to 1995.

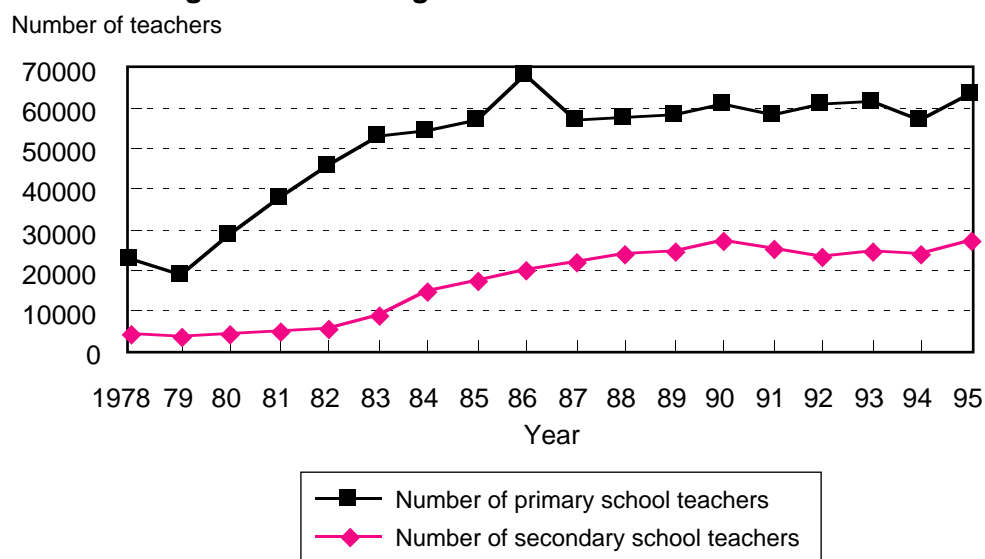
**Figure 1.5.1 Changes in the Number of Primary and Secondary Schools**



*Source: Ministry of Education (1997).*

This rapid expansion of primary and secondary education in the 1980s, and little expansion in the 1990s, are also shown in the change of the number of teachers. There were 28,455 primary school teachers at the time independence was attained. The number was doubled to 60,886 in ten years by 1990, which is equivalent to an annual increase of 3,200 teachers. The annual increase was, however, 520 in the 1990s, with 63,475 teachers in 1995. The change in the number of secondary school teachers was much more prominent. The number of teachers increased 7.3 times in the decade from 1980 to 1990, but it decreased slightly from 27,332 to 27,320 between 1990 and 1995 (Fig. 1.5.2).

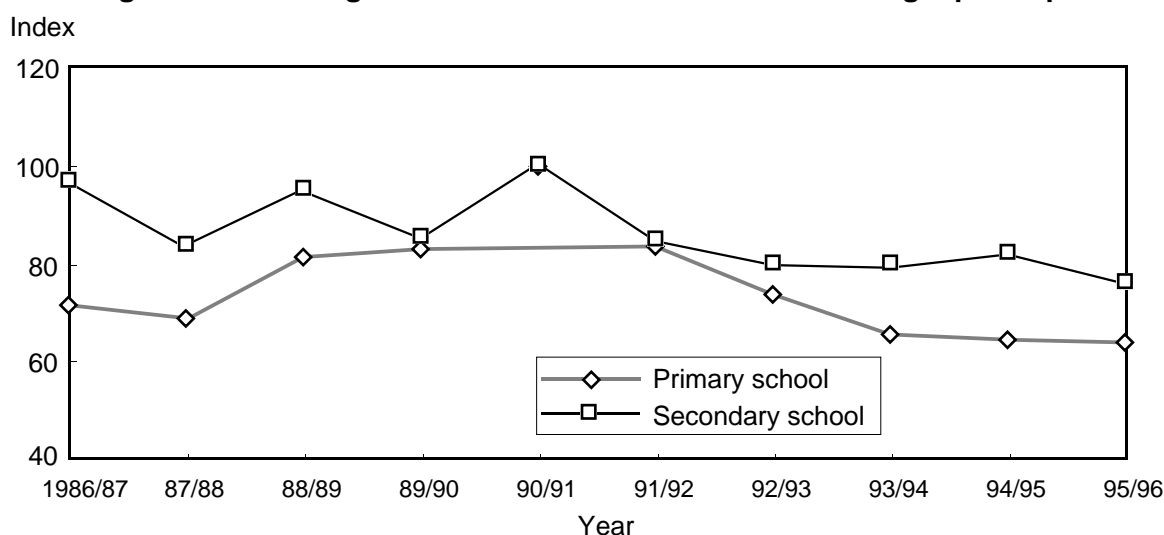
**Figure 1.5.2 Changes in the Number of Teachers**



*Source: Ministry of Education (1997).*

These tendencies were thought to have resulted from (i) the virtual curtailment of educational spending due to restrained finances under the Economic Structural Adjustment Program (ESAP), and (ii) the shift of priority from an increase of the numbers of schools and teachers to improvement of the quality of school education, as the primary and secondary school enrollments increased. Effects of the ESAP were especially considerable. Fig. 1.5.3 shows the change in the government educational budget per pupil, taking 100 for fiscal 1990/91 as the basis. In fiscal 1995/96, it declined to 64.1 in primary education, and to 76.0 in secondary education.

**Figure 1.5.3 Changes in the Government Educational Budget per Pupil**



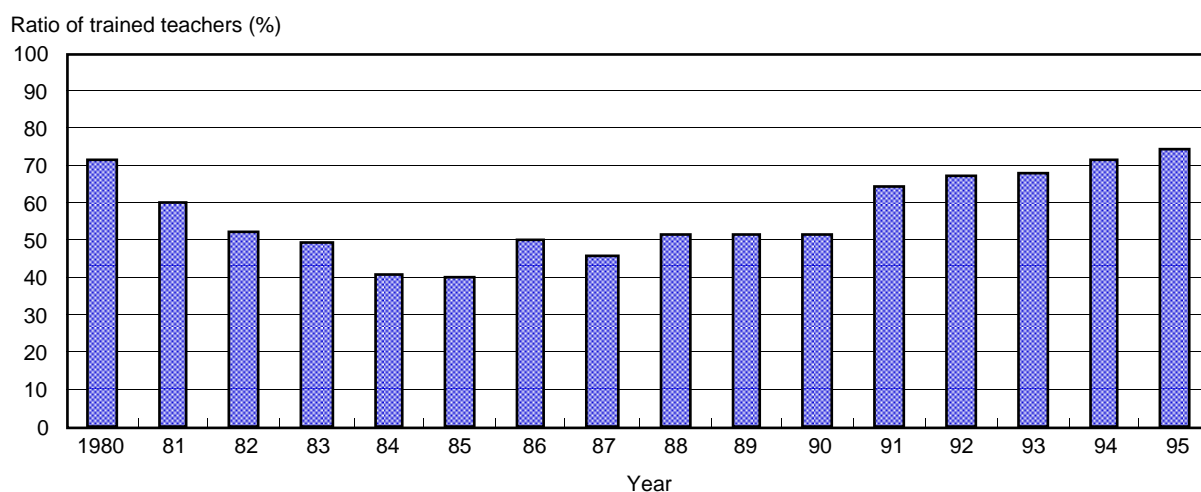
*Source: Ministry of Education, Ministry of Higher Education and UNICEF-Zimbabwe (1996).*

An example in the qualitative aspect of school education is the change in the percentage of teachers trained in such institutions as teacher training schools, and that of untrained teachers. In 1980, trained teachers accounted for 71.8%. But the number of untrained teachers increased in the first half of the 1980s, as a result of the rapid increase



of schools. In 1985, the ratio of trained teachers declined to 39.2%. As policy priority shifted to the quality of education, the percentage of trained teachers increased gradually from 1986, reaching 74.8% in 1995 (Fig. 1.5.4).

**Figure 1.5.4 Rate of Primary School Teacher Training**



*Source: Ministry of Education (1997).*

## 1.5.2 Health Care

Since attaining independence, Zimbabwe has promoted the training of rural health workers. The number of health workers increased from 329 in 1981 to 909 in 1987. Table 1.5.1 shows the change in the number of medical institutions. Between 1991 and 1996, there was little increase in the number of public medical facilities, such as central, state-operated, provincial, and municipal medical institutions. On the other hand, the number of private hospitals increased from 14 to 209 during the same period, and that of religion-related hospitals and clinics increased from 97 to 128. The number of beds per 10,000 people decreased slightly, from 19 in 1991 to 18 in 1993-95. However, it increased rapidly to 23 in 1996, as the number of beds increased by 4,815 from 1995 to 1996.

According to the Ministry of Health and Child Welfare, the number of medical institutions increased from 1,378 to 1,439 between 1993 and 1996, but the number of people per institution increased from 7,943 to 8,300 as a national average during the same period. In Mashonaland Central, where the number of people per institution was the largest in 1993, it increased from 8,132 to 8,526 in 1996, while in Matabeleland South, it decreased from 6,650 to 5,617 during the same period. Regional gaps were thus widened. It is, however, not appropriate to simply compare these figures, because they exceeded 25,000 in large cities, such as Harare and Bulawayo, where large-scale central hospitals were located.

In 1995, there were 1,343 medical institutions, and 793 of them (accounting for 60%) were established before 1980. Institutions equipped with electricity (including photovoltaic power generation) accounted for 51.7%, those equipped with water facilities accounted for 72.5%, and those equipped with telephones or radios accounted for 63.9%, showing that a number of medical institutions were not yet equipped with basic facilities. Regional gaps were considerable, too. For instance, the rate of institutions with electricity in Mashonaland South was 42.3%, while 69.0% in Mashonaland West. In Harare, all institutions had

electricity, water, and telephones or radios. The number and quality of Medical institutions are still low in the rural areas where 70% of the country's population inhabit.

**Table 1.5.1 Changes in the Number of Medical Institutions (1991-1995)**

	1991	1992	1993	1994	1995	1996
Central hospital	4	6	6	6	6	5
General hospital	7	7	7	7	7	7
Maternity hospital	-	6	3	3	3	3
District hospital	41	37	37	37	37	34
Rural hospital	58	57	58	58	58	59
Private hospital	14	175	204	204	204	209
Special facilities	6	10	11	11	11	13
Religion-related hospital/ clinic	97	120	126	126	126	128
State-operated clinic	-	377	370	370	370	349
Provincial clinic	-	452	451	451	451	497
Municipal clinic	-	102	105	105	105	102
Number of beds	18,612	16,574	16,231	16,886	18,160	22,975
Number of maternity beds	-	3,206	2,888	2,980	3,763	4,120
Number of beds per 10,000 people	19	19	18	18	18	23

*Source: CSO (1997b)*

### 1.5.3 Water Supply and Sewerage, and Water for Domestic Use

People whose houses were equipped with a water supply (inside or outside their houses) and people who had access to safe water (such as well water), accounted for 98% in cities and 35% in rural areas in 1980. These ratio increased in 1995 to 99% in cities and 73% in rural areas, marking a considerable improvement. Yet nearly 30% of the rural population had no access to safe water. In cities, including Harare, the deterioration of the water quality is a cause of concern because of the rapid population increase, despite the good access to water. According to a 1996 government survey, families with the water supplies inside their homes accounted for 55% in cities but only 4% in rural areas. The situation was more serious in communities in rural areas, with 96% of households depending on water from unmanaged wells, rivers, or dams (Table 1.5.2).

There are more than 5,000 wells in Zimbabwe, providing important sources of living water in community areas and resettled lands. Newly bored wells, however, must be very deep, as most of Zimbabwean land consists of igneous rock. Expenses for ground water utilization therefore tend to increase.

In 1982, the percentage of the population with availability of sewerage was 49.1%, as a national average, and this figure increased to 70% by 1996. Currently, 97% of the urban population and 53% of the rural population are thought to have access to sewerage.

**Table 1.5.2 Means of Access to Drinking Water by Region**

Means of access Area	Safe water				Unsanitary water		Total
	Interior waterworks	Outdoor water works	Taps for common use	Wells	Unmanaged wells	Rivers/dams	
Community areas n=1824	1%	2%	1%	60%	22%	14%	100%
Small-scale farms n=254	8%	2%	4%	61%	13%	10%	100%
Large-scale farms n=463	12%	41%	21%	17%	3%	5%	100%
Rural area total n=2541	4%	9%	5%	52%	18%	12%	100%
Urban area total n=1589	55%	40%	1%	1%	1%	0%	100%
Total n=4130	24%	21%	3%	11%	11%	8%	100%

(Note) "n" refers to the number of samples.

Source: Ministry of Public Service, Labor, and Social Welfare (1996c).

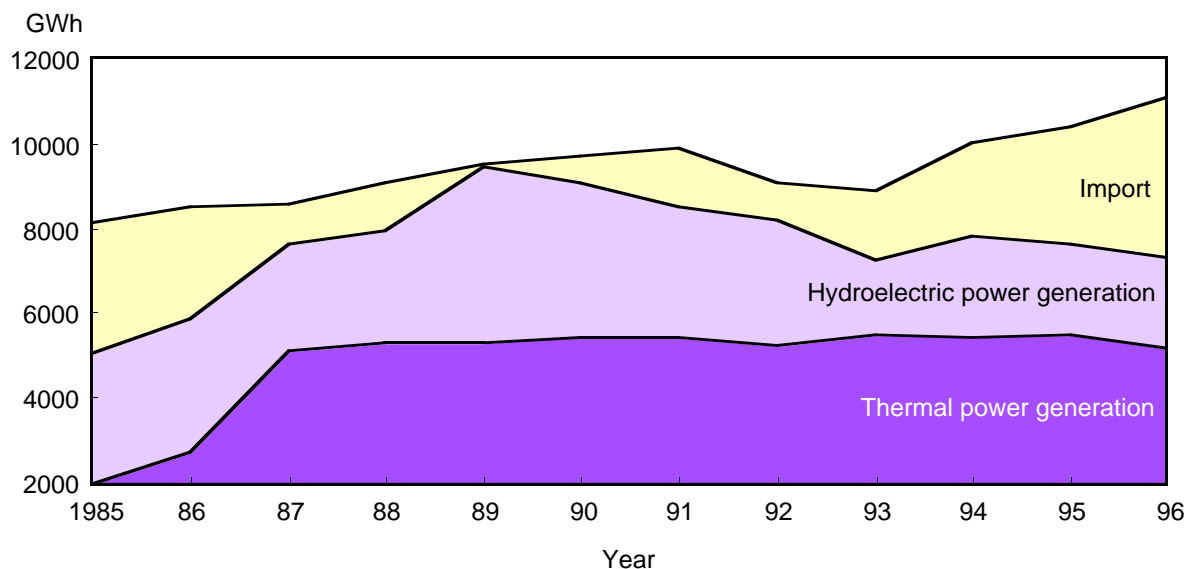
## 1.6 Economic Infrastructure

### 1.6.1 Electric Power and Industrial Water

The percentage of domestically generated power in total electric power consumption in Zimbabwe varies considerably from year to year (Fig. 1.6.1). The rate of internal supply was 62% in 1985, while it was 99.8% in 1989. This is because the amount of hydroelectric power (accounting for 40% of internally generated power in years when a large amount of electric power can be generated) depends greatly on precipitation. The remaining demand for electric power is satisfied by import from neighboring countries, including South Africa and Zambia. Hydroelectric power generation is conducted at Kariba Dam, situated at the northern end of Lake Kariba. Thermal power generation is conducted at four stations, of which the Hwange Power Station is the most important (possessing 70% of the country's thermal power generation capacity). Power generation and distribution are controlled by the Zimbabwe Electricity Supply Authority (ZESA), except for auxiliary power stations under the control of municipalities. The production sector consumes more than three-quarters of the total electric power, while manufacturing consumes about 50%, mining 18%, and agriculture 9%.

Water resource security is a very important issue for Zimbabwe, which suffers from repeated droughts. The country had 10,750 dams (large and small) in 1993. In 1989, the 25-Year National Water Resources Development Project was launched, for the purpose of constructing 136 new dams. Construction of six major dams was started in 1990-94, with assistance from the Italian government and other donors. In addition, 19 sites have been nominated for dam construction after 1995.

**Figure 1.6.1 Changes in Electric Power Sources (1985-1995)**



Source: CSO (1997b).

## 1.6.2 Transport

As Zimbabwe is an inland country, it is crucial to secure transport routes to harbor facilities. Railways in Zimbabwe total 2,745 km in length, the fifth longest among countries in southern Africa (following South Africa, Tanzania, Mozambique, and Angola). The rate of electrification is around 10%. With the end of the civil war, routes to ports in Mozambique, such as in Beira and Maputo, came to be utilized more. In the mid-1980s, South African ports were used for about 75% of goods transport, but in 1996, 33% of traffic service (including railway and road transport), passed through the Maputo Corridor, and 11% passed through the Beira Corridor. Between 1986 and 1994, the number of passengers who used railways showed a declining tendency (with a peak of 3.13 million passengers in 1988), while goods transport in 1994 marked a record for the preceding ten years.

Roads in Zimbabwe are comparatively well maintained. The total length of paved roads is 15,800 km, which is the second longest among nations in southern and central Africa, following 58,000 km in South Africa. The ratio of paved roads to the total length of roads in Zimbabwe is 19%, and major cities are connected with trunk roads, which are in good condition. Ten percent of goods is presumed to be transported through roads.

Zimbabwe has eight airports, including three international airports. Harare Airport has the most frequent arrivals/departures, the most passengers, and the largest quantity of freight. Especially in 1993, Harare Airport dealt with 76% of Zimbabwe's air cargo. Airport facilities need improvement, because the U.S. Federal Aviation Administration rated their safety two ranks lower in early 1997, because of insufficient radar equipment. In January 1997, expansion of the terminal of Harare Airport was announced, which had been pending since independence was attained. The construction work will require Z\$1 billion and 1.7 million people are expected to use the airport annually. The amount of freight has been increasing since 1986. In 1991, air transportation was used by as many as 1.617 million people.

### **1.6.3 Communications**

Zimbabwe established more than 100 post offices mainly in rural areas in the 1980s. Currently the country has about 300 post offices, 20 of which provide express-delivery postal service. In 1991, the number of post offices per 100,000 people was 2.8, which was not much higher than in neighboring countries.

Increasing the spread of telephone communication is one of Zimbabwe's major challenges. The number of main telephone lines per 100 people was 1.2 in 1991, which was larger than in Zambia and Mozambique, but much smaller than average in sub-Saharan Africa. The Post and Telecommunication Corporation (PTC) has a list of more than 100,000 requests for telephone installation, which seems to be far beyond the corporation's capacity. In recent years, the PTC has made active investment toward digitization of the country's communication network through optical fibers, with assistance from the European Investment Bank and the African Development Bank (AfDB). The Government of Japan has also extended support for communications through implementation of the Communication Network Expansion Project and the Communication Facilities Construction Project. As a result, the condition of telephone installation has greatly improved. Reportedly, there has been progress in the spread of mobile phones and the Internet.

## **1.7 Trend of International Balance of Payments**

### **1.7.1 International Balance of Payments**

Zimbabwe's international balance of payments is characterized by compensating current account deficits with the capital account balance. Table 1.7.1 shows recent conditions of the international balance of payments in Zimbabwe.

Zimbabwe's Economic Structural Adjustment Program (ESAP) set a goal of reducing current-account deficits from 5.9% of the GDP in 1991 to 4.0% by 1995. The program also set a target of reducing the debt service ratio from 24% in 1990 to 19.2% by 1995.

The goal of reducing the proportion of current-account deficits to the GDP was achieved. In 1992, the international balance of payments, made worse by drought, produced an increase in current-account deficits, but reduction of the proportion was realized earlier than planned. According to the Budget Message announced in July 1996, current-account deficits in 1996 were expected to become 4.5% of the GDP. As transport cost is high in Zimbabwe, an inland country, increased imports have tended to expand deficits in invisible balance. The growth of tourism during this period, however, contributed to improvement of the country's invisible balance. Capital balance showed a general upward tendency, and total balance became in the black in 1993.

The debt service ratio was 30% in 1992 and 1993, which was a heavy burden. A rapid increase in exports, however, reduced it to as low as 19.8% in 1995, approaching the target of 19.2%.

**Table 1.7.1 Changes in the International Balance of Payments (1991-1996)**

Unit: million Z dollars

	1991	1992	1993	1994	1995	1996
Current account	-1,559	-3,062	-905	-1,127	-1,767	-437
Trade balance	292	-1,277	647	1,396	767	2,867
Invisible balance	-936	-3,221	-2,864	-4,723	-5,020	-5,412
Transfer balance	331	1,436	1,312	2,200	2,486	2,108
Capital balance	1,273	2,280	2,181	2,764	3,146	497
Long-term capital balance	1,014	2,412	1,792	1,219	2,973	1,247
Short-term capital balance	259	-233	389	1,545	173	-750
Errors and omissions	-100	165	84	562	440	-270
Total balance of payments	-387	-617	1,360	2,199	1,819	-210

(Note) Trade value is calculated in FOB price. Figures for 1996 are estimates.

Source: Reserve Bank of Zimbabwe (1996).

## 1.7.2 Trade

Zimbabwe's exports to South Africa and the U.K. (its former suzerain), have been traditionally large in value. In the first half of the 1980s, South Africa was the largest trade partner, while the U.K. was the largest in 1995, with the export value amounting to Z\$2.1 billion. This was followed by South Africa, Germany, Japan, and Zambia, and values of exports to these five largest trade partners accounted for 46% of the total export value. Major exports to South Africa included textile-related goods, food, metals and metal products. Since 1992, these products have always been the three major exports (Table 1.7.2).

**Table 1.7.2 Major Trade Partners (1995)**

Unit: million Z dollars

	Export		Import	
	Country	Value	Country	Value
1	U.K.	2,059	South Africa	8,790
2	South Africa	2,012	U.K.	1,857
3	Germany	1,318	Japan	1,465
4	Japan	1,089	Germany	1,170
5	Zambia	807	U.S.A.	1,038
6	Botswana	788	France	866
7	Italy	761	Botswana	488
8	U.S.A.	761	Italy	426
9	Netherlands	566	Switzerland	340
10	Other countries	5,948	Other countries	6,618
Total		16,008		23,048

(Note) Statistics of customs clearance (CIF price) are used. Gold is not included in export value.

Source: CSO (1997b).

The value of imports from South Africa was by far the largest, accounting for nearly 40% of the total import value in 1995. This was followed by the U.K., Japan, Germany, and the U.S.A., and values of imports from these five partners accounted for 60% of the total import value. Major imports from South Africa included machinery, chemical products, metals and metal products, showing a sharp increase in the import of transport equipment in 1995. Zimbabwe recorded a highly adverse trade balance with South Africa, while showing balanced trade with other major partners, which characterized Zimbabwe's trading.

Zimbabwe exports primary products and low-processed manufactured goods, and it imports oil and high-processed manufactured goods. Exports cover a wide range of products, including agricultural products (tobacco, maize, and cotton), mineral products (gold and nickel), and manufactured goods (metals and clothing). Tobacco, food, and gold are Zimbabwe's three major exports, whose export values account for about 50% of the total export value (Table 1.7.3). Zimbabwe has rich reserves of nickel and asbestos, which are important exports. In 1995, the export value of ferroalloys doubled that in the preceding year. Tobacco and food are affected greatly by weather conditions, while gold and nickel depend on international market. In June 1997, the ban on exporting Zimbabwe-produced ivory to Japan was removed. Zimbabwe's major imports include chemical products, machinery, fuels and electric power, transport equipment and electrical equipment. These five major imports account for about 40% of total imports (Table 1.7.4).

**Table 1.7.3 Major Exports**

Unit: million Z dollars

	1994		1995	
	Item	Value	Item	Value
1	Tobacco	3,602	Tobacco	4,182
2	Food	2,518	Food	2,583
3	Gold	2,074	Gold	2,154
4	Ferroalloys	940	Ferroalloys	1,858
5	Nickel	658	Nickel	762
6	Clothing	520	Asbestos	607
7	Cotton yarn	480	Clothing	531
8	Asbestos	461	Cotton yarn	391
9	Textiles	353	Textiles	257
10	Furniture	254	Furniture	184
Total		16,008		18,359

Source: CSO (1997b).

**Table 1.7.4 Major Imports**

Unit: million Z dollars

	1994		1995	
	Item	Value	Item	Value
1	Chemical products	2,449	Chemical products	2,484
2	Machinery	2,122	Transport equipment	2,416
3	Electrical products	1,841	Electrical products	2,394
4	Fuels/electric power	1,810	Machinery	2,086
5	Transport equipment	1,744	Fuels/electric power	2,072
6	Metals/metal products	978	Metals/metal products	1,271
7	Food	686	Food	849
8	Plastics	537	Plastics	687
9	Textiles	461	Textiles	571
10	Paper products	379	Paper products	440
Total		14,612		23,048

*Source: CSO (1997b).***1.7.3 Trade Liberalization**

The ESAP set trade liberalization goals as follows.

- (i) Exchange depreciation
- (ii) Extended application of the Open General Import License (OGIL)

This was intended to revise the ongoing foreign exchange allocation system toward phased liberalization of trade by 1995, without an import license in importing items designated in the OGIL. Through extended application of the OGIL, it would be permissible to import items, except those excluded from the OGIL from the viewpoint of national defense, safety, or public interest. The specific intention was to gradually expand the OGIL targets from capital goods to consumer goods and raise the proportion of OGIL items from 24% in 1990 to more than 85% by 1995.

- (iii) Tariff reform

The ESAP aimed at tariff rationalization, through tariff reform to be implemented from 1991 onward, by reducing 5,000 tariffed items to 100 items, among those items whose ad valorem duties exceeded 30%. The scheduled tariff reform in the ESAP is shown in Table 1.7.5. The ESAP intended to maintain the status quo regarding average customs duties on consumer goods and intermediate goods, while reducing it on capital goods. It decided that a tariff of 10% would be levied on raw materials which had been tariff-free. The ESAP intended to reduce the additional import tax of 20% levied uniformly on all items, to 10% by 1993, and to abolish it in 1995. Regarding commodity taxes, the ESAP intended to maintain the ongoing 15% for general goods and 10% for capital goods. As a result, the rate of nominal taxes on imports, including tariffs, surtax, and commodity taxes, would be reduced from 29.0% in 1991 to 23.0% in 1995.



**Table 1.7.5 Tariff Reform Schedule**

Unit: %

		1991	1992	1993	1994	1995
Customs duties	Consumer goods	30	30	30	30	30
	Raw materials	0	0	0	0	0
	Intermediate goods	10	10	10	10	10
	Investment goods	5	5	5	0	0
Surtax		20	15	0	0	0
Average import tax		29	27.5	26	24.5	23

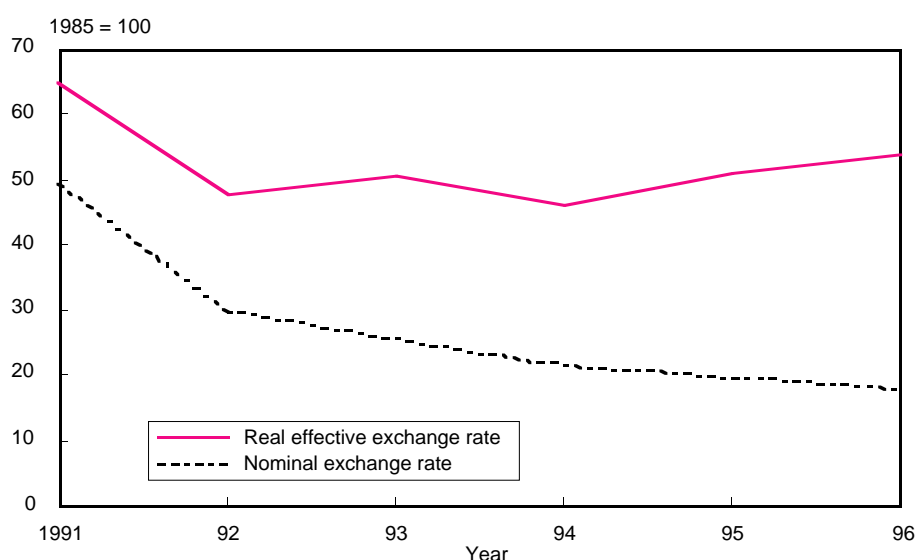
Source: Republic of Zimbabwe (1991).

(iv) Abolition of export subsidies

The export promotion system, which provided a 9% tax-exemption subsidy for specific exports (mainly comprising manufactured goods) would be abolished by fiscal 1994/95. The other export promotion measures (except those for the tariff-refunding system) would also be abolished by 1995.

It can be said that the goals of trade liberalization have mostly been achieved. Regarding the foreign exchange system, foreign currency accounts were approved for individuals in June 1993, and the official exchange rate was abolished in July of the following year, achieving total liberalization of the foreign exchange system earlier than planned. The rate of exchange declined from Z\$3.6 per U.S. dollar in 1991 to Z\$8.7 in 1995. In September 1991, the exchange rate was devalued by as much as about 60%. Taking only this into account, it can be said that the plan has achieved its goals. When, however, viewed from the real effective exchange rate, it followed the same path as the nominal exchange rate from 1991 to 1992, but it did not show any decline after that (Fig. 1.7.1). This was attributable to the declining rand of South Africa, one of Zimbabwe's major trade partners.

**Figure 1.7.1 Changes of Nominal and Real Effective Exchange Rate of Zimbabwean Dollar**



(Note) Exchange rates are those in March every year.

Source: Reserve Bank of Zimbabwe (1996b).

The extended application of the OGIL, one of the focuses in trade liberalization, attained its goals in December 1993, abolishing import control, except for some items in the negative list. In January 1996, the scope of the negative list was limited to health- and military-related items. This liberalized the import of textiles and clothing. And the foreign exchange allocation system was abolished in January 1994.

Progress was made in tariff rationalization, and tariffs were reduced for most of the tariffed items, to a range between 10% and 30%. The temporary measure to raise tax on specific items, however, has partially complicated the system. Although the program planned to remove surtax by 1995, it stands at 10%. In February 1997, the government announced a new tariff rationalization plan. According to the plan, no or low tariff rates would be applied to capital goods and raw materials, while tariffs would be raised to 40% to 80% for consumer goods, and larger tariffs could be levied on clothing, textiles, batteries, electrical appliances, and specific agricultural products. As this is clearly against trade liberalization encouraged by the WTO, it would arouse controversy. It can be pointed out that there is stagnation in the manufacturing sector, which includes the production of consumer goods. In the textile and clothing industry, for example, employment declined by 44% between 1990 and 1994. The export promotion system was abolished in January 1994, as scheduled. The abolition of export subsidies as high as 9% became a restraint against growth for exporters.

#### **1.7.4 Private Investments**

Progress in trade liberalization through the ESAP improved the investment environment. For instance, the abolition of exchange control regarding the remittance of dividends and profits, and the partial opening of the securities market for foreign capital, contributed to increasing the inflow of foreign currency.

In Zimbabwe, the Zimbabwe Investment Centre (ZIC) (established in 1989) works as a window of approval procedures for investment in Zimbabwe. According to the Center, the value of approved investment amounted to Z\$867 million in 1991, 53% of which consisted of domestic capital, with 9% consisting of joint venture capital and 38% of foreign capital. The value of approved investment showed an increasing tendency since, reaching Z\$3.8 billion in 1995. Two percent of it was domestic capital, 56% was joint venture capital, and 44% foreign capital, showing a sharp decline in the proportion of domestic capital and a rapid increase in that of foreign capital. In 1996, although data is for the first nine months, much more investment was approved than in the preceding year, as there was a considerable increase of investments in mining (Table 1.7.6).

The U.K. and South Africa, which had close historical relationships with Zimbabwe, were major investors in 1995. In 1996, however, Australia became the largest investor, with investments of Z\$3,250 million in resources such as platinum and gold. Australian capital took part in the Hartley Mine Project. Malaysia, active in investments in Africa recently, became the second largest investor in 1996, making investments mainly in the construction sector, such as the housing site development project in Bulawayo (the second largest city in Zimbabwe), and the construction of an export processing zone and an industrial complex in the suburbs of Harare. From Japan, Mazda and C. Itoh & Co. advanced in car assembling, investing in Willowvale Mazda Motor Industries. There were no conspicuous investments after that, but in 1996, C. Itoh & Co. made an investment of 25% in MOTEC, the holding company of Willowvale Mazda Motor Industries. In the automobile sub-sector, South Africa

Nissan (having a capital relationship with Nissan Diesel Motor Co.) established a dealer in Zimbabwe and launched car assembling. In April of the same year, Japan Metals & Chemicals and Mitsui & Co. established a joint venture with Zimbabwe Alloys Ltd. (ZAL), an affiliate of a locally incorporated company of Anglo American Corporation of South Africa.

**Table 1.7.6 Changes in Value and Number of Approval for Investment (1991-1996)**

Unit: million Z dollars

	1991	1992	1993	1994	1995	1996
Domestic investment	499.6	621.1	381.5	136.7	9.1	16.7
Joint venture	77.8	351.3	1,240.4	2,563.1	2,116.4	4,116.7
Foreign capital	329.6	655.6	297.9	2,791.3	1,675.6	2,836.0
Total value	867.0	1,628.3	1,919.8	5,491.3	3,801.1	6,969.4
Total number	117	290	271	365	448	304

(Note) Figures for 1996 are those for the first nine months.

Source: Japan External Trade Organization (1997).

## 1.8 Regional Economic Cooperation

### 1.8.1 Regional Economic Cooperation in Southern Africa

Southern Africa has four economic cooperation organizations: (i) the Southern African Development Community (SADC), (ii) the Common Market for Eastern and Southern Africa (COMESA), (iii) the Southern African Customs Union (SACU), and (iv) the Common Monetary Area. As is shown in Table 1.8.1, member countries of these organizations overlap to a considerable extent. Zimbabwe is a member of the SADC and the COMESA.

**Table 1.8.1 Members of Southern African Regional Organizations**

	SADC	SACU	CMA	COMESA
Angola				
Botswana				
Lesotho				
Malawi				
Mauritius				
Mozambique				
Namibia				
South Africa				
Swaziland				
Tanzania				
Zambia				
Zimbabwe				

(Note) In 1995, COMESA had 11 other members in eastern and central Africa. In August 1997, Congo (former Zaire) and Seychelles, COMESA members, joined SADC.

The COMESA covers not only southern Africa but also eastern and central Africa, including Sudan, Ethiopia, Kenya, Madagascar, Congo (former Zaire), and Rwanda. In 1995 the total area of the member countries covered half of sub-Saharan Africa. The COMESA originates from the Preferential Trade Area for Eastern and Southern Africa (PTA) (established in 1981) and it intends to promote intra-trade by reducing tariffs within the region. Zimbabwe took an active part in the PTA, establishing the Clearing House in Harare for intra-trade. In December 1994, the PTA was reorganized into the COMESA for more expansive economic integration. Southern African countries, however, have some doubts about the necessity of the organization, because South Africa is not a member country and the functions overlap those of the SADC (which all southern African countries have joined). In fact, Namibia, Mozambique, and Lesotho announced that they were leaving the COMESA in December 1996.

Southern African countries have concluded a number of bilateral trade agreements. Zimbabwe has the largest number of such agreements, having bilateral trade agreements with the above-mentioned countries, except Namibia and Lesotho. For Zimbabwe, the most important trade partner is South Africa, the economic superpower in the region.

### **1.8.2 The SADC**

In 1980, front-line countries<sup>(10)</sup> established the Southern African Development Coordination Conference (SADCC), for their economic independence from South Africa, which was then under apartheid. The SADCC assigned a coordinator country for each sector and promoted development projects. The organization was regarded as a success, bringing about assistance efforts of multilateral organizations and bilateral donors together. As South Africa abolished its apartheid policy and returned to the international community, the conference was reorganized into the SADC in August 1992. Its objectives came to include the establishment of a common market by reducing tariffs within the region. Therefore the SADC now has two roles: expanding intra-trade and cooperation by sector.

Table 1.8.2 shows trade within the SADC (however, trade among five SACU member countries (South Africa, Botswana, Lesotho, Namibia, and Swaziland) is not included in the table, because no statistics have been published thus far). In the value of exports, South Africa and Zimbabwe are outstanding. The proportion of intra-export to the total export value is 35% for Zimbabwe, 19% for Malawi, and 18% for Mozambique, but it is less than 10% for other countries. Import values are high in Mozambique, South Africa, Zimbabwe, and Malawi. The proportion of intra-import to the total import value is large in the Southern African countries, except Angola and South Africa, and it is more than 50% in Tanzania, Malawi, and Mozambique. The proportion in Zimbabwe is 24%.

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<sup>(10)</sup> A group organized for democratic independence of Zimbabwe in accordance with the black majority.

**Table 1.8.2 Trade within SADC Countries (1995)**

Unit: million U.S. dollars

Export to / Import from	Angola	Bots-wana	Lesotho	Malawi	Mauri-tius	Mozam-bique	Namibia	South Africa	Swazi-land	Tanza-nia	Zambia	Zimba-bwe	Total import value within the region	Total import value
Angola								6					6	3324
Botswana				8				-		1	3	34	46	-
Lesotho								-					0	-
Malawi		4				4		64		4	5	4	85	439
Mauritius				1				5		3	2	8	19	1452
Mozambique				4				32		1		6	43	241
Namibia								-				11	11	-
South Africa	108	-	-	215	188	487	-	-	-	63	121	401	1583	31771
Swaziland				4				-		5	5	7	21	-
Tanzania		1		2	2	1		5			3	1	15	719
Zambia		4		4			1	19		10		27	65	1128
Zimbabwe	13	121	2	96	7	75	27	287	3	31	81		743	2129
Total import value within the region	121	130	2	334	197	567	28	418	3	118	220	499	2637	
Total import value	1803	-	-	654	1949	1213	-	25250	-	165	697	2037		

(Note) There are no descriptions on intra-trade among SACU countries. As there are no descriptions on export values in SACU countries, except South Africa, import values in trade partner countries are used. Statistics include estimates.

Source: IMF (1996b).

Second, a trade imbalance can be pointed out between South Africa and the other SADC countries. Table 1.8.3 shows South Africa's trade with the other SADC countries and includes unofficial statistics on SACU intra-trade. South Africa has a considerably favorable trade balance, overall with the other countries. Exports to and imports from southern African countries account for more than 80% in South Africa's trade with overall Africa. Southern African countries are important trade partners for South Africa, but its trade is characterized by extreme trade imbalance (with South Africa's exports being four times its imports).

**Table 1.8.3 South Africa's Trade with Southern African Countries (1994)**

Unit: million U.S. dollars

		Exports from South Africa	Imports to South Africa	Excess in exports from South Africa
1	Botswana	1175	160	1015
2	Namibia	1143	399	744
3	Swaziland	794	323	471
4	Lesotho	774	60	714
5	Zimbabwe	693	288	405
6	Mozambique	396	26	370
7	Zambia	326	55	271
8	Malawi	176	52	124
9	Mauritius	153	4	149
10	Angola	88	5	83
11	Tanzania	52	4	48
Total trade with southern African countries		5770	1376	4390
Total trade with overall African countries		6317	1605	4712
Share of trade with southern Africa in trade with overall Africa		91%	86%	93%

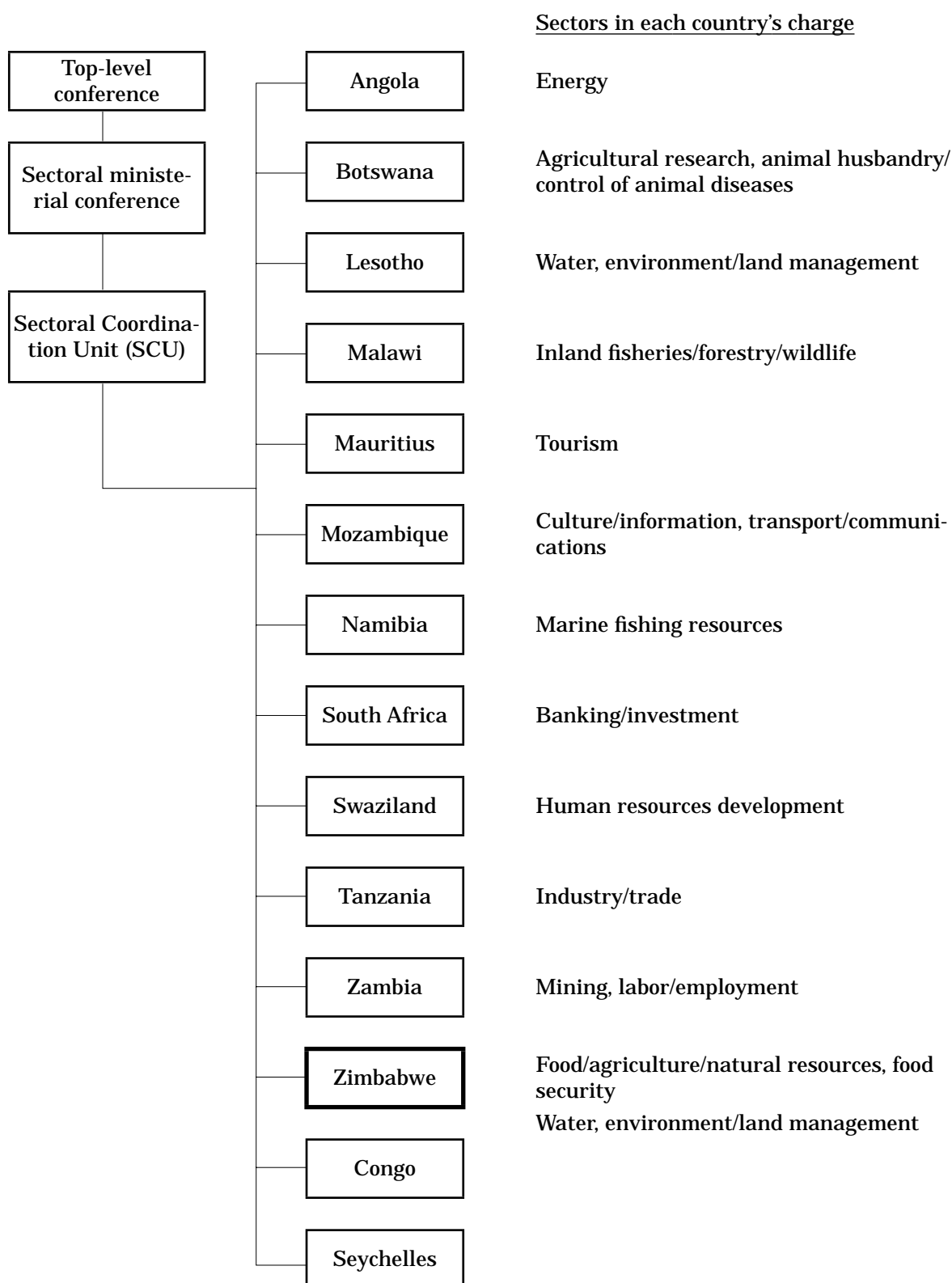
Source: *Deutsche Bank (1995)*.

In the SADC summit conference held in August 1996, the heads of the countries signed the SADC trade protocol for promoting the full liberalization of intra-trade in eight years. In the conference, President Mandela of South Africa was nominated chairman of the SADC, making the country take the initiative in expanding intra-trade. This is also meaningful.

Regarding SADC sector cooperation, the SADC has the Sectoral Coordination Unit (SCU), which coordinates sectoral development policies under the top-level conference and the ministerial conference. Sectors in each country's charge are shown in Fig. 1.8.1. Zimbabwe is in charge of food/ agriculture/natural resources and food security. In Mozambique, the Southern African Transport and Communications Commission (SATCC) has been established to assure and coordinate transport routes to the sea, especially for the inland countries. Development projects are mostly related to infrastructure, such as transport and communications. For example, among 380 projects approved in fiscal 1995/96, 174 were related to transport or communications (accounting for 45% of the total funds). This was followed by 85 projects related to food, agriculture, and natural resources, 44 energy projects, and 21 mining projects.

For inland countries like Zimbabwe, it is important to construct and maintain road and railway networks reaching port facilities. Specifically, projects for improving the Beira Corridor, connecting Beira Port in Mozambique with Zimbabwe's Harare and Zambia's Lusaka, have been given a top priority.

**Figure 1.8.1 SADC's Sectoral Coordination and Countries in Charge**



Source: prepared from SADC, SADC TODAY, February 1997.

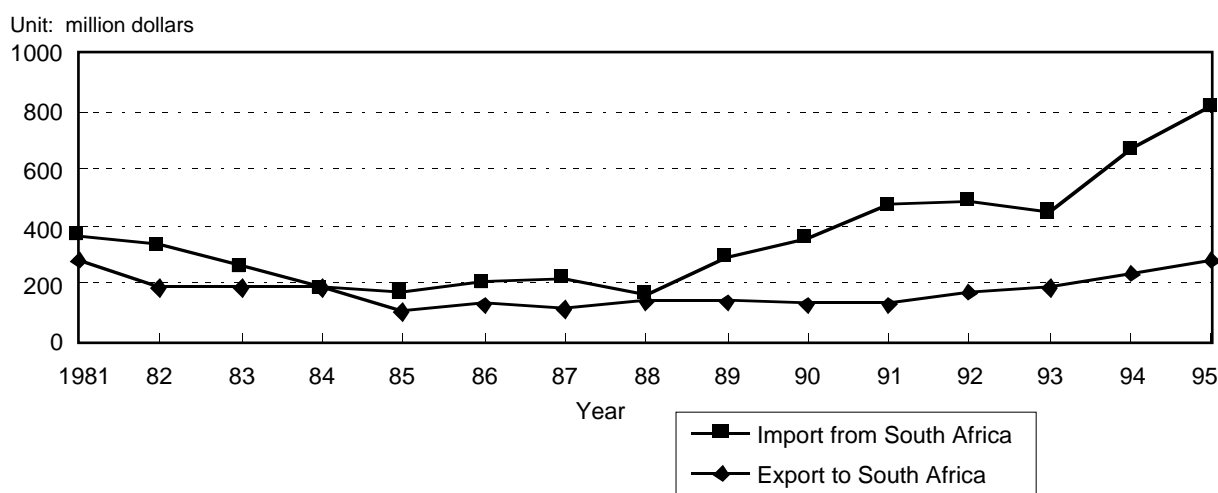
Making protocols on many issues is the approach to form a common policy framework for the SADC. In 1995, the Protocol on the Water Resources Sharing System (for confirming the common use of water resources) and the Memorandum on the Southern African Power Pool (for developing a power transmission and distribution network) were signed. In addition, Protocols on Energy Development, Cooperation in Transport/Communications Development and Meteorological Observation, and Narcotic Smuggling Control were signed in 1996. Currently, the Protocol on Free Movement of People among SADC Countries is under discussion.

### 1.8.3 Economic Relationship between Zimbabwe and South Africa

South Africa and Zimbabwe have a close historical relationship. A bilateral trade agreement was concluded as early as 1964, when Zimbabwe was called South Rhodesia. The agreement allowed reciprocal provision of preferential tariffs on specific items (including textiles, clothing, food, and tobacco) but it was characterized by South Africa's strategic intention of doing a favor for Zimbabwe. South Africa has always been Zimbabwe's largest trade partner, and the value of trade with South Africa accounted for 15-21% in the 1980s. The agreement continued after Zimbabwe became independent. For five years from 1992, however, the revision of the bilateral agreement aroused controversy. The Zimbabwean government focused its request on tariff reduction by South Africa on Zimbabwean textiles and clothing. Three factors seem to have existed behind this request.

The first factor was Zimbabwe's considerably adverse trade balance with South Africa. In 1995, the value of imports from South Africa amounted to US\$820 million, while that of exports from Zimbabwe to South Africa was US\$290 million, marking an excess of imports of as much as US\$530 million. Fig. 1.8.2, which shows the change in Zimbabwe's trade with South Africa, shows the aggravating trade imbalance in the 1990s.

**Figure 1.8.2 Changes in the Value of Zimbabwe's Exports to and Imports from South Africa (1981-1995)**



(Note) Figures for 1988 and 1995 are estimates.

Source: IMF; World Bank (1995a).



Second, the bilateral agreement became less favorable due to raised import tariffs by South Africa on textiles and clothing (the tariff on clothing was raised from 15% to 75%). Fiber-related items, such as textiles and clothing, were important exports from Zimbabwe (accounting for 22% of the value of exports to South Africa in 1994 and 14% in 1995).

Third, there was a pressure from the industrial circles under worsened performance in the textile and clothing industry. Zimbabwe introduced the ESAP in 1990 and started trade liberalization (e.g. tariffs reduction on textiles from 65% to 15% in five years.) As a consequence, performances in the textile and clothing industry, which lacked international competitiveness, were worsened, and Cone Textile (the largest textile enterprise with 6,000 employees in Zimbabwe) went bankrupt in November 1994. The number of employees declined from 50,000 to 28,000 between 1990 and 1994 in industries as a whole.

Negotiations faced difficulties, and the Zimbabwean government warned the South African government of a 'trade war' in May 1996, while hatred against South Africa was mounting among Zimbabwean people. In August of the same year, negotiations were concluded with concessions by South Africa, and final agreement was reached as late as in March 1997. The agreement on new preferential tariffs on textiles and clothing was expected to expand to other industries. As of August 1995, the government of South Africa had no intention to extend preferential tariffs to other industries, but organized a working group on agricultural products, mineral products, and automobiles, by accepting the Zimbabwean government's request, in order to mitigate the Zimbabwean people's ill feeling against South Africa. Regarding agricultural products, agreement was reached in March 1997 on import quotas. It is, however, doubtful whether the South African government will make concessions also on mineral products and automobiles, as this agreement could encourage neighboring countries to make requests for tariff reductions.

## **2. Political Trends**

### **2.1 Independence**

After repeated failures in the peace negotiations and the civil wars for independence<sup>(11)</sup>, a general election was finally conducted in 1980, in accordance with the Lancaster House Conference held in 1979. This Rhodesia problem resulted in the independence of the Republic of Zimbabwe. During the peace negotiations and the general election, the U.K., the U.S.A., and South Africa (under apartheid), were cautiously watching the Zimbabwe African National Union-Patriotic Front (ZANU-PF) (which played a central role in the armed struggle) as well as its leader Mugabe (who was said to be a doctrinaire Marxist). ZANU-PF, however, won an overwhelming victory in the election, and Mugabe was inaugurated as the Prime Minister.

Prime Minister Mugabe established a coalition cabinet with the Patriotic Front-Zimbabwe African People's Union (PF-ZAPU)<sup>(12)</sup>, and demonstrated his pragmatic politics for national reconciliation by appointing white persons as the Minister of Commerce and Industry and the Minister of Agriculture, thus arousing expectations inside and outside the country regarding his administrative ability. Immediately after independence was attained, foreign assistance was poured for rehabilitation and refugee repatriation. In 1981, 36 countries and institutions (including Japan) pledged more than US\$1 billion at the Zimbabwe Conference on Reconstruction and Development (ZIMCORD).

### **2.2 Shona and Ndebele**

The opposition party PF-ZAPU was supported by Ndebele people<sup>(13)</sup>, who accounted for 15% of the population. The Ndebele had a different language and history from the Shona, the supporter of the ZANU-PF, and they had their own guerrilla group. Soon after independence was attained, a conflict arose between the surviving guerrillas from the both sides, and the ministers from the PF-ZAPU were dismissed, resulting in a destruction of the coalition. The government armed forces started to suppress Matabeleland Province, where Ndebele people lived. This operation was so intensive as to incur concern and censure of the international community. In the end, the political antagonism between the Shona and the Ndebele faded out as the parties were amalgamated in 1989.

### **2.3 Diplomatic Relations**

During the liberation struggle, the PF-ZAPU was supported by the former Soviet Union, while the ZANU-PF was supported by North Korea and China. This produced, after

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<sup>(11)</sup> After the Federation of Rhodesia-Nyasaland collapsed with the independence of Zambia and Malawi in 1963, South Rhodesia declared independence without the approval by the U.K., (the suzerain) in 1965, establishing the Republic of Rhodesia. The republic adopted apartheid, under which white settlers held power. While the country was isolated from the international community, it deepened its relationship with South Africa. After that, the U.K., South Africa, and the U.S.A. undertook mediation, but these efforts failed and the civil war for independence was increasingly intensified.

<sup>(12)</sup> The liberation movement in Rhodesia originated in the African National Congress (ANC) established in 1957. This developed into the ZAPU, and the ZANU separated from the ZAPU. The ZAPU and the ZANU established a united front in the 1970s, organizing the Patriotic Front (PF).

<sup>(13)</sup> The Ndebele people are, so to speak, conquerors, having fled from South Africa in the 19th century. The Shona people are, so to speak, descendants of indigenous people. The Shona culture bore fruit in Great Zimbabwe in the 13th century. The country has been named after this ancient kingdom.

independence was attained, a very cold relationship with the Soviet Union, and close diplomatic relations with China and North Korea. The North Korean government dispatched a military advisory mission and China assisted in the construction of the National Sports Stadium. In 1987, Zimbabwe held the Harare Conference of Non-Aligned Movement as the chairman country.

Zimbabwe was in an alienated relationship with Zambia (which kept a close relationship with the PF-ZAPU) and Malawi (which kept diplomatic relations with South Africa under apartheid). On the other hand, Zimbabwe treated Mozambique as a friendly nation, as Mozambique actively supported the ZANU-PF during the civil war for independence. A Zimbabwean army was stationed at the Beira Corridor (a route connecting Zimbabwe with Mozambique) until 1993 to protect the traffic route from attacks by Mozambican antigovernment guerrillas. Zimbabwe came to play an important role in the group of Front-Line Countries aiming to liberate South Africa, and it became actively concerned in the Southern African Development Coordination Conference (SADCC) (established in 1980 with the Front Line as the nucleus) such as sending the Zimbabwean secretary-general. As a matter of course, Zimbabwe was hostile to the South African government before democratization but the preferential trade agreement between the two was maintained.

Zimbabwe received assistance in land acquisition expenses for the Resettlement Scheme and support in military training from the U.K. (its former suzerain). On the other hand, the relationship with the U.S.A. was delicate and became tense as Zimbabwe abstained from voting for the UN resolution censuring the shooting down of a Korean Airlines plane in 1983. The U.S.A., being repeatedly censured by Zimbabwe, froze its assistance and put the dispatch of its ambassador off for a while.

## **2.4 Failed Attempt to a One-party State**

With the amendment of the constitution in 1987, Zimbabwe shifted from a bicameral, parliamentary cabinet system to a unicameral, power-holding president system, and Prime Minister Mugabe was inaugurated as President. In 1990, the first direct Presidential election and unicameral election were conducted, and the ruling party that had absorbed the PF-ZAPU won 147 out of 150 seats. President Mugabe, taking advantage of this overwhelming victory, intended to establish a one-party system through further amendment of the constitution. In those days, the African continent was awash in a great tide of democratization, with dictatorial governments being brought down and multi-party systems being established in many countries. Mugabe's policy brought about doubts and protests inside and outside the country, because it went against the times. In the end, Mugabe's proposal was rejected at the general meeting of the ruling party's central committee.

## **2.5 Intricate Racial Integration**

At the time of independence in 1980, Zimbabwe was regarded as a preceding model for the future democratization of South Africa, and the treatment of white population drew attention from this viewpoint. In the formation of the first cabinet, two white ministers were appointed and the national military was left under the control of a white commander. President Mugabe, however, repeatedly criticized white people and they disappeared from public offices (including the army and air force). The white population itself declined from a peak of 270,000 (in the first half of the 1970s) to less than 100,000. The Lancaster House

Agreement, which assured 20 parliamentary seats for white people, lost effect in 1987. Today, there are white members of parliament and white ministers from the ruling ZANU-PF, but few white people express their political views.

The largest problem involving white people relates to land issues. Colony management in Zimbabwe was founded on land usurpation, and 60% of the arable land was occupied by as few as several thousand farms managed by white people. These farms, whose productivity was among the highest in the world, provided the foundation of the Zimbabwean economy. Independent Zimbabwe's national challenge was therefore to provide equal opportunities of land ownership while retaining its productivity. It was stipulated in the Lancaster House Agreement, which established the principle of "willing seller-willing buyer", that the U.K. would bear half the funds for buying land from white people. However, the agreement completely lost effect, and the Land Acquisition Act (which legally ensures the government's right to acquire land) was enacted in 1992. A number of farms managed by white people were designated as targets of acquisition, but financial difficulty impeded execution. President Mugabe, becoming impatient, announced forced expropriation of 1,772 large farms (totaling 5 million ha) in 1997, stating that all expenses should be borne by the U.K.. The U.K. rejected this demand as a matter of course.

## 2.6 Instability Factors

The overwhelming advantage of the ZANU-PF after the disappearance of critical power from the parliament, and governance by virtually one political party, seemed as firm as a rock, producing an appearance of political stability in Zimbabwe. In its 17th year of independence, however, political instability was emerging in new forms. One was that voter turnouts considerably declined in various elections. Although it was a matter of course that the turnout exceeded 90% in the general election for independence, it declined to 80% in the 1985 general election, and to 54% in the 1990 general election; it was 57% in the 1995 general election, and 32% in the 1996 presidential election. Turnouts of voters were sometimes even lower than 10% in elections to fill vacancies and in local assembly elections. This occurred because elections themselves became less meaningful, as there were no candidates who could rival those from the party in power, and frequent incidences of corruption betrayed voter confidence in the ZANU-PF<sup>(14)</sup>.

In addition, people took a direct action. In 1995, unlawful firing by a policeman triggered bigger protesting by citizens than ever in Harare. In 1996, the president was forced to resign by a big riot invoked at Zimbabwe University. In the same year, civil servants went on a large-scale strike – despite that doing so was prohibited by law – protesting the delayed payment of wages due to government mismanagement. In 1997, the stopping of pension payments to veterans caused great strife and the ZANU-PF headquarters was attacked. Furthermore, the new tax plan proposed to raise veteran pension fund induced strife by the general public, leading to the dispatch of a police force. In 1998, mass movements broke out in many places in protest against a substantial increase in food prices, and soldiers were dispatched for the first time to suppress the movements.

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<sup>(14)</sup> Willowgate, revealed in 1988, was the largest administrative scandal after independence was attained. Multiple ministers gained profit by selling cars of government-invested Willowvale, through illegal channels. The scandal was called Willowgate, in comparison to Watergate. Five ministers, one vice-minister, and one provincial governor were dismissed, and the Minister of Home Affairs, a senior member of the party included among them, killed himself.

It can be said that Zimbabwe's politics, stagnant because of a lack of influential opposition parties, is losing functions of absorbing and reflecting views and opinions of people of different classes in the country and it leads to political apathy and people's direct actions. Contrary to the calm political situation, discontent has smoldered among the people, producing an atmosphere of unrest, together with the poverty deepening under the Structural Adjustment Program.

### 3. Aid Trends to Zimbabwe

#### 3.1 Outlook

Trends of assistance for Zimbabwe greatly changed first when it became independent in 1980, and then, secondly, when the Structural Adjustment Program was implemented at the beginning of the 1990s.

As shown in Table 3.1.1, the value of assistance began increasing immediately after independence was attained. In the 1980s, assistance from multilateral organizations was around US\$50 million. Bilateral assistance gradually increased, approaching US\$300 million in 1990. Bilateral assistance was especially large in drought years.

**Table 3.1.1 Changes of Net Assistance Value to Zimbabwe (1979-1996)**

Unit: million U.S. dollars

Year	DAC countries	Multilateral organizations	Total ODA <sup>(1)</sup>	Ratio to GDP <sup>(2)</sup>
1979	12.4	0.0	12.5	0.3%
1980	112.2	47.0	164.1	3.1%
1981	136.9	67.4	212.3	3.3%
1982	141.9	29.8	215.8	3.2%
1983	185.6	22.8	208.5	3.3%
1984	243.6	53.3	297.8	5.8%
1985	214.2	25.5	237.1	5.2%
1986	191.3	35.6	224.8	4.5%
1987	265.3	28.2	293.9	5.5%
1988	233.1	42.8	272.7	4.3%
1989	227.5	38.9	264.9	4.0%
1990	295.8	35.5	340.5	5.0%
1991	359.2	35.3	393.3	6.3%
1992	535.8	259.5	792.6	15.7%
1993	310.1	190.6	500.1	8.9%
1994	280.3	284.0	561.7	10.3%
1995	347.7	148.6	492.7	7.6%
1996	280.8	96.1	374.2	4.3% <sup>(3)</sup>

Notes: 1. Inclusive of Arab countries.

2. Estimates. Calculated based on the GDP in the World Bank's statistics.

3. Calculated based on the GDP announced by CSO.

Source: OECD (1981-97).

Due to the implementation of Structural Adjustment Lending in 1992, the assistance value substantially increased. A severe drought, which was said to be the worst in Zimbabwe's history, contributed to the increase of the assistance value. Structural Adjustment Lending, however, was reduced in 1993 under the judgment that macroeconomic indexes were not as improved as was originally planned, and bilateral assistance also shrunk. Cur-

rently, discussions are being repeated with a view to resuming Structural Adjustment Lending, and bilateral assistance also began increasing in 1995.

The proportion of the assistance value to the GDP increased gradually after independence, showing a sharp increase in the 1990s, with the implementation of Structural Adjustment Lending. The proportion exceeded 10% in 1994, showing dependence on assistance (that is typical in Africa).

Viewed from assistance schemes, grants showed an annual increase, while loans decreased slightly in the 1980s. In the 1990s, loans increased substantially as Structural Adjustment Lending started, but then decreased again as the lending was reviewed in 1993. On the other hand, grants substantially increased even after the implementation of lending.

In recent years, technical cooperation accounts for 20-30% of the total value of ODA, including that from multilateral organizations and the Arabian countries. The proportion of bilateral assistance from DAC countries accounts for 30-40%.

Japan's assistance accounted for 9% of bilateral assistance from DAC countries in the first half of the 1990s, while the proportion increased to as high as 19% in 1995, making Japan the largest donor country. The general trend is that the former suzerain, the U.K., and the U.S.A., Germany, Sweden, the Netherlands, Denmark, and other nations, have shares in good balance at around 10% respectively (Table 3.1.2).

**Table 3.1.2 Change of ODA Results of Bilateral Assistance (1992-1996)**

Unit: million U.S. dollars

	1992	1993	1994	1995	1996
Japan	49.9	28.2	25.7	65.6	46.7
	9.3%	9.1%	9.2%	18.9%	16.6%
Sweden	64.6	35.8	34	29	35.9
	12.1%	11.5%	12.1%	8.3%	12.8%
Netherlands	44.1	28.4	28.1	35.7	32.4
	8.2%	9.2%	10.0%	10.3%	11.5%
Germany	58.6	59.8	25.9	42.1	30.5
	10.9%	19.3%	9.2%	12.1%	10.9%
U.K.	75.6	19.4	37.8	45.9	25.2
	14.1%	6.3%	13.5%	13.2%	9.0%
Denmark	26.2	27.6	25.3	18.9	20.5
	4.9%	8.9%	9.0%	5.4%	7.3%
U.S.A.	91	27	34	29	17
	17.0%	8.7%	12.1%	8.3%	6.1%
Canada	27.2	14.7	13.4	12.5	9.4
	5.1%	4.7%	4.8%	3.6%	3.3%
Other countries	98.6	69.2	56.1	69.0	63.2
	18.4%	22.3%	20.0%	19.8%	22.5%
<b>Total</b>	<b>535.8</b>	<b>310.1</b>	<b>280.3</b>	<b>347.7</b>	<b>280.8</b>

Source: OECD (1997).

The breakdown of bilateral assistance by sector is shown in Table 3.1.3. In 1996, assistance in economic infrastructure, including energy, transport and communications, accounted for 46%, followed by social infrastructure, including education, health, and sanitation, accounting for 37%, the production sector 8%, and the multi-sector 6%. Bilateral assistance shows well-balanced distribution on the whole, though there are annual fluctuations in sectors. In 1995, assistance for supporting debt reduction accounted for 19%.

**Table 3.1.3 Breakdown of Assistance by DAC Countries (commitment basis) (1992-1996)**

Unit: million U.S. dollars

	1992	1993	1994	1995	1996
Social infrastructure and services	127.4	71.6	94.7	71.7	139.9
	23%	20%	35%	17%	46%
Economic infrastructure and services	52.3	143.9	69.1	105.1	114.9
	9%	41%	26%	24%	37%
Production sectors	95.1	43.1	55.2	54.5	25.7
	17%	12%	20%	13%	8%
Multi sector	23.1	20.5	20.4	21.9	17.9
	4%	6%	8%	5%	6%
Program assistance	181.2	64.1	28.6	86.9	7.2
	33%	18%	11%	20%	2%
Action relating to debt	--	--	--	80.5	--
				19%	
Emergency assistance	--	--	--	6	0.9
				1%	0%
Others	0.2	2	0.3	1.2	0.6
<b>Total</b>	<b>550.6</b>	<b>351.8</b>	<b>269.3</b>	<b>431.5</b>	<b>307.3</b>

Source: OECD (1997).

## 3.2 Japan's Aid Trends

### 3.2.1 Overview

Japan started grant aid immediately after Zimbabwe became independent in 1980 and it has been providing technical cooperation and loan aid together with grant aid. Japan's assistance has increased substantially since 1988, amounting to a total of US\$391.18 million by fiscal 1995 (Fig. and Table 3.2.1).

According to *Japan's Official Development Assistance: ODA Annual Report 1997*, Zimbabwe is regarded as one of Japan's priority countries in development assistance, because the country is; (i) politically stable under a democratic system; (ii) in favorable condition for economic development in the region, possessing rich mineral resources and agricultural products and infrastructure; (iii) influential in southern Africa; and (iv) in friendly relations with Japan.



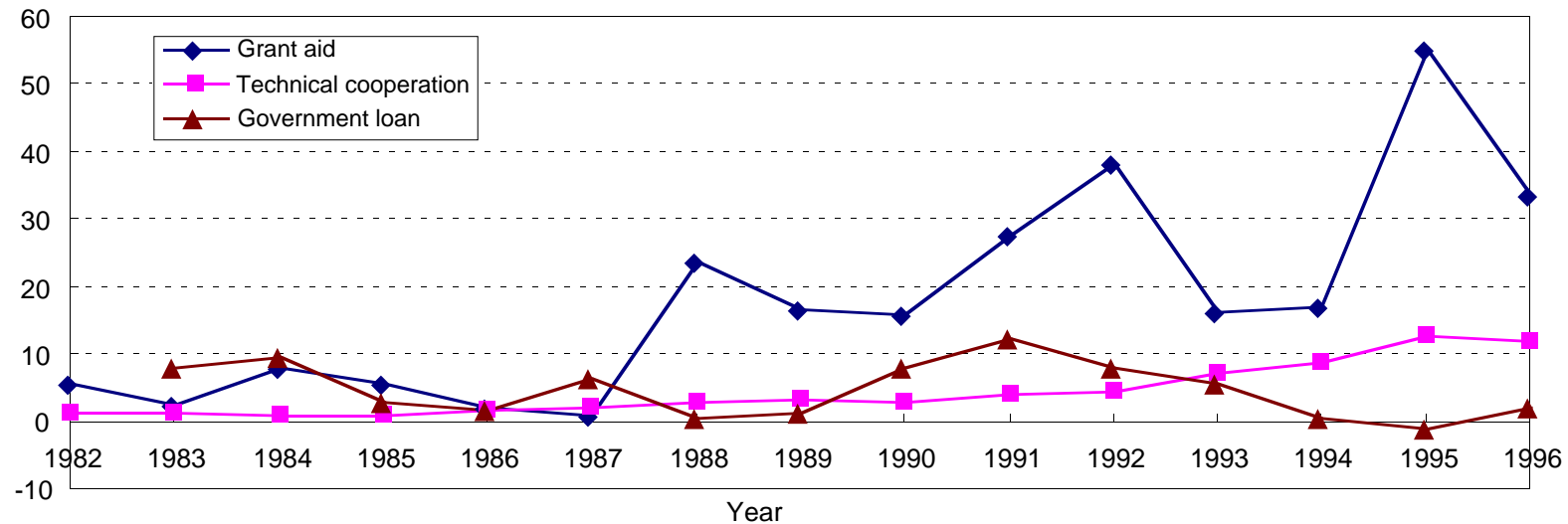
**Table 3.2.1 Japan's ODA Results for Zimbabwe**

(Million U.S. dollars)

Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Grant aid	0	3.18	5.52	2.22	7.87	5.49	1.78	0.69	23.28	16.28	15.55	27.25	38.04	16.11	16.63	54.77	33.31
	0	83%	87%	21%	45%	64%	41%	8%	89%	80%	60%	63%	76%	57%	65%	-	71%
Technical cooperation	0.09	0.17	0.85	0.85	0.47	0.47	1.21	1.87	2.67	3.02	2.4	3.77	4.24	6.81	8.66	12.35	11.71
	1	4%	13%	8%	3%	6%	28%	21%	10%	15%	9%	9%	9%	24%	34%	-	25%
Government loan	0	0	0	7.61	9.33	2.58	1.35	6.26	0.19	1.07	7.83	11.98	7.57	5.28	0.37	-1.49	1.69
	0	0	0	71%	53%	30%	31%	71%	1%	5%	30%	28%	15%	19%	1%	-	4%
Total	0.09	3.85	6.37	10.68	17.67	8.54	4.34	8.82	26.13	20.38	25.78	42.99	49.85	28.2	25.66	65.63	46.7

**Figure 3.2.1 Japan's ODA for Zimbabwe**

(Million U.S. dollars)



Source: prepared based on Japan's ODA annual report (1981-1997), the Economic Cooperation Bureau, the Ministry of Foreign Affairs

In January 1998, the government of Japan dispatched the High Level Mission on Economic and Technical Cooperation regarding grant aid and technical cooperation. Through discussions with the government of Zimbabwe, they reached an agreement to give priority to four issues: (i) improving living standard in rural areas, (ii) addressing the problems of population, HIV/AIDS and children's health, (iii) promoting industries, and (iv) environmental conservation.

Grant aid, which accounted for around 70% of Japan's ODA to Zimbabwe, showed a sharp increase in 1995. Technical cooperation showed a tendency to increase, while government lending was decreasing. In 1996, Japan's ODA accounted for as much as 17% of overall ODA to Zimbabwe, keeping Japan the top donor for Zimbabwe.

### **3.2.2 Aid Trends by Type**

#### **(1) Technical cooperation**

Technical cooperation for Zimbabwe totaled 7.3 billion yen by fiscal 1996.

##### **1) Acceptance of participants in training programs**

Japan had accepted 266 participants up to fiscal 1996. The number of participants was especially large in the sectors of telecommunications and broadcasting, planning and administration, and health care. The communications sector received the largest number of participants. The expansion of technical cooperation between Asia and Africa is now being considered from the viewpoint of South-South cooperation.

##### **2) Dispatch of individual experts**

By fiscal 1996, 19 individual experts were dispatched. Individual experts were dispatched mostly for projects implemented with loans in the telecommunications sector. In recent years, experts have been dispatched increasingly in the fields of roads, bridges, and agricultural irrigation. Discussion is being undertaken to dispatching individual experts to such fields as agriculture, economic infrastructure development in rural areas, and the environment. And it has been considered that more experts on policy advice need to be dispatched rather than service-substitute experts, with a view to promoting sustainable development and ownership. As Zimbabwe has higher technical levels among sub-Saharan African countries, it tends to demand experts of higher technical levels. It is necessary to recruit or foster capable experts in order to meet such requests.

##### **3) Development study**

Seventeen studies were conducted by fiscal 1996. Development studies in fiscal 1995 included a study on Water Pollution Control in the Upper Manyame River Basin, Feasibility Study on the Lower Munyati River Basin Agricultural Development Project, a survey for Mineral Exploration in Snake Head Area, and a Study on Dissemination of Photovoltaics for Rural Electrification. The first three were intended to contribute to improved living in rural areas, which were emphasized as a priority area.

##### **4) Project-type technical cooperation**

A Project of Infectious Diseases Control (1996-2000), the first project-type technical cooperation in Zimbabwe, is being implemented. The project is intended to improve Zimbabwe's system for preventing infectious diseases through capacity building in the

departments and institutions involved in infectious disease control. A domestic fuel diversification project is now under study.

**5) Equipment supply and dispatch of study teams**

Garbage trucks and road maintenance equipment were provided, with the actual results amounting to 491.6 million yen by fiscal 1995. By fiscal 1996, study teams involving 530 people had been dispatched.

**6) Japan Overseas Cooperation Volunteers (JOCVs)**

As of October 1997, 91 volunteers were engaged in cooperation activities in Zimbabwe. Between 1988, when the arrangement for dispatch was concluded, and fiscal 1996, a total of 214 volunteers were assigned to work in Zimbabwe.

Initially, volunteers were dispatched mainly in the fields of architecture and machine maintenance. From 1991 onward, requests increased considerably in the fields of cultivation of artistic sentiments and physical education in school education. A large number of volunteers are now active in the fields of music (26 volunteers), and physical education (22 volunteers) in primary, secondary, and high schools. Eighty percent of them are assigned to the Ministry of Education, and this marks a special situation in the African region.

The number of volunteers in musical education is large because music is not included in the formal subjects of school education in Zimbabwe. The Ministry of Education is making a study to approve music as an official subject, and it is expected that requests for music volunteers will decrease as the number of Zimbabwean music teachers increases.

Three volunteers were dispatched in the field of dressmaking, a field that contributes to poverty alleviation; they were assigned to the Ministry of Employment Promotion. The fields of rural development, fruit growing, and vegetable growing accepted one volunteer each, as a trial case. In the health care sector, no volunteers have been dispatched, as Zimbabwe has a strict standard of qualifications for medical services.

**(2) Grant aid**

Grant aid totaled 37.8 billion yen by fiscal 1996. The results of grant aid for Zimbabwe were in fourth to fifth place each year, among the African countries. Zimbabwe implemented its rural road reconstruction project under this type of assistance, immediately after attaining independence. Since then, the country has received Aid for Increased Food Production almost every year. From 1987 onward, non-project aid was extended almost every year. Among the recent projects, the Nyakomba Irrigation Development Project (1995-96) was highly appreciated for its low-cost implementation.

Regarding the project for the Rehabilitation of the Medical Facilities of Central Hospital (1991-92), a post-evaluation study was conducted in the JICA U.K. Office, by entrusting it to an English consultant. The study gave a favorable evaluation concerning the appropriateness of project selection and formulation, and the accomplishment of the original objectives and their effects. The study, however, pointed out, as considerations in formulating similar projects, the necessity of collecting information on the local conditions of medical services at the basic design stage for the purpose of correctly identifying local needs. The study also pointed out the need for specifying indicators for measuring effects of the project's implementation.

### **(3) Loan aid**

Loan aid has been extended since 1982. The results totaled 38.1 billion yen by fiscal 1996. The aggregate amount of loan aid for Zimbabwe was in ninth place among the African countries, but on a single year basis it was second, following Ghana, in fiscal 1995. Three projects have been completed thus far: Rural Roads Improvement Project, International Telecommunications Expansion Project, and Telecommunication Network Development Project. Loan aid is focused on the provision of loans for improving the infrastructure for transport and communications, in consideration of Zimbabwe being an inland country. For the benefit of the poor, loan aid projects are implemented for promoting economic growth by assisting priority sectors, thereby contributing indirectly to poverty reduction.

#### **3.2.3 Recent Aid Trends by Sector**

In view of improving living in rural areas, a study was conducted in 1995 on agricultural development in the lower reaches of the Munyati River, and a request for F/S has been submitted. Individual experts were dispatched from April 1996 to April 1998, in the field of agricultural water development and management.

In the environment sector, a project formulation study was conducted in March 1997, in coordination with the Canadian International Development Agency (CIDA). Two development studies, the Save Catchment Environmental Rehabilitation Program and Developing a Local Agenda for the City of Harare, were identified.

In the health care sector, a basic design study was conducted for grant aid on a project for Improvement of Mupiro Central Hospital Pediatric Unit, in addition to the project for Infectious Diseases Control (1996-2000) mentioned earlier. A basic design study on the Rural Water Supply Project in the Binga District is being implemented, to supply safe drinking water for the local people.

In addition, a basic study was conducted from August to September 1997, for formulating a mining and manufacturing project intended to promote small- and medium-scale businesses.

Project formulation specialists were dispatched in 1998, to identify and formulate good projects appropriate for Zimbabwe, under the NDS.

JICA is compiling *Country Gender Profiles*, *Country Environmental Profiles*, and *Country Medical Cooperation Files*, to understand conditions of the social sector in developing countries and to collect and arrange information on the sector. Regarding Zimbabwe, a gender profile has already been completed, and a medical cooperation file was completed in March 1998. An environmental profile is now being compiled.

#### **3.2.4 Cooperation with Other Donors**

As follow-up from the Tokyo International Conference on African Development (TICAD) held in 1993, jointly with the Government of Zimbabwe and the UNDP, the Asia and Africa Forum was held in Harare in July 1995.

Regarding coordination with Canada, a joint seminar was held in March 1995 for southern African countries, under the theme of "The Southern African Region - Perspectives of Development cooperation toward the 21st Century". In March 1996, a joint workshop was held in Harare, under the theme of "Environmental Management - for Sustainable Development".

Regarding coordination with Germany, it has been agreed to exchange views and information on a basic study on vocational training which Japan plans in Zimbabwe.

### 3.3 Trends among Major Aid Organizations and NGOs

#### 3.3.1 Multilateral Organizations

##### 1) **World Bank**

The World Bank has approved 28 operations, which correspond to a total value of US\$1,409.6 million, since Zimbabwe attained independence in 1980. This amount consists of US\$896.2 million in IBRD loans, and US\$513.4 million in IDA credits. About 80% of the total is for investment projects, and the remaining 20% is support for the Structural Adjustment Program. In fiscal 1996, the Second Structural Adjustment Credit (SAC II) amounted to US\$125 million, and there were eight investment projects that together totaled US\$419 million.

The World Bank gives priority as follows, for three years ahead.

- (i) Assistance in reducing fiscal deficit and accelerating the reform of the public sector
- (ii) Assistance in rural development and natural resources management
- (iii) Private sector development for promoting and creating employment
- (iv) Development of human capital

In promoting these activities, the World Bank intends to place importance on non-lending services including increased advisory support (workshops and seminars).

In the sectors of health, education, and agriculture, the World Bank will encourage assistance in coordination with other donors, in order to implement the Sector Investment Program (SIP), a Zimbabwean government-led integrated program <sup>(15)</sup>.

##### 2) **IMF**

The ESAF and the Extended Fund Facility (EFF) programs have been suspended since 1995 because of insufficient macroeconomic improvement. However, efforts to establish a new IMF program are being made in the context of joint and complementary missions with the World Bank <sup>(16)</sup>.

##### 3) **African Development Bank (AfDB)**

The results of the AfDB as a multilateral organization have not been very large thus far, compared with those of other institutions, but it began extending assistance in the 1990s, in cooperation with the World Bank and the IMF.

Since 1981, the AfDB has financed 23 loans and five grants. These programs included 12 projects, three lines of credit, one policy-based operation, and four studies. As of September 1996, these amounted to 482.09 million UA (Unit of Account) (about US\$693.23 million) on a commitment basis. Of this amount, 87.8% was from the AfDB, and 12.2% from the African Development Fund (AfDF). Among AfDF commitments, 9.9% (about US\$8.43 million) was grant aid. As of September 24, 1996, the value of assistance implemented by the AfDB was 310.95 million UA (about US\$447.13 million), which accounted for 64.5% of its commitments.

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<sup>(15)</sup> World Bank (1997a).

<sup>(16)</sup> *Ibid.*

AfDB assistance to Zimbabwe consisted mainly of assistance in medium-term programs for macroeconomic policy reform, modernization of the infrastructure, and assistance for several sectors of the economy <sup>(17)</sup> .

### 3.3.2 Bilateral Aid Agencies

#### 1) **The U.K.**

The U.K., (the former suzerain) had been the largest bilateral donor for Zimbabwe until fiscal 1994. In fiscal 1994/95, the U.K.'s bilateral assistance to Zimbabwe amounted to 27 million pounds, and the Commonwealth Development Corporation (CDC) made an investment of 7.9 million pounds in Zimbabwe, totaling 35 million pounds (Z\$490 million).

The U.K. has expressed its intention to continue assistance for Zimbabwe in economic structural adjustment and poverty eradication as primary challenges. The following are the U.K.'s other priorities in assistance for Zimbabwe.

- (i) Economic structural adjustment
- (ii) Parastatal reform and privatization
- (iii) Civil service reform
- (iv) Capacity building within local government
- (v) Health and population
- (vi) Water and sanitation
- (vii) Renewable natural resources
- (viii) Small-scale private sector development

In addition to these, it was agreed, through bilateral discussion in 1996, to include land resettlement in the priorities.

As of 1996, 40 main projects are currently managed or planned. In addition, 60 small projects in rural areas were financially assisted under the U.K.'s scheme of assistance partnership <sup>(18)</sup> .

#### 2) **The U.S.A.**

In fiscal 1995, the U.S.A. committed itself to assistance of US\$678 million, which consisted of bilateral development projects (US\$365 million), regional activities (US\$55 million), emergency food aid (US\$149 million), and investment guarantee in housing (US\$65 million).

Priorities of the U.S.A. assistance for Zimbabwe include assistance in structural adjustment and assistance in economic growth that is sustainable, impartial, and capable of promoting investment. The U.S.A has set three strategic goals as follows in order to realize these priorities.

- (i) Increase of food security for low income household in communal areas  
Maize market reform, assistance in research on improving sorghum and millet to drought-resistant varieties, and supporting improvement of natural resources management.
- (ii) Expansion of ownership of assets, such as houses, and opportunities for investment.

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<sup>(17)</sup> JICA documents

<sup>(18)</sup> *Ibid.*

(iii) Reduction of fertility and increase of use of HIV/AIDS prevention measures <sup>(19)</sup> .

### 3.3.3 Aid Coordination

The Government of Zimbabwe seems not to regard close contact among its donor countries as desirable <sup>(20)</sup> . There has been little aid coordination, except the Zimbabwean government's active coordination at the time of the severe drought in 1992.

In Zimbabwe, the World Bank's Consultative Group (CG) is the place of meeting for donors, but no meetings have been held since March 1995.

The donors concerned in the agricultural sector meet about three times a year, and meetings are held on capacity-building by the World Bank, the U.K. Department for International Development (DfID), the Swedish International Development Co-operation Agency (Sida), and the Danish International Development Agency (DANIDA). Regarding the HIV/AIDS issue, the UNDP holds donor meetings. These meetings on individual issues in each sector are the only means of aid coordination.

It would be effective to place importance on the Special Program of Assistance for Africa (SPA) as a framework for aid coordination. The SPA was intended to assist structural adjustment, when it was first proposed by the World Bank in 1988. In the SPA IV (1997-99), however, its largest objective is poverty alleviation. It is trying to identify a plan to eliminate negative effects of structural adjustment, by reviewing its impact on poverty alleviation. There is also discussion that assistance types should be changed from assistance in the international balance of payments to financial assistance, and from project/program changes of assistance to sector assistance, in response to changes of assistance needs in African countries.

In the SPA IV, present conditions in target countries are analyzed and individual development challenges are identified. Regarding Zimbabwe, these challenges include assistance in the strengthening of drought resistance of the Zimbabwean economy, assistance for the health sector, focused on the HIV/AIDS problem, and the education and private sectors. Financial assistance is regarded, among others, as an issue to be urgently addressed.

The Sector Investment Program (SIP) is being implemented, under the initiative by the World Bank. The SIP covers all relevant policies, programs, and projects within a sector, and assistance is implemented with the initiative of all participants, including the government of the recipient country, and the private sector, and with as much coordination among the donors as possible. For Zimbabwe, there is a plan to start SIPs in 1999 on family health and agriculture.

### 3.3.4 Trends in NGOs

In Zimbabwe, one of the African nations in which NGOs are most active, there are about 225 NGOs, and they conduct activities in affiliation with the National Association of NGOs (NANGO), although it is said there is no active, nationwide cooperation among them.

These NGO organizations and their activities are monitored by the Private Voluntary Organization Act (PVO Act) which was enacted in 1996 and is said to reflect the govern-

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<sup>(19)</sup> *Ibid.*

<sup>(20)</sup> It was said by Mr. Kappor, Deputy Resident Representative of the Resident Mission in Zimbabwe, during an interview held on August 20th, 1997.

ment's wish to control the activities of the ever-increasing number of NGOs. That is, auditing accounts of NGOs enables the government to control their funds, and the act is said to authorize the government to intervene in their activities.

Major NGOs and their activities (in parentheses) include Oxfam UK (rural development, cooperative associations, etc.), Save the Children Fund UK (child welfare), Jairos Jiri Association (training for disabled people), and Silveira House (vocational training, income creating activities). NGOs are also active in the environment sector.



## 4. Direction of Development in Zimbabwe

### 4.1 Economic Planning after Independence

In February 1981, the year following the attaining of independence, the new government announced "*Growth with Equity - An Economic Policy Statement*", setting the goal of abolishing imperialist exploitation and establishing an equal and socialist state, marking the beginning of the history of newborn Zimbabwe. The next month, the Zimbabwe Conference on Reconstruction and Development (ZIMCORD) was held and Zimbabwe received assistance pledges amounting to more than US\$1 billion from 36 countries and organizations, including Japan.

In 1982, the *Transitional National Development Plan 1982/83-1984/85*, Zimbabwe's first economic plan, was published. The plan aimed to construct an equal and integrated nation, based on socialism, and to build a state-management system for economic resources. The plan also aimed to achieve full employment under a real growth rate of 8%. In fact, state interventions were promoted in the distribution and production sectors.

Ninety-year history of the Rhodesia period produce the economic system which functions only for the small community of the white settlers at the cost of the large number of black people, and economic development benefits only the white communities and the foreign capital. The new government, therefore, did not rely on market mechanisms; rather it intentionally tried to change the existing systems by exercising its authority. As a consequence, ironically, the state-controlled economic system established during the Rhodesia period for the purpose of surviving the intensifying civil war for independence and economic sanctions from the international community was taken over and even strengthened by the new government.

In this situation, however, economic conditions were getting worse, being affected by the serious drought in 1983, and government debts became larger because of the accumulation of budget deficits caused Gou't debt became larger bec'se of the accumulation of budget deficit caused by the rapid expansion of expenditures. As the capital balance got worse due to a sharp increase in external borrowing and the drain of private capital, the government banned overseas remittance by enforcing exchange control in 1984. This produced a total cooling down of foreign investments in Zimbabwe.

The first economic plan was followed by the *First Five-Year National Development Plan 1986-1990*. There was, however, no change in its socialist line. Rather, the government tried to overcome the critical situation by strengthening economic interventions. The target growth rate was 5.1%, but the sluggish economy did not improve, leaving little financial strength of governmental budget.

The ZANU-PF, the political party in power, was deeply involved in elaborating these economic plans. It adopted a state-operated economy on a socialist basis, and worked out an ambitious public investment plan. Public finances came to lack flexibility as revenues leveled off and debt service became the largest expenditure item. Practically, austerity measures had been taken since the latter half of the 1980s. In short, the economic plan lost its effectiveness in the early stages for managing annual working budgets.

## 4.2 Financial Conditions

Fig. 4.2.1 shows ratios of government finances to the GDP. Total expenditures refers to the total of government spending, debt service, and short-term lending. The figure shows that the government was enlarged twice: in the mid-1970s, and in the first half of the 1980s. The first enlargement was brought about by strengthening of the controlled economy during the Rhodesia period, while the second enlargement resulted from the socialist line after independence was attained. As a consequence, Zimbabwe today has a government far beyond an appropriate scale. Since the latter half of the 1980s, the growth of spending has been restricted and further expansion of budget deficits has barely been avoided.

**Figure 4.2.1 Scale of Government Finances (ratio to GDP)**

Total expenditure  
Government spending  
Revenues  
Revenue shortfalls  
Budget deficits

*Source: Ministry of Finance, Budget Estimate.*

Ratios of government spending items to the GDP are shown in Fig. 4.2.2. It shows that government finances were expanded in the 1970s, because of swollen defense budgets under the intensifying civil war for independence and expanded personnel expenses. It also shows that government spending was further expanded due to a sharp increase in investment spending and educational spending. As shown in Fig. 4.2.3, there was an explosive increase in the number of educational personnel (including teachers) after independence was attained. Personnel expenses account for 90% of the education budget. In 1983, the number of employees in the public sector exceeded that in the manufacturing sector, and accounted for 20% of the total employees.

### Figure 4.2.2 Government Expenditures by Item (ratio to GDP)

Personnel expenses  
Investment-related spending  
Education-related spending  
Defense spending

*Source: Ministry of Finance, Budget Estimate.*

### Figure 4.2.3 Breakdown of Public Employees

(Thousand employees)  
Educational personnel  
Public administration  
Health and sanitary personnel

*Source: CSO.*

For sound financial operation and to substantiate education for black people which had been ignored, it was desirable to rationalize government finances enlarged during the Rhodesia period, by curtailing defense budgets, and to set an appropriate ceiling for investment spending. The reality was, however, that budget deficits reached an unsustainable level and government debts accumulated as shown in Fig. 4.2.4, as the government tried to

cover them by borrowing. The Zimbabwean economy was partly characterized by very large internal debt, accounting for around as much as 50% of the GDP at the end of the 1980s, causing complete crowding out effects in the internal capital market. This required the Zimbabwean government to introduce a structural adjustment program. Annual debt repayments continued to expand, as a matter of course, and in fiscal 1988/89 just before the introduction of the ESAP, debt repayment became the largest spending item, requiring 24% of the total budget and 13% of the GDP. The debt service ratio also reached 34%.

**Figure 4.2.4 Ratio of Government Debt to GDP**

Total debt  
 External debts  
 Internal debts

*Source: CSO.*

### **4.3 Structural Adjustment Policy**

*Zimbabwe - A Framework for Economic Reform 1991-1995* (published in 1991) was a complete change in the idea of economic policy. Although there was little difference from the preceding economic plan, in that the growth rate was targeted at 5%, with budget deficits being reduced to 5% of the GDP, the means of realizing these were completely different. The government announced, for the first time, that economic growth would be realized through private economic activities, which would be promoted through decomposing the controlled economic system by the privatization of public corporations, trade liberalization, deregulation, and financial liberalization, to thereby enhance market incentives. The government also announced that the people's standard of living would be improved by fruits of economic development, thus alleviating the poverty. In addition, the government pointed out the need for a social safety net for people vulnerable to structural adjustment, and established the Social Development Fund (SDF), in which various social policies were incorporated. The document was approved at the Paris Club, and the World Bank's Structural Adjustment Lending started in 1992. With the translation of the policies defined in the "Framework" into action on a full scale as ESAP, multilateral assistance increased rapidly, changing the Zimbabwean government's debt position from reliance on domestic borrowing to reliance on external debts.

Unfortunately, however, the Southern African countries were hit by the severest drought in recorded history in 1992 and in 1995. It was only in 1994 that economic growth could exceed population growth to a large extent during the planned period. Poverty aggravated in Zimbabwe due to the rapid increase of commodity prices and fee-charging of public social services. The limited financial capacity of the SDF, however, could not supply the deficiency, and the Poverty Alleviation Action Plan (PAAP) was newly introduced in 1995.

Meanwhile, institutional reforms have progressed. In 1994, the three agricultural parastatals were reorganized into a business entity, and internal grain transactions, which had been exclusively conducted by the Grain Marketing Board, were liberalized. Regulation on interests and exchange control were abolished completely and the foreign currency quota-system disappeared. Remittances up to 50% of after-tax profit were made possible and foreign investors were allowed to make domestic stock investments with an upper limit of 25% of the total issued stock of the target company. Investment projects totaling less than US\$40 million were liberalized, as a general rule, while those exceeding this amount required approval of the Zimbabwe Investment Centre (ZIC). There was progress in reduction and rationalization of customs duties and export incentives were discontinued. Price controls were abolished except for such strategic goods as petroleum, and regulation on labor was relaxed to a considerable extent.

In 1993, the economic planning function was separated from the Ministry of Finance and reorganized into the National Economic Planning Commission (NEPC), under direct control of the Presidential Office. The NEPC is now in the last stage of formulating the Zimbabwe Programme for Economic and Social Transformation (ZIMPREST, the second structural adjustment program). Although its detailed contents have not been made public, the plan is expected to give priority to strengthening of export competitiveness, modernization of the financial sector, realization of the export processing zone plan, improvement of the efficiency of tax collection, enhancement of social policy, and fostering/promotion of black Zimbabwean entrepreneurs and their participation in foreign-capital enterprises (indigenisation)<sup>(21)</sup>. The Government of Zimbabwe has also formulated *Vision 2020*, a long-term development initiative until 2020, through discussions among representatives from the government and business and academic circles.

#### **4.4 Social Dimensions of Structural Adjustment (SDA)**

In November 1991, the government established the Social Development Fund (SDF), composed of the Social Safety Nets Program (SSN) and the Employment and Training Programme (ETP). The SSN was implemented to relieve the poor who were adversely affected most by structural adjustment, by extending aid for their educational, medical, and food spending. In education, the government began bearing school fees and examination fees in 1992 for families whose monthly incomes were less than Z\$400. In the first year, 22,000 pupils were benefited in school fees and examination fees combined, and the number of beneficiaries reached 292,000 in 1995. Similarly, medical fees were borne by the government

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<sup>(21)</sup> This is a policy under which the government purchases a certain amount of stock from foreign-capital or white people's enterprises, and it has black people participate in boards of directors, based on the purchased stock. This policy, however, has not yet been implemented because of financial difficulties. This policy may have been formulated after the model of Black Empowerment through the reorganization of stock ownership, which is positively promoted in democratized South Africa. This is, however, possible only in South Africa, which has a well-developed stock exchange market. It is doubtful whether it will also work in Zimbabwe.

for families whose monthly incomes were less than Z\$400, and 200,000 people utilized this system in 1995. Regarding food expenses, the government granted cash as food aid to the urban people that suddenly found themselves in a crisis state due to the rise of food prices (especially the maize price) caused by the abolition of price control and subsidies. In 1994, this system was utilized by 240,000 people.

The ETP was a kind of measure to foster entrepreneurs of small-scale business. It provided vocational training and low-interest financing for the jobless to promote their becoming entrepreneurs. In Zimbabwe, 30,000 jobs were created by new public and private investments between 1991 and 1995, but the number of dismissed workers during the same period reached 57,000. The ETP was also expected to have an effect as a measure against increasing unemployment.

Until August 1995, 13,000 dismissed workers received training in establishment of enterprise and management. People from the private sector accounted for 65% of total trainees. In 1995, financing was approved for 741 projects, creating 2,866 jobs. Since 1992, 1,838 projects were approved, creating 7,263 jobs.

These programs were successful to a certain extent, in relieving the socially vulnerable including the poor. They involved problems, however, as mentioned below.

Bad access was the first problem. It was necessary for eligible families to apply individually at the nearest regional office of the Ministry of Social Services, Labor and Social Welfare, in order to be exempted from school fees, examination fees, and medical charges. It was, however, difficult for most families whose monthly incomes were less than Z\$400 to prove their eligibility because they were jobless. For these applicants, judgment was made based on interviews by the officials in charge, and making proper judgment was sometimes difficult. Furthermore, applicants had to wait for long periods in long queues in front of regional offices. In fact, only 10% of the eligible families were said to have applied for the exemption from medical charges.

The second problem was insufficient funds for the SDF. The government appropriated Z\$150 million to the SDF in fiscal 1993/94, but the appropriated amount was reduced to Z\$100 million for fiscal 1994/95, and to Z\$50 million for fiscal 1995/96. Although the amount was increased to Z\$75 million for fiscal 1996/97, the real SDF budget was only Z\$15 million, as a repayment of Z\$60 million was carried over from the preceding year. Of Z\$34 million that the government approved and committed itself to bearing for school fees and examination fees in 1996, only 80% was actually paid. It is said that increasing number of schools that do not want to admit pupils studying under the SDF system because of the delayed payment of these fees. It is pointed out that the monthly sum of Z\$20, granted to poor families for food spending, is too small to use even as transportation expenses to obtain food.

#### **4.5 Poverty Alleviation Action Plan (PAAP)**

In December 1993, the Government of Zimbabwe published its Poverty Alleviation Action Plan (PAAP), at the donor country conference held in Paris. The government revised the PAAP and published it as the "Implementation Strategy" in October 1994, and began its implementation in February 1995. The SDA was a relief measure for people adversely affected by structural adjustment, while the PAAP aimed at an integrated approach to reduce the number of poor people. The PAAP focused on the following seven points.

- (i) Assistance to communities through the provision of information, training and capacity-building, to enable the poor take an active part in development.
- (ii) Poverty Assessment Study to identify the whole picture of poverty.
- (iii) Infrastructure improvement through labor-intensive public investments.
- (iv) Assistance to communities where people (especially women and the youth) living in unfavorable conditions.
- (v) Creation of an enabling environment for small businesses.
- (vi) Enhancement of a social safety net programme.
- (vii) Development of long-term socio-economic policies and monitoring of poverty trends.

PAAP implementation requires about US\$150 million in three years. The contents of the plan and estimated expenses are shown in Fig. 4.5.1. As US\$65.96 million is to be raised in three years as a part of planned public sector investment, funding is necessary for the remaining US\$83.87 million. The Government of Zimbabwe asked donor countries for understanding and assistance toward the plan at the donor conference held in March 1995. The donor countries rated the plan highly and committed themselves to assistance.

The government first conducted a Poverty Assessment Study Survey (PASS) from August to November 1995 as a part of PAAP. It was a large-scale survey involving 86,000 samples. The survey result was published as the first report in April 1996 and a formal report was planned to be published in 1997.

**Table 4.5.1 Estimates for Poverty Alleviation Action Plan (PAAP)**

Unit: million U.S. dollars

	Contents of the plan	Required resources
1	Social mobilization movement	10.0
2	Literacy program	1.9
3	Information and awareness campaign	2.0
4	Poverty assessment study	1.7
5	Sustainable living program	22.8
6	Informal sector development	57.5
7	Capacity-building	3.0
8	Social safety net program	49.0
9	Social policy development/ poverty monitoring	2.1
	Total	150.0

*Source: The Government of Zimbabwe (1994).*

## 4.6 National Programme of Action for Children (NPA)

The Government of Zimbabwe formulated its National Programme of Action for Children (NPA), in cooperation with UNICEF, which set goals in the social sector for 1995-2000. Contents of NPA and appropriations are shown in Table 4.6.1. AIDS prevention, health, and education account for two-thirds of the NPA budget of US\$50.4 million

**Table 4.6.1 Contents and Estimates of Zimbabwe's NPA (1995-2000)**

Unit: million U.S. dollars

Project name		Contents	Appropriation
1	Social policy improvement	Monitoring of NPA and SDA, operation and accounting.	2.9
2	AIDS prevention	Intended for youths, on a community basis.	12.4
3	Measures for children in critical condition	Children's rights, care of orphans.	1.2
4	Waterworks and sewerage	Community basis, extension to rural areas.	9.6
5	Health	Children's health, women's health, on a community basis.	13.5
6	Education	Primary education, gender education, on a community basis.	7.5
7	Women	Women's rights.	0.5
8	Social mobilization	Request for cooperation under NPA.	1.1
9	Program assistance	Program operation and accounting.	1.7
Total			50.4

Source: *The Government of Zimbabwe and UNICEF (1993).*

### 4.6.1 Education Projects

The implementation of three education-related projects is scheduled for 1995-2000 under NPA. These projects aim at qualitative improvement of primary education and elimination of gender disparity in education.

One of the projects aim at promoting education on a community basis. It is composed of Early Childhood Education and Care (ECEC), adult education, nutrition education, and measures against droughts.

Another aims at qualitative improvement of primary education, to be promoted through training for schoolmasters in school management, and teacher training.

The third project aims at eliminating gender disparity in education; it intends to raise public awareness of merits of educating girls, through the media and the School Development Committee. The project also tries to prevent early marriages and pregnancy, and the spread of AIDS.

### 4.6.2 Health and HIV/AIDS Prevention Projects

The under-age-5 mortality rate, which declined from 104/1000 to 87/1000 in the 1980s, is again showing an increasing tendency. This seems to have resulted from a decline in real



per capita health spending and the spread of HIV/AIDS. The government has been implementing the following projects in the health field, in cooperation with UNICEF and WHO.

- (i) Child Health Project: technical and financial assistance for the extension of immunization, control of diarrheal diseases, malaria control and improved nutrition.
- (ii) Women's Health Project: training for health workers and maternity protection on a community basis.
- (iii) Health Management/Funding Project: training to be provided for more efficient management of hospitals.
- (iv) Community-level Health Care Project: dissemination in rural areas through training for health workers and improvement of communication between the central and local levels.
- (v) HIV/AIDS Prevention Project: HIV/AIDS prevention through school education, extramural education, community-level education and advice to high-risk groups.

As a means of addressing the AIDS problem, one of Zimbabwe's most important challenges, the government organized the AIDS Advisory Committee which consisted health and medical experts in 1986. Comprehensive measures for controlling AIDS are thought to have begun with the Medium-Term Plan for the Prevention Control and Care of HIV/AIDS (MTP1), published in July 1988. The MTP1 was shifted in 1994 to the Second Medium-Term Plan for the Prevention Control and Care of HIV/AIDS 1994-98 (MTP2) <sup>(22)</sup>. In 1988, the government established the National AIDS Surveillance Program as the central institution for AIDS control, and Provincial AIDS Committees in each province. The program was reorganized into the National AIDS Coordination Programme (NACP) in 1992. The NACP coordinates assistance through the NACP Donor Coordination Committee, composed of donor countries and NGOs. In 1990, the Zimbabwe AIDS Network (ZAN) was organized by NGOs active in AIDS prevention.

In addition, the government has been implementing the Five-Year Plan for AIDS Prevention since 1995, as part of the NPA. This plan consists of the following.

- (i) Collection of accurate information through various channels.
- (ii) Capacity improvement in AIDS-control-related organizations of the government and NGOs.
- (iii) Formulation of a national plan for and protection of AIDS orphans.

The plan comprises eight projects, as shown in Table 4.6.2. The government has been placing importance on communities in AIDS prevention and control. These AIDS prevention projects, however, require a lot of money and their implementation is impeded by financial shortfalls. In fact, most of the eight projects rely on assistance from donor countries.

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<sup>(22)</sup> For details of the MTP2, refer to *Country Medical Cooperation File: Republic of Zimbabwe*, JICA, Medical Cooperation Department, March 1998.

**Table 4.6.2 Contents of AIDS Prevention Program**

Unit: million U.S. dollars

	Target	Project contents	Required funds
1	Youth (in-school)	AIDS education for youths in schools.	600
2	Youth (extramural)	Raising youth awareness of AIDS outside schools.	350
3	High-risk groups	Raising awareness of AIDS, and promoting the use of condoms, on a community basis.	200
4	Communities	Raising awareness of AIDS on a community basis, through NGOs, churches, and regional health workers.	250
5	AIDS orphans	Protection of AIDS orphans.	200
6	National level	Coordination on a national level, by supporting NACP and other national organizations.	200
7	Survey study	Model study, surveillance, and documentation.	150
8	General planning	Assistance for plans themselves, such as for personnel, technologies, and equipment.	315

Source: *The Government of Zimbabwe and UNICEF (1993).*

#### 4.7 Zimbabwe Environmental Action Programme (ZEAP)

The Zimbabwean government is thought to have addressed environmental problems for the first time after attaining independence by announcing the National Conservation Strategy (NCS) in 1987. NCS intended to define a policy guideline for environmental planning, but satisfactory results were not produced, partly because of little experience. After that, the government prepared a report round about the time of the Rio Earth Summit in 1992, expressing its intention to implement an environmental policy in line with Agenda 21.

Currently, the Government of Zimbabwe is elaborating its District Environmental Action Programme (DEAP). This program, being implemented by the Ministry of Environment and Tourism, with assistance from the UNDP, is a grassroots approach to planning by making the best use of local initiatives. First, one district is selected as the model district in each of eight provinces, and a plan on the environment and development is formulated for each of these eight districts. The government intends to apply this to all of the country's 57 districts and aims to formulate the Zimbabwe Environmental Action Programme (ZEAP).

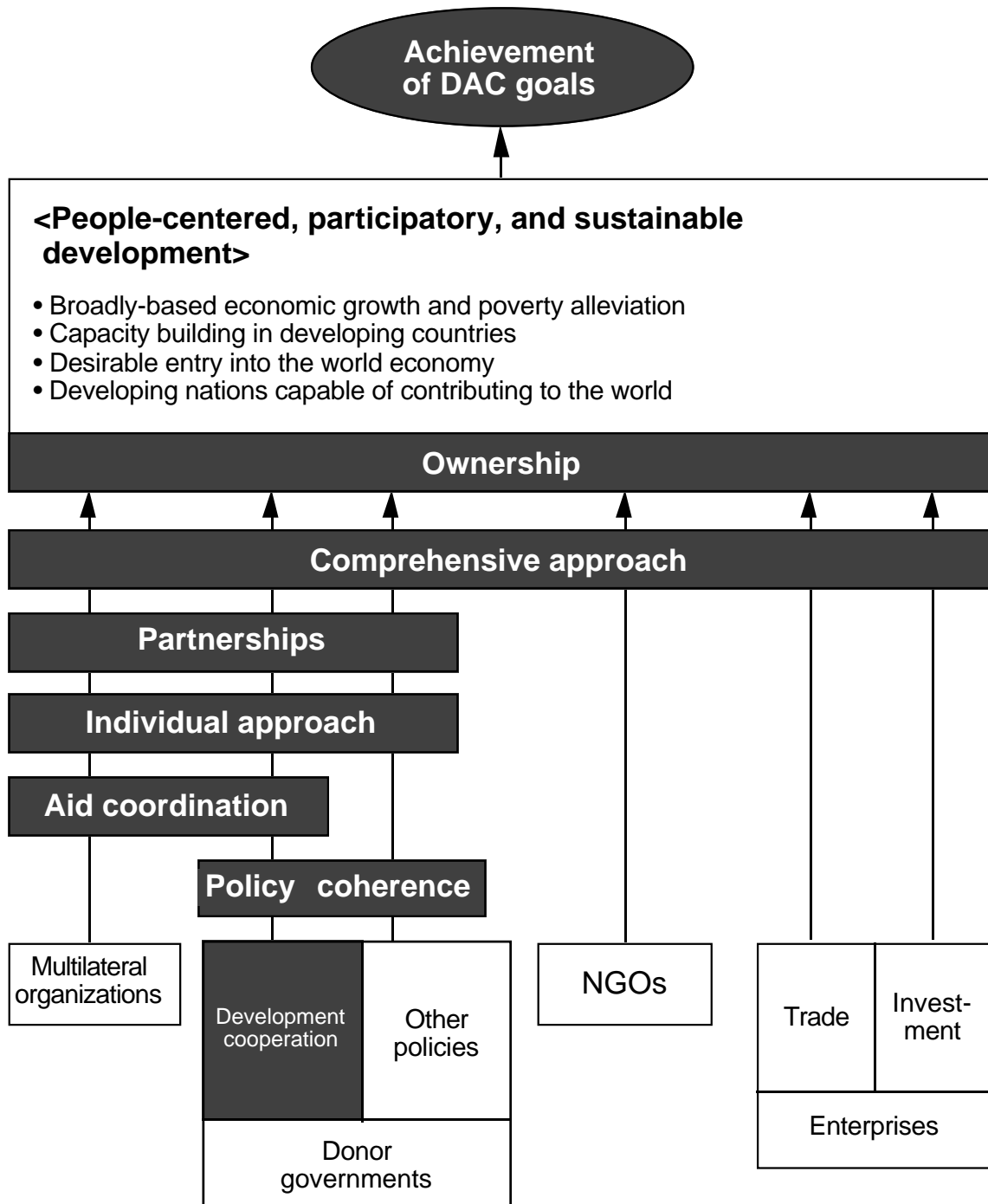
The following are major objectives of the DEAP.

- (i) Utilizing Participatory Rural Appraisal (PRA) which is an approach to planning attentive to community needs.
- (ii) Encouraging the participation of communities for the purpose of promoting understanding on living in communities and the environmental system.
- (iii) Formulating a plan on a regional basis based on actual conditions.

- (iv) Integrating regional plans with a view to reflecting them in national development plans.
- (v) Establishing partnerships between government institutions, local authorities, NGOs, and local residents.

In the present stage, the DEAP is being formulated for the model district, and several problems have been pointed out. The first problem is insufficient funds. The plan has been started by reducing eight planned model districts to four because of fund insufficiency, but its formulation is apt to be delayed. The Ministry of Environment and Tourism says that funds determine whether or not the plan can be completed by 2005 as the ZEAP. The second problem is insufficient dissemination. The degree of dissemination of the DEAP is low, and the role of the Rural District Council (RDC) in the ZEAP is not definite. Moreover, it aims at participation of NGOs and communities, but dissemination among these is also poor. Capacity of plan formulation is insufficient, too. According to the plan, District Strategy Teams (DST) are organized in each district, and the National Core Team handles their training. It, however, does not work sufficiently due to an incomplete capacity-building system.

## 5. Development Challenges: Implications of the DAC's New Development Strategy



## 5.1 Revival of Economic Growth

The largest problem facing the Zimbabwean economy was a long-lasting decline in its growing power. After a long boom from the end of the 1960s to the first half of the 1970s, economic growth could not exceed the rate of population increase on the whole, except for three years (1979-81) of prosperity before and after independence. Viewed from the degree of development in the manufacturing sector, Zimbabwe is an industrialized country among African countries, following South Africa and Mauritius, having a middle-income country-type with advanced industrial structure in which various goods are produced. Its economic growth, stagnant for a long period of time, caused per capita national income to decline to the level of low-income countries, despite its comparatively favorable condition among African countries.

This forced the Zimbabwean government to introduce a structural adjustment program early in the 1990s. If the conditions remain, per capita national income will continue to decline. For Zimbabwe, the most urgent and largest challenges in its economic policy are to remove obstacles impeding economic growth and to recover its capacity for economic growth.

## 5.2 Relationship between Structural Adjustments and the DAC's New Development Strategy

Zimbabwe was one of the latest countries to introduce a structural adjustment policy. Neo-liberalist economics, which underlies the structural adjustment program, was an entirely new and unfamiliar idea to the Zimbabwe government. A controlled economy had been firmly established in this country under governance by the white minority governments before it became independent. After it became independent the government had followed the socialist idea. In this sense, *the Framework for Economic Reform* (published in 1991) was epoch-making in the history of economic policy: the basic principle in the implementation of economic policies shifted from direct management of the national economy through expansion of the public sector and economic intervention to the promotion of private economic activities through economic liberalization to raise the standard of national welfare through economic growth.

Through the 1990s, ODA for Zimbabwe has been steadily increased, backed by agreement on introducing the structural adjustment program between the government of Zimbabwe and the international financial institutions concerned. In view of economic conditions in Zimbabwe, as have been reviewed thus far, it is reasonable for the international community to support the structural adjustment program and development cooperation will be focused on supporting structural adjustment.

It is very important to identify the relationship between this trend and the DAC report; *Shaping the 21st Century: The Contribution of Development Co-operation*, adopted in 1996 (hereinafter referred to as the NDS), and to gain a consistent understanding on desirable individual approaches in development cooperation with Zimbabwe, within the framework of the NDS. In a perspective for 20 years from now, if ideal forms of development and development cooperation are clearly defined, they will include structural adjustment, which is a transitional policy program, as a matter of course. This makes it possible to promote structural adjustment 'having an open way out'.

Structural adjustment refers to a group of policies intended to improve administrative efficiency through reforms of the enlarged and inflexible public sector. It assumes that true motive power for growth, i.e. development initiative, is restored in a market mechanism that is vitalized as a result of improved efficiency. The NDS points out “the importance of a dynamic private sector, local ownership and participation by civil society” as expanded partnerships. For goals of the strategy to be achieved in Zimbabwe, the bottleneck for growth must be broken by the energetic private sector, and the scale of the GDP must be expanded. In this basic line, there are no contradictions between structural adjustment policies and the NDS. Rather, understanding the NDS will make the goals of structural adjustment more definite.

### **5.3 DAC Targets as Development Indications**

Zimbabwe’s development challenges will be described as follows, with the goals proposed in the NDS being indicators of development on the whole.

#### **5.3.1 Economic Well-being**

##### **(1) Addressing the poverty issues**

One DAC goal is reduction, by at least half, in the proportion of people living in extreme poverty by 2015.

The Government of Zimbabwe conducted a Poverty Assessment Study Survey (PASS) in 1995. The poverty lines defined in the survey were the Food Poverty Line (FPL) and the Total Consumption Poverty Line (TCPL), which were separately set for the cities and the rural areas of each province. The national mean of the TCPL was an annual income of Z\$2,213.28. This was about US\$240 (Z\$1=US\$0.11 in 1995), which was lower than absolute poverty (US\$275) as defined by the World Bank. Even such low poverty line was applied, the poor accounted for 62% of the country’s population. The DAC goal is therefore to reduce this proportion to less than 31% by 2015.

The survey was conducted by the Government of Zimbabwe, with cooperation from the AfDB, the World Bank, UNICEF, the ILO, and the UNDP, in line with the PAAP which had been approved in the Paris Club. The PAAP is a comprehensive antipoverty measure consisting of 39 projects on three-R’s education for adults, vocational training, labor-intensive public works, assistance for smallholder farmers, assistance in the informal sector, improvement of women’s and youth’s income generating capacity, encouragement of small-scale financing, livelihood assistance, and so forth. Of the policy expenses, 56% relies on foreign assistance.

Among low-income countries, income inequality was high (Gini coefficient=56.8 in 1990) in Zimbabwe, while the per capita GNP was only US\$540 in 1995. It is apparent that it is impossible to relieve the poor, which account for more than half of the population, with a social policy focused on income redistribution. The most effective measure for poverty alleviation is therefore to enlarge the pie of the national economy, through sustainable economic growth beneficial to the people. Because the costs for implementing the structural adjustment policies tend to be concentrated on socially vulnerable people, a social safety net, such as the PAAP, must be prepared, nevertheless the prime object of development

must be set to increase people's incomes. It is important that steady progress be made in structural adjustment and that industrial development be promoted. It is necessary, toward this end, to provide attractive market conditions and an economic environment for internal and external capital and for small- and medium-scale enterprises.

## **(2) Improved productivity of black smallholder farmers**

In Zimbabwe, a country with a distinct dual structure, the promotion of economic growth benefiting the poor requires a specifically focused development plan. Zimbabwe's urbanization was only 32% in 1995, with 69% of the working population being engaged in the agriculture sector. An overwhelming majority of them live in communal areas, where poor people account for as high as 81% of the residents. That is, 67% of the poor are composed of smallholder farmers in communal areas. Without a dramatic increase of incomes of the families in these areas, universal effects of development cannot be expected in Zimbabwe, and the DAC goals cannot be achieved either.

Black smallholder farmers in communal areas gain their incomes mostly by selling surplus maize left over after their own consumption. As mentioned earlier, land productivity of maize, the staple food, has been rapidly declining in Zimbabwe since it attained independence, and losing drought resistance. This reflects the shift of the site of maize production from commercial farms managed by white people to black smallholder farms. At the same time, it shows the unstable productivity of black smallholder farmers.

In Zimbabwe, majority of maize producers (including black smallholder farmers) cultivate hybrid varieties, unlike in other African countries (the spread rates of hybrid maize are 34% in eastern and southern Africa and only 1% in western and central Africa <sup>(23)</sup>). Although the high diffusion in Zimbabwe is noteworthy, maize yields, which once exceeded the world average, are now far from reaching the African average. In communal areas, where farming conditions are unfavorable, cultivated lands are becoming gradually marginal and soil productivity is declining with increasing loss of drought resistance.

Development challenges identified in this situation are 1) to promote diversification of crops and do away with over-reliance on maize, 2) to increase drought resistance of maize by breed improvement, and 3) to construct irrigation systems in communal areas.

## **(3) Agricultural land reform**

Furthermore, it is necessary to improve the considerable inequality in land ownership which continued from the period of governance by the white minority. Among the extensive lands possessed by large-scale farmers, less than 5% is now under cultivation. That is, most of the arable land, which can be called Zimbabwe's national wealth, is under-utilized <sup>(24)</sup>. Consideration must be given to effective use of these land assets in a policy intended to promote farming by black people. Regarding this challenge, the *Report of the Commission of Inquiry into Appropriate Agricultural Land Tenure Systems*, of 1994, (Chairman: Dr. Rukuni of Zimbabwe University) proposed the most desirable program.

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<sup>(23)</sup> The world average is 59%. In Africa, the rate of spread of improved open-pollinated varieties other than hybrid varieties is very low. It is only 6% in eastern and southern Africa and 19% in western and central Africa.

<sup>(24)</sup> There exist several studies on land utilization in commercial farming areas. According to the one accepted in recent years, the proportion of effectively used farmlands is 28.4%, with the ratio of arable lands being taken into consideration, while it is 46.4% when estimating the rate of fallow lands at its maximum (utilization for grazing is not included). For details, refer to Micheal Roth, "A Critique of Zimbabwe's 1992 Land Act," and Mandivamba Rukuni and Carl K. Eicher (eds.), *Zimbabwe's Agricultural Revolution*, University of Zimbabwe Publications, pp.330-333.

The land problem in Zimbabwe was a matter of morality, originating in land exploitation in the colonial period. It was true that it involved the race problem, but it was also an economic problem in that so extensive land as to be unmanageable had become hereditary property, resulting in a virtual absence of land markets, which impeded the effective use of land as a means of production. This was the report's prominent view on the conditions in Zimbabwe. As there were no effectively working markets for agricultural land, the conventional policy was based on the acquisition of land possessed by white people, with official funds, and if official funds became insufficient, land acquisition was promoted by exerting political power. The Land Acquisition Act of 1992<sup>(25)</sup> was enacted for this purpose, deviating from the principle of "willing seller- willing buyer" since 1980 independence. The act not only caused panic among white community but also drew a strong protest from the U.K., which had committed itself to bearing 50% of the expenses for land reform. In this situation, the report proposed the introduction of a land ownership tax imposed according to possessed areas of land for the purpose of promoting the release of idle farmland to the market, by encouraging large owners to divide their lands. The report recommended that a fluid farmland market, within a price range making transactions possible, be created without appealing to compulsory measures, with a view to raising the national agricultural productivity overall. The Commercial Farmers' Union (CFU), an organization of white large-scale farm owners, agreed to this proposal, and the World Bank evaluated it highly.

### 5.3.2 Social Development

The Government of Zimbabwe produced substantial results in the 1980s, inputting a large amount of resources in social development, particularly in education. As reviewed thus far however, this produced tight financial conditions and contributed to a loss of macro-economic balance. According to a certain research<sup>(26)</sup>, in a low-income country whose development funds are limited, there is a trade-off relationship between physical investments and human capital investments, and hence investment in human capital, exceeding a certain extent, impedes physical investment and doesn't contribute to economic growth. In Zimbabwe, priority given to education became a burden on the country's economy overall and constrained its capacity for economic growth.

Zimbabwe's challenges include how to improve indicators in the sectors of education, health and sanitation, which appropriation amounts are not so sufficient as in the past under the structural adjustment program and the necessity of reducing budget deficits. For the time being, all that Zimbabwe can do is to fill policy expenses with assistance from donors. In the long run, however, a perfect solution for enhancing incentives for education and improving national health indicators is to recover economic growth and thereby increase incomes of the people living in poverty.

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(25) In the Land Acquisition Act of 1992, it is stipulated that the government announces the acquisition of land where the government regards it necessary to do so from an administrative viewpoint, and that it makes payment corresponding to the price set by the Compensation Board, in local currency or government bond. Announcements have already been made for several farms owned by white people, but acquisition has not yet taken place for financial reasons. In 1997, President Mugabe announced that the government would acquire 5 million ha of large-scale farms on January 1, 1998, and he requested that the U.K., the former suzerain, bear the expenses. This, however, was rejected by Prime Minister Blair of the U.K.

(26) Y. Kubo and Y. S. Lee, "A Model of Endogenous Growth with a Trade-off between Investments in Physical and Human Capital", *Asian Economic Journal*, Vol.9, No. 2, October 1995.



## **(1) Primary education**

Primary education is an integral part of social well-being. With this, people's intellectual lives start. It is a very important development indicator, whose correlation with economic growth is recognized in the theory of human capital.

Since independence in 1980, the government has appropriated around 15% of its total budget (8-9% of the GDP) for education-related spending. As a result, there has been a remarkable increase in the numbers of schools and teachers, and the gross enrollment ratio in primary education has exceeded 100%, and the net enrollment ratio of children of school age has exceeded 80%. It must be noted, however, that the enrollment ratio of six-year-old children, the first year of school education, is as low as 34%, while the school dropout ratio reaches 28%. Further efforts are required to attain school education for all. The National Programme of Action for Children (NPA) sets a goal of raising the net enrollment ratio to 100% by 2000, with no school dropouts.

There was little disparity in school enrollment in primary education between boys and girls, but the ratio between schoolboys and schoolgirls in secondary education was 54.4%:45.6% in 1995. This is probably attributable to burdens of domestic work on women, early marriages, teenage pregnancies, and so on. The largest factor is said to be parents' preferences for educating boys and making light of girls receiving education. A project has been formulated in cooperation with UNICEF for the purpose of reducing this gap to 1% by 2000.

## **(2) Health and sanitation**

Major causes of death of under-age-5 children in Zimbabwe include acute respiratory infection, perinatal conditions, malnutrition, diarrhea, malaria, and AIDS. In urban areas, AIDS is the leading cause of death. In 1990, the under-age-5 mortality rate was 87/1000 (neonatal and post-neonatal mortality rate, 61/1000; child mortality rate, 26/1000). The figures targeted by the NDS are therefore 29 for the under-age-5 mortality rate, 20 for the infant mortality rate, and 8 for the child mortality rate. The NPA has announced reduction of the infant mortality rate to 40 and the under-age-5 mortality rate to 58 by 2000, and the government has formulated a child health project and the Zimbabwe Expanded Programme on Immunization (ZEPI).

There are no definite statistical data on the maternal mortality rate. According to statistics on deaths caused by childbirth recorded in medical institutions, the rate was 80/100000 in 1990. The maternal mortality rate outside medical institutions, however, remained a matter of estimation and varied widely: 395 in the 1992 census, and 283 in the 1994 demographic and health survey. The Ministry of Health and Child Welfare intends to reduce the maternal mortality rate in medical institutions to half, and the country's maternal mortality rate to 200 by 2000, through a women's health project. To achieve this goal, the ministry regards it as necessary to establish the health care system for reproductive health. Actual conditions must be identified, first of all, before setting a goal in line with the NDS.

Various mortality rates, including those by DAC indicators, have been declining steadily since independence was attained, but they have shown a slight increase in recent years. Causes of this increase can be impacts of the severe drought of 1992, the poverty issues becoming more serious under structural adjustment policies, and AIDS. The HIV/AIDS problem is regarded as most serious, and some people estimate that 75% of infant

deaths will be attributable to AIDS in the 21st century. UNICEF judges that any of the goals set by the Zimbabwean government cannot be achieved by 2000 because of AIDS <sup>(27)</sup> .

The welfare authorities received the first report on AIDS cases in 1987. The number of cases, which was 119 in the first report, exceeded 60,000 in December 1996. It is now estimated that 2000 people die of AIDS weekly, on average, and they account for as high as 1% of the total population on annual basis. It is estimated that more than 20% of the total population is already HIV-positive, and these people are mainly those in the productive age class, who are exposed to sexual transmission, and those of age five or less, who are exposed to vertical transmission. By 2005, 1.9 million lives are expected to be lost. In other words, in Zimbabwe, the under-age-5 and maternal mortality are mostly caused by mass infection with AIDS. As there are no effective measures other than infection prevention, both indicators will inevitably rise.

Zimbabwe was backward in taking measures for HIV/AIDS control as President Mugabe would not recognize the existence of people infected with HIV/AIDS until the early 1990s. A plan for the prevention, control, and care of HIV/AIDS is now implemented by the National AIDS Coordination Programme (NACP), under the control of the Ministry of Health and Child Welfare, with cooperation from the WHO, UNICEF, the USAID, the Sida, and the DANIDA.

### **5.3.3 Environmental Sustainability and Regeneration**

Environmental problems in Zimbabwe include deforestation, soil erosion, environmental hazards caused by agricultural chemicals, contaminated minerals, and pollution by industrial waste. Although environment-related laws seem to be comparatively well established, the deterioration of precious water resources is a grave menace to sustainable economic development in Zimbabwe which is situated in the savanna climate zone and is not blessed with much rain.

As a result of crowding a large majority of black people into narrow regions under unfavorable conditions (the present communal areas) during the colonial period, soil deterioration and deforestation posed a problem as early as in the 1940s. In fact, the population density of the communal areas is three times that of the large-scale commercial farmland. This shows that loads on the natural environment will go on increasing. As shown in Table 5.3.1, soil erosion is serious in communal areas, and this lowers agricultural productivity of farmers in communal areas, producing a vicious circle of making poverty more serious. The largest cause of soil erosion is deforestation by communal residents who do not have access to substitute fuels.

In Zimbabwe, less than 10% of rainfall is retained as surface water due to evaporation and percolation. The construction of wells and reservoirs is therefore indispensable, but rapid siltation and unusual growth of water weeds are making water shortages more serious. Probable causes are the loss of forests and the mixing of chemical fertilizers. Urgent measures are needed.

That the deterioration of environmental resources affects communal residents most seriously, shows the need for not only a thorough consideration of environmental characteristics and lifestyles in these communities but also active participation of communities in taking environmental measures. The government is formulating the District Environmen-

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<sup>(27)</sup> The Government of Zimbabwe and UNICEF (1993).

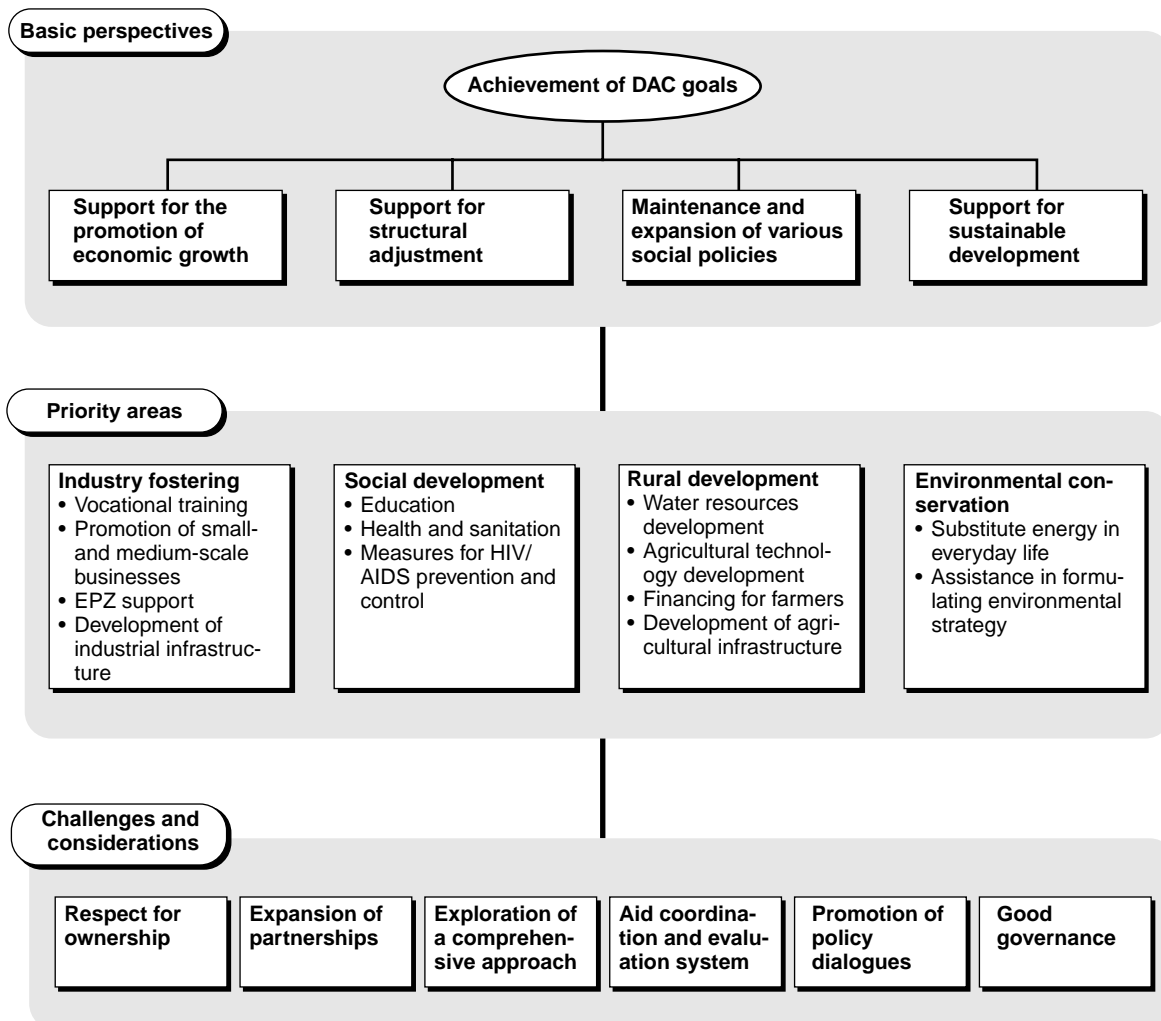
tal Action Programme (DEAP), in line with Agenda 21, following the 1992 Rio Conference on the Environment and Development, and aiming at formulating the Zimbabwe Environmental Action Programme (ZEAP) based on DEAPs.

**Table 5.3.1 Soil Erosion in Different Land Tenures (%)**

Degree of erosion	Communal areas	Commercial farmland	Other areas	Total
None	7.2	14.7	55.4	17.2
Very limited	29.7	64.7	40.5	45.7
Limited	20.3	15.9	3.2	16
Moderate	29.6	3.4	0.6	10.2
Extensive	11.3	1.2	0.3	5.6
Very extensive	11.9	0.1	0	5.3

*Source: The Republic of Zimbabwe (1992).*

## 6. Framework for Japan's Assistance for Zimbabwe



## **6.1 Basic Perspectives**

The NDS points out: “those responsible for public money are accountable for its effective use. We have a duty to state clearly the results we expect and how we think they can be achieved.” It is desirable that Japan’s assistance policies for Zimbabwe, too, be selected and formulated in line with the NDS goals, so that they will be justified both internationally and domestically. By doing so, ultimate goals of aid undertaking of various forms, as well as frameworks in which they are implemented, can be clearly shown with consistency. In this sense, the NDS provides theoretical support for Japan’s long-term assistance overall.

The NDS, proposing not an economic growth rate but “an integrated set of goals” as a “indicators of progress”, shows its people-centered, reasonable viewpoint that development cannot be considered effective without improvement of these indicators, regardless of how high the attained growth rate might be. Needless to say, economic growth is an indispensable means of development, but it is not a goal of development. From this standpoint, development assistance undertakings of all kinds cannot be justified until one or some of these indicators are improved. This, however, does not mean that assistance should be focused on the social sector. It means that the construction of an economic infrastructure, assistance for the manufacturing sector, debt reduction, and any other development cooperation must be aimed at improving economic and social welfare on the whole in developing countries. This justifies the appropriation of public funds to development cooperation, and explains accountability of “those who are responsible for public money”.

Another important point is that the NDS is suggesting “it is time to select a limited number of indicators of success by which our efforts can be judged.” That is, those projects not directly connected with indicators mentioned in the NDS are expected to contribute indirectly to the improvement of these indicators. Even the projects intended for the social sector, on the other hand, cannot receive high evaluation in view of the inclusiveness of the DAC goals, if their benefits are limited and not extended throughout the nation. Assistance programs must always be attentive to the process of development of the whole country and the people’s well-being. A system assuring the relationship between overall development and social welfare consists of a policy coherence, a comprehensive approach, and close aid coordination.

### **6.1.1 Maintenance and Expansion of Various Social Policies**

As viewed in the preceding section, Zimbabwe already has policy frameworks regarding various social indicators proposed in the NDS, such as the Poverty Alleviation Action Plan, the National Programme of Action for Children, the National Health Strategy Programme, and the District Environmental Action Programme. The government is formulating additional plans. Assistance in these programs must be considered from the viewpoint of respect for ownership. In addition to structural adjustment assistance, the utilization of non-project grant aid can be considered. This type of cooperation is very important as a social safety net for protecting socially vulnerable people from structural adjustment cost.

### **6.1.2 Support for the Promotion of Economic Growth**

These social plans, however, are under strict budgetary restraints, and they are barely maintained by ODA. In order for Zimbabwe to improve its economic well-being and promote social development by itself, it is necessary to raise the rate of economic growth and

strengthen the national economy itself. Japan would be able to meet the intention of the NDS by assisting Zimbabwe's self-help efforts. Projects for the manufacturing sector and the construction of economic infrastructure will therefore increasingly become important to raise the people's incomes.

### **6.1.3 Support for Structural Adjustment**

An oversized government was the largest cause of economic stagnation in Zimbabwe for a long period of time, despite its great potential. Funds, including foreign currency, and human resources were absorbed in the public sector, and private enterprises were almost suffocated in the 1980s. The structural adjustment policies that were finally introduced are aimed at breaking this bottleneck, and a recovery of economic growth cannot be expected without successful implementation of these policies.

The fact that Zimbabwe has an advanced business world is an advantage, compared with other African countries, in attaining structural adjustment. Enterprises surely exist that will respond to improved market conditions. In addition, as democratization in South Africa, a neighboring country, has considerably improved the investment environment for southern African regional economy, economic policies that take account of reactions of investors are required. The private sector is the star of economic growth. It is desirable that economic activities of private enterprises be supported indirectly in a framework of broad-based partnerships.

### **6.1.4 Support for Sustainable Development**

Black smallholder farmers, who are the focus of Zimbabwe's poverty issues and who have been placed in unfavorable production conditions, must be given priority in achieving the DAC goals. Consideration should be given, among a number of factors impeding an increase in their incomes, to restrictions on and degradation of environmental resources. Environmental conservation is crucial for tourism, which is growing rapidly with the democratization of South Africa, as a precious source of foreign currency earnings. Zimbabwe will not recover its capacity for economic growth without efforts to renew and maintain environmental resources.

## **6.2 Priority Areas**

### **6.2.1 Rural Development**

In socioeconomic development in Zimbabwe, rural development is given top priority, as the rural areas absorb 70% of the population, and living conditions in the black communal areas determine the overall standard of living in Zimbabwe. It is difficult to achieve the DAC goals without rural development. Rural development, not agricultural sector development, is important, as Zimbabwe has large-scale farms whose productivity is among the highest in the world. Priority is given not to agricultural production but to smallholder farmers living in poverty. To improve living conditions in rural areas, productivity of black smallholder farmers must be improved and their incomes raised. Toward this end, it is necessary to take the environmental resource base in each region into consideration, and at the same time a multi-sectoral approach is needed for raising social well-being in rural areas.

### **(1) Water resources development**

The most effective way to improve productivity of black smallholder farmers is to improve cultivation conditions for farmers of Medium Performance Group (MPG), whose productivity is impeded by unfavorable cultivation conditions despite their being equipped with technologies almost equal to those of High Performance Group (HPG). The best way to achieve this would be to implement agricultural land reform in line with the 1994 *Report of the Commission of Inquiry into Appropriate Agricultural Land Tenure Systems* and thereby to provide access to good farmland.

Land policy, however, is part of highly political domestic affairs. A means through which Japan can contribute at present to this development challenge is to provide access to irrigation facilities through water resources development for black smallholder farmers who are obliged to rely on rain-fed farming in regions under unstable rainfall. Most communal areas do not have stable supplies of agricultural water, and this is the largest cause of low yields. Water resources development and irrigation projects are therefore very effective. Japan has implemented a medium-scale irrigation project under its general grant aid scheme, and continuing cooperation is necessary. Environmental assessment should, however, be given importance in identifying the desirable form of water utilization, taking regional climatic conditions into due consideration.

### **(2) Technical cooperation in agriculture**

That 40% of the smallholder farmers in the community areas are not yet skilled in modern farming technology, suggests the critical importance of assisting agricultural technology research and extension institutions. As DR&SS and Agritex are subjected to strict budgetary restraints in the curtailment of government spending, financial and human-resource assistance is further necessary. Japan has dispatched one expert in irrigation to Agritex. Assistance in the development of irrigation systems for effectively utilizing highly drought-resistant grain varieties and precious water resources would contribute directly to poverty alleviation.

### **(3) Financing for farmers**

For black smallholder farmers, stable access to high-quality input goods is an important factor for improved productivity and stabilized yields. As AFC financial difficulties are restricting development greatly in this sense, the provision of concessional funds for smallholder farmers is expected, together with assistance for increased agricultural production.

### **(4) Development of the agricultural infrastructure**

In addition to irrigation facilities, the construction of local roads, to secure the prompt distribution of agricultural products and input goods within the country and the provision of storage facilities, will be an important means of increasing incomes of farmers in remote regions.

## **6.2.2 Industry Fostering**

Because investment trends in the manufacturing sector determine overall economic activities and growth rate in Zimbabwe, the realization of steady development of this sector

will produce direct effects on the acceleration of economic growth, which the country needs most, and contribute to improvement of the government's financial conditions.

#### **(1) Vocational training**

The rapid establishment of basic education in Zimbabwe after independence was attained is worthy of high evaluation, but the development of skilled workers needed in the country's labor market has been delayed. In view of the stagnation of employment in the formal sector, it is necessary to heighten incomes with which people can support themselves, and hence it is important to support the provision of substantial vocational training. The dispatch of JOCVs and experts should be considered in this regard.

#### **(2) Promotion of small- and medium-scale businesses**

The prominent presence of large enterprises financed with foreign capital underlies demand of the government and the ruling party for participation of black entrepreneurs in business management and stock-sharing. The rough-and-ready promotion of these policies can be a threat to the economic environment which is in the way of improvement under structural adjustment. It is necessary, first, to promote black people's enterprises. To improve their economic power in the industrial sector, it is important to foster small- and medium-scale businesses that can make efficient use of business chances produced in the improved economic environment. From this viewpoint, assistance for industry, such as technology transfer, is desirable.

#### **(3) EPZ support**

Zimbabwe, enacting the Export Processing Zone Act in 1995, established the EPZ Authority and set about inviting investments. The EPZ initiative has some difficulties because Zimbabwe is a land-locked country, but Zimbabwe has a fair chance to become an export base for southern African markets in activated regional economies, because the country is situated in an important place in the regional international traffic network. Projects of this kind, however, require a large amount of investment, and no effects can be expected from such projects without enterprises responding to them. It is important, therefore, to consider cooperation in infrastructure development, by taking account of movements of private investors in the framework of a comprehensive approach.

#### **(4) Development of the industrial infrastructure**

In view of recent trends of foreign direct investments having begun flowing into southern Africa, with the expectation of future possibilities in the region, it is highly probable that the establishment of an industrial infrastructure will become increasingly necessary in order to invite further investment. Japan has extended support in various forms especially in the communications sector, and such types of cooperation are expected to contribute to economic growth.

### **6.2.3 Social Development**

The NDS gives priorities to education, health, and sanitation, as development indicators. As Zimbabwe already has a policy framework in these fields, it is desirable to extend



financial assistance for its program implementation. It is desirable to do so also from the viewpoint of respecting ownership. Regarding the huge population of HIV/AIDS-infected people, it is necessary to deepen our understanding at an early date.

### **(1) Education**

The curtailment of the educational budget can deprive poor people of opportunities of having their children educated, and may lower school enrollment ratios and quality of education. Program-type assistance can be considered, with ownership being taken into account, based on Zimbabwe's policy framework (NPA).

### **(2) Health and sanitation**

Japan is making an important contribution in the field of health and sanitation through the implementation of a project to prevent and control infectious diseases. Japan has produced results also in hospital establishment, and this cooperation is expected to be continued. As it is urgently necessary to take measures to reduce maternal deaths, it is desired that assistance be substantiated for reproductive health and primary health care in rural areas, and that, at the same time, cooperation be extended in surveying the present situation and preparing statistical data.

### **(3) Measures for HIV/AIDS prevention and control**

The large HIV/AIDS-infected population constitutes a threat to the Zimbabwean people. Although this is a difficult problem to solve, it is expected that some means of cooperation will be identified in close cooperation with other donors, in view of similar serious conditions in many other African countries. As this is a challenge that Japan cannot address alone -- indeed people throughout the world must be involved -- the merits of aid coordination among donor countries will be tested. Specifically, assistance will be focused for the time being on the prevention of further spread of the infection. As Zimbabwe has an established organization and policy, Japan can extend active cooperation, respecting Zimbabwe's ownership.

## **6.2.4 Environmental Conservation**

Consideration of the environment is indispensable in realizing sustainable economic development. Deforestation and consequent soil deterioration are caused partly by residents of communal areas having no access to substitute fuels. It is therefore recommended that means of providing energy for living, other than firewood, be identified through Japan's cooperation.

It is desired to promote the formulation of a national strategy for environmental conservation before 2005, the target year of the NDS, through indirect support for preparing the DEAP and the ZEAP, as the formulation of appropriate environmental measures requires communities' initiatives, and from the standpoint of respecting ownership. Furthermore, efforts must be made to extend synthetic development assistance through multi-sector approaches, for the purpose of supporting rural development fully attentive to local environmental resource bases.

## **6.2.5 Other Matters**

Zimbabwe is an African country in which NGOs are quite active. They are playing an important role in maintaining well-being in communities, as local administrative capacity becomes increasingly smaller due to budgetary restraints. It is desirable to further support NGO activities through small-scale grant aid etc..

## **6.3 Challenges and Considerations**

### **6.3.1 Respect for Ownership**

The NDS, listing indicators as “goals to help define the vision” of development, mentions strategies for achieving them. They include 1) ownership and partnership, 2) policy coherence for developing countries and a comprehensive approach, 3) expansion of assistance budgets, and 4) enhanced aid coordination. For Zimbabwe’s ownership and Japan’s partnership to be established, it is necessary for both countries to commit themselves definitely to their mutual efforts. The “Vision 2020” mentioned earlier provides a golden opportunity for this. The idea shown in the draft of the Vision 2020 conform to the NDS. It would be ideal as an individual approach of the new strategy in Zimbabwe if the donor commits itself to cooperation for the Vision 2020 and the recipient commits itself to respecting the NDS.

### **6.3.2 Expansion of Partnership**

In addition, NGOs spontaneously born in civil society and communities, as organizational expressions of self-help efforts, should be supported actively as part of partnership expansion. Zimbabwe’s ownership and Japan’s partnership will be further strengthened by enlarging the area in which Japan’s development cooperation comes into contact with Zimbabwean society.

### **6.3.3 Exploration of a Comprehensive Approach**

Since the drain of a large amount of private funds out of Africa in the mid-1980s, Africa has had few inflows of private funds, and this produced the structure in which more than 90% of overseas funds were represented by ODA. In the 1980s, Zimbabwe’s private fund position was a complete drain. This condition began changing in recent years and foreign direct investments are returning, partly due to economic liberalization through structural adjustment. In Japan, Mitsui & Co., Marubeni Corporation and Mazda Motor Corporation started investments in Zimbabwe, though in small amounts.

In the southern African region, where business chances have been expanded with the return of South Africa to the international community, economic perspectives are different from those in the past. An environment in which a comprehensive approach, as is typically found in East Asia, can be taken is being created also in Zimbabwe. To successfully promote structural adjustment and accelerate economic growth in Zimbabwe, it would be highly effective to promote development cooperation through indirect support for its economic activities, taking account of trends of not only Japanese enterprises but also external investors, as well as local enterprises which are deepening collaboration with external enterprises. It is therefore important to always pay attention to private economic conditions

beyond national boundaries. It is necessary to build an information collection system for this purpose.

#### **6.3.4 Aid Coordination and Evaluation System**

Since attaining independence, the Government of Zimbabwe has been cautious about 'collusion' by donor countries acting in concert with one another. It has not conducted positive coordination of aid, except at the time of the grave drought in 1992. In Zimbabwe, the World Bank's CG is the place of donor meeting, but no meetings have been held for more than one year. Only conferences by sector and issue voluntarily held by donors function for aid coordination. Although there have been no serious problems, it is necessary to establish a place of comprehensive aid coordination involving Zimbabwean side, for the purpose of promoting the NDS cooperatively, and for evaluating results in accordance with DAC indicators.

#### **6.3.5 Promotion of Policy Dialogues**

If a permanent place is provided for aid coordination, opportunities for policy dialogues will increase. The Mugabe Administration caused controversies and friction in and out of the country, such as military oppression to the minority ethnic group soon after independence, the attempt to introduce a one-party system, and the Land Acquisition Act 1992. Today, its indigenisation policy, under which the government intends to have stocks of foreign-capital enterprises and large enterprises sold to black people, produces the apprehension that it can impede economic liberalization. In addition, President Mugabe's declaration of forced acquisition of lands possessed by white proprietors, and his requesting the bearing of the expenses for land acquisition by the former suzerain, the U.K., have produced tension between the two countries.

It is important for donor countries, which expect good governance and broad-based participatory development in Zimbabwe, to point out, as necessary, that a radical policy deviating from common sense of the international community will keep away benefit of economic globalization and produce negative effects on Zimbabwe's development. It is especially important, for small land-locked countries like Zimbabwe, to maintain close policy dialogues, with a view to introducing world trends in the government's way of thinking. There will be no room for a comprehensive approach without economic conditions that are attractive to private enterprises. Policy dialogues are important also in this respect.

#### **6.3.6 Good Governance**

Good governance is an important factor that determines development effects. The NDS places importance on this as the "qualitative aspect of development". Though good governance is not a target of evaluation by specific indicators, utmost attention must be paid to it in extending development cooperation.

Zimbabwe's political stability is often praised, but it is true that living conditions of the people have deteriorated, and latent complaints have accumulated against the government. This was shown clearly in the low voter turnouts in elections in the 1990s. It must also be noted that protest demonstrations against the government have been held frequently. President Mugabe, having been in power since independence was attained, is old-fashioned in a political sense, in addition to his advanced age, and the tendency of the con-

centration of power to the politburo of the ruling party is a cause for concern. As influential opposition parties disappeared with the merger of the largest opposition party in 1987, there is little possibility that the political situation will change. And it is about time for post-Mugabe governance to be considered.

### **6.3.7 Other Matters**

For the Government of Zimbabwe, which has only short experience in implementing policies for economic growth, and which has a strong orientation toward the socialist line, the NDS can be easy to understand. But this requires a precaution. The goals cannot be achieved if the NDS is interpreted as a means of supplementing funds for social policies whose budgets are increasingly limited under structural adjustment. The objective of the NDS is to indirectly support self-reliant development processes of developing countries. This point must be fully and mutually understood.

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# Republic of Ghana

*Source: The Economist Intelligence Unit (1998).*

# 1. Socio-economic Conditions in Ghana

## 1.1 Historical Background of Economic Development

The Ghanaian economy has been affected greatly by the character of a succession of different governments and ideologies (Table 1.1.1). Ghana's economic history since attaining independence in 1957 can be divided into three periods: (i) the period of state-led modernization, (ii) the period of political and economic disorder, and (iii) the period of structural adjustment.

**Table 1.1.1 Economic Policies of the Governments after Independence**

	Head of state	Military/Civil government	Economic policy
1957-1966	K. Nkrumah	Civil	Socialism, state-led import substitution industrialization.
1966-1969	J. A. Ankrah	Military	Economic deregulation, opening of domestic economy.
1969	A. Afrifa	Military	Same as above.
1969-1972	K. A. Busia	Civil	Same as above (though insufficient).
1972-1978	I. K. Acheampong	Military	Self-sustenance in food, state intervention, enlarged state sector.
1978-1979	F. Akuffo	Military	No remarkable policies.
1979	J. Rawlings	Military	Same as above.
1979-1981	H. Limann	Civil	Same as above.
1981-	J. Rawlings	Military / civil	Structural adjustment since 1983.

### 1.1.1 The Nkrumah Administration: Import Substitution and State-led Modernization: 1957-1966

Kwame Nkrumah, the first President of Ghana, aimed to attain modernization and industrialization based on a state planned economy, and to, at the same time, impartially improve the people's living standard.

To achieve these goals, public investment was first expanded in various fields. In this period, large projects were implemented one after another, including the construction of airports in major cities, construction of the Akosombo Dam and a hydroelectric power station on the Volta River, and the construction of ports. Funding for these public investments was covered by loans from donor countries and multilateral organizations, and by increased government spending.

In the industrial sector, a number of state enterprises and joint ventures are established under the initiative of the government, aimed at developing import substitution industrialization (a strategy aimed at reducing imports in order to encourage the production of domestic substitutes). These state-owned enterprises were protected by a wide range of measures such as monopoly, import regulations to protect against competition from imports, preferential allocation of import goods, and government subsidies. Many of these

state enterprises and joint ventures faced such problems as inefficient production and lack of competitiveness, giving constant pressure on government finances.

In the agricultural sector, too, the government promoted modernization through direct interventions in production. This policy was promoted with the State Farms Corporation (SFC) as the nucleus. More than 100 state farms were established, with the aim of increasing production by investing in modern agricultural methods and mechanization; however, agricultural production did not increase, partly due to poor management.

Policies for impartial distribution of economic profit included the building of social capital, such as electric power and water supply, and the provision of medical services and education free of charge. These policies contributed to improvement of the people's living conditions, but at the same time they constantly pressured government spending. Prices of living necessities and imported consumer goods were kept low under price controls.

Government spending rapidly increased under the Nkrumah Administration, as a result of expanded public investments, subsidies for state enterprises, capital investment in state farms, building of the social infrastructure, and subsidies for educational and medical spending. This increase in expenditures was mainly covered by revenue from the cocoa industry. In order to expand revenue from this sector, the government monopolized the purchase of domestic cocoa through the Marketing Board, and it tried to increase tax revenues by reducing the producer prices of cocoa. The government's finances, however, remained in the red, as the international cocoa price was low in those days.

In 1966, Nkrumah lost his presidency in a coup d'état, and his economic strategy for realizing quick modernization and industrialization based on socialism ended in failure without achieving its goals. The Ghanaian economy was faced with a number of problems, such as a fiscal deficit, the prevalence of inefficient state enterprises and farms, and shortages of imports and expansion of black markets caused by the negative effects of the controlled economy.

### **1.1.2 Period of Economic Stagnation: 1966-1982**

Between 1966 and the end of 1981, Ghana experienced eight changes of political power, including four coups d'états. During this period of political disorder, the Ghana economy experienced a continued decline.

The National Liberation Council (NLC), taking power through a military coup d'état in 1966, drastically changed economic policies from those of the Nkrumah Administration to a policy of reduced government intervention in the economy and relaxed regulations while accepting IMF recommendations. Specifically, these policies included reduction of the fiscal deficit by curtailing public spending for development-related investments, and relaxation of import licensing. Implementation of these policies revitalized capital inflows from Western countries.

These policies were basically taken over by the Busia Administration, inaugurated in 1969. Import licensing was further relaxed, and exchange was devaluated in 1971. Government intervention in the economy, however, was still active, and little progress was made in reducing public enterprises and government intervention in the cocoa sector. President Busia promulgated the Aliens Expulsion Act in 1969, aimed at alleviating unemployment and preventing economic control and smuggling by aliens. In a little more than six months after promulgation of the order, more than 200,000 aliens were said to have left the country. In the cocoa-producing regions, where shortages of labour had already become an impedi-

ment to production, the order aggravated manpower shortages. Moreover, the current account balance of payments was worsened by a sharp decline of the international cocoa price around 1970. In such adverse external conditions, the Busia Administration was short-lived; it was brought down by a coup d'état early in 1972.

Acheampong, who established a military government in 1972, emphasized self-support through a campaign of self-sustenance in food, and he again promoted expansion of the state sector from various sides. Government intervention in business activities was strengthened by setting the government's stockholding rate of foreign enterprises operating in Ghana at more than one-half. As the government also strengthened exchange controls, deviations from black-market rates were widened, leading to serious shortages of goods, especially imported consumer goods, and black markets prevailed. The overvalued exchange brought a decline in cocoa exports. The execution of exchange control and import licensing became a major cause of the spread of corruption. In 1978, when Akuffo, a military officer, was inaugurated as the head of state in place of Acheampong, the Ghanaian economy was already in a critical situation. This situation was not improved after Rawlings executed Acheampong and Akuffo in his first coup d'état in 1979, and political power was transferred to the Third Republic, led by President Limann, after a general election in the same year.

### **1.1.3 Implementation of the Structural Adjustment Program: 1983-**

On December 31, 1981, Rawlings successfully effected his second coup d'état, following the first one in 1979, and organized the Provisional National Defense Council (PNDC). He took office as chairman. In those days, such problems as shortages of living necessities, the spread of black markets, and a decline in the cocoa sector had become noticeable in Ghana, and the national economy was in critical condition. Moreover, agricultural production was hit by a drought in 1983, and an estimated one million Ghanaian workers returned from Nigeria at the beginning of the year, thereby aggravating food shortages in the country.

Economic reform was the largest issue for the newly established government. The Rawlings Administration first asked for financial assistance from Libya and Eastern countries, but this ended in failure. In September 1982, the government resumed negotiations with the IMF, and showed an obvious intention to establish relations with Western countries. In April 1983, it published the First Economic Recovery Programme (ERP-1) for fiscal 1984-86, working out a structural adjustment program in line with the IMF and World Bank strategy. Then the government published the Second Economic Recovery Programme (ERP-2) for fiscal 1987-89. In this program, the focus of economic reform was shifted from improving macroeconomic indicators to sector reforms, and structural reform was attempted from various angles. This basic line of structural adjustment remained unchanged after Rawlings was elected President in 1992.

As a result, these policies were supported by ample financial assistance from donor countries and multilateral organizations. The implementation of structural adjustment policies produced a gradual recovery in the Ghanaian economy, which had been in critical condition in the early 1980s. The real annual growth rate for the 12 years between 1985 and 1996 was 4.65%, on average. For these achievements, Ghana has often been cited as a successful model in structural adjustment in Africa, and it has been called a "forerunner of structural adjustment" or an "honor student of the IMF".

There are, however, a number of problems remaining. Structural adjustment is aimed at building a foundation for long-term economic development, but its implementation alone does not necessarily guarantee economic development itself. In Ghana, rehabilitation of the cocoa industry has improved macroeconomic indicators, but its economic structure, which depends on primary products, such as cocoa and gold, has remained unchanged. The proportion of the industrial sector in the economy as a whole is still low, and little progress has been made in the development of export items to replace traditional exports, such as cocoa and gold. Nor has there been much progress in the diversification of export items. Foreign direct investment has not been increased, except in the gold-mining industry, and domestic private investment remains low. Inflation, which for a while seemed likely to abate, has at times exceeded 70% in recent years. No solutions have been provided for filling economic gaps within the country, especially regional gaps between southern regions blessed with rich economic resources and northern regions without them.

#### **1.1.4 Political Trends and Economic Growth**

A cause of economic stagnation until the beginning of the 1980s was the fact that economic policy changed often after a short period of time as a result of repeated changes in administrative power, which thus produced inconsistency (Table 1.1.1). Conversely, the Rawlings Administration, which has been in power since the end of 1981, has been employing consistent policies in line with the framework of structural adjustment since 1983, and this consistency has provided Ghana with favorable conditions for its economic rehabilitation. The Rawlings Administration also conducted a general election in 1992, under a multiple party system, and succeeded in transferring the government to civil administration. It also succeeded in political reform, thus establishing a stable political foundation.

President Rawlings will hold office until 2000, and the constitution prohibits his reelection. A new regime will start in 2001 with the newly elected president. There is, however, little possibility that the change of presidents will result in a considerable shift in fundamental economic policy. Because economic liberalization in the 15 years since structural adjustment began has advanced too far to turn back, as long as the change of political power is conducted peacefully, the basic economic policies will most likely be continued.

**Table 1.1.2 Economic Trends in Ghana**

	1981-83	1984-86	1987-89	1990-92	1993-95
<b><u>Macroeconomics</u></b>					
Gross domestic product (GDP) 1987 market price Annual average growth rate (%)	-4.6	6.3	5.0	4.0	4.3
Balance of current accounts (excluding official grants) Ratio to GDP (%)	-5.6	-1.5	-1.7	-4.2	-6.6
Consumer Price Index (CPI) Annual average growth rate (%)	87.1	24.9	32.1	21.8	36.3
Foreign Direct Investment (net inflow) Ratio to GDP (%)	0.3	0.1	0.2	0.3	3.1
External Debt Ratio to GDP (%)	38.1	47.6	63.4	63.3	85.5
<b><u>Economic structure</u></b>					
Agricultural production 1987 productive factor price Ratio to GDP (%)	56.6	54.3	49.9	46.1	43.6
Industrial production 1987 productive factor price Ratio to GDP (%)	14.7	14.6	16.4	16.8	16.8
Service 1987 productive factor price Ratio to GDP (%)	28.7	31.1	33.8	37.1	39.6
<b><u>Aid Trends</u></b>					
Aid Grants Ratio to GDP (%)	3.2	5.3	9.2	10.3	9.8
per capita (US\$)	11.6	20.5	33.2	44.8	36.2

*Source: Prepared from the World Bank (1997b)*



**Table 1.1.3 Political and Economic Events in Ghana (1981-1994)**

1981	Flight Lt. Rawlings takes power in a coup d'etat. The World Bank suspends financing (from June 1981 to January 1983).
1982	Severe drought and forest fires break out. Mobilization of the People and Workers Defense Commission. An attempted coup d'etat. World Bank President Clausen visits Ghana. A World Bank mission is dispatched in November.
1983	One million Ghanaians return from Nigeria. In April, the Economic Recovery Programme (ERP) starts. The World Bank executes the first fast-disbursing import credit in June. In November a CG Meeting is held for the first time in 13 years.
1984	Export rehabilitation loan in January. An attempted coup d'etat. Universities are reopened. CG Meeting.
1985	The National Economic Committee is established. In March, the World Bank executes the second fast-disbursing import credit.
1986	Worsened diplomatic relations with Togo. The border is closed. An attempted coup d'etat. The World Bank executes an industry sector adjustment loan in March.
1987	Intense protests by students from March to May. In May the border with Togo reopened. Provision of SAC-1 in April. In July World Bank President Conable visits Ghana.
1988	Political reform and a general election in districts. In May the first financial adjustment credit.
1989	Political reform and a general election in districts. Provision of SAC-2 in April.
1990	An investors conference is opened in January. Organization of the National Democratization Conference (NDC). Education sector adjustment credit in May.
1991	An intertribal conflict between Gonja and Nawuri breaks out in the northern provinces. Provision of the SAC-3 in May. The second financial sector adjustment credit in December.
1992	80% raise in salaries of government officials in August. Presidential election in November. Rawlings is elected President. Diet members election in December. NDC wins an overwhelming victory. Agriculture sector adjustment credit in March. Suspension of payment of the adjustment loan. In November the World Bank publishes <i>Ghana in 2000 and Beyond</i> .
1993	The opposition party power recognizes the victory of the NDC in August. In November Cote d'Ivoire deports more than 10,000 Ghanaians. The World Bank resumes the payment of SAC-3. CG Meeting in June.
1994	An armed conflict between Kokomba and Nanumba in the northern provinces in February. More than 1000 people are killed; there are a large number of refugees. Privatization of the Ashanti Goldfields Corporation (AGC) starts. The World Bank suspends installment payments of the financial sector adjustment credit and the agriculture sector adjustment credit because of delayed privatization of state enterprises.

Source: *The World Bank. (1995b). p. 19.*

## 1.2 Development Plans and Government Policies

### 1.2.1 Implementation of the Structural Adjustment Program

The series of economic policies currently adopted in Ghana originated in the First Economic Recovery Programme (ERP-1), worked out in 1983. ERP-1, greatly different from state-intervention economic policies of the preceding government, announced clearly the promotion of structural adjustment programs in line with the strategy of the IMF and the World Bank. ERP-1 aimed at (i) the improvement of production incentives, (ii) increased supplies of consumer goods, (iii) increased currency reserves and improvement of distribution systems, (iv) control of inflation, (v) infrastructure rehabilitation, and (vi) reform of economic systems.

The government published the Second Economic Recovery Programme (ERP-2) for fiscal 1987-89, defining the following as its objectives: (i) economic growth with an annual rate of 5 to 5.5%, (ii) increased public investment, (iii) increased domestic savings, (iv) public sector reform, and (v) improved living conditions for the poor. In ERP-2, the focus of economic reform was shifted from the improvement of macroeconomic indicators to sector reforms, with a view toward realizing structural adjustment from various aspects. Specific policies included trade and exchange liberalization, public sector rationalization, tariff reform, financial sector reform (e.g. banks), and investment in the socio-economic infrastructure.

This line of the structural adjustment policy continued after 1989, the details of which were compiled into the Policy Framework Paper (PFP), which defined the framework of the government's economic policy after the completion of ERP-2. The PFP for fiscal 1989-92 mentioned, as policy goals for this period, (i) achieving a real GDP growth rate of 5%, (ii) reducing the rate of inflation to an annual rate of 5% by 1992, and (iii) making the international balance of payments at \$85 million, on average, in Ghana's favor. In addition to these policy goals, the PFP for fiscal 1991-93 emphasized more equal distribution of profits of growth, as well as improved social infrastructure.

Exchange policy and fiscal policy played a leading part in the series of economic recovery programs implemented in the 1980s. Around 1982, there existed a greater than twenty-fold gap between the official exchange rate and the actual rate in Ghana, causing the spread of black markets, foreign currency shortages, a worsened international balance of payments, and the spread of corruption as a result of exchange control. These greatly contributed to economic stagnation. An exchange policy designed to correct this distorted exchange rate and promote liberalization was implemented in several phases from 1983. The gradual devaluation of the exchange rate was the first phase of the policy. The exchange rate, which was fixed at \$1 = 2.75 cedis in the beginning of 1983, was devaluated greatly, in several steps beginning in April 1983, to \$1 = 90 cedis by January 1986. The fixed exchange rate system was abolished in September 1986, and the second phase of the exchange policy was commenced. In September, a dual exchange system was introduced, in which the fixed exchange rate system was applied only to debt repayment, while the central bank's auction rate was applied to other cases. In February 1987, the dual system was unified to the auction rate system. Market principles were introduced to the exchange rate, together with import liberalization. This policy was implemented step-by-step; namely, import liberalization of non-consumer goods (October 1986), import liberalization of consumer goods (February 1988), and abolition of the import licensing system (January 1989).

The third phase of the exchange policy began with the approval of private foreign exchange business in March 1988. This made private currency transactions possible, which had been allowed in only limited institutions, such as banks. The exchange rate was subject to market principles thereafter.

Alongside the exchange system reform, another focus of economic reform from 1983 on was the fiscal policy. Major objectives of the fiscal policy in those days included 1) the correction of fiscal imbalance, 2) taxation reform to increase government revenues, and 3) socio-economic infrastructure development. Fiscal measures were taken to achieve these objectives. In 1983, the government began making efforts to improve financial conditions by reducing expenditures and increasing tax revenues. Revenue improved through a) increased tax revenues from cocoa resulting from exchange devaluation, b) increased revenues from import taxes resulting from expanded imports, c) raised customs duties for oil, d) raised prices of public utilities, and so forth. Efforts to reduce expenditures from 1987 on included reduction of the number of government officials and personnel in the state sector, reorganization and rationalization of state enterprises, and reduction or abolition of subsidies. In 1986, a public investment plan was formulated, focusing on production-related infrastructure, such as transport and communications.

Among the structural adjustment measures, reduction of the state sector was the most difficult politically. Reduction of the size of the Marketing Board and various public enterprises, which had been enlarged in 1970, is essential in order to achieve the goals of structural adjustment, including improved fiscal balance and transfer of economic vitalization to the private sector. Implementation of such a measure, however, is highly likely to produce political risks, such as intensified anti-government movements, as a large number of employees are inevitably dismissed in this sector. In fact, reduction of the state sector was not started until as late as the latter half of the 1980s. Once it was started, a number of protest movements arose, such as strikes by labor unions. These movements, however, did not develop into an anti-government movement that could endanger the government, partly because measures were taken to provide sufficient retirement allowances for the discharged people with the financial assistance of donor countries. In the 1990s, the government sold government enterprises and part of its stocks of joint ventures, and in 1994 the government sold its stock in banks and beer, tobacco and gold mining companies, leading to their privatization.

In the latter half of the 1980s, the international community became increasingly aware of the social impact of structural adjustment (notably on the poor), and in 1987 the Programme of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD) was started to solve this problem. The main target groups of the PAMSCAD were workers discharged due to reduction of the public sector, and the poor who were subjected to inflation and an increased burden on social services, caused by the implementation of structural adjustment. Under the PAMSCAD, the government implemented projects, with financial assistance from donor countries, focusing on satisfying basic needs, creating employment opportunities, and community development.

**Table 1.2.1 Results of the Structural Adjustment**

Plan/goal	Policy classification	Implementation conditions		Effects (P, positive; N, negative)
		Sufficient	Insufficient	
<b>Economic stabilization</b>				
Deficit reduction in the international balance of payments	Fiscal policy Monetary policy	Devaluation of the exchange rate Increase of real interest rates	Reduction of government spending	(N) Increased deficits in the international balance of payments. Increased imports which exceed exports.
Control of inflation	Fiscal policy Monetary policy	Devaluation of the exchange rate Increase of real interest rates	Reduction of government spending	(P) Declined rate of consumer price increase. The increase rate is still high
<b>Structural adjustment (in a narrow sense)</b>				
Efficient allocation of resources	Open relations with other countries	Abolition of import licensing (1989) Tariff reduction Remittance of investment profits and dividends	Acceptance of foreign capital (Opaque examination, negative attitude toward the selling of assets, such as land) Reflection of the international cocoa price on farmers	(P) Return to the international monetary market Foreign investment in mining Increased remittances from Ghanaians abroad (N) Low growth in the direct production sector Small quantities of non-traditional exports Stagnant cocoa exports Small amount of direct investment
	Domestic market liberalization	Price liberalization Abolition of approval and licensing	Approval and licensing of investments	
	Public sector reforms	Privatization of the gold mining corporation and seven other corporation Investment in the economic infrastructure	Reduction of government spending (Subsidies for employment and public enterprises) Managerial reforms in public enterprises (Personnel reduction in the Cocoa Board)	
<b>Supplementary policy</b>				
Mitigation of impact on the poor	Programme of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD)		Appropriation of government budget	

Source: JICA (1995) p. 75

## 1.2.2 Vision 2020: Framework for Long-Term National Development Policy

Ghana's development policies are implemented based on its Vision 2020, a framework for the long-term national development policy for the 25-year period from 1996 to 2020. The objective of Vision 2020 is Ghana's pulling itself out of the low-income country group and joining of the middle-income country group by 2020. Vision 2020 defines five areas as its major challenges: human development, economic growth, rural development, urban development, and establishment of an environment that enables growth.

In the area of human development, basic goals include poverty alleviation, increased incomes, and the filling of gaps in income and opportunity. Specifically, Vision 2020 aims to a) reduce the rate of population increase to an annual rate of 2% by 2020, b) to reduce mortality rates, c) to improve nutrition and food conditions, d) to provide easier access to medi-

cal services, e) to improve water, sanitation, and housing conditions, f) to realize primary education and adult literacy (notably among women), and g) to provide more opportunities for higher education.

In the area of economic development, Vision 2020 aims to establish a framework for a free economy and to realize an annual economic growth rate of 8%. To achieve these goals, it focuses on increased private investment, improvement of administrative and legal systems, economic infrastructure development, and emphasis on science and technology. It emphasizes impartial distribution of profits from economic growth, placing importance on the inclusion of women and rural people in development and the eradication of absolute poverty. It also emphasizes the necessity of change in the production structure, setting the goal of increasing the industrial and service sectors' share of the GDP to 37% and 45%, respectively, by 2020. On the other hand, Vision 2020 considers it necessary to reduce the agricultural sector's share of the GDP to less than 20%.

For rural development, Vision 2020 aims to make active public investment to improve socio-economic infrastructure and the environment in rural regions, under the basic objective of filling urban-rural gaps in income and standard of living. For urban development, Vision 2020 points out the necessity of improving living conditions in cities and the effective spread of social services with the development of small and medium cities.

In the area of enabling environment, Vision 2020 considers it important to establish an environment that will make it possible for every group of people in the country to contribute to national development. To this end, it mentions the spread of education, the importance of science and technology, capacity-building and efficiency improvement in the administrative sector, promotion of decentralization, improvement of legal systems, and freeing the country from dependence on external assistance for national development.

As the first step to achieve the above-mentioned policy goals, the government has formulated a medium-term plan for the five years from 1996. The basic goal of the plan is to further promote the structural adjustment program in order to build a foundation for economic growth toward 2020. At the same time, the plan sets medium-term goals for the five priorities defined in the long-term plan (i.e. human development, economic growth, rural development, urban development, and enabling environment) (Table 1.2.2).

Vision 2020 includes a well-balanced approach that includes the areas of economic growth, human development, and good governance. It shares basically the same direction as the NDS. There are no contradictions between the development goals in Vision 2020 based on Ghana's initiative (ownership), and donor countries' development goals based on the NDS. In this respect, no impediments exist in promoting partnerships between Ghana and donor countries.

Attention should be paid, however, to two points. One is the high numerical goals in Vision 2020. This tendency is evident especially in the area of economic development, where numerical goals are set considerably high and in detail. In evaluating achievements under Vision 2020 in the future, it will be necessary to be careful not to determine success or a failure based only on whether or not these high numerical goals have been attained. The other is its wide scope of policy goals. As shown in the table, Vision 2020 has diversified policy goals, which could be regarded as a shopping list. It is necessary to define the priorities of these policy goals at specific stages of planning and implementation, in line with the NDS.

**Table 1.2.2 Policy Goals for the First Medium-Term Plan (1996-2000)  
in Ghana's Vision 2020**

Priority area	Policy goals (extract)
<b>Human development</b>	<ul style="list-style-type: none"> <li>*Basic social infrastructure, including education, medical services, water and sanitation, and provision of easier access to production resources and employment opportunities for the poor.</li> <li>*Capacity building in economically retarded regions and groups.</li> <li>*Improvement of people's capacity and services for controlling the fertility rate.</li> <li>*Improvement of women's health and nutrition, easy access to economic resources, and increased opportunities for education.</li> <li>*Reduction of the rates of infant, child, and maternal mortality.</li> <li>*Controlling infectious diseases.</li> <li>*Improved medical services and service extension systems in rural areas.</li> <li>*Improved nutrition for children and nursing mothers.</li> <li>*Improved food conditions for the poor.</li> <li>*Improvement of the education system and quality of teachers.</li> <li>*An increased school enrollment rate for girls, and reduction of the dropout ratio.</li> <li>*Emphasis on science and technology in education.</li> <li>*More opportunities for technical training and business skill acquisition.</li> <li>*Increased employment opportunities.</li> <li>*Improved access to safe water, and reduction of water-borne diseases.</li> <li>*Improvement of sanitary facilities and garbage/waste disposal facilities.</li> </ul>
<b>Economic growth</b>	<ul style="list-style-type: none"> <li>*Realization of a per-capita GDP of \$500, an annual average GDP growth rate of 8%, and a population growth rate of 2.75%, by 2000.</li> <li>*Proportions of sectors to GDP by 2000: reduction of the agriculture sector to 32.4%, an increase of the industry sector to 18.3%, and an increase of the service sector to 49.3%.</li> <li>*An increase in the proportion of domestic investment to the GDP to 26%, and domestic savings to 20%, by 2000.</li> <li>*Reduction of budget deficits through review of public investments and tax revenues, and fiscal decentralization.</li> <li>*Realization of an inflation rate of less than 8%, and real interest rates of less than 7%.</li> <li>*Keeping the ratio of trade balance deficits to total import value at less than 20%.</li> </ul>
<b>Rural development</b>	<ul style="list-style-type: none"> <li>*Filling of urban-rural gaps.</li> <li>*Creation of employment opportunities and their diversification in rural regions.</li> <li>*Improved access to the socio-economic infrastructure (notably for women and vulnerable groups).</li> <li>*Eradication of absolute poverty.</li> <li>*Conservation of ecosystems and environmental sustainability.</li> </ul>
<b>Urban development</b>	<ul style="list-style-type: none"> <li>*Promotion of development of small and medium cities, which are to become the nuclei of rural regions.</li> <li>*Filling of social and economic gaps between cities.</li> <li>*Promotion of private-sector-led provision of housing.</li> <li>*Improvement of the legal system on urban development.</li> </ul>
<b>Enabling Environment</b>	<ul style="list-style-type: none"> <li>*Promotion of transfer of power and decentralization.</li> <li>*Supporting the private sector, including NGOs.</li> <li>*Reforms of administrative organizations in the central and local governments, and improvement of their efficiency.</li> <li>*Environment-building for inviting direct foreign investment.</li> <li>*Review and improvement of the law system.</li> <li>*Conservation of cultural and historical heritage.</li> </ul>

### **1.3 Regional Cooperation**

Ghana is a member of the Economic Community of West African States (ECOWAS), a regional cooperation organization. The ECOWAS is aimed basically at coordination of and cooperation in overall economic activities of West African countries. Its specific objectives include economic integration through intra-trade liberalization and the establishment of a tariff union, trade expansion and industrialization based on these, and successful economic development in the member countries. In addition to these economic functions, the ECOWAS is also playing an increasingly important political role, such as dispatching a surveillance group to Liberia for settling the civil war.

An agreement on establishing the ECOWAS was signed by 15 nations in May 1975 in Lagos, Nigeria. It formally took effect in November 1976. In 1977, Cape Verde joined the organization, making the number of member countries 16. Nigeria and Togo took the initiative in establishing the ECOWAS. Its headquarters is located in Lagos, Nigeria. Member countries are Ghana, Cape Verde, Gambia, Guinea, Guinea-Bissau, Cote d'Ivoire, Senegal, Sierra Leone, Togo, Nigeria, Niger, Burkina Faso, Benin, Mali, Mauritania, and Liberia.

#### **1.3.1 Organization of the ECOWAS**

The ECOWAS consists of the Conference of Heads of State and Government, the Council of Ministers, the Executive Secretariat, six Specialized Commissions, and the Tribunal. The Conference of Heads of State and Government, which is the highest decision-making organ, is held once a year with participation of the heads of the member countries. It makes decisions on organization and rules of the ECOWAS, and final decisions on important matters, such as programs to be implemented by Commissions. The heads of the member countries preside over the Conference in turn. Since 1994, Ghana's President Rawlings has been acting as Chairman.

The Council of Ministers, consisting of two representatives from each of the member countries, meets twice a year. It supports the Conference, makes various decisions on operation of the Community, including financial affairs, and makes recommendations on policies for the Conference.

The Executive Secretariat implements specific policies. The Director of the Executive Secretariat, who is the Secretariat's highest executive and who holds office for four years, is appointed by the Conference. The Director of the Executive Secretariat, who is responsible for the implementation of policies, is required to report activities to the Conference and the Council of Ministers.

A Specialized Commission is organized each of the following six areas: (i) trade, tariffs, migration, currency, and settlement of accounts, (ii) industry, agriculture, and natural resources, (iii) transport, communications, and energy, (iv) social and cultural issues, (v) administration and accounting, and (vi) information. Each commission formulates programs and evaluates their implementation, and details are submitted through the Executive Secretariat to the Council of Ministers for review.

The Tribunal interprets ECOWAS's regulations and their application, and it mediates disputes between member nations. The organization and legal authority of the Tribunal are decided by the Conference.

### 1.3.2 ECOWAS Policy Goals

The ECOWAS has defined various policy goals as mentioned below, for achieving economic integration through intra-trade liberalization and the establishment of a tariff union. It cannot be said, however, that these goals have been achieved as expected in each member country.

a. Promotion of people's free migration, housing, and business within the member countries

The 1978 Conference decided to invest, from 1979, the citizens of the Community with rights for free migration, housing, and business within the territories of the member countries. As the first step for achieving this goal, eight member countries ratified in 1980 an article permitting entry into these member countries without visas. The second step was to secure free housing without restrictions. This was signed in 1986 and came into effect in 1989. The third step was to ensure people's business activities in member countries, which was signed in 1990 and came into effect in 1992.

It is, however, not easy to put these principles into practice because of domestic problems in member countries. In the beginning of 1983, Nigeria, a major ECOWAS member country, deported unskilled foreign workers, for the reasons of worsening economic conditions and increased unemployment in the country, and consequently as many as one million Ghanaian workers returned from Nigeria. This event proved the difficulty of perfect implementation of these policies.

b. Removal of trade barriers among the member countries

It was agreed, in the 1978 Conference, to prohibit raising of tariffs in the member countries from May 1978 onward, for the purpose of activating economies by removing trade barriers within the Community. The agreement set the goals of abolishing tariffs step by step and removing such trade barriers as the quota system. The 1983 Summit divided the member countries into three groups according to their economic development, and decided details and time limits of tariff reduction. From 1990 on, tariffs were abolished for 25 products manufactured in ECOWAS-member countries, and the number of items was increased to 90 in 1991. At the 1992 Summit, it was agreed that the member countries would simplify non-tariff barriers (e.g. customs clearance, and transit procedures) that impeded free movement of people and goods.

c. Realization of a single currency zone within the Community

It was decided, at the 1983 Conference, that a single currency zone would be formed within the Community as early as possible; at the 1990 Conference, agreement was reached on taking specific measures to realize currency unification among the member countries. For this purpose, a study group was organized in 1992 to look for feasible ways to achieve currency unification. The objective was to activate intra-trade and promote foreign investment in the Community through currency unification. The goal of currency unification was carried over in the treaty revised at the 1993 conference.

Moreover, ECOWAS policy goals include coordination in agricultural policies, reduction of gaps in economic development among the member countries, promotion of financing



and investment in projects in member countries, and giving compensation for losses in member countries caused by trade liberalization.

In addition to economic cooperation as mentioned above, political and military cooperation plays an important part in ECOWAS activities. In this field, a non-aggression protocol was signed among the member countries in 1978, and another protocol on mutual assistance in defense was signed in 1981. In 1991, the principle of mutual non-aggression was reconfirmed. At the 1993 Conference, an ECOWAS commitment was defined for preventing and settling regional conflicts. The dispatch of the ECOWAS Monitoring Group (ECOMOG) to Liberia in August 1990 to settle the civil war was a prominent action in political and military cooperation. Gambia, Ghana, Guinea, Nigeria, and Sierra Leone have dispatched their respective armies to the ECOMOG, forming a force as large as 12,000 strong. Ghana's President Rawlings, who presided over the ECOWAS from 1994, took the initiative in settling the civil war in Liberia. Though negotiations faced difficulties, a general election was conducted at last in Liberia in July 1997. Political and military cooperation was also prominent in economic sanctions against Sierra Leone, where a military government was established in 1997 by a coup d'etat, and the ECOMOG was dispatched to the country.

### **1.3.3 Weaknesses of the ECOWAS**

Weaknesses of the ECOWAS have been pointed out from many angles. First, many of its member countries are also members of other regional cooperation organizations. French-speaking West African countries, for instance, are members of the West African Economic and Monetary Union. This necessitates coordination with other regional cooperation organizations in achieving ECOWAS policy goals, and it impedes decision-making in member countries. A second problem is shortfalls of political will among member countries toward realizing their policies. As in the case of Nigeria mentioned earlier, domestic conditions and policy orientations of governments of member countries sometimes prevent them from following ECOWAS policy goals, and this reduces the economic effects of regional cooperation organizations themselves. Member countries' weak commitments to the ECOWAS were symbolized in their unpaid assessed contributions, which were said to reach \$40 million as of July 1995. A third problem is economic gaps among the member countries and gaps in endowed natural resources. The operation of a union consisting of countries of different economic strengths is apt to produce gaps in costs the member countries bear and profits they gain. A fourth problem is diversified currencies used in member countries, and the difference in the principal currency with which these currencies link (for example, the CFA franc zone countries link with the French franc, Guinea-Bissau with the Portuguese escudo, and Liberia with the U.S. dollar). Unified monetary policies will be accompanied by great difficulties in the member countries using such diversified currencies. A fifth problem is that trade between the member countries, which the ECOWAS has been promoting since its establishment, is still inactive. The proportion of trade value within the ECOWAS to the total trade value of the member countries is only several percent, and for Ghana, ECOWAS countries are not important trade partners. Part of the reason for this is that member countries export mainly primary products that are similar to each other. This makes the member countries gear their exports toward industrialized countries. It would be difficult for trade within the organization to be activated without progress in the diversification of exports and the development of manufacturing industries.

## **2. Current Conditions in Major Sectors**

### **2.1 Agriculture**

#### **2.1.1 Overview**

Agriculture is a key industry in Ghana, accounting for 48% of its GDP (in 1993, including forestry and fisheries). Cocoa and timber, which are major exports, accounted for 38% of the total export value in 1994.

The territory of Ghana can be divided into six agro-ecological classifications, according to amounts of rain (Fig. 2.1.1). The deciduous forest zones, where agricultural productivity is highest, are situated in the central and southern parts of Ghana, occupying 31% of the country. In these zones, the export crop cocoa is cultivated, in addition to food crops, such as cocoyam, plantain bananas, cassava, and maize. Rubber and oil palms are produced in the tropical rain forest zone, which covers only 3% of the country; the relative density of population is low in this zone.

The savanna zones, including the transition zone, cover 66% of the country, having relatively small amounts of rain and poor soils. In the northern savanna zones, millet, sorghum, peanuts, and yams (mainly in the transition zone) are grown, in addition to vegetables, such as tomatoes. In the coastal savanna zones, staple food crops, such as cassava and maize, are cultivated, and a number of commercial crops, such as shallots and Guinea peppers, are grown for consumption in coastal cities.

The cultivation of these crops mostly depends on rainwater as irrigated areas account for only 0.2% of the total planting area. Crop production therefore depends greatly on weather conditions and the amount of rain every year, and this affects the GDP growth rate and the total export value of the year. There are few large-scale plantations, and farming is conducted mostly by small-scale Ghanaian farmers. There has been little progress in agricultural mechanization. Increased production is achieved not by raising land productivity but by expanding planting areas. Self-sustenance has been achieved for the main food crops, but demand for wheat, rice, sugar, meat, and dairy products, which is large in cities, is met by imports.

Forestry has been growing rapidly since the 1980s, making timber the third largest export, following gold and cocoa. It accounted for as high as 13% of the total export value in 1995. The rapid growth of forestry, however, has created the problem of reckless deforestation. The government has been taking measures to control deforestation by prohibiting the felling of certain varieties and strengthening regulations on unapproved felling since 1989.

#### **2.1.2 Cocoa Production**

Cocoa production has been supporting Ghana's national economy since it attained independence, and is this its most important industry. Cocoa outputs, however, fell off as the government kept its producer price low in the 1960s and 1970s, and this contributed to Ghana's economic decline until the 1970s.

## Figure 2.1.1 Agro-ecological Division

Agro-ecological division	Annual precipitation (mm)	Agro-ecological division	Annual precipitation (mm)
Sudan savanna	1000	Deciduous forest	1500
Guinea savanna	1100	Tropical rain forest	2200
Transition zone	1300	Coastal Savanna	800

Source: JICA (1995) p.86

When the government began implementing its structural adjustment policies in 1983, reform of declining cocoa production was among the top priorities. To improve the fiscal balance, it was important to reduce government spending in the cocoa sector and, at the same time, to increase tax revenue from increased cocoa production. To improve the international balance of payments, it was most effective, in a short period of time, to increase the production of cocoa, a major export commodity. The following reforms were carried out for these purposes.

First, the producer price of cocoa was raised every year from 1983, and as a result the output of cocoa increased in the latter half of the 1980s. The raised producer price contributed to an increased cocoa output, and at the same time, price gaps were reduced between Ghana and neighboring countries (such as Togo and Cote d'Ivoire), and the trading of cocoa, which had been smuggled out of Ghana, came to be dealt through the Marketing Board. The rate of the domestic producer price to the international price had also risen since 1983, and, despite the hovering international price at that time, the government decided to set the producer price at about 50% of the international price in the latter half of the 1980s.

The revenues from cocoa exports are used in three ways: for payments to producers, marketing costs, and government revenue. To maintain the producer price at a certain level for increased cocoa output as well as to secure sufficient government revenue, it is necessary to reduce the marketing cost. Reduction of the functions and employment scale of the government-operated Cocoa Marketing Board was indispensable from this point of view. A considerable personnel reduction began in 1985 in the Marketing Board (present Ghana Cocoa Board), which had more than 100,000 personnel at the beginning of the 1980s. Today, a policy is under study for limiting the functions of the Board to planning, monitoring, and evaluation of the cocoa sector; and, transferring the functions of extension and quality control to other organizations or privatizing these functions is also being studied.

In 1992, several private companies were given access to domestic cocoa purchase, which had been monopolized by the Produce Buying Company (PBC), a subsidiary of the Marketing Board, since 1977. It aimed at reducing the marketing costs borne by the Marketing Board, by introducing competition in domestic marketing. Theoretically the government-set producer price became the lowest price, making it possible for private companies to set prices higher than the PCB's buying price. Government subsidies for investment in cocoa production were reduced in 1990. Farmers' expenses for investment increased as a result, and their distribution declined sharply.

It is expected that private companies will be given access to the cocoa export market, which has been monopolized by the government, in line with the government's economic liberalization policy. In any case it would be necessary to maintain a policy that can provide incentives for farmers to produce cocoa, and that does not cause deterioration of Ghana's high-quality cocoa. It is urgently necessary, at the same time, to gradually reform the export sector, which depends on cocoa, and to diversify and develop export crops.

### **2.1.3 Government Measures in Agriculture Sector**

Since structural adjustment was introduced in 1983, the government has been taking measures in agriculture in line with the framework of its structural adjustment policy. Specific measures include the abolition of government regulations on agricultural product prices (except for cocoa), abolition or selling of agriculture-related public corporations and state-owned enterprises and farms, and abolition or reduction of subsidies for agricultural

investment. It can be said that the government has been taking these measures with the intention of reducing its direct interventions in agriculture.

In the 1990s, the government formulated the Ghana Medium Term Agricultural Development Strategy (MTADS), for the decade from 1991 through 2000, working out new measures for the agriculture sector. The strategy mentions five priorities: (i) increased incentives for agricultural production, (ii) enhanced agricultural support services, (iii) promotion of the private sector's participation, (iv) strengthened management of the agriculture sector, and (v) rational distribution of public resources.

For increased incentives for agricultural production, priorities in the important sector of cocoa production are as follows: to provide further incentives for cocoa producers, to introduce the private sector in cocoa distribution, to reduce dependence of government revenue on cocoa, to strengthen research on technology improvement, and to reduce Cocoa Board spending. For other crops, the government aims to discontinue its direct interventions in production, price-setting, and distribution.

For agricultural support services, priority is given to research and extension, investment, and post-harvest. For research and extension, the government aims to set research priorities, strengthen the link between research and extension, unify extension services, and improve quality of extension workers. For investment, the government intends to privatize provision services. For post-harvest, the government mentions the improvement of storage facilities, further spread of storage technology, and increased public investment in the transport infrastructure, such as feeder roads.

To promote the private sector's involvement, the government is considering privatizing or abolishing agriculture-related state enterprises, after reviewing their financial conditions. Its policies also include active support for the production activities of existing grassroots agricultural cooperative associations and investment distribution activities, and incorporation of the private sector in food crop distribution while finding a key for insufficient storage facilities.

For agriculture sector management, the government emphasizes the necessity of a coordination organization that facilitates coordination among the implementing divisions, which are now scattered in various ministries and agencies, in order to establish a system for implementing agricultural policies smoothly.

For rational distribution of public capital, the government places importance on public investments in priority areas, which include the construction and improvement of feeder roads and small-scale irrigation facilities, agricultural research and extension activities, and the provision of small-scale commercial storage facilities.

The Medium Term Strategy, while conforming to the structural adjustment framework of building up the private sector's involvement and reducing direct government intervention, gives priority to research and extension, and public investment in economic infrastructure, giving the government a certain role in specific areas.

## **2.2 Mining**

As can be inferred by Ghana's former name, the Gold Coast, the mining sector is an important export industry in the nation's economy. From 1981 to 1983, just before the economic reform by structural adjustment, the real growth rate declined at an annual average rate of 10%. After economic reform, growth recovered suddenly, marking a high annual rate

of 8.5% between 1984 and 1988, but it again declined to 7.6% from 1989 to 1995. The ratio of mining to the GDP increased from around 1% in the mid-1980s to 1.5% in the mid-1990s.

The mining sector was controlled strictly by the government, but economic reform by structural adjustment made it the most important industry for introducing energies of the private sector. Expanded opportunities for participation of the private sector realized the privatization of Ashanti Goldfields Corporation (AGC), the largest state-operated gold mine in Ghana. This was a symbolic case of the introduction of private sectors in the Ghanaian economy. After that, progress was made in the rehabilitation of state-operated mines or their transfer to the private sector, and there was an increase of private investment in small-scale mines. In 1996, however, AGC's production activity slowed down, throwing a shadow over the future of gold mining in Ghana. As the international gold price tends to decline despite increased production costs within the country, Ghana's gold industry will continue to face difficulties.

Ghana has various mineral resources other than gold, such as diamonds, manganese, and bauxite. Outputs of these mineral resources in 1992 were about one million ounces of gold, 690,000 carats of diamond, 280,000 tons of manganese, and 400,000 tons of bauxite. In the beginning of the 1990s, diamonds and manganese were produced by a state corporation, but its privatization through private investment is desired. Though the estimated amount of bauxite reserves is large, exploitation has not been adequate thus far. As rehabilitation of the west railway line progresses, the production of bauxite has increased steadily. It is expected that bauxite production will become an important industry in the private sector, riding on the wave of privatization.

There is a concern that environmental pollution can be caused by mining. Hazardous heavy metals have been detected in irrigation facilities in villages adjacent to gold mines. It is necessary to strengthen monitoring capacity to prevent environmental disruption caused by mining.

### **2.3 Manufacturing**

After attaining independence, Ghana was very active in promoting industrialization, and it encouraged investments in import substitution manufacturing, seeking to make the manufacturing industry the driving force of economic development in Ghana. Manufacturing, however, did not grow into as dynamic a sector as was expected because production technology and investment depended highly on imports, and human resources (i.e. business managers and skilled workers) for fostering modern manufacturing were scarce, with extremely insufficient financial systems and distribution organizations.

According to the World Bank's data, the annual growth rate of Ghana's manufacturing increased from 2.5% in 1965-80 to 4.3% in 1980-89, on average <sup>(1)</sup>. In 1990-93, however, it declined to 2% level again. The ratio of manufacturing to GDP was almost always at the 10% level <sup>(2)</sup>.

As for sectoral distribution of the manufacturing industries during the period from 1970 to 1980, state enterprises increased from 12% to 26%, and state-private joint ventures increased from 12% to 20%. Private enterprises therefore decreased from 75% to 54%. This

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(1) World Bank (1991). p. 206

(2) World Bank (1994). p. 172

shows that nationalization became more prominent in Ghana's manufacturing industries in the 1970s<sup>(3)</sup>.

As for the distribution of manufacturing industries by scale, metal processing had the largest number of enterprises that employed more than 100 workers, accounting for 71% of all enterprises. Food processing and wood product manufacturing each accounted for 20% of enterprises that employed 30 to 99 workers. Enterprises employing 5 to 29 workers included clothing enterprises (accounting for 31%), and wood product enterprises (accounting for 21%). Small businesses employing less than 5 workers were mostly clothing and food processing enterprises.

The problem, however, was not the sectoral distribution of enterprises but the low operating rates prevailing in manufacturing industries. The total operating rate in the manufacturing sector was only 26% in 1980; it declined to 21% in 1982, the year immediately before the start of economic reform. The operating rate of the textile industry, a key industry, fell as low as 10%<sup>(4)</sup>. Then, operating rates were improved gradually as the government implemented its exchange policy and trade liberalization through economic reform. As a result, the rates of operation increased, reaching 45% in the manufacturing sector and 67% in the textile industry in 1992.

Heavy dependence of production goods on imports and the balance of payments deficits caused these low operating rates. The restriction, by foreign currency control, of foreign currency allocations for importing raw materials, and the difficulty in importing machine parts and components, were attributable to such low rates of operation. Structural adjustment relaxed trade regulations, and foreign currency provided as aid to improve the international balance of payments made it easy to import raw materials, resulting in an improvement of the operation rate in the manufacturing sector.

The policy of trade liberalization was, however, a double-edged sword. The liberalized use of foreign currency made it easy to import raw materials and parts, but their import prices were raised, resulting in a rise of production costs. Import liberalization increased competitive goods, and low-priced secondhand clothes imported in large quantities tended to drive domestic products from the market. In Ghana, not only the textile industry but also other consumer goods industries generally did not have international competitiveness, and trade liberalization made weaker industries go bankrupt. The government established the Business Assistance Fund in 1994, to relieve enterprises facing financial crisis and help them move toward becoming exporters.

Invitation of foreign investments is an important issue in Ghana. In 1994, the government established the Ghana Investment Promotion Center, with a view to inviting new investments from home and abroad. Gold mines and the hotel industry succeeded in introducing a considerable amount of foreign capital. For manufacturing industries, the government formulated the Ghana Trade Investment Gateway Program to implement policies for foreign capital invitation and trade promotion; the government also established export processing zones under the program. With the privatization of state enterprises in recent years, foreign currencies have been flowing in from South Africa and Malaysia. Capital participation from Malaysia is worthy of special notice. In addition to capital participation in Ghana Telecom, the Penang Shipbuilding Corporation of Malaysia advanced into the ship-

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<sup>(3)</sup> Huq (1989). p. 141

<sup>(4)</sup> *Ibid.* p. 143

refitting industry by making investments in Tema Shipyard and Dry Dock Corporation. The Denko Industrial Corporation of Malaysia has also made investments in the Ghana Commercial Bank. It is true that these inflows of foreign currencies into Ghana are welcomed as the awakening of “South-South economic cooperation”, but recent trends in the Asian economies cast a vague sense of anxiety on Malaysia’s advance into Ghana.

It is generally difficult, amid present conditions in Ghana, to invite a large amount of foreign capital in order to foster private enterprises in the manufacturing sector. Rather, it is important to focus on the activation of existing small- and medium-scale Ghanaian-owned businesses. In these circumstances, the government established the Funds for Small and Medium Enterprise Development (FUSMED). The government also established the Private Enterprise and Export Development (PEED) to support export financing so that small and medium enterprises can actively launch export industries.

Regional gaps between north and south are prominent also in the development of manufacturing industries. Industrial investments are concentrated in the transport infrastructure triangle connecting Kumasi, Accra, and Takoradi, while the northern provinces are almost deserted. In these regions, it is desired that small-scale businesses be developed around regional markets.

## **2.4 Infrastructure**

The major transport infrastructure of Ghana includes ports, railways, roads, airports, and inland water canals.

Ghana has two ports: Takoradi Port and Tema Port. Takoradi Port, constructed in 1928, is mainly used for exporting manganese, bauxite, timber, and cocoa. Tema Port, opened in 1962 as the outer port of Accra, deals with more than 80% of imports to Ghana. These ports are equipped with facilities capable of dealing with a substantial amount of cargo, but insufficient maintenance and poor management prevent them from fulfilling their functions. A port rehabilitation program is now being implemented for infrastructure rehabilitation as part of economic reform.

The Volta River was historically an important inland water transport route connecting inland regions with the coastal region; this route now runs through, Lake Volta following construction of the Akosombo Dam in 1996. Port rehabilitation investment is also being provided for this route.

Ghana’s railways consist of three trunk lines (connecting the three largest cities of Accra, Kumasi, and Takoradi), three branch lines (the Kumasi-Takoradi West Line, the Accra-Kumasi East Line, and the Accra-Takoradi Central Line), and four local lines. The total length of these railways is about 950 km. In 1977, they came under the control of the Ghana Railways Corporation (GRC). The corporation’s insufficient managerial capacity and lack of maintenance capability, such as for track maintenance and locomotive repair, have produced increased deficits, and now the corporation cannot operate without government subsidies. Regarding the West Line, for which rehabilitation investment was made in 1983-88, financial conditions have been improved to some extent, but deficits have not been eliminated.

Among Ghana’s roads, trunk roads, which extend 14,750 km, are controlled by the Trunk Road Corporation; rural roads, extending 21,850 km, are controlled by the Regional Road Corporation; and urban roads, extending 1,929 km, are controlled by the Urban Road



Bureau under the jurisdiction of the Ministry of Roads and Transport. Ninety-four percent of cargo transport and 97% of passenger traffic depend on these roads. As the Ghanaian economy relies on agricultural and mining exports (cocoa and gold), road networks have been well established in the southern regions where cocoa and gold are produced, while the northern regions, where people conduct mainly self-support farming, have very few village roads passable throughout the year, with the exception of trunk roads.

The government of Ghana has been focusing investments on roads, a fundamental economic infrastructure. In 1985, the government established the Road Fund, consisting of fuel taxes, car inspection expenses, and road tolls, aimed at securing stable financial resources for road maintenance and management. Still, securing maintenance costs remains difficult. Roads are damaged considerably by overloaded vehicles in many regions.

Ghana has the Kotoka International Airport in Accra, and domestic airports in Takoradi, Kumasi, and Tamale. Domestic airlines are faced with problems such as frequent cancellation of service. Ghana's communications were controlled exclusively by the Posts and Telephone Corporation, which included the postal division. The government separated telegraph service from postal service in 1990, and it has been actively promoting invitation of foreign investment as a part of efforts to vitalize the private sector. One result is Malaysia's investment in Ghana Telecom. The diffusion of telephones was 0.35 in 1977 (in terms of the number of subscriber lines per 100 people), and this figure showed little change until 1989. Regarding 1989 alone, this rate was considerably lower than that of 0.73 in Kenya, and that of 0.59 in Cote d'Ivoire. The spread of reliable telephone lines is very important in inviting foreign capital.

Ghana is an oil-importing country, and its people mainly use firewood for fuel; this has resulted in reduced forests and environmental destruction. Electric power is increasingly important as a future energy source. The amount of electric power generated increased from 4,405 million kw in 1986 to 6,602 million kw in 1992. This increase was the result of import liberalization, which made it possible to obtain parts necessary for repair and maintenance of electric power generation facilities, with resulting improvement in the operating rates of electric power stations. Stable supplies of electric power are indispensable for improving people's living conditions, including rural electrification, in Ghana.

Finally, waste disposal and water supply/sewerage are another problem awaiting urgent solution in cities where populations are rapidly increasing. In particular, medium-size cities have no urban infrastructure for a comfortable living environment, including roads. Moreover, city markets, which play an important role as urban distribution facilities, do not function well because of rapidly increasing urban populations. Stores in markets are over-crowded, and workers are surrounded by very unsanitary conditions, with waste and garbage left untreated. Expanded investment in city markets is important also as a means of preventing infectious diseases.

## **2.5 International Balance of Payments and Foreign Assistance**

The Ghanaian economy has been supported by the export of cocoa. The country has traditionally had a typical monocultural, colonial, and open economy, and this export structure has not changed. Today, cocoa, timber, and gold are primary exports, but Ghana's trade balance and international balance of payments are chronically in the red, partly because of degraded trade conditions and competition with new cocoa exporters. The export value of

cocoa, the most important export, declined sharply from \$739 million in 1980 to \$355 million in 1990. Ghana's trade deficits increased rapidly from \$36 million in 1980 to \$524 million in 1990, and reached \$738 million in 1992.

The current account deficit increased from 1.2% of the GDP in 1980 to 5.4% in 1985, and to 6.7% in 1989-91. The ratio of the current account deficit to the GDP further increased, reaching as high as 10.2% in 1992-94. As little change is expected in the composition of exports, there is little possibility that current account deficits will be reduced in the latter half of the 1990s.

From the end of the 1970s to the beginning of the 1980s, Ghana had experienced a sharp economic decline, and it became essential that the country obtain assistance from the World Bank and the IMF by improving relations with these institutions. Ghana's PNDC military government began improving its relations with the World Bank and the IMF in 1983, and it started active economic reconstruction, receiving structural adjustment loans. As the government produced good results, the World Bank regarded Ghana as a model country for structural adjustment, and it granted the country special favor as a "structural adjustment premium country (special provision of structural adjustment loans)" and as a "Special Program of Assistance for Africa (SPA) Beneficiary Country (provision of facility for co-financing)". The World Bank sent a number of staff members to Ghana to implement these preferential measures. The number of staff members was more than double that sent to other African countries implementing structural adjustment policies. As a result, Ghana succeeded in improving its macroeconomic indicators by the end of the 1980s.

Ghana was provided with IDA credits that reached an annual average of \$200 million by the end of the 1980s (Table 2.5.1). This was said to be more than double the sum that the World Bank requested in 1986 in its Country Program Paper (CPP). Ghana increased its dependence on foreign aid in the process of economic reform. There was a remarkable increase of ODA received between 1981 and 1992. The annual average of net ODA spending for Ghana increased from \$133 million in 1981-83 to \$264 million in 1984-86, to \$522 million in 1987-89, and further to \$687 million in 1990-92. The ratio of this ODA spending to the GDP was only 3% in 1981-83, but it was 10% in 1987-89 and 1990-92. During these periods, net ODA received per capita increased from \$12 to \$21, and further to \$37, reaching \$45 in the beginning of the 1990s.

Though Ghana's structural adjustment is regarded as a successful model in Africa, two problems must be pointed out. One is the World Bank and IMF commitments to Ghana, as mentioned above. For them, Ghana's structural adjustment must be successful by all means. The other is the existence of a government powerful enough to implement structural adjustment policies in Ghana - this was the PNDC military government led by Flight Lieutenant Rawlings. Early in the 1990s, however, democratization of the political system became emphasized, and the despotic military government shifted to a democratic multiple-party government. A general election was conducted, and Rawlings was elected President. In this process, the government raised government officials' pay by 80%. This produced an aggravated fiscal imbalance and a steep rise in the inflation rate. A question arose on the results of structural adjustment, and macroeconomic reconstruction became an urgent issue. In the long run, macroeconomics can be improved in the future through strengthened government finance management. For the short term, however, it is feared that Ghana will depend increasingly on foreign assistance.

Changes in Ghana's external debts in comparison with the sub-Saharan averages in 1980 and 1995 are as follows. The ratio of external debt to the GDP increased from 32% in 1980 to 95% in 1995 in Ghana, while the African average increased from 31% to 81%. The ratio to export value increased from 115% to 367% in Ghana, while the African average increased from 92% to 242%. The Debt Service Ratio (DSR) increased from 13% in 1980 to 23% in 1995 in Ghana, while the African average increased from 10% to 15%. Lastly, the ratio of the total external debts to debts to multilateral organizations was 20% in Ghana in 1980, while the African average was 10%. It was 51% in Ghana in 1995, while the African average was 15%. These ratios show Ghana's increasingly heavy dependence on foreign assistance.

**Table 2.5.1 List of IDA Credits Commitments**

Committed sum: million dollars

1983	Reconstruction import credit	40.0
	CIMAO reconstruction project	9.3
	Energy (oil exploration) project	11.0
	Water supply technical assistance and rehabilitation project	13.0
1984	Export recovery project	76.0
	Export recovery technical assistance project	17.1
	Oil palm development project (second phase)	25.0
	Oil refining rehabilitation project	6.9
1985	Economic recovery program	60.0
	Road rehabilitation and maintenance project	40.0
	Electric power system rehabilitation project	28.0
	Accra area rehabilitation project	22.0
1986	Industrial sector adjustment program	28.5
	Educational sector adjustment program	34.5
	Port rehabilitation project	24.5
	Health and education rehabilitation project	15.0
1987	Structural adjustment and institution assistance program	34.0
	Structural adjustment assistance (non-program)	10.8
	Agricultural services rehabilitation project	17.0
	Northern region power supply network expansion project	6.3
	Oil refining and distribution project	6.0
1988	Monetary sector adjustment program	100.0
	Public enterprise project	10.5
	Priority works (urban development) project	10.6
	Transportation rehabilitation project	60.0
	Cocoa recovery project	40.0
	Mining sector rehabilitation project	40.0
1989	Second structural adjustment program	120.0
	Monetary sector adjustment program (supplementary)	6.6
	Private small- and medium-scale business development project	30.0
	Second communications project	19.0
	Rural financing project	20.0
	Forest resources management project	39.4
	Waterworks rehabilitation project	25.0
1990	Second structural adjustment program (supplementary)	5.7
	Second educational adjustment program	50.0
	Urban development project	70.0
	Ghana Electric Power Company - fifth electric power project	40.0
	Volta River Agency - sixth electric power project	20.0

1991	Second structural adjustment program (supplementary)	8.3
	Promotion of private investments and sustainable development	120.0
	Economic administration assistance project	15.0
	Second transportation rehabilitation project	96.0
	Agricultural diversification project	16.5
	State agricultural research project	22.0
	Local secondary school construction project	14.7
Second health and population project	27.0	
1992	Promotion of private investments and sustainable development (supplementary)	6.1
	Second monetary adjustment program	100.0
	Agricultural sector adjustment program	80.0
	National branch roads rehabilitation and maintenance project	6.1
	State agricultural guidance and extension project	30.4
	Literacy and functional technical training project	17.4
1993	Promotion of private investments and sustainable development (supplementary)	6.5
	Private enterprise and export development project	41.0
	Urban traffic project	76.2
	State animal husbandry service project	22.5
	Environmental resources management project	18.1
	State electrification project	80.0
	Third education project	45.0
	Primary school development project	65.1
1994	Agricultural sector adjustment (supplementary)	5.7
	Local government development project	38.5
	Agricultural sector investment project	21.5
	Regional water supply and drainage project	22.0
1995	Mining sector development environment project	12.3
	Private sector coordination loan	70.0
	Fisheries sub-sector capacity building project	9.0
	Job training. informal sector	9.6
	Support project	175.6
	Agricultural sector coordination loan (supplementary)	5.0
	Private sector development project	13.0
1996	Basic education sector project	50.0
	Public enterprise privatization technical support project	26.5
	Road sector investment program	100.0
	Urban environment sanitation project	71.0
	Private sector coordination loan (IDA reflux)	4.8
	Non-bank financial institution support project	23.9
1997	Rural infrastructure project	30.0
	Private sector coordination loan	3.5
	Public fund control support project	20.9

\* Year: the year when the project was committed.

Source: Prepared by JICA (1995) p.76 renewed by World Bank's Annual Report 1995-1997 editions

### **3. Aid Trends to Ghana**

#### **3.1 Outlook**

Economic conditions in Ghana worsened greatly in the early 1980s. The country's economic decline became clear with the suspension of the World Bank loan in June 1981 (resumed in January 1983), the severe drought and intense forest fires in 1982-83, etc.. The government of Ghana accepted the World Bank's survey team in November 1982, and started its Economic Recovery Program (ERP-1) in April 1983 with guidance by the team. In response to this, a CG meeting was held after an interval of 13 years. The ERP-1 liberalized international economic relations and domestic markets, and effected a reform of the public sector as a form of structural adjustment in an effort to recover economic growth. The government introduced a "Programme of Action to Mitigate the Social Costs of Adjustment (PAMSCAD)", in order to address the problem of economic reform, most affecting the people of low-income brackets. The World Bank, the IMF, and bilateral donors provided economic assistance in order to support Ghana's economic reform. The annual average of net assistance spending increased from \$152 million in 1981-83 to \$873 million in 1990-92. This was an increase from 3% to 10% of the GDP, and corresponded to an increase of the sum received per capita from \$12 to \$45.

#### **3.2 Japan's Aid Trends**

The government of Japan regards Ghana as a priority country in Africa for the following reasons. First, Japan has long experience in assisting Ghana, beginning with the Textile Technology Training Center established in 1963 (and continued until 1972); Japan has maintained friendly relations with the country since. Second, Ghana, playing a leading role in the West African region, is very influential in African multilateral organizations, such as the Organization of African Unity (OAU) and the ECOWAS. Third, Ghana has been recognized as a model country through its implementation of structural adjustment policies since 1983. Fourth, the military government, which held power for many years, was replaced by a civil government, and political democratization was promoted through a fair presidential election in 1996.

Japan's total assistance to Ghana until 1996 reached \$417.42 million (net disbursement basis) in grants, consisting of grant aid and technical cooperation, and \$581.55 million in loan aid (government loans), totaling to \$998.96 million. By scheme, grant aid accounted for 28% of the total, technical cooperation accounted for 14%, and government loans for loan aid accounted for 58%.

During recent years, net assistance spending increased considerably, from \$71.29 million in 1992 to \$134.76 million in 1994. In the following two years, however, it declined, to \$110.01 million in 1996. We must pay attention to whether assistance spending for Ghana will further decline. Government loans accounted for 60-70% of all assistance spending.

In bilateral assistance, Japan stood first among the DAC countries for the three-year period from 1993 to 1995. Especially in 1994, Japan's assistance amounted to \$134.8 million, while the United States, standing second, spent \$53 million. There was thus a substantial difference between the two countries.

Loan aid provided thus far has amounted to 99.2 billion yen, which has been directed mainly to transportation and communications, and for supporting structural adjustment. Transportation-related assistance was provided for the Road Rehabilitation Project in fiscal 1987, the Kumasi-Paga Road Rehabilitation Project in fiscal 1990, the Procurement of Locomotives, Rolling Stock and Workshop in fiscal 1993, the Highway Sector Investment Project in fiscal 1995, and so forth. The Ports Rehabilitation Project in fiscal 1985 was also included among these projects. Most of them were projects to rehabilitate existing facilities. Communications-related projects included the Telecommunication Expansion Project in fiscal 1982, and the Telecommunication Expansion Project II in fiscal 1988. In the area of structural adjustment, assistance was provided for the First Structural Adjustment Program in fiscal 1987, the Second Structural Adjustment Program in fiscal 1990, the Commodity Loan (Financial Sector Adjustment Program) in fiscal 1988, the Private Investment and Sustained Development Promotion in fiscal 1992, and the Private Sector Adjustment Program in fiscal 1995. In water supply and drainage, Japan provided loans for the Water Sector Rehabilitation Project in fiscal 1993, and for the Power Plant Barge Project in fiscal 1995.

Japan also made a substantial contribution to Ghana through grant aid and technical cooperation. The total value until fiscal 1996 amounted to 43.135 billion yen in grant aid (exchange of notes basis), and technical cooperation amounted to 17.132 billion yen (JICA actual spending basis).

Main grant aid projects from the 1970s and afterward were as follows:

Food assistance totaled 4.604 billion yen between 1973 and 1996. Assistance began with 400 million yen in fiscal 1973, declined to 144 million yen in 1979, and stood at 240 million yen in 1980. Japan's food assistance for Ghana has been continuing since 1983, as the country has become a chronic food-importer due to inactive agricultural production, especially in the area of food crops. Japan provided food assistance amounting to 610 million yen in 1983 and 1984 each to support Ghana during a serious food shortage caused by a severe drought in the beginning of the 1980s. Subsequently, from 1988 to 1995, Japan's spending was almost fixed at 150 to 200 million yen every year.

Assistance for increased food production also forms an important grant aid project. This project totaled 5.35 billion yen between fiscal 1981 and 1996. It should be noted that 200 to 500 million yen was provided every year during this period, except for 1982, and 400 million yen was provided in eight of these years. A tendency toward a "fixed sum" is also seen here.

As loan aid contributed to rehabilitation of the economic infrastructure, grant aid also supported the construction of infrastructure, such as roads and bridges. Infrastructure-related assistance totaled about 2.916 billion yen between 1991 and 1996, with priority given to projects relevant to regional development. Assistance in electrification, which began in the early 1990s, totaled more than 2.7 billion yen between 1993 and 1995.

Assistance in the medical sector totaled 3.338 billion yen. Assistance was provided mainly for establishment and management of the University of Ghana Medical School Basic Medical Science Institute (Noguchi Memorial Institute for Medical Research). Assistance also contributed to a regional medical service improvement project.

As grant aid for improving people's living conditions, 250 to 300 million yen was appropriated to a project for improving child and maternal nutrition every year from fiscal

1981 to 1988, totaling 1.45 billion yen. About 1.6 billion yen was provided in a regional water supply project.

Grant assistance for grassroots projects was begun in 1989 with three projects (6 million yen) and continued until 1995. The sum was increased steadily every year, reaching 58 million yen in 1995. This shows that grant assistance for grassroots projects has been increasingly recognized in Ghana.

To support structural adjustment, Japan has been providing non-project grant aid since 1989. Assistance amounted to 1.5 billion yen in 1989, 2 billion yen in 1991 and 1993 each, and 1 billion yen in 1995.

Project-type technical cooperation was provided for the Textile Technology Training Center (May 1963 to May 1972), the University of Ghana Medical School (July 1968 to March 1985), and the Noguchi Memorial Institute for Medical Research (October 1986 to September 1991). These projects were scheduled to be continued until September 1997. In fiscal 1997, the government started a project for improving child and maternal health and medical services, and an irrigation agriculture development project.

In the area of technical cooperation, up to fiscal 1996 1,038 training participants had been accepted, 306 experts dispatched, and 597 JOCV members dispatched. Provided equipment was equivalent to about 2.9 billion yen. In addition to these, a number of study teams were dispatched, involving as many as 500 people.

Regarding future assistance for Ghana, *Japan's ODA Annual Report 1997* issued by the Ministry of Foreign Affairs, gives priority to (i) improvement of basic living conditions (safe water, education, population, AIDS, and child health), (ii) agriculture, and (iii) roads and electric power. These areas are in accord with development priorities defined in Vision 2020 formulated by the government of Ghana, and four areas defined in the NDS: poverty, primary education, health and sanitation, and environmental sustainability. These are studied later in the section of "Framework for Japan's Assistance" in detail.

### **3.3 Aid Trends among Other Major Donors and NGOs**

#### **3.3.1 Multilateral Organizations**

##### **1) World Bank**

The World Bank seeks poverty alleviation in Ghana through accelerated economic growth and human resources development. In its review of poverty alleviation strategy, the Bank places importance on the establishment of a monitoring system and the construction of regional infrastructures. It plans to strengthen agriculture, financing, primary education, and capacity building, as a means of removing gender disparity. For stabilized macroeconomics, the World Bank intends to have dialogues with policy-makers of Ghana. It supports improvement of administrative services, from the viewpoint of good governance. For private sector developments, it extends cooperation in promoting the privatization of state enterprises, and it supports the Ghanaian government's program for the establishment of free-trade zones. It encourages the formulation of an agricultural strategy with an eye to regional development and deregulation of cocoa exports. It supports the government's National Environment Action Plan as an economic development strategy attentive to environmental sustainability, and it cooper-

ates in the area of forest and environmental resources management, the establishment of environmental conservation mechanisms, systems and experiment technologies, and the formulation of a plan for long, sustainable utilization of natural resources.

**2) The United Nations Development Programme (UNDP)**

The UNDP fully supports the NDS, as is clearly shown by its publication of *the Human Development Report*. It holds various donor conferences in Ghana, providing opportunities for policy dialogues and monitoring between the Ghanaian government and donors.

**3) United Nations Childrens Fund (UNICEF)**

UNICEF, arguing that the strain of structural adjustment oppresses the socially weak classes, has contributed to the introduction of “consideration for the social impact of adjustment” in the process of structural adjustment. UNICEF is active mainly in the field of social development, such as promotion of PHC in rural regions, improvement of public health, improvement of immunization coverage, strengthening of prevention and knowledge dissemination regarding AIDS, human resources development attentive to the gender issue, food security, improvement of nutrition, and rural development focused on water resources development.

### **3.3.2 Bilateral Aid Agencies**

**1) The U.K.**

The U.K.'s assistance for Ghana through the Department for International Development (DfID) differs from year to year. Its amount stood third in 1994, and eighth in 1995. The U.K. actively supports the Common Fund, making full contributions to health services as well as the fund available also for natural resources. The U.K. places importance on private sector development.

**2) The U.S.A.**

The United States Agency for International Development (USAID) gives priority to five areas: population, HIV/AIDS, the living environment for children, preservation of the natural environment, and democratization. Active support is provided for the dissemination of family planning, to reduce the birthrate, appropriate diagnosis and treatment of infectious diseases, promotion of immunization, and AIDS prevention and control. Support for primary education had been provided continuously from 1990 to 1997, with emphasis placed on textbook-printing, teacher training, methods of evaluating scholastic attainments in English and mathematics, and improvement of school enrollment ratios (notably of girls) in the northern regions. Results, however, were not satisfactory due to insufficient communication between the central government and local governments. In support of democratization, USAID provided training for staff for the presidential election in 1996. USAID plans to provide training opportunities for the staff of the national assembly, establish a research and investigation institute of the national assembly, strengthen local governments' planning, management, and administrative capacity, and promote operational capacity building for citizens' organizations. In the non-agriculture sector, it focuses its assistance on support of the informal sector, and promotes the development of handicrafts as new exports, with a view to increasing exports and creating employment opportunities.



### **3) Denmark**

The Danish International Development Agency (DANIDA) gives priority to water, medical services and sanitation, local roads, and energy as means of alleviating poverty. It extends cooperation also in the areas of the environment, WID, democratization, and the protection of human rights. In the northern upper province, where poverty is especially serious, it promotes PHC and strengthens research facilities for this purpose, and provides materials and equipment for the local agencies of the Ministry of Health.

#### **3.3.3 Major NGOs and Their Activities**

Among international NGOs, Sasakawa Global 2000 supports rural development, the Red Cross Society is active in PHC, World Vision International contributes to water supply and management, and Actionaid is active in the area of human rights. The Catholic Relief Service extends assistance in the area of education, and Wateraid provides assistance for supplying sanitary water. There are about 200 local NGOs, but only half of them are active. Some of them work in cooperation with JOCV members or take part in grant assistance for grassroots projects.

#### **3.3.4 Donor Coordination at A Field Level**

Until several years ago, field-level donor meetings were held by multilateral donors, such as the World Bank and the UNDP, with the government of Ghana only attending as an observer. In recent years, however, the government of Ghana has come to take the lead in the areas of education, health, and so on. Donor meetings are frequently held regarding infrastructure (roads) and the population issue.

The areas of education, health care, and roads are now handled under the framework of the so-called Sector Investment Programme (SIP), and donor meetings are held almost monthly. In addition to these areas, the SIP is being formed in the areas of agriculture, the environment, and poverty. Specifically, the program is the World Bank-led Common Fund, and it may be possible for Japan to apply counterpart funds from non-project grant aid. In such cases coordination is necessary through assignment of long-term experts, project formulation specialists, or overseas survey specialists.

Although the Japanese embassy and the JICA office in Ghana have participated in such donor coordination, its involvement has been insufficient due to the lack of personnel (one staff in charge of development cooperation in the embassy and three staff in the JICA office). It should be noted that institutional building of the field-level offices and increased presence at the local level are indispensable for implementation and evaluation of the NDS.

#### **4. Development Directions in Ghana and the Significance of the DAC's New Development Strategy: Relevance to "GHANA-VISION 2020: Long-Term Development Objectives"**

The government of Ghana formed a framework for long-term development for the 25 year-period from 1996 to 2020, and published it as "GHANA-VISION 2020: *Long-Term Development Objectives*". As this plan has already been described in Chapter 1, its relevance to the NDS will be viewed here to avoid overlaps. The principal goal of Vision 2020 is to raise the per-capita GDP from the present low-income country level to the level of medium-income countries by 2020, by maintaining a high annual growth rate of 8%. The government formulated the First Medium-Term Development Plan 1997-2000, in order to attain this goal. The plan was originally intended for the period between 1996 and 2000, but its implementation was postponed by one year.

The National Development Plan Commission (NDPC) says, "this is a people-centered development plan focusing on five themes: human development, economic growth, rural development, urban development, and an enabling environment". It fosters the introduction of a market economy based on private sector development, democratization which furthers decentralization, the implementation of social policies in terms of human development. Its strategy can thus be called 'trinity of economy, politics and society'. The emphasis on human development over economic growth is consistent with the NDS.

This people-centered development plan has defined the following 10 challenges as priorities in human development, and most of them correspond with the four areas defined in the NDS.

- Poverty alleviation and reduction
- WID
- Population Control
- Health improvement and sound human development
- Promotion of food security and improved nutrition
- Spread and improvement of education
- Expansion of employment opportunities
- Improved training
- Supply of safe water
- Complete wastewater treatment: supply of safe water and complete wastewater treatment are dealt with in the area of infrastructure development.

The government lists the following six items as a strategy for poverty reduction.

- (i) Acceleration of economic growth by pursuing sound macroeconomic policies, placing importance on the creation of employment opportunities.
- (ii) Development of the agriculture sector, by disseminating modernized agriculture, improving distribution systems, and increasing land productivity and farmers' incomes.
- (iii) Increased investment in human resources development, to create healthy, better-educated, and better trained workers.
- (iv) Expansion and development of manufacturing and service industries, to create new businesses, expansion of employment opportunities, and increased earnings in the modern sector of the Ghanaian economy.

- (v) Identification of targets in poverty reduction, and accumulation and arrangement of data on poverty, for the purpose of setting more effective goals and plans for poverty reduction.
- (vi) Strengthening of the informal sector and promotion of small businesses, to develop Ghanaian entrepreneurs.

The NDS sets numerical indicators as goals to be attained in the four sectors of poverty, education, health care, and the environment. On the other hand, it states clearly that these goals should be attained through individual approaches based on conditions in the developing country and its development strategy. Although Vision 2020 mentions all of DAC's four sectors, no quantitative goals are specified at all.

The environment, mentioned in Vision 2020 as one of five areas, is discussed not as the natural environment but as an "environment that facilitates development". Vision 2020 emphasizes administrative reforms in the central and local governments, to provide an environment in which the people of all classes can participate actively in national development. It also emphasizes the promotion of decentralization through more efficient systems produced in the processes of administrative reforms, and support for the private sector, including NGOs. The environment in Vision 2020 means environment-building for promoting a market economy and democratization.

DAC says, "environmental sustainability and regeneration: There should be a current national strategy for sustainable development, in the process of implementation, in every country by 2005, so as to ensure that current trends in the loss of environmental resources - forests, fisheries, fresh water, climate, soils, biodiversity, stratospheric ozone, the accumulation of hazardous substances, and other major indicators - are effectively reversed at both global and national levels by 2015". On the other hand, Vision 2020 lists, as problems with which the natural and living environment is faced in rural development and urban development, (i) deforestation, desertification and soil erosion, (ii) inefficient waste management, (iii) coastal erosion, and (iv) pollution of air, sea, soil, and water.

There is thus no difference in the direction of development between Vision 2020 and the NDS, but they slightly differ in priority and in policy-making for priority areas.

In light of the present conditions of economic and social development in Ghana, if structural adjustment is regarded as economic reform and democratization as political reform, the NDS can be regarded as social reform to effect those two reforms. The term 'reform' implies more than simple improvement in social indicators. If structural adjustment (economic reform) refers to the slimming of government and increased private energies by the introduction of a market economy, and if democratization (political reform) refers to a shift from a military government to parliamentary party politics, then what does social reform in Ghana's case really mean?

DAC's *Shaping the 21st Century: The Contribution of Development Co-operation* points out the spread of poverty, high infant mortality, and low school enrollment rates in developing countries, saying, "respect for human dignity... remains an unfulfilled dream" (p.7). It says, "development co-operation experience is still at an early stage in working with such issues as good governance, private sector development, capacity to manage environmental issues, and gender equality, which have attained their current prominence only in recent years". It also says, "when development is viewed in this broad context of societal

transformation, it is evident that development co-operation and other policies must work together” (pp. 13-14).

It is based on these DAC's views that Ghana's people-centered development respecting human dignity is regarded as a social reform. While economic reform and political reform concern system-building, social reform concerns people who are in charge of this system-building. As discussed later in Poverty (5.1), development necessary in Ghana is more essential, people-centered social reform that is different from the usual improvement of social development indicators, if one reviews the lives of farmers and their families in the Ghanaian savanna cited in *The World Bank Annual Report 1990*.

Lastly, we must remember our experience in establishing social security systems through various social reforms in the process of development of a capitalistic market economy in industrialized countries. Ghana has been making efforts to conduct economic reform with guidance from the World Bank and the IMF, and to implement a structural adjustment program. In this process, UNICEF pointed out increased poverty in Ghana. The awareness of this crisis caused the PAMSCAD to be formulated in 1987, and 13 aid organizations proposed 23 anti-poverty projects, committing themselves to a total contribution of \$85.7 million. The PAMSCAD is, however, evaluated as mere short-term treatment without producing substantial results in reducing social costs brought by structural adjustment. The reason the World Bank treated the poverty issue as a special topic in its *World Development Report 1990* is attributed to the Bank's awareness that poverty could be aggravated among the socially weak classes as a result of the introduction of a capitalistic market economy. In May 1995, the OECD/DAC's high-level meeting adopted a resolution to “provide support focusing on strategies and plans that contribute to the expansion of opportunities and improved living for the poorest people”, based on the recognition that poverty eradication is the central issue. Is it going too far to see social reform at work in this resolution?

## 5. Challenges for the DAC's New Development Strategy in Ghana

### 5.1 Poverty

The NDS aims, in the area of economic well-being, at “a reduction by one-half in the proportion of people living in extreme poverty, by 2015”. In view of the present condition of poverty in Ghana, this goal can differ in attainment from region to region.

Poverty can be defined as the condition in which people cannot enjoy the minimum material well-being that is regarded by the members of a community as being deserved based on community standards. However, this definition does not identify specific conditions of poverty. Fortunately, the World Bank made special mention of the life of a poor farmer and his family in the Ghanaian savanna in its *World Development Report 1990*, which is cited below.

This family comprises seven members living in three huts made of sun-dried bricks, having only one earth-floored room each. They have little furniture, and the huts do not have flush toilets, electric power, or tap water. It is a 15-minute walk to the brook from which they take water. The family has little property, except for three acres of non-irrigated land and one cow; neither does it have any savings.

The family grows sorghum, vegetables, and peanuts in their field. Farm work is seasonal and demands physical strength. During the busy season of cultivation, seeding, and harvesting, all members, including the husband's 60- and 70-year-old parents, work in farming. The soil is sterile, but the family cannot afford to obtain fertilizer and modern agricultural inputs. Moreover, the region is often hit by drought, and two of five years do not have sufficient rain.

The wife must take charge of housework, including water-drawing, firewood collection, and cooking, in addition to farming. The husband goes to the market to sell a small quantity of cash crops and buy things necessary for farming and everyday life. The road to the market, five miles away from their huts, becomes muddy or completely flooded out when it rains.

No one in the family has attended school thus far. The husband and wife want their eight-year-old son, who is a first-grader in primary school, to continue to go to school, but they have him stay out of school to help them during the busy season. None of the three children have been immunized or received medical treatment from a doctor.

The government of Ghana conducted the Ghana Living Standards Survey (GLSS) in fiscal 1987-88, using the results of the survey, it defined poverty based on per-capita household spending. The government defined one-third or less of the per-capita annual household spending as ‘poverty’, and one-half as ‘extreme poverty’. In 1992, the poverty line was calculated at 132,230 cedis, and the extreme poverty line at 99,173 cedis<sup>(5)</sup>. According to these definitions, about one-third of the people of Ghana are classified as poor; 75% of these people live in rural regions.

According to the GLSS, the ratio of the poor to the total population declined from about 37% in 1988 to about 31% in 1992. This is a great attainment for Ghana. Regionally, the poverty rate in the capital of Accra increased sharply from 8.5% to 23.0% between 1988 and 1992. Although the poor in Accra accounted for only 6% of the total population, the

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<sup>(5)</sup> National Development Planning Commission (1997). p.74.

marked increase of poor people in the metropolitan area seemed to have produced the misleading notion that the ratio of the poor was increasing nationwide. The ratios of the poor declined markedly in regions other than Accra, from 33% to 28% in other urban regions, from 38% to 29% in the coastal rural regions, from 38% to 33% in the forest rural regions, and from 49% to 38% in the savanna rural regions. The GLSS attributed these declines to an increase of incomes from non-agricultural employment, especially in very small retail businesses.

**Table 5.1.1 Poverty Headcount Indices by Area and Socio-economic Group, 1988 and 1992**

Unit: %

Area	1988		1992	
	Index	Contribution	Index	Contribution
Accra	8.5	1.9	23.0	6.0
Other urban	33.4	23.5	27.7	22.0
Rural coastal	37.7	14.4	28.6	12.9
Rural forest	38.1	30.3	33.0	31.0
Rural savanna	49.4	30.0	38.3	28.1
Ghana	36.9	100.0	31.4	100.0
Socio-economic group	Index	Contribution	Index	Contribution
Public employees	22.2	8.9	21.5	9.3
Private formal employees	18.8	3.1	15.7	2.0
Private informal employees	32.4	2.4	27.7	2.7
Export crop farmers	43.1	8.5	37.4	7.5
Food crop farmers	46.2	54.9	39.0	54.4
Self-employed	30.6	21.3	25.7	22.7
Inactive	34.5	0.9	19.6	1.3
Ghana	36.9	100.0	31.4	100.0

*Source: Extracted from the World Bank (1995c), p.44, 45*

Farmers in Ghana can be divided into three categories in relation to a market economy. The composition of these categories in the mid-1980s was as follows.

Category 1: self-supporting farmers achieving self-supply only (26%)

Category 2: self-supporting farmers engaged mainly in self-support farming (54%)

Category 3: commercial farmers mainly producing cash crops (20%)

The GLSS classifies farmers into those who produce food crops and those who produce export crops (cocoa). Cocoa-producing farmers grow food crops together with cocoa, employing seasonal workers coming from northern savanna regions. In the northern savannas, it is very difficult to produce cash crops, and farmers are engaged exclusively in food crop production. There are a number of farmers in the southern cocoa-producing regions who do not possess cacao orchards. These farmers who do not have cash crops have earned cash incomes by working away from home in gold mines, forestry, or cocoa farms in southern

regions. There has been no basic change in movement in the rural labor market. Rather, droughts, becoming increasingly frequent and intense, have accelerated a drain of farmers from northern regions intending to work away from home. As a result, labor shortages in northern rural regions have caused a decline in food crop production, and poverty has been aggravated. There has been a change also in demand for labor. The growth of labor demand is restricted by stagnant exports of cocoa, stricter protection of forest resources, and rationalization of gold mining. This has made the economic impact on the northern regions more serious.

The rural population has been steadily increasing. It increased from 6.12 million in 1970 to more than 10 million in 1990. It is estimated that the rural population will reach 14.82 million in 2010. While it is possible to extend land for cultivation by deforestation and by changing grasslands into cultivated fields, the marked increase of very small-scale farmers (including farmers that have almost no land to cultivate) remains a serious problem. From 1970 to 1984, the number of farming households having less than 1 acre of land increased from 250,000 to 1.22 million, and the number of farming households having 2 to 4 acres of land increased from 20,000 to 340,000. In 1984, 47% of all agricultural land was cultivated by farming households possessing less than 4 acres of land. As a population increase is expected in the rural regions, we cannot overlook the possibility that very small-scale farmers who cannot even produce crops to support themselves will fall into absolute poverty.

**Table 5.1.2 Average Living Standard by Socio-economic Group (1992)**

(Unit: 1,000 cedis)

	Sample share (%)	Average living standard	Rate of poverty
Public employees	13.5	255.1	21.5
Private formal employees	3.9	260.3	15.7
Private informal employees	3.1	244.7	27.7
Export crop farmers	6.3	193.2	37.4
Food crop farmers	43.6	189.5	39.0
Self-employed	27.6	226.3	25.7
Inactive	2.0	278.7	19.6
Total	100.0	215.0	31.4

*Source: Extracted from Ghana Statistical Service (1995a), p. 22.*

In 1992, the average living standard (annual per-capita spending) was highest in the non-working group, amounting to 278,700 cedis, followed by private and public employees. Annual per-capita spending by informal sector employees was 244,700 cedis. Why was it higher than that by non-agricultural self-employed people (226,300 cedis)? The average living standards of export crop farmers and of food crop farmers were almost same (around 190,000 cedis).

The GLSS provides findings as follows regarding ratios of the poor in different employment. First, the ratio of poor people was highest among food crop producing farmers, with

39% of them being classified as poor. Food crop producing poor farmers accounted for more than 54% of the poor in the country. Second, the poor accounted for more than 37%, even among export crop producing farmers who were incorporated completely into the market economy and thought to be comparatively wealthy. Cocoa is Ghana's typical export crop, and cocoa-producing farmers generally conduct capitalistic production and employ workers. It is surprising to see that as high as 37% of such farmers live below the poverty line. This might be attributed to the fact that workers employed in cocoa farms were included in the classification of export crop producing farmers. Third, among the employed, 22% of public employees lived below the poverty line. This would mean that the legal minimum wage was not enough or the payment of their salaries were delayed, forcing them to live in a poor state. Sixteen percent of private sector employees lived below the poverty line. In the private informal, 28% were classified as poor. This percentage, however, seems too small, in view of the actual conditions of the informal sector. Fourth, it must be noted that one in four non-agricultural self-employed people falls under the classification of poor. Twenty-three percent of the poor in Ghana were non-agricultural self-employed people. This means that poor farmers and very small-scale business managers accounted for 77% of the poor in Ghana. This high ratio of poor managers engaged in small private businesses could be an obstacle to young Ghanaians wishing to launch businesses, in light of the government's policy to promote the private sector by fostering small- and medium-scale businesses.

The World Bank argues that a decline in the ratio of the poor from 37% to 31% between 1988 and 1992 is a result of economic growth and accompanying increases in average income and consumption. This view, however, needs a supplementary explanation. The trend of primary macroeconomic indicators between 1984 and 1994 shows that the Ghanaian economy grew as a result of the Economic Recovery Programme (ERP), attaining an annual average GDP growth rate of 5.9%. However this period appeared to be a peak as the Ghanaian economy seemed to slow down again. The GDP growth rate in 1987-92 declined to 4.6%, and to 4.4% in 1993-94. A problem was posed by the fact that growth rate of the agriculture sector was below the rate of population increase in 1987-92, and cocoa production was especially stagnant. Food production could not catch up with the population increase, and per-capita food production declined. Moreover, actual individual consumption per capita declined from 7.8% in 1984-86 to 5.0%, and further to 0.7% in 1993-94.

It is impossible to eradicate poverty without economic growth. In order to achieve poverty eradication, Vision 2020 defines (based on *the Policy Focus for Poverty Reduction* published by the government in September 1996) the policy goals of acceleration of economic growth, expansion of employment through construction projects for infrastructure development, and macroeconomic stabilization and maintenance. Vision 2020 emphasizes comprehensive rural development by specially mentioning the necessity of improving small-scale farming and increasing employment opportunities with expansion of cultivated fields as a measure for reducing poverty in rural regions.

As mentioned earlier, Vision 2020 sets macroeconomic indicators that are too high to be realized. It is doubtful if these numerical goals, defined in the *First Medium-Term Development Plan 1997-2000*, will have been attained as of 1998. What is necessary for the government of Ghana now is to show individual policies in order to realize improved access of the poor to basic social infrastructure (such as education, medical services, safe water and sanitation) as well as to production resources and employment opportunities, and to



improve food conditions for the poor, which are policy goals defined in Vision 2020 for the area of human development, rather than sticking to unattainable numerical goals.

Lastly, attention must be paid to poverty in the northern savannas, which is a core issue in addressing poverty in Ghana. The southern cocoa-producing regions and the northern savannas have different cultures, i.e. Christianity and Islam, in addition to vegetation and racial differences. There is a historical 'center-periphery' gap between these regions in economic development. One of five items forming the World Bank's policy for reducing poverty in Ghana concerns the northern savanna region. It says, "the rural regions in the northern savannas are the poorest regions in Ghana. In these regions, action shall be directed to the poorest and the socially weak, focusing on improving access to basic education and primary health care, expanding investments in rural infrastructure, and strengthening of support for the existing very small financing groups <sup>(6)</sup>".

## 5.2 Education

The NDS specifies two goals in the education sector. The first is the promotion of gender equality and the empowerment of women by eliminating gender disparity in primary and secondary education by 2005. The second is universal primary education in all countries by 2015. These goals are studied in the framework of Vision 2020.

Ghana conducted educational reform in 1987. It decided, first, to raise the rate of school enrollment at a higher speed than the rate of population growth; second, to reform the content of education to meet the needs of the national economy; third, to improve the quality of education; and lastly, to secure financial resources necessary to attain and maintain these goals. The 1992 Constitution expressly mentions Free Compulsory Universal Basic Education (FCUBE) for the people, which is also incorporated in Vision 2020. The goals in education shown in the NDS are therefore in conformity with Ghana's national goals in education.

In Ghana, there was a strong demand for education among Africans even before independence was attained. In 1927, Achimota College was founded by Governor Sir Gordon Guggisberg as a higher educational institution. In 1950, Ghana had 1,081 primary schools, 511 secondary schools, and 12 high schools, which were increased to 3,552, 1,252, and 39, respectively, by 1960. There was a great gap in educational development, too, between northern and southern provinces, and it was continuing to widen. In northern provinces, in which Islam is deeply rooted, the rates of girls' school enrollment and literacy were much lower than in southern provinces.

In Ghana, the number of primary and secondary schools has been steadily increasing. In the decade between 1981 and 1991, the number of primary schools increased from 8,002 to 11,142, and secondary schools increased from 4,606 to 5,009. Despite the increased number of schools, the rate of school enrollment declined. The decline seemed to occur in the 1980s. The rate of primary school enrollment reportedly increased from 64% in 1965 to 81% in 1980, but later declined to 77% in 1991, and further to 70% in 1993.

From 1980 to 1993, the rate of girls' primary school enrollment was between 71% and 70%, showing little change, while that of boys declined from 89% to 83%. The rate of secondary school enrollment declined from 31% to 28% among girls, and from 51% to 44%

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<sup>(6)</sup> World Bank (1997). pp. 11-12

among boys during the same period. Dropping out of school is a serious problem, especially among female students. Education ends for girls at the point they drop out, and the fruits of education disappear in a short period of time; the girls soon become illiterate. Incidentally, the rate of literacy was 76% in adult men and 53% in adult women in as late as 1995.

Why does the school enrollment rate decline despite the increased number of schools? First, the high rate of population increase produces a substantial increase of children of school age. The construction of primary schools cannot catch up with the increase of school-age children. Second, prevailing poverty increases the number of families that cannot afford to pay for education. Even if they do not have to bear a school fee, various expenses are necessary for children to attend school. Families must bear expenses for school uniforms, textbooks, notebooks, and writing utensils, which represent a substantial burden for the poor. Third, expenses for maintenance and repair of school buildings often depend on contributions from parents' associations, but poor families cannot afford to contribute. This discourages children from attending school. Fourth, the opportunity cost of education cannot be ignored. In Ghana, children are important manpower both in urban and rural areas. This causes a number of dropouts from basic education. Especially among girls, the number of dropouts is much larger than among boys because they have more jobs to do, including housework. Lastly, the number of workers who had received basic education was very small in the beginning of the 1960s, and it was possible for them to gain salaried employment with only a primary school graduation certificate. Not only in Ghana but also in other African countries, completing basic education has lost its scarcity value. Parents are aware that basic education has lost its role as an investment for security of life in their old age. Poorer families seem to see fewer incentives for educational spending.

**Table 5.2.1 Male and Female School Enrollment and Dropout Ratios in Primary and Secondary Education (1982/83-1990/91)**

Year	Grade	Male			Female		
		Number of pupils	Number of pupils, with the number of pupils in the first year of primary education assumed to be 1000	Dropout ratio	Number of pupils	Number of pupils, with the number of pupils in the first year of primary education assumed to be 1000	Dropout ratio
1982/83	First grade of primary school	171885	1000	-	144900	1000	-
1983/84	Second grade	154855	901	9.9	126321	872	12.8
1984/85	Third grade	144132	839	6.2	116158	802	7.0
1985/86	Fourth grade	136453	794	4.5	107579	742	6.0
1986/87	Fifth grade	130460	759	3.5	100542	694	4.8
1987/88	Sixth grade	124739	726	3.3	96011	663	3.1
1988/89	First grade of secondary school	112239	653	7.3	80840	558	10.5
1989/90	Second grade	104407	608	4.5	74012	511	4.7
1990/91	Third grade	97611	568	4.0	63686	440	7.1

Source: JICA (1995) p. 91

**Figure 5.2.1 Male and Female School Enrollment and Dropout Ratios in Primary and Secondary Education (1982/83-1990/91)**

School enrollment ratio  
 Dropout ratio

First grade of primary school  
 Second grade of primary school  
 Third grade of primary school  
 Fourth grade of primary school  
 Fifth grade of primary school  
 Sixth grade of primary school  
 First grade of secondary school  
 Second grade of secondary school  
 Third grade of secondary school

Female school enrollment ratio  
 Male school enrollment ratio  
 Female dropout ratio  
 Male dropout ratio

Year/grade

0 2 4 6 8 10 12 14

180,000  
 160,000  
 140,000  
 120,000  
 100,000  
 80,000  
 60,000  
 40,000  
 20,000  
 0

*Source: JICA (1995) p. 91*

The effects of education depend on its quality. School facilities are very poor, and sometimes they do not function as classrooms. Teachers are of poor quality and often lack professionalism. At school, where teachers receive small salaries (and their payment is often postponed or stopped), teachers often do side jobs without giving lessons. They even make schoolchildren work in their vegetable gardens. This makes parents and children distrustful of school education. It will be necessary to improve the schools by strengthening the capacity of supervisors who guide and oversee teachers at schools.

The existence of the large number of unqualified teachers is a result of teacher training not catching up with the expansion of education. This is an unavoidable phenomenon for a short period of time. Qualified teachers prefer urban schools to rural schools. The most effective measure for filling vacancies in rural schools is said to be the construction of housing for teachers. The provision of houses, however, has no effect on teachers who do not have a willingness to teach. Examination results in schools demonstrate how bad the educational situation in Ghana has become. According to a national sampling survey in 1993/94, pupils who gained marks above the standard point in English literacy testing accounted for 3.3%, and the mean mark was 31 points. In the Accra metropolitan area, the mean mark was 40.5 points, and those who reached the standard point accounted for only 13.2%. In mathematics examination, those who reached the standard point accounted for 1.5% as a national average, 3.2% among urban schoolboys, 2.5% among urban schoolgirls, 0.9% among rural schoolboys, and 0.6% among rural schoolgirls.

In public educational spending per child, the gap between Ghana and industrialized countries will be difficult to fill. The per-child education cost (except family spending) in OECD countries was \$5,492 in the United States, \$3,960 in Japan, and \$1,715 in Korea. Spending of these scales cannot be expected in Ghana.

In fiscal 1996, 35% of the national budget was appropriated for education, in which basic education accounted for a high percentage, and about 90% was appropriated for salaries for teachers. As for educational equipment that children can see and touch in the classroom, in industrialized countries, not only audiovisual aids (such as OHPs), but also personal computers are common educational equipment today. Primary schools in rural regions of Ghana are not equipped with even blackboards, and schoolchildren never benefit from ever-progressing information technology.

Ghana has been promoting its FCUBE (Free Compulsory Universal Basic Education) program. The new constitution, established in 1992, declares that such education will be available for all children of school age. Vision 2020, regards FCUBE as part of its future manpower development plan. FCUBE is also connected closely with the basic education goal in the NDS. FCUBE is implemented through three programs: (i) improvement of the quality of education, (ii) improvement of access to and participation in education, and (iii) strengthened education management. The DAC goal is connected directly with (ii) above, and supplemented by (i) and (iii).

Sticking to the attainment of 100% school enrollment and making a compromise on the quality of education could form a source for future trouble. Sincere dialogues will be necessary with African countries on the content of education, with flexibility toward numerical indicators in educational development specified in the NDS. In particular, Ghana's Vision 2020 seems to regard education as capacity development for individual people, and, at the same time, literacy as the acquisition of socially useful knowledge and information. This is really the ultimate goal of human development.

The complete dissemination of FCUBE requires more political efforts than ever, but such efforts have their limits. In 1990-1995, the government appropriated 22-23% of its total spending to education. In 1989-1996, however, an overwhelming portion of educational spending was for personnel expenses. Spending for buildings, such as classrooms, barely satisfied minimum expenses for maintenance. It is very difficult to raise resources for new investments in school buildings. It is recommended that privatization of education

and training be encouraged for utilizing private funds in the education sector, by providing an open, wide road of assistance for private educational institutions.

The implementation of FCUBE will need deeper relationships between communities and schools. Community characteristics should be taken into due consideration in drawing up curriculums and extracurricular activity programs. In local primary and secondary schools, their curriculums already include the cleaning of roads around schools, roadside weeding, and simple repairing of roads. Churches and parents' associations have been entrusted with fund-raising. It should be possible to employ local artisans as instructors in extracurricular activities and vocational training. It is possible to provide a family course on handicrafts for tourism (e.g. basket-weaving) as an extracurricular activity for girls. The Village Polytechnic Plan (VPP), implemented by the National Christian Council of Kenya (NCCCK) in the 1960s, was a very suggestive experience. (As the planning and operation of the VPP was shifted from the NCCCK to the government, participation of communities in the program decreased, and eventually disappeared.)

### 5.3 Health Care

The NDS sets the goal of reducing the mortality rate for infants and children under the age of five in each developing country by two-thirds the 1990 level by 2015, and the rate of maternal mortality by three-fourths during this same period.

In Ghana, the infant mortality rate, which was 86 in 1,000 births in 1990, was 79 in 1994, and the under-5 mortality rate, which was 140 in 1,000 children in 1990, was 130 in 1995. Despite these results, Ghana is still classified by UNICEF as a country with a high under-5 mortality rate.

These high rates of infant and child mortality are attributable especially to neonatal diseases and treatment at the time of childbirth. Low-weight neonates accounted for 16% of all babies born in 1990, and deliveries accompanied by assistance and care accounted for 54% in 1983-94. As a result, injuries and infections are often caused in deliveries. Moreover, infants die due to such prevalent diseases as malaria, respiratory diseases, measles, other infectious diseases, or diarrhea. In 1990-94, 61% of one-year-old infants were immunized against tuberculosis, and 49% were immunized against measles. Regarding malaria, an increase of malaria parasites resistant to existing preventive medicines poses a serious problem. Infant deaths are increased by malnutrition and resulting anemia and emaciation. The important point is that these causes of infant deaths can be prevented and eliminated through maternal education and the spread and utilization of medical services. Diarrhea-caused dehydration in infants and children, for example, can easily be cured by using Oral Rehydration Salt (ORS). In Ghana, the rate of ORS utilization was 44% in 1990-94. It must be noted here that mothers seldom use ORS, though more than 90% of mothers in urban regions and more than 70% of mothers in rural regions are informed of the effect of ORS through a campaign on its utilization. The rate of its utilization was reportedly only 35% among uneducated mothers, while it was 81% among mothers that received a high school or higher education.

As in other African countries, the actual conditions of health care in Ghana cannot be analyzed only by national averages, because regional gaps and gaps among social classes are considerable. According to the *1993 Ghana Population and Health Survey*, the infant mortality rate was 55 in urban areas and 82 in rural areas, while the under-5 mortality rate

was 90 in urban areas and 149 in rural areas. The infant mortality rate was 58 in the Accra metropolitan area, while it was 114 in northern provinces, almost double the rate in the metropolitan area. This reflected the extent of poverty in the provinces. The infant mortality rate was 87 among mothers having no experience in school education, while it was 55 among those who had received secondary education. The infant mortality rate can be considered to be very low among mothers who have a high school or higher education, although there are no data available for a direct comparison.

According to the *Human Development Report 1997*, the maternal mortality rate (per 100,000 live births) was 740 in 1993 in Ghana. According to another survey, the rate was 214<sup>(7)</sup>. There is a considerable difference between the two figures. According to the latter, there was little difference between rural (219) and urban areas (212). In Volta, however, the rate was 98, which was below half of the national average, while it was 452 in Upper West, which was more than double the national average. These differences cannot be ignored, but causes will not be identified in this paper.

Next, the HIV/AIDS issue in Ghana must be mentioned. Ghana is a priority country under Japan's "Global Issues Initiative on Population and AIDS", and Japan dispatched a project formation study team to the country in February 1996. HIV/AIDS poses the most serious problem to health and sanitation in Ghana, and it can spoil improvements achieved in maternal and child health. In 1996, 440,000 people in total, or 4% of the adult population, were HIV-positive, which was higher by 2% than the figure for 1992. If the situation remains unchanged, 760,000 people, or 7% of the adult population, will have been infected with AIDS by 2000. According to the National AIDS Control Programme (NACP), about 19,000 AIDS cases were reported from 1986 to 1996, of which female patients accounted for about 67%, and 74% of them were between 20 and 39 years of age. A survey pointed out that the number of HIV-positive pregnant women was increasing every year: it increased from 0.7% in 1991 to 1.2% in 1992 in Accra, and from 1.5% to 4.0% in another region, and in one region the ratio of HIV-positive pregnant women was 18%. Cases in Ashanti, Eastern, and Greater Accra provinces accounted for 64% of the reported cases. It is feared that these figures are actually far from the reality, and it is thought that there are half-again as many actual patients.

The basic approach in health care in Ghana's Vision 2020 would be the idea of PHC. This idea involves eight elements: health education, food supplies and nutrition intake, provision of safe water and a basic sanitary environment, child and maternal health services, including family planning; immunization, prevention, and control of local epidemic diseases, proper treatment of common diseases and disorders, and preservation of essential medicines. It also emphasizes the importance of not only reductions of infant, child, and maternal mortality rates but also improved access of the poor to social infrastructure.

Improving the lives of women is especially important in the health care sector. Vision 2020 emphasizes addressing them in a broad view for improving women's health and nutrition and their access to economic resources, and expanding opportunities for them to receive education. The people must be able to receive improved medical services in rural areas, an improved extension system of such services, improved health and nutrition for women, improved nutrition for children and nursing mothers, capacity-building for controlling the

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<sup>(7)</sup> Ghana Statistical Service (1994a)

birthrate, and improved food conditions for the poor, as well as overall improved access to health, medical, and sanitary services.

Actions in health care thus need to integrate various elements. It is indispensable that personnel in charge of each element be equipped with advanced expertise and capacity, and that human resources supervising overall activities be equipped with wide, interdisciplinary knowledge and broad-based experience.

**Table 5.3.1 Health Care Levels in Ghana by Indicators**

	Year Area	Ghana	Sub- Saharan Africa	Developing countries	Industrialized countries
Infant mortality rate (per 1,000 live births)	(1960)	126	154	137	31
	(1996)	70	105	66	6
Under-5 mortality rate (per 1,000 live births)	(1960)	213	257	216	37
	(1996)	110	170	97	7
Proportion of people who have access to safe water	(Ghana)	65	49	70	–
	(Urban)	88	79	88	–
	(Rural)	52	36	61	–
Proportion of people who have appropriate sanitary facilities	(Ghana)	55	44	42	–
	(Urban)	62	73	78	–
	(Rural)	44	33	23	–
Proportion of one-year-old children immunized against tuberculosis	(1995-96)	65	70	88	–
Proportion of one-year-old children immunized with triple vaccine	(1995-96)	51	52	79	86
Proportion of one-year-old children immunized against polio	(1995-96)	52	53	80	89
Proportion of one-year-old children immunized against measles	(1995-96)	53	56	78	83
Proportion of pregnant women immunized against tetanus	(1995-96)	9	38	51	–
ORT utilization rate	(1990-97)	93	81	76	–
Average life expectancy	(1970)	49	44	53	72
	(1996)	57	51	62	77
Total fertility rate	(1996)	5.4	5.9	3.2	1.7
Gross mortality rate	(1970)	17	21	14	10
	(1996)	11	15	9	9
Gross fertility rate	(1970)	46	48	38	17
	(1996)	39	43	26	12

Source: JICA (1995) p.96 renewed with UNICEF (1997), the State of the World's Children 1998.

## 5.4 The Environment

Regarding environmental issues, the NDS set the following goal, under the title of “environmental sustainability and regeneration”: “there should be a current national strategy for sustainable development, in the process of implementation, in every country by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015”.

The Ghanaian government’s view corresponding to this NDS is shown in Vision 2020 with regard to rural and urban development, in addition to five areas. Environmental issues in Ghana now include (i) deforestation, desertification, and soil erosion, (ii) inefficient waste management, (iii) coastal erosion, and (iv) pollution of air, sea, soil, and water. The government of Ghana has addressed environmental issues, through establishment of the Ministry of Environment, Science, and Technology.

In the beginning of this century, Ghana had 8.2 million ha of forests, which were reduced to 2.1 million ha by 1989. Between 1965 and 1989, forests were reduced at an annual rate of 0.8%, and agricultural lands were also reduced at an annual rate of 0.3%. One cause of deforestation is the export of forestry resources, whose exploitation has advanced to the extent that regeneration is impossible. A rapid population increase has shortened intervals of slash-and-burn farming, raised the frequency of burning, caused overgrazing of cattle, and increased consumption of firewood and coal for domestic fuels. These factors, interacting with one another, have produced deforestation and soil erosion.

Desertification is found exclusively in the northern savannas. Overgrazing and slash-and-burn farming in a dry savanna promote environmental disruption, as soil deterioration directly results in soil erosion. In Ghana, it is said that 35% of the country is exposed to the danger of desertification.

Soil erosion is advancing at unusual speed in villages. In the process of building houses for meeting the population increase, trees, which serve the role of a ‘protector of the premises’, have been lost, causing erosion in the sites and roads, and houses are often on the edge of collapse. As no protective measures are taken while soil erosion is limited to surface erosion, surface soil is scraped out by rainwater. Once V-shaped gully erosion results, it is no longer possible to use the land for either housing or farming.

Urban regions are also faced with serious environmental problems. In Ghana, the areas of land classified as ‘other uses’ besides agriculture, grazing, and forestry, have been increasing at an annual rate of 1.2%. Some of these lands are used for transport infrastructure, such as roads, but the expansion of urban areas associated with rapidly increasing urban populations can be a more serious factor. In Ghana, the annual average rate of urban population increase rose from 3.2% in 1965-80 to 4.2% in 1980-90. An explosive increase of urban population produces serious problems in the living environment. As the waste management capacity cannot catch up with the population increase, waste and garbage are left as they are, especially in poor quarters. These regions do not have safe drinking water and sewerage systems. And these regions are overcrowded with poor people, whose lives are always endangered by infectious diseases in an extremely unsanitary living environment.

One environmental problem in large cities is the collapse of facilities for distributing everyday goods. Large cities, such as Accra, Kumasi, or Tamale, have a distribution center called a city market. The market is usually enclosed by a stone wall, with shop divisions in its open space. The population such cities has at least doubled, as compared with that when



the markets were constructed. Sanitary facilities and waste management have completely lost their functions. The city market, rife with offensive odor, can be a source of epidemics.

In the meantime, an enabling environment mentioned in Vision 2020 as an independent priority area does not refer to what we call environmental issues; rather it means a study on the government's administrative planning and implementation capacity, and the broader issue of governance. This should be kept in mind in policy dialogues concerning Vision 2020. Vision 2020 has few specific proposals on protection of the living environment.

## **5.5 Challenges for Attaining Goals**

A review of the present conditions in Ghana regarding the four sectors in the NDS has made it clear that poverty reduction involves various factors related to economic, social, and political issues.

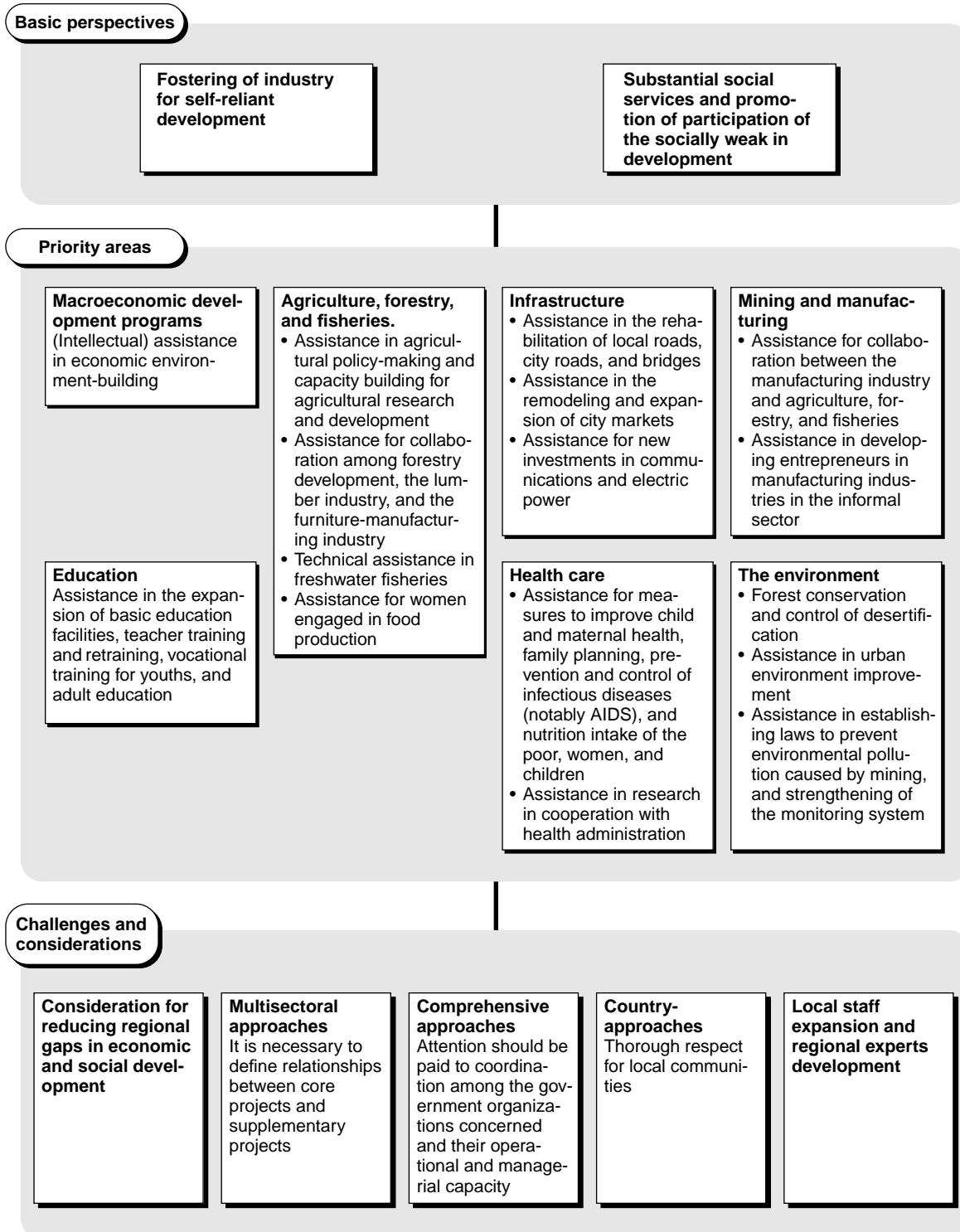
In order for the farming family in the northern savanna, mentioned earlier, to be freed from poverty and to enrich their lives, not only must agriculture, education, health and sanitation, roads, drinking water, and fuels for living be improved, but also cultural factors must be taken into consideration for reforming the traditional division of work by gender based on conventional values and the social status of women.

A rise in the primary school enrollment rate cannot be attained only through educational administration by the Ministry of Education. All relevant policies of the ministries concerned must work together. These policies would include welfare measures on health and nutrition, aimed at nurturing healthy children who can go to school; measures to construct roads, so that children can go to school safely during the rainy season; and agricultural measures, to enable farmers to earn enough income to bear expenses involved in sending their children to school. Not only in Japan is policy coordination among ministries difficult because of the vertical division of administrative organs - this poses a very serious problem in Ghana, too. The ministries concerned often submit their shopping lists in order to acquire appropriations. Vision 2020 itself is said to be a shopping list. In this situation, we must pay attention to how effectively the National Development Planning Commission (NDPC) can function in policy coordination.

The NDS's four areas are important in any developing country, including Ghana. To be avoided, however, is the setting of numerical goals that are too high to be attained, as in the First Medium-Term Development Plan in Vision 2020. It will also be necessary for numerical goals to be fixed, with Ghana's administrative capacity, donors' assistance capacity, and the fund-raising capacity of Ghana and international NGOs being taken into consideration, as prudently as possible.

A development challenge has been proposed at roughly 10-year intervals: Liberation from Hunger in the 1950s, Agriculture and Rural Development in the 1960s, Satisfaction of BHN in the 1970s, the Structural Adjustment Program in the 1980s, and Good Governance in the 1990s. In the process of proposing these issues, poverty was always at issue. In the past 50 years, the World Bank, the DAC donors, and a number of NGOs have aimed at poverty alleviation either directly or indirectly. DAC has proposed its new development strategy toward the 21st century; this strategy should not end as a development slogan for the decade.

## 6. Framework for Japan's Assistance for Ghana



## 6.1 Basic Perspectives

*The Country Study Report for Japan's Official Development Assistance to the Republic of Ghana*, published by JICA in February 1995 (hereinafter referred to as the *Ghana Report 1995*), says, "assistance by donor countries, including Japan, must be directed basically to supporting Ghana's self-help efforts for economic and social reforms". It is based on the recognition that Ghana's major development challenges involve (i) the development of industries that contribute to an improved international balance of payments, and (ii) poverty reduction through rural development. The report defined the basic direction of Japan's assistance for Ghana as follows: first, industrial development aimed at self-reliant development, and second, expansion of social services and the promotion of socially vulnerable people's participation in the development process.

*The Ghana Report 1995* considered that it was indispensable, in industrial development, for a sound private sector to be developed through the introduction of a market economy in Ghana, with small-scale farmers and small- and medium-scale business managers as nuclei. Based on the recognition that an enabling environment was urgently necessary to support the productive activities of private sector personnel, the report set human resources development and economic environment building as two pillars, and argued that the government should bear the responsibility of realizing their organic interaction.

In May 1996, DAC published *Shaping the 21st Century: The Contribution of Development Co-operation*. It expressly showed that donors could establish positive partnerships, while respecting ownership of developing countries. It placed importance on four sectors: poverty, education, health care, and the environment, and specified goals and a target time in each area. In 1997, the government of Ghana published *Ghana-Vision 2020: the First Medium-Term Development Plan (1997-2000)*. *The Ghana Report 1995* had therefore been compiled completely independent of these important documents, yet its contents seemed to almost anticipate the contents of the NDS and Vision 2020.

*The Ghana Report 1995* studied development cooperation priorities in eight sectors: macroeconomic development planning, infrastructure, mining and industries, agriculture, forestry and fisheries, the environment, social development, human resources development, and health care. The NDS dealt with poverty, education, health care, and the environment, and proposed goals for improvement. The strategy, however, argued that "these goals must be pursued country by country through individual approaches that reflect local conditions and locally-owned development strategies". While the former covers a broader area than the latter, it can be concluded that there is no difference between them in the attitude toward development assistance for Ghana.

## 6.2 Priority Areas

### 6.2.1 Macroeconomic Development Planning

Priority areas to help promote the introduction of a market economy include continued non-project grant aid for improving the international balance of payments, assistance in formulating policies for fostering small- and medium-scale businesses by Ghanaian entrepreneurs and reform of the financing system, strengthening of the central and local governments' capabilities in development project planning and implementation, formulation of

development plans for reducing regional gaps in development, and promotion of dialogues on Japan's and East Asian countries' experiences.

One of the challenges that Ghana can address immediately would be to review the existing economic and industrial laws and regulations. Ghana took over these laws and regulations, which were established in the colonial period, when independence was attained. Although they have been reviewed during the 40 years since then, a considerable part seems to have been left untouched. It is necessary to support economic environment building.

Japan has accepted 1,038 Ghanaian participants in technical training (total as of fiscal 1996). A number of people among them have received training on trade and industrial policies and small- and medium-scale business development policies. Within the Ghana Economic Planning Commission, the Look Japan Group was organized by ten JICA alumni. Some Ghanaian graduates from the International University, having obtained their doctorates in economics at universities in Japan, have been engaged in research and education since their return to Ghana. It is very important to fully utilize the skills of these people who know Japan very well.

### **6.2.2 Agriculture, Forestry, and Fisheries**

Japan has contributed to agricultural production in Ghana through assistance aimed at increasing food production. Japan should actively support agricultural policy formulation and agricultural research and development capacity in Ghana as long-term assistance. For short- and mid-term assistance, Japan should cooperate in the area of irrigation development, improvement of storage, processing and distribution infrastructure for agricultural and marine products, the promotion of export of non-traditional agricultural products, and expansion of farmer support (extension of appropriate varieties and adequate technical guidance on the use of production input goods).

Forest resources are important exports, together with cocoa and gold. It is expected, however, that their export will be increasingly restricted from the viewpoint of environmental sustainability. As will be mentioned in the section on manufacturing, Ghana has excellent timbering and furniture-manufacturing industries in Kumasi and other regions. Assistance for linkage of forestry development, the timbering industry, and the furniture-manufacturing industry is effective.

Technical assistance will be provided for freshwater fisheries in Lake Volta, for increased catches and the promotion of dry storage and distribution so as to support of poor fishing people. This contributes also to increased intake of protein-rich food.

Regarding Ghana's agriculture, forestry and fisheries, it must be noted that there is a regional gap in economic power between the north and the south. The Sudan savanna and the Guinea savanna in the north are in a dry climate zone, with annual precipitation of less than 1,000 mm, while the southern deciduous forest zone has an annual precipitation of 1,500 mm. Currently a study is being made for the southern region on the "Intensive, Sustainable Agricultural Production System in Catchment Basins: Integration of Paddy Agriculture, Forestry, and Agroforestry, Compound Agriculture with Livestock, Forestry-Animal Husbandry-Paddy Agriculture-Freshwater Fishery", with the cooperation of Japan. Assistance for similar studies on integrated agriculture in the northern dry regions will contribute to poverty reduction in the poorest northern provinces.

It is well known that agricultural production, especially food production, depends on women's labor. Reducing the labor of rural women is a precondition for improved labor productivity. *The Ghana Report 1995*, placing importance on this, proposed the drilling of wells for drinking water, the planting of fast-growing trees for firewood, the installation of threshers and flour mills, the establishment of child and maternal medical centers, and the provision of equipment necessary for systematized manufacturing by women of soap, palm oil, smoked fish, garri, etc. This is in conformity with the NDS.

### **6.2.3 Infrastructure**

Japan has provided loan aid for the transportation and communications sector, and grant aid for irrigation and land utilization. These assistance activities should be maintained in the future, and it is especially important to provide more grant aid for the rehabilitation of local and city roads, and bridges. Especially in the rehabilitation of local roads, attention should be paid to the role of scattering communities in the vegetated zones of the savannas. Access to social services, such as schools and hospitals, depends on the existence of local roads (village roads), and roads that can be used throughout the year are indispensable for vigorous economic activities in rural regions. *The Ghana Report 1995* mentions the rehabilitation, construction, and improvement of bridges and branch roads reaching rural and remote areas as the top priority area in Japan's assistance for Ghana.

City markets have not been given importance in urban infrastructure development in Ghana. The United Kingdom established city markets in major cities, as part of its urban policy in the colonial period. (Incidentally, the city market of Kumasi is far larger than Tokyo Dome.) A city market is partitioned by a strongly-built stone wall, and each vendor pays a concession fee. The gravitation of a large number of people toward cities has made city markets too small to function. Vendors who cannot secure spaces in the city market have to do business outside the stone wall, and this has produced informal markets. The remodeling and expansion of city markets mean improved urban distribution systems, promoting free access and competition and thereby providing opportunities for very small-scale individual proprietors to grow into entrepreneurs. Thus, expanding employment opportunities and creating jobs become a very effective anti-poverty measure.

In the communications sector, telephone and telegram networks are insufficient. The construction of new networks is needed more than the rehabilitation of existing ones. Regarding electric power, a considerable decline in water levels due to drought restricts power generation capacity to a considerable extent. Japan's loan aid could contribute to investment in thermoelectric power generation.

Improvement and expansion of road networks in Ghana mean improvement of transportation networks extending to inland countries, such as Burkina Faso, and Ghana's investment in roads will also benefit its neighboring inland countries. Priority should be given from a broad, regional viewpoint.

The Sector Investment Programme (SIP), which is relevant also to other sectors should also be mentioned. In conventional assistance, the donor finds projects and implements them with the cooperation of the recipient country. Similarly, assistance in infrastructure investment has been provided with the donor's initiative. The government of Ghana has been studying the method in which the Common Fund for sector investment is established within the government, and the donor commits itself to project assistance based on priorities identified by the government. This method has already been put into practice

in some projects. The SIP is a desirable way of assistance in that Ghana takes the initiative. It is especially advantageous because it allows the planned appropriation of local costs incurred by an assistance project. However, making a contribution to the fund as additional assistance poses a problem. It would be possible for Japan to apply a counterpart fund. Japan has already drawn up an assistance program for investment in roads based on the SIP. It is expected that the utilization of the SIP method will be increased in the sectors of health and sanitation, and education. In the SIP, however, it is not possible to identify funds by individual donors. In this sense, this method makes it difficult to measure the contribution of individual donors, and obtaining taxpayers' support for ODA may also prove difficult.

#### **6.2.4 Mining and Manufacturing**

In the mining sector, liberalization has already begun, and foreign investment in mineral resources is active. Mineral resources, together with cocoa and forest resources, are important sources of foreign currency earnings. They should basically be developed with private capital on a commercial basis. Japan can contribute indirectly through assistance in the improvement of roads and the transportation infrastructure.

It is considerably difficult for the manufacturing sector of Ghana to invite foreign investment. A realistic way is the development of manufacturing industries by fostering Ghanaian entrepreneurs, and thereby promoting small- and medium-scale businesses. As mentioned earlier, low operating rates have long impeded the development of manufacturing industries in Ghana. This is partly attributable to the heavy dependence of capital goods and input goods on exports. Opportunities of employment other than in agriculture can be created in rural areas through integration of the manufacturing sector with agriculture, forestry, and fisheries. Assistance for the development of storage and processing of agricultural and marine products, the development of processing of forest resources, and the development of distribution of these, will conceivably create rural industry. It is desirable for Japan to promote its assistance actively as poverty alleviation for rural people.

Ghana has a number of traditional handicrafts and artisan industries. There are a large number of furniture makers in and around Kumasi. While modern factories are suffering under low operating rates, these furniture makers are working on a full-time basis. Japan has little experience in assisting this kind of industry in the so-called informal sector. However, one of the most important issues is to develop Ghanaian entrepreneurs for activating the private sector, and Japan has ample experience in this area.

#### **6.2.5 Education**

What kind of assistance can Japan provide for Ghana in the education sector? *The Ghana Report 1995* emphasizes the establishment of a 'temple school' (private primary schools in Japan's Edo period) in each village, as a means to expand facilities at the basic education (primary and secondary education) level, construct primary schools, train and retrain teachers, provide teaching materials (including textbooks), and provide vocational and technical training for youths. As for the higher education level, the report emphasizes assistance in the construction of facilities for faculties of engineering in a broad sense, and assistance in adult education.

Japan has provided assistance in constructing primary and secondary schools. When constructing schools it is desirable to a) encourage people's participation, b) use local materials as much as possible, and c) employ local constructors. Especially for local primary and secondary schools, the existence of housing for teachers is a decisive factor in securing teachers. It is often the case that a local government or a village community that manages to build a schoolhouse, does not have financial resources to build houses for teachers. It would be possible for Japan to provide grant aid for building teachers' houses, in order to support the securing of teachers in rural villages where demands for primary education are great.

To expand teacher training institutions, Japan can provide teaching equipment for existing educational institutions, and it can dispatch experts for cooperation to train a number of teachers specializing in science, mathematics, and technology. It would be necessary to continue to dispatch JOCVs in science and mathematics education.

Assistance in higher education, to nurture people who can shoulder industrial development, should be carefully considered, because higher education in Ghana is far from adequate in fostering entrepreneurs. Even negative effects can be recognized in entrepreneur development. Businesses will grow under severe competition in the market. In order for Japan to contribute to entrepreneur development in Ghana, dispatch of Silver Volunteers who have long experience in business administration, and provision of short-term training repeatedly through local Chambers of Commerce and Industry are proving to be effective.

Research cooperation and support for the publication of research results are effective in assisting higher education in Ghana in an academic sense. It is also necessary to provide increased opportunities for Ghanaian students to study in graduate schools in Japan.

The NDS goals of eliminating gender disparity in primary and secondary education by 2005, and universal primary education in all countries by 2015, reinforce the proposal made by *the Ghana Report 1995*. The NDS asks for due consideration, in addition to attaining these numerical goals, of qualitative improvement of education. As the DAC goals are set at national levels, it will be necessary to take account of regional gaps in education opportunities.

### **6.2.6 Health Care**

Japan has been giving priority to assistance in the health care sector in Ghana. Japan will focus its assistance on child and maternal health, family planning, prevention and control of infectious diseases (notably AIDS), and improved nutrition for the poor, women, and children, as a solution for the population issue.

First, Japan supports PHC, with child and maternal health and family planning as the core. Ideal assistance for the population issue involves not only assistance in family planning but also assistance in improving child and maternal health, and at the same time in raising the overall living standard of the people, who in the end promote education and regional development. Enhanced and expanded health care services for guaranteeing healthy lives of mothers and children will improve reproductive health, promote reductions in child and maternal mortality rates, and eventually lead to a demographic change from many birth deaths to fewer birth deaths.

Second, Japan supports the establishment of an infectious diseases (notably AIDS) survey and examination system. The prevention and control of malaria, diarrhea, and other infectious diseases are an important challenge. The number of people infected with

AIDS has been rapidly increasing in recent years. If this situation continues, the effect on society will be considerable. The prevention of infection is an urgent and important issue in preventing and controlling AIDS, and to this end, the actual condition of people infected with AIDS needs to be identified. From this viewpoint, it is desirable that epidemiological research on AIDS and expansion of the examination system be included in Japan's assistance priorities.

Third, as pointed out in *the Ghana Report 1995*, Japan would like to focus its assistance on improving child and maternal health and nutrition in the northern regions. Diversified nutrition problems are noticeable among people living in severe conditions in these regions. Many women and children have deficiencies of protein and other micronutrients (e.g. iodine). Education for women is a key to child and maternal health, family planning, and nutrition improvement. In the northern regions, low levels of education for women impede the improvement of nutrition. Specifically, it is desirable that small-scale grant aid be provided and that experts be dispatched to help people improve health center functions, raise immunization rates, and train and retrain health service personnel in communities. Incidentally, the writer is confident that the teamwork demonstrated by three JOCV members specializing in nutrition, nursing, and vegetable-growing in a poor rural village in Tanzania, can be successfully applied in Ghana.

Fourth, it is desired to have research cooperation connected with health administration. Japan has cooperated with Ghana in medical research for a long time, but it does not have direct relationships with the Ministry of Health, as the Noguchi Memorial Institute is affiliated with the University of Ghana. It is necessary to strengthen cooperation between the institute and the ministry. Partly for this purpose, Japan will help the Noguchi Institute play a leading role in epidemiological research on AIDS and other infectious diseases, as well as in establishing an AIDS examination system, strengthening the examination systems of local hospitals, and training examination personnel.

### **6.2.7 The Environment**

As pointed out earlier, Vision 2020 views the environment from two angles: securing of an enabling environment for formulating and implementing economic and social policies, and conservation of the natural environment.

Assistance is imperative for forest conservation and desertification prevention. In Ghana, present conditions and future prospects of forest resources differ from region to region, according to plant ecological classifications. For sustainability of forest resources, a combination of grant aid and technical cooperation will be provided, with an accurate grasp of the characteristics of the target region.

As people in northern rural regions mainly use firewood for fuel in everyday life, it is necessary to develop social forestry in order to secure firewood supplies. Technical cooperation will be provided for the improvement and construction of small-scale reservoirs so that seedlings can be produced constantly. JOCVs can assist in this regard.

In the southern deciduous forest region, where deforestation for export is advancing, it is necessary to plant trees in the exploited areas. For the ecological transition zone between the forests and the savannas, a development study has been requested for formulating an afforestation program.

Deterioration of the urban environment resulting from the increasing population is becoming extremely serious. The quantities of garbage and waste are beyond city govern-



ments' disposal capacities. It is urgently necessary to assist in the formulation of waste management plans for not only Accra, the capital, but also regional cities. In some cities, the amount of waste is too large to be treated by city agencies. Sewerage during the rainy season is also an important issue in improving the urban environment.

Recent economic liberalization has increased investments in mineral resources, but wastewater management has been neglected. It is desired that Japan dispatch experts in environmental pollution administration, make a master plan survey for controlling pollution caused by gold mining, and provide technical cooperation for the Institute of Mining and Mineral Engineering of Kumasi University of Science and Technology, in order to help establish a legal system and to strengthen the monitoring system.

The NDS set the goals for environmental sustainability and regeneration as "there should be a current national strategies for sustainable development in the process of implementation, in every country by 2005, so as to ensure that current trends in the loss of environmental resources --- are effectively reversed at both global and national levels by 2015". This goal could be attained in the process of taking the above-mentioned measures steadily.

## **6.3 Challenges and Considerations**

### **6.3.1 Consideration for Reducing Regional Gaps in Economic and Social Development**

The NDS specifies its goals on a country basis, and there seems to be no discussion concerning regional gaps within a country. A country's economic development does not advance equally in all regions. A gap is produced between a region where more progress has been made in development and a region where less progress has been made. The history of Japan's economic development shows this phenomenon clearly: gaps occurred between regions on the Pacific side, where industrialization was advanced, and the Sea of Japan side, where poverty increased. Not only in Ghana but also in other African countries, regional gaps in economic development have been aggravated by the introduction of a capitalistic free market economy. Political democratization will enhance the voice of the local people. It cannot be ignored that regional economic gaps have a high possibility of producing serious political problems with the strong demand for decentralization.

### **6.3.2 Multisectoral Approach**

Poverty reduction requires a supplementary combination of policies of various fields. Poverty reduction in rural areas, for example, requires a combined framework covering population, agricultural production, and environmental conservation. Thus far, various poverty alleviation projects have been individually designed and implemented. They include financing for poor farmers, public undertakings as a relief measure for the unemployed, guidance on agricultural technology, the construction of rural roads for facilitating the marketing of harvests, reductions of post-harvest losses by constructing storage facilities in harvest markets, agricultural land reforms, public health education, food rationing and subsidy provision, and the securing of safe water and fuels for living. In short, multisectoral approaches are needed.

In adopting a multisectoral approach, however, it is important to identify the relationship between the core project and supplementary projects. All-inclusive approaches must be avoided.

### **6.3.3 Comprehensive Approach**

Effective promotion of anti-poverty measures not only requires cooperation among all available development agencies, it should also place importance on complementary relationships among development implementation agencies. Hence, the NDS requests concerted efforts by all the agencies and organizations concerned, including the central government, local governments, and citizens' organizations (NGO/NPO) on the developing country side, and multilateral organizations, donor countries' existing and new institutions (e.g. South-South cooperation), and NGOs/NPOs on the donor side.

This requires coordination among the personnel and agencies concerned and their operational and managerial capabilities. African countries are, however, not yet equipped with sufficient capability. This must be kept in mind in applying a comprehensive approach in Ghana. To be successful, a comprehensive approach should not be one that produces a situation in which "too many cooks spoil the broth".

### **6.3.4 Country Approaches: Respect for Local Communities**

Regarding the goals to be attained by developing countries, DAC has mentioned that "these goals must be pursued country by country through individual approaches that reflect local conditions and locally-owned development strategies". This attitude is very important.

A person residing permanently in Dodoma, Tanzania, who was active as a member of an NGO, once said, "I don't ask myself, in everyday activity, what Africa lacks; rather I ask myself what Africa has". It is important to contribute to the fostering of strong points of traditional farming, without insisting on the introduction of modern agriculture. *The Ghana Report 1995* asks for full consideration of social and cultural factors in the target region at the planning stage, in forming projects on rural development, social development, and gender equality. Thorough respect for local communities is the first step of the implementation of participatory development that respects the local people's initiative and their decision-making on development.

### **6.3.5 Local Staff Expansion and Regional Experts Development**

Ghana is one of Japan's priority countries in development cooperation for Africa, yet the number of Japanese Embassy staff and JICA personnel is very small. It is sometimes impossible for them to attend various donor meetings, which are held almost monthly, and thus they are scarcely capable of collecting information. It is recommended that embassy technical specialists and JICA project formulation specialists be actively dispatched for enhancing local information collecting capacity, and that regional experts be fostered.

It is also important that connections be established between Ghana and Japan by conducting joint research and workshops between universities and research institutions of Japan and Ghanaian institutions, such as the University of Ghana and Kumasi University of Technology and Engineering, in order to deepen cooperation between them.

The experiences of JICA experts and JOCVs who have worked in Ghana need to be further utilized so that assistance for Africa, notably Ghana, will be more effective. By 1996, Japan had dispatched 306 experts, 500 study team members, and 579 JOCVs. Japan should be able to apply their experiences in its assistance activity more effectively.

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# Republic of Cambodia

*Source: The Economist Intelligence Unit (1998).*

# **1. Socio-economic Conditions in Cambodia**

## **1.1 Historical Background of Economic Development**

### **1.1.1 Collapse and Destruction of the Socio-economic System (1970s)**

The 1970s, which began with the removal of the state head Sihanouk, can be regarded as the period of total collapse of the Cambodian socio-economic system.

After being deprived of his position, Sihanouk established his refugee government as well as the National United Front of Kampuchea with the Khmer Rouge in order to fight the Lon Nol government. This National United Front had control over the most area (except the cities) in Cambodia by the end of 1972.

Meantime, the establishment of the Lon Nol government triggered intervention by the United States. In 1973, the U.S. executed saturation bombing on the eastern provinces of Cambodia with the government's consent, on the pretext of eradicating the North Vietnamese armed forces and the South Vietnamese National Liberation Front deployed within the territory of Cambodia.

The war flames produced a large number of refugees, while national economic activities, including agriculture, were abandoned almost completely. Large reductions in rice harvested areas and the rice yields resulted. From about 1970 to 1971, Cambodia changed from a rice exporting country to a rice importing country, and even became a food aid recipient country. In 1974, national demand was mostly satisfied by imports and assistance, and the rice harvested area was only 23% of that in 1970.

The war ended in April 1975, with the National United Front's entry into Phnom Penh and the fall of Saigon. However, as Pol Pot held power, all existing culture and social and economic systems were made targets of destruction for more than three years and eight months. Free economic activities were denied, and people were forced to work in groups. It is estimated that between one and two million people died unnaturally. In other words the Pol Pot government caused many deaths among people who would not have died if they had lived in a healthy and normal society.

### **1.1.2 Reconstruction Efforts and International Isolation (1980s)**

From the end of 1978 to the beginning of 1979, Vietnam overthrew the Pol Pot government, on the pretext of supporting the National Union Front for the Salvation of Kampuchea, and backed to the government of the People's Revolutionary Party of Kampuchea (KPRP) (Heng Samrin government).

Immediately after the collapse of the Pol Pot government, the international community provided very generous humanitarian assistance for the people faced with pitiable conditions. From October 1979 to December 1981, aid totaling to \$680 million was provided through major multilateral organizations for Cambodian people and refugees.

In 1982, however, many of the Western countries banned developmental assistance for Cambodia, as the United Nations declared that the emergency had come to an end. In the UN, the right to represent Cambodia was not transferred to the KPRP government but remained with the Pol Pot government which was called the Coalition Government of Democratic Kampuchea from 1982 on.



In this way, the KPRP government could not receive any more assistance from major donors such as Western countries and the United Nations. The government had to tackle the reconstruction of its society, only relying on the assistance from the Soviet Union, Vietnam, the COMECON countries, and the assistance from NGOs. This international isolation continued for about 10 years until October 1991, when the Paris Peace Accords on the political solution of Cambodian conflicts was signed.

### **1.1.3 Political Framework by the Paris Peace Accords**

The end of the Cold War finally accelerated the peace process, which had been attempted at the various levels, resulting in the Paris Peace Accords in October 1991. Following this Accords, the constitutional parliament election was held successfully in May 1993. In September in the same year, the new constitution was promulgated, while Sihanouk came back as the State head, and Ranariddh and Hun Sen became First and Second Prime Minister. Under these procedures, the coalition government by the FUNCINPEC and the People's Party (renamed from the People's Revolutionary Party in October 1991) came to work with the approval of the international community.

The Pol Pot group refused to participate in the constitutional realizing parliament election, and withdrew from the peace process provided by the Paris Peace Accords. Despite Sihanouk's efforts toward a reconciliation among Cambodian people including the Pol Pot group in the first half of 1994, negotiations between the coalition government and the group ruptured. In July 1994, the Cambodian government adopted the Pol Pot Group Illegalization Act, coming to a showdown with the group.

### **1.1.4 Social Issues Disclosed by the Political Change in July 1997**

Through the above-mentioned process, Cambodia was able to take the first step toward rehabilitation and development even though Cambodia was still facing the Pol Pot issue. Assistance for Cambodia has been actively provided by various countries and institutions since the first meeting of the International committee on the Reconstruction of Cambodia in June 1992.

However, the social stability is still of great concern in Cambodia. The 'July political change' (occurring at the beginning of July 1997) disclosed its instability: the Second Prime Minister Hun Sen excluded the First Prime Minister Ranariddh by military force.

In the July political change, Hun Sen demanded the exclusion of Ranariddh because the latter was about to cooperate with Pol Pot, with a view towards expanding FUNCINPEC's influence in advance of the second general election. In Cambodia, as political power cannot be distinguished from armed force, a party's influence depends not on the degree of people's support of its policies and performance but on the number of soldiers under its command. This was the very foundation of Ranariddh's strategy.

On the other hand, Hun Sen used military force without hesitation in excluding Ranariddh, because Cambodia was not a society with laws, media, and public opinion which made it possible to accuse a person of an unjust deed. Military force was therefore the most effective and surest means. That is why Hun Sen's decision was not met with much opposition in Cambodia, although there is difference among people about using the armed forces.

In Cambodia, military force is completely acknowledged as a source of influence and a means of competition. Therefore, Hun Sen as well as his party did not expect the accusation

from the international community of their use of the armed force, irrespective of its reason. As a result, the Cambodia's ASEAN membership, which was scheduled in the end of July, was postponed, and official assistance was not granted. Cambodia paid a high price for those actions.

The use of armed force is always accompanied by violent destruction. The economic and social infrastructure is very weak in Cambodia because it has been exposed to the possibility of violent destruction.

If the Government of Cambodia heartily wishes sustainable socio-economic development, it has to reduce the power of military force, even if it is only done gradually, and establish the rule of law.

## **1.2 Current Conditions in Major Sectors**

### **1.2.1 Macroeconomic Indicators**

In the beginning of the 1990s, the Cambodian economy was faced with serious problems such as a large deficit in the national finance and a rate of inflation exceeding 150%. These problems were induced by the severance of economic relations with the Soviet Union and East European countries and an increased burden of military spending after the withdrawal of the Vietnamese army. The Cambodian government, after signing the Paris Peace Accords, began tackling structural adjustment, with the guidance and assistance of multi-lateral organizations such as UNTAC (United Nations Transitional Authority in Cambodia), the IMF and the World Bank, and donor countries. As a result, Cambodia achieved a real GDP growth rate of 7.6% in 1995, with the rate of inflation remaining at 3.5%. Macroeconomic indicators were stabilized for the time being (Table 1.2.1).

It would be, however, too hasty to assume that the Cambodian economy is on a stable growth track. As will be discussed later, Cambodia lacks many preconditions for steady economic growth and sustainable development: human resources, infrastructure, and an institutional framework for market economy. It is therefore necessary for Cambodia to address various problems while keeping stabilized macroeconomic indicators, in order to achieve stable economic growth.

**Table 1.2.1 Major Macroeconomic Indicators**

	1991	1992	1993	1994	1995	1996
	Rate of change (%)					
Real GDP growth rate	7.6	7.0	4.1	4.0	7.6	6.5
Rate of inflation	150.4	112.5	41.0	17.9	3.5	9.0
Domestic liquidity	28.6	209.0	40.0	29.4	44.3	40.4
Net credit to the government	22.9	141.8	5.6	-7.9	1.1	-3.1
	Percentage to GDP (%)					
Domestic investment	9.4	9.8	14.3	18.5	21.6	20.7
Government investment	0.4	0.3	4.3	5.5	7.1	6.5
Non-government investment	9.0	9.5	10.0	13.0	14.5	14.2
Financing of investment	9.4	9.8	14.3	18.5	21.6	20.7
Internal savings	7.9	7.3	5.9	4.4	5.4	5.1
Government savings	-3.0	-3.3	-1.5	-1.4	-0.6	-0.8
Non-government savings	10.9	10.6	7.4	5.8	6.0	5.9
Foreign savings	1.5	2.5	8.4	14.1	16.2	15.6

*Note:* The rate of inflation has been determined by a comparison of the consumer price index in the fourth quarter with that from the preceding year.

*Source:* World Bank (1997a). p. 4.

## 1.2.2 Agriculture, Forestry and Fisheries

### (1) Position of agriculture in national economy

Agriculture, forestry, and fisheries are very important in the Cambodian economy. People engaged in agriculture, forestry, and fisheries account for 81.6% of the working population <sup>(1)</sup>. In 1996, rice production accounted for 13.6% of the total GDP, other crops and rubber 10.3%, animal husbandry for 12.6%, fisheries for 3.5%, and forestry for 2.8% which totaled 42.8% <sup>(2)</sup>. Rubber and timber exports accounted for about 70% of Cambodian net exports until 1992 <sup>(3)</sup>. This provided an important revenue source for national finance. Agriculture, forestry and fisheries are thus very important for Cambodian people in earning their livelihood.

Rice is the main diet for Cambodian people, amounting about 80% of their nutrition intake (with the exception of the Pol Pot period) <sup>(4)</sup>. Even though almost 70% of the agricultural land (= about 20% of the total area) is used for rice production, its productivity is low. While the unit yield of rice has recovered to a slightly higher level than that in the 1960s (from 1.20 t/ha on the average in 1961-1970 to 1.27 t/ha on the average in 1984-1993), <sup>(5)</sup> this rate of yield is considerably lower, compared with the neighboring countries where people also live on rice (Fig. 1.2.1).

The very low agricultural productivity in Cambodia, such as rice production, can be attributed to three causes. First, the production infrastructure of both industry and agriculture was destroyed by the civil war between 1970 and 1975 and by the Pol Pot government

<sup>(1)</sup> National Institute of Statistics, Ministry of Planning (1996). p. 30.

<sup>(2)</sup> World Bank (1997a). p. 48.

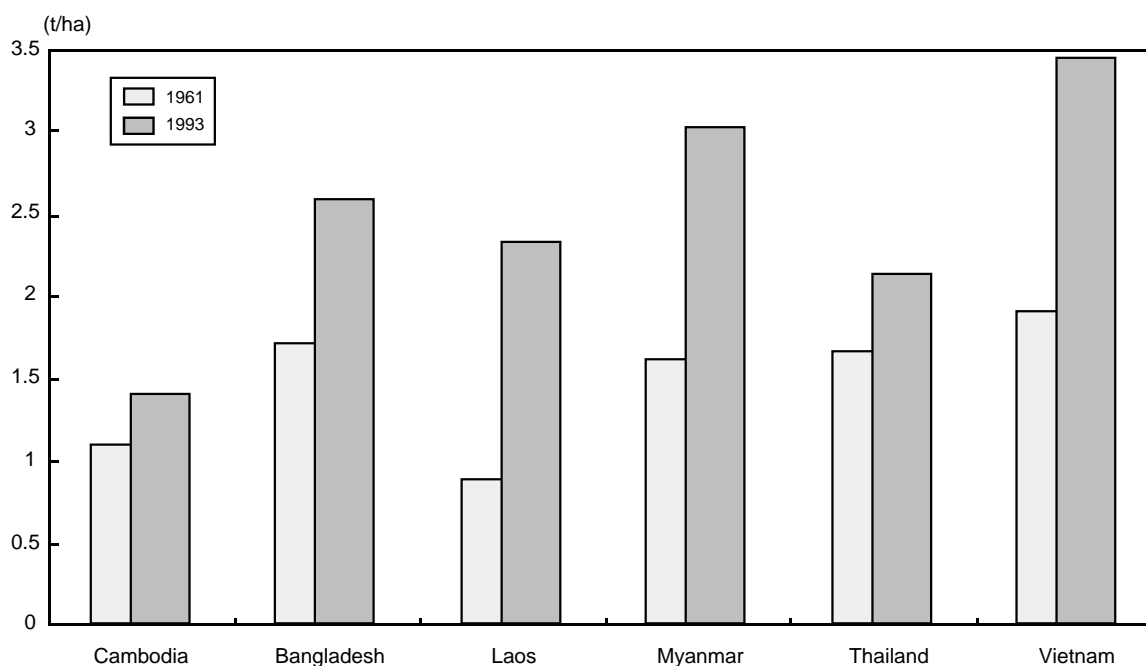
<sup>(3)</sup> Calculated by the writer on the basis of World Bank (1994).

<sup>(4)</sup> International Rice Research Institute (IRRI) (1995). p. 80.

<sup>(5)</sup> Calculated by the writer on the basis of IRRI (1995). p. 14.

from 1975 to 1978. Second, the UN and Western donor countries had banned development assistance for Cambodia under the People's Revolutionary Party government from 1982 to 1991. Cambodia consequently had to tackle rehabilitation in very severe financial circumstances. Third, Cambodian agriculture, as a result, could not make technological progress for the 30 years from the 1960s, as they did not enjoy the benefits of international achievements in agricultural technology development.

**Figure 1.2.1 Change in Unit Paddy Yield (country comparison)**



Source: Prepared by the writer on the basis of IRRI (1995). pp. 14, 15.

As production infrastructure is insufficient and technology is underdeveloped in Cambodia, agricultural production is affected greatly by weather conditions. As a result, annual fluctuations are substantial in the rate of GDP growth in the agriculture sector (Table 1.2.2).

**Table 1.2.2 Change of GDP Growth Rate in the Agriculture Sector**

	1991	1992	1993	1994	1995	1996	1991-96 average
<b>Agriculture</b>	<b>7.2</b>	<b>-0.4</b>	<b>-2.3</b>	<b>-8.2</b>	<b>15.9</b>	<b>0.9</b>	<b>2.2</b>
Rice	-4.0	-1.9	3.2	-19.9	24.1	-1.3	0.0
Other crops	29.9	1.9	-10.2	11.7	5.9	4.1	7.2

Source: World Bank (1997a). p. 47.

## (2) Recent economic growth and stagnation in agriculture

As mentioned in 2.1, Cambodian economy recently maintains a comparatively high rate of growth, while inflation is calming down (Table 1.2.1).

The recent growth of the GDP, however, is accompanied by expanded secondary and tertiary industries, while primary industries, notably agriculture depending on rice produc-

tion, are stagnant. The average growth rate between 1991 and 1996, when the Cambodian economy achieved comparatively high growth, was 11.4% in the secondary industries and 8.5% in the tertiary industries, but it was only 2.6% in the primary industries. The average growth rate in the agriculture sector was as low as 2.2%, and above all, the growth of rice production showed almost nil during this period. <sup>(6)</sup> (Table 1.2.2)

As the growth in the primary industries, especially of the agriculture, was slow, the proportion of the primary industries in the GDP declined gradually from 52.3% in 1991 to 42.7% in 1996 (which is a decline of 9.6%). On the other hand, the proportion of the secondary and tertiary industries had increased: the secondary industries increased from 14.9% in 1991 to 19.9% in 1996 (5.0% increase). While the secondary and tertiary industries in cities have achieved comparatively high growth, the primary industries, notably agriculture, have apparently been stagnant.

### 1.2.3 Manufacturing

Manufacturing occupies only a small part in the Cambodian economy. Its proportion in the GDP was only 7.9% in 1996 <sup>(7)</sup>, falling far below agriculture (13.6%). Manufacturing workers account for only 2.2% of the working population <sup>(8)</sup>.

Cambodian manufacturing industries are in the very early stages on the whole. This characteristic is clearly shown in the distribution of the time of establishment, the size of the enterprises, and business categories. A description is given below which is based on a 1993 survey <sup>(9)</sup>.

Existing enterprises were established in 1979 and after, with a very few exceptions. About 60% of them were established in 1990 and after, irrespective of the number of employees. As the production infrastructure was destroyed almost completely in the 1970s, existing enterprises have little experience in manufacturing. The scale of business is very small on the whole. Enterprises employing less than 10 workers account for over 80%. The proportion of enterprises employing more than 100 workers is less than 0.5%. Major business categories include, judging from the number of employees, food processing, non-metallic mineral processing, and tobacco production. These three categories employ about 70% of the workers in the manufacturing sector. In rural areas, timbering and timber processing forms another category. These four categories employ nearly 90% of the workers in the manufacturing sector in rural areas. This shows that home industries or similar industries are dominant in manufacturing in Cambodia.

However, the manufacturing sector has been steadily growing under economic liberalization policies after the signing of the Peace Accords. The average real growth rate of the GDP was 8.44% annually between 1992 and 1996. The present rate of 7.9% of the GDP is a result of an increase of about 1% from 7.0% in 1990 <sup>(10)</sup>. In 1995 and 1996 the annual rate of growth exceeded 10%. This was contributed by a rapid increase in the foreign direct investment, on a disbursement basis of \$80 million in 1994, \$151 million in 1995, and \$240 million in 1996 <sup>(11)</sup>. Since the New Investment Law was enacted in August 1994, the garment

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<sup>(6)</sup> Calculated by the writer on the basis of World Bank (1997a). p. 47.

<sup>(7)</sup> *Ibid.* p. 48.

<sup>(8)</sup> National Institute of Statistics, Ministry of Planning (1996). p. 30.

<sup>(9)</sup> Ministry of Planning (1996). pp. 141-143.

<sup>(10)</sup> World Bank (1997a). pp. 47, 48.

<sup>(11)</sup> *Ibid.* p. 51.

industry has the greatest number of investors among all industries in Cambodia and it is considered to be an engine for rapid growth in manufacturing industries in recent years.

#### **1.2.4 Economic Infrastructure**

In Cambodia, the economic infrastructure was destroyed during the civil war in the first half of the 1970s and neither newly constructed nor rehabilitated until the Peace Accords which were signed in October 1991. About 18.6% of the total amount granted to Cambodia in 1992-96 (approximately \$1.960 million) was allotted to the development of the economic infrastructure (energy, transportation and communications). The infrastructure<sup>(12)</sup> has been rehabilitated gradually by such active assistance, but on the whole it is still in very poor condition.

##### **(1) Transportation**

In Cambodia, the total length of road which vehicles can use is about 12,300 km (4,200 km of national roads, 3,600km of provincial roads and 4,500 km of local roads). Road density is only 2/3 km per 10 km<sup>2</sup><sup>(13)</sup>. Roads are not only low in density but also in poor condition on the whole, except for those portions rehabilitated recently with assistance. They do not function at all as a network covering the whole country.

Cambodia has two railway lines, the North Line which runs between Phnom Penh and Poipet and the South Line which runs between Phnom Penh and Sihanoukville. The facilities of the North Line have not been improved since they were constructed in 1929-1943. As for the comparatively new South Line which was constructed between 1965 and 1969, it is in better condition than the North Line. Both lines need substantial improvement.

##### **(2) Electric power**

Cambodia has no hydroelectric power stations working. Electric power depends mostly on diesel power generated by imported crude oil. The facilities for power generation, transmission, and distribution are very old. They are not able to steadily supply electric power sufficient to meet the demand. Consequently, the installation of private generators is common among people in large cities (notably in Phnom Penh) where electric power is in great demand.

##### **(3) Communications**

Cambodia's internal communications have been considerably improved since 1993 to 1994, owing to official assistance for communications and foreign investments including Thai capital among others in mobile phone communications. Service zones are, however, limited within and between major cities.

The internal postal service is virtually not working.

#### **1.2.5 Social Infrastructure**

When the People's Revolutionary Party government took power in 1979, Cambodia's social infrastructure had been destroyed by the long civil war and intentional destruction

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<sup>(12)</sup> Cambodian Rehabilitation and Development Board, Council for the Development of Cambodia (1997a). p. 14.

<sup>(13)</sup> Ministry of Planning (1996). p. 170.

during the Pol Pot regime. Since then, efforts have been made to reconstruct the infrastructure with very limited funding. Cambodia's social infrastructure is still very poor. It is rated at the 153rd among 175 countries in the UNDP's human development index (HDI) <sup>(14)</sup>.

### (1) Health care

Major health care indicators are shown in Table 1.2.3. As shown in the table, health care in Cambodia is still at a very low level although it is improving.

**Table 1.2.3 Major Social Indicators in Cambodia**

(1993. \*:1994)

(1) Average life expectancy (in years)	52.4*
(2) Maternal mortality rate (per 100 thousand births)	900*
(3) Infant mortality rate (per 1000 infants)	112*
(4) Under-5 mortality rate (per 1000 children)	174*
(5) Population who have access to safe water (%)	Whole Country 32, Phnom Penh 65, rural areas 26
(6) Population who have access to sanitary facilities (%)	Whole country 16, Phnom Penh 74, rural areas 6
(7) Population who have access to health services (%)	Whole country, cities, rural areas

Sources: (1) - (4): UNDP (1997). p. 175. (5) and (6): Ministry of Planning (1996). p. 190. (7): UNDP (1997). p.165.

According to these indicators, one of five children born in Cambodia dies under age five. Causes of infant deaths include diarrhea, acute respiratory infections, and diseases which can be prevented by immunization <sup>(15)</sup>. Undernourishment including protein and micro nutrient deficiencies is also prevailing.

The spread of malaria and tuberculosis among youths is another serious problem. The proportion of people infected with malaria exceeds 1% <sup>(16)</sup>, and that of people suffering from tuberculosis has reached 0.5% <sup>(17)</sup>. These two diseases are found notably in youths, posing a serious social problem.

Insufficiency of social infrastructure is especially considerable in rural areas, as clearly shown in the proportion of people who have access to safe drinking water, sanitary facilities such as sewage treatment, and health services.

Injury by land mines is considerable in Cambodia. One of 236 people is estimated to have undergone an amputation after being injured by a mine. This proportion is the highest in the world <sup>(18)</sup>.

### (2) Education <sup>(19)</sup>

Educational levels of adults will be described later. Here is a description on the educational conditions of children of school age.

<sup>(14)</sup> UNDP (1997). p. 148.

<sup>(15)</sup> Ministry of Planning (1996). p. 224.

<sup>(16)</sup> UNDP (1997). p. 177

<sup>(17)</sup> Ministry of Planning (1996). p. 224.

<sup>(18)</sup> *Ibid.* p. 225.

<sup>(19)</sup> The writer owes the description in this section to ADB (1996).

In Cambodia, the rate of school enrollment was estimated at 114% in primary education, 29% in the first stage of secondary education, and 9% in the second stage of secondary education in 1994 <sup>(20)</sup> . These rates are by no means lower than neighboring countries including Thailand, and well exceed the averages in the poorest countries. A challenge is therefore the qualitative improvement of education.

In primary education, the school enrollment rate shows that there are a considerable number of repeaters and children above primary school age. Another problem is regional gaps in school enrollment rate. It is highest in Phnom Penh (135%), while it is lowest in Ratanakiri (53%). School enrollment rates are especially low in sparsely populated regions. The proportion of girls is under 45%. The ratio between boys and girls is almost fixed from the first grade to the fifth grade <sup>(21)</sup> . That is, the low rate of girls is not caused by suddenly increased dropouts in higher grades. It is necessary, therefore, to raise the school enrollment rates in the first grade, in order to raise the rate of female school enrollments as a whole.

School enrollment rates in secondary education have been steadily increasing since the beginning of the 1980s. Regional gaps, however, are even more remarkable than those in primary education. The ratio between boys and girls is 3 : 2 in the first stage of secondary education, and 3 : 1 in the second stage of secondary education. With the school year advances, the proportion of girls becomes low. The ratio of girls is especially low immediately before the completion of secondary education, preventing girls from entering tertiary level schools.

## 1.2.6 Human Resources

### (1) Education standard

The most serious problem for human resources in Cambodia originated in a serious rupture in intellectual tradition during the Pol Pot regime (1975 - 1978) which denied all the existing culture and social systems in Cambodia. This has notably resulted in insufficient human resources capable of working as specialists such as teachers and doctors. Social development in Cambodia will be made more difficult by this fact.

The literacy rate among people who are age 15 and over is 65.3%, but regional and gender gaps are considerable. While the literacy rate is 82.0% among the citizens in Phnom Penh, it is only 63.5% in rural areas. While the rate of male literacy is 82.0% on the whole, that of female literacy is only 51.0% <sup>(22)</sup> .

Regarding educational experiences of people who are 15 years old and over, 27.3% of them have not completed any course of education. By sex, 15.0% of the males and 37.5% of the females have not completed any course of education. Those who have received university or higher education account for only 0.2% of people who are 15 years old and over <sup>(23)</sup> .

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<sup>(20)</sup> ADB (1996). p. 102.

<sup>(21)</sup> Cambodia's educational system is in the process of shifting from a 5-3-3 system to a 6-3-3 system. As the ADB report on which this report depends was prepared while the 5-3-3 system was being adopted, the fifth grade was the last year of primary education.

<sup>(22)</sup> National Institute of Statistics, Ministry of Planning (1995). p. 37.

<sup>(23)</sup> *Ibid.* p. 39.



Among people 25 years and over, who are regarded as having completed educational age, the period of attendance at school is 3.5 years on the average. By sex, it is 4.7 years for males, and 2.5 years for females, which are very short periods <sup>(24)</sup>.

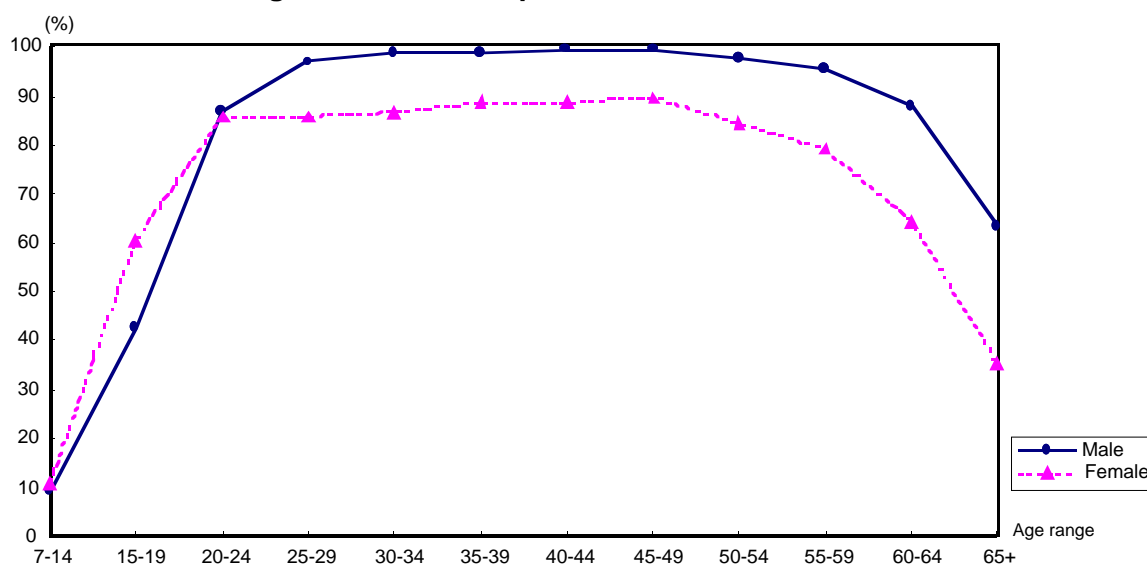
## (2) Population Composition

The population of Cambodia was estimated at about 10.7 million in 1996 <sup>(25)</sup>. The female population accounted for a little over 52%, and the female-male ratio was 100 : a little less than 92 <sup>(26)</sup>. By age, people 14 years and under accounted for 43.9% of the population, people between 15 and 64 years of age capable of working accounted for 52.6%, and people 65 years and over accounted for 3.6% <sup>(27)</sup>. One hundred people capable of working, therefore, have to support 90.2 people <sup>(28)</sup>.

The total fertility rate was 5.2, and the gross fertility rate was 38.0 per 1,000 people, which was considerably high <sup>(29)</sup>. Consequently the rate of population increase in recent years was estimated at 3.0% <sup>(30)</sup>.

In economic activities 59.2% of the population seven years and over participate. In cities, 55.0% of males and 47.0% of females participate in economic activities. The ratio of males was higher than that of females. In rural areas, however, the ratio was higher in females (61.3%) than in males (59.6%) <sup>(31)</sup>. Among people under 20, more females participate in economic activities than males, and the ratios are reversed, with the ages between 20 and 24 as the dividing line (Fig. 1.2.2).

Figure 1.2.2 The Proportion of Labor in Cambodia



Source: Prepared by the writer from National Institute of Statistics, Ministry of Planning (1996). p. 26

<sup>(24)</sup> *Ibid.* p. 42.

<sup>(25)</sup> National Institute of Statistics, Ministry of Planning (1996). p. 8.

<sup>(26)</sup> *Ibid.* p. 13.

<sup>(27)</sup> *Ibid.* pp. 15, 16.

<sup>(28)</sup> *Ibid.* p. 18.

<sup>(29)</sup> *Ibid.* p. 9

<sup>(30)</sup> World Bank (1997a), p. 45.

<sup>(31)</sup> *Ibid.* pp. 25, 26.

In addition to these, the composition of the population in Cambodia has three characteristics.

One is a notable imbalance between men and women in the first half of their forties, as shown in Table 1.2.4. People in this age bracket were in the latter half of their teens during the civil war in the first half of the 1970s and in the first half of their twenties under the Pol Pot regime (For example someone 43 years old in the survey was born in 1953, 17 years old in 1970, and 26 years old in 1979). That is, they were driven the hardest as soldiers, and the war dead were thought to be concentrated on people of these age brackets.

**Table 1.2.4 Ratio of Male to Female by Age Bracket (1996)**

Age bracket	Ratio of male to female
0-4	104.0
5-9	105.0
10-14	106.0
15-19	97.7
20-24	83.5
25-29	87.4
30-34	83.1
35-39	81.4
40-44	65.5
45-49	76.8
50-54	76.1
55-59	74.8
60-64	76.4
65-69	70.4
70-74	70.8
75+	69.0

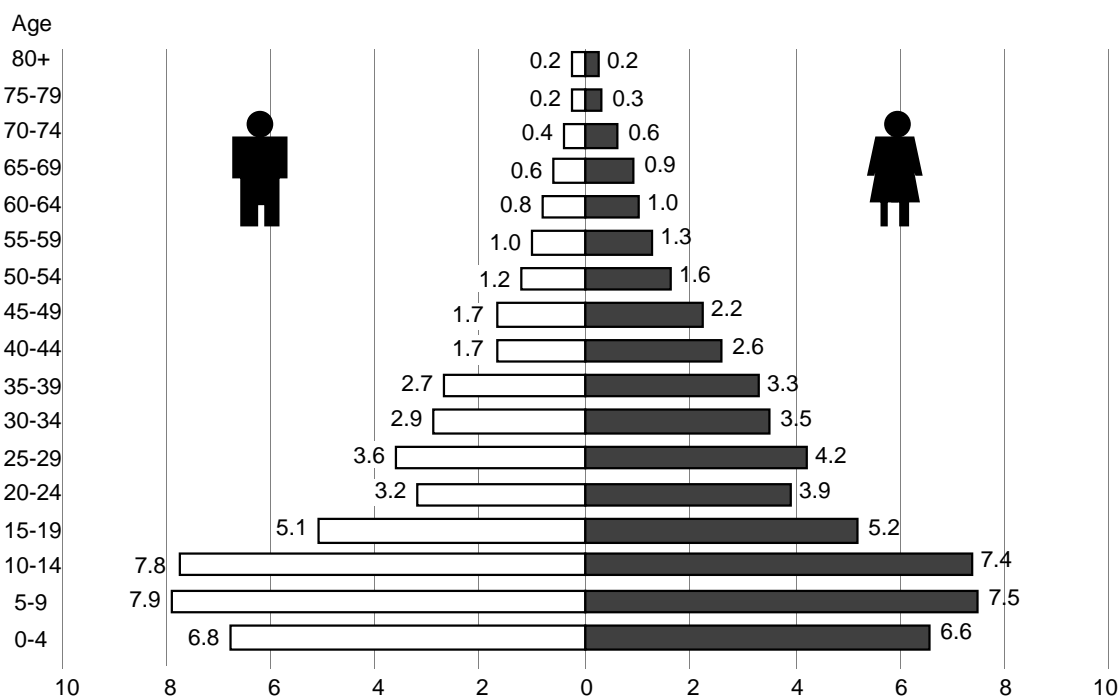
*Source: National Institute of Statistics, Ministry of Planning (1996). p. 13.*

Secondly, as shown in Fig. 1.2.3, the number of people, both male and female in the first half of their twenties is extremely small. People in this age brackets were born between 1972 and 1976. The number of people born in 1977 and 1978 which would be 18 or 19 years old in the survey is also very small <sup>(32)</sup> although this is not shown in this figure. It can be said that the rates of birth and survival were unusually low at the end of the civil war and during the Pol Pot period.

Thirdly, Cambodia experienced a baby boom from 1979 to the beginning of the 1990s. Although it is not shown in Fig. 1.2.3, the proportion of people born in 1979 (who were 17 years old at the survey) to the total population (2.2%) was much larger than that of people of older age brackets (In 1975, 1.2% were born, 1.4% born in 1976, 1.1% born in 1977, and 1.5% born in 1978). The comparatively small proportion of children between 0 and 4 shows that the baby boom came to an end around the time of the Paris Peace Accords.

<sup>(32)</sup> National Institute of Statistics, Ministry of Planning (1996). p. 15.

**Figure 1.2.3 Population Pyramid in Cambodia (1996 estimate)**



Source: National Institute of Statistics, Ministry of Planning (1996). p. 17.

### 1.3 External Economic Relations

#### 1.3.1 1980s: Severance of Economic Relations with the ASEAN Countries

For about 13 years from the collapse of the Pol Pot regime in January 1979 until the conclusion of the Paris Peace Accords in October 1991, the ASEAN countries were disagreeable to the People's Revolutionary Party (the present People's Party) which was then the government holding power because the ASEAN nations were supporting and assisting the Pol Pot group and FUNCINPEC (the Sihanouk group) which stood against the People's Revolutionary Party. The ASEAN countries, regarding the presence of the Vietnamese forces in Cambodia as a serious threat to regional security, were antagonistic to Vietnam and the People's Revolutionary Party government which was supported by Vietnam. For this reason, economic relations were almost completely severed between them in spite of its vicinity.

Cambodia therefore kept its external economic relations with the Soviet Union, Vietnam and COMECON countries.

#### 1.3.2 1990s: Re-establishment of Economic Relations with the ASEAN Countries

In the late 1980s, economic relations between Cambodia and the ASEAN countries recovered in parallel with the progress in the peace process in Cambodia. At the same time, economic relations with the socialist countries, except Vietnam, almost ceased to exist, with the democratization in East European countries and the collapse of the Soviet Union which occurred in 1990/91.

Cambodia's trade partners in recent years are shown in Tables 1.3.1 and 1.3.2. The presence of Singapore and Thailand is prominent as its import partners.

**Table 1.3.1 Change of Import to Cambodia by Country**

(Unit: million U.S. dollars)

	1990	1991	1992	1993	1994	1995	1996
World	56	62	751	981	1152	1562	1666
Industrialized countries	21	21	312	130	167	245	136
Developing countries	35	41	440	851	965	1317	1430
Asia	31	29	435	833	978	1314	1425
Singapore	...	...	276	406	421	550	569
Thailand	1	5	72	197	286	367	399
Vietnam	10	7	7	106	85	105	122
Indonesia	11	6	26	44	49	76	84

*Source: IMF (1997b), p. 15.***Table 1.3.2 Change of Export from Cambodia by Country**

(Unit: million U.S. dollars)

	1990	1991	1992	1993	1994	1995	1996
World	42	57	165	265	241	350	332
Industrialized countries	5	28	46	119*	38	66	125
France	1	3	3	1	4	7	11
Germany	1	15	24	27	12	18	42
United Kingdom	...	...	...	1	2	11	31
Developing countries	36	30	119	145	204	284	208
Asia	35	26	117	141	197	275	181
India	...	...	2	2	...	26	30
Singapore	...	...	7	19	29	38	43
Thailand	9	10	85	95	115	146	43
Vietnam	7	5	6	7	16	20	23

*\*Export to Japan amounts to 79 million U.S. dollars.**Source: IMF (1997b), p. 145.*

### 1.3.3 Trends of the International Balance of Payments

Table 1.3.3 shows Cambodia's international balance of payments in recent years. Although the scale of export of domestic products is very small, it is still expanding steadily after a sharp increase in 1994 (15% increase in 1995 and 11% increase in 1996, compared to the respective previous years). On the other hand, imports minus the reexports from the total imports, i.e., retained imports, increased at a rate exceeding that of the export of domestic products during the same period. This produced a sharp increase in the current account deficit. Its proportion to the GDP showed a marked increase from 1993 (Table

1.3.4). About two thirds of the increased current account deficit was covered by official transfers, whose scale reached about 10% of GDP. From 1994 on, the capital balance was substantially in the black owing to medium and long-term loans from international financial institutions and increased foreign direct investment. The recent overall balance of payments was in the black, as foreign direct investment expanded steadily also on a disbursement basis.

**Table 1.3.3 Balance of Payments**

(Unit: million U.S. dollars)

	1993	1994	1995	1996
Trade balance	-203.0	-275.4	-405.0	-451.0
Export	219.0	461.7	809.0	659.0
Export of domestic products	102.0	233.7	269.0	298.0
Reexport	117.0	228.0	540.0	361.0
Import	422.0	737.1	1213.0	1110.0
Retained import (Note)	305.0	499.0	673.0	749.0
Services balance	10.0	-74.6	-92.0	-60.0
Private transfers	4.0	20.0	20.0	23.0
Current account balance (not including official transfers)	-189.0	-330.0	-477.0	-488.0
Official transfers	149.0	235.0	346.0	299.0
Current account balance (including official transfers)	-40.0	-95.0	-131.0	-189.0
Capital balance	75.0	136.0	171.0	241.0
Medium- and long-term official loans	5.0	54.0	71.0	59.0
Foreign direct investment	0.0	80.0	151.0	240.0
Short-term capital flows and errors and omissions	70.0	2.0	-51.0	-58.0
Overall balance	35.0	41.0	40.0	52.0

*Note:* The remainder by subtracting reexport from the total import (including estimated amount of import involved in project-type assistance and import not identified).

*Source:* Prepared by the writer from World Bank (1997a), p. 51.

**Table 1.3.4 Change of Cambodia's Current Account Deficit to GDP**

Unit: %

	1990	1991	1992	1993	1994	1995	1996
Not including official transfers	6.2	1.5	2.5	8.4	14.1	16.2	15.6
Including official transfers	3.4	1.3	2.2	1.8	4.1	5.6	6.0

*Source:* Prepared by the writer from World Bank (1995), p. 103, World Bank (1996b), p. A-15 and World Bank (1997b), p. 51.

The increase of domestic exports in 1996 was attributable to the substantial support of the General System of Preferences <sup>(33)</sup>. Twenty-six countries, including EU countries, applied this system to Cambodia. Exports under the system's application increased from \$27 million in 1995 to as high as \$102 million in 1996 reaching 34% of the total value of the export of domestic products. This is reflected in a sharp increase in export for industrialized countries (Table 1.3.2).

### **1.3.4 External Debts**

Cambodia is classified as a heavily indebted poor country. Its external debts totaled to \$568.3 million, excluding ruble debts at the end of 1995. This was equivalent to 19% of the 1995 GDP. More than 60% of these debts were bilateral debts from before 1979 <sup>(34)</sup>. Regarding these debts, the Paris Club creditor countries agreed to rescheduling in 1995, and Cambodia concluded a bilateral agreement with Germany, France and Japan. A bilateral agreement with the United States is now under discussion.

Little progress was made regarding ruble debts accumulated as deficits in trade with COMECON countries in the 1980s. Though an agreement was reached with Vietnam, Czechoslovakia, Hungary and Poland, to which trade deficits were small, no progress was made on the deficit to Russia. Cambodia's debt to Russia amounts to 814 million rubles. Cambodia's external debt problem, therefore, depends completely on the rescheduling of the debts to Russia.

## **1.4 Condition of Institutional Building**

### **1.4.1 Legal system**

The Constitution Cambodian Kingdom drafted on the basis of the annexed document of the Paris Peace Accords (the 1993 Constitution) adopts liberal democracy based on a multiple-party system, and declares the adoption of a market economy. The construction of a legal system under the 1993 Constitution has been promoted, with priority to economic laws and regulations. This reflects the Cambodian government's attitude placing importance on economic rehabilitation and development as a national goal with a market economy <sup>(35)</sup>. There have been a number of areas, however, awaiting solution since the promulgation of the constitution.

Although the 1993 Constitution has detailed provisions on human rights in 20 articles, it cannot be said that the Cambodian people are living in a stable society and enjoying fundamental freedom. Cambodia has to establish the rule of law in order to realize the ideas embodied in the constitution.

### **1.4.2 Tax System**

Cambodia's tax revenue accounted for only 6.5% of the nominal GDP (1996). This was one half the average of the low-income countries to which Cambodia belongs. This was attributable to very slow progress in building a tax system after Cambodia abandoned its

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<sup>(33)</sup> World Bank (1997a), p. 9.

<sup>(34)</sup> Calculated by the writer on the basis of the IMF (1997a), p. 89.

<sup>(35)</sup> Yotsumoto (1996).

socialist policies at the end of the 1980s. The rate of domestic tax collection was especially low (Table 1.4.1).

A new tax law was adopted together with the 1997 budget and it included most of the important elements of a modern tax system. The challenge is therefore to strengthen the capability of tax collection.

**Table 1.4.1 Composition of Tax Revenue in Cambodia**

Unit: percentage to GDP (%)

	Income taxes	Domestic taxes on goods and services			Customs duties			Tax revenue			Pro- perty taxes	Other
		Total	Indivi- duals	Enter- prises	Total	Turnover, sales, value- added tax	Com- modity tax	Total	Import	Export		
Cambodia	6.52	0.26	0.03	0.23	1.88	1.19	0.69	4.18	4.08	0.10	0.00	0.19
Low-income coun- tries with per- capita income of \$350 or less	12.90	2.64	1.14	1.50	3.51	1.87	1.64	4.87	3.82	1.05	0.24	1.64

Source: World Bank (1997a), p. 13

### 1.4.3 Financial System

Cambodia's banking system is composed of the National Bank of Cambodia and 31 commercial banks which includes two state operated banks. The National Bank of Cambodia was established in 1980 as the mono-bank in Cambodia. At the end of the 1980s, most of its commercial activities were transferred to the Foreign Trade Bank of Cambodia and the Municipal Banks. The National Bank of Cambodia came to function as the central bank. In 1991, private and foreign banks were allowed to enter the banking business in Cambodia.

There are a number of issues to be addressed in establishing a modern central bank system. The National Bank of Cambodia Act (the Central Bank Act) was adopted in January 1996, and the building of a legal framework has started.

### 1.4.4 Land System

According to Cambodia's customary law, the king is the nominal possessor of the entire national land. A person, however, could obtain the title including the right of inheritance to the estate by using it. While the title to an estate was established by using it for dwelling or cultivation, the title was lost if the estate was not used for three continuous years. This is called 'the principle of acquisition by plow'.

The idea of modern private land ownership was introduced by France between the end of the 19th century and the beginning of the 20th century. Since then, there have been the customary idea of acquisition by plow and the modern idea of private ownership in parallel, forming remarkable characteristics in Cambodia's land tenure system.

The ground of the present land tenure system is the Land Act promulgated in 1992. Article 1 of this act says, "the land of Cambodia shall belong to the state, and the state shall govern the whole land uniformly. The state is not concerned with the discontinuation of land ownership before 1979". This act recognizes two categories of rights for the people, namely, temporary possessory rights and ownership certified by a certificate. Temporary

possessory rights refer to the right to an estate either owned by no one, abandoned, or not yet registered, by satisfying the following conditions.

- (i) Occupancy shall be conducted sincerely and not by fraud or violence.
- (ii) The occupant shall occupy the estate continuously and exclusively.
- (iii) The occupant shall inform the authority concerned of the occupancy of the estate.

If these conditions has been satisfied for five continuous years, the temporary occupant becomes the legal owner of the estate. On registering that fact, the occupant's right becomes certified by a certificate. It is stipulated in the act that an estate abandoned for three continuous years become state property.

While the present law recognizes the customary creation and invalidation of the land titles, the idea of private ownership has been spreading. The coexistence of these different ideas of rights is a cause of frequent land conflicts in recent years.

#### **1.4.5 Other Systems**

Private economic activities in present Cambodia mostly originate from independent attempts by people after the collapse of the Pol Pot regime. They have been expanded and developed under a virtual laissez-faire system. As a result, the institutional framework, which should be built by the administration, is insufficient. Economic activities are consequently attended with high risks, and costs of distribution and transactions are also very high.

As regulations on procedures are not defined, it is very likely that permission and approval will become vested rights for specific individuals. This causes the spread of corruption.



## **2. Development Plans and the Government's Efforts**

### **2.1 Development Plans**

One of the new government's urgent issues when it was established in October 1993 was to prioritize the investments indispensable for Cambodia's rehabilitation and reconstruction. For more than two years after the conclusion of the Paris Peace Accords, donor countries and institutions individually provided assistance without any master plan for rehabilitation and development. The National Program to Rehabilitate and Develop Cambodia (NPRD) was formulated in this situation. The NPRD defines medium- and long-term comprehensive goals to be attained by the Royal Government of Cambodia.

The program clarifies that the Royal Government of Cambodia supports further development of a market economy. It also stipulates that the government will reform the administrative system, stabilize macroeconomic indicators, and support private business activities, in order to promote economic activities in the private sector.

The First Socioeconomic Development Plan from 1996-2000 (the First SEDP) fixes specific medium-term goals, for the attainment of the comprehensive goals set in the NPRD. The major feature of the First SEDP is poverty alleviation and eradication as the most important challenge.

The formulation of the Public Investment Program (PIP) started in 1996, for showing the schedule of public works for every three years. The program is renewed every year.

#### **2.1.1 National Programme to Rehabilitate and Develop Cambodia (NPRD) <sup>(36)</sup>**

##### **(1) National goals**

The program presents the following two points as the ultimate national goals.

- To establish a fair, just and peaceful society
- To improve the standard of living through an increased rate of economic growth

##### **(2) Medium-term perspective**

The program presents the following five points in its medium-term perspective.

- To double the real 1994 GDP by 2004
- To expand social services including health care and education, for the purpose of substantially raising the standard of living within a decade
- To give top priority to rural development, in the government's development strategy, for the purpose of improving living standards in rural areas
- To create socially, politically, fiscally, and environmentally sustainable development
- To increase self-reliance with reduced dependence on external financial aid and technical assistance

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<sup>(36)</sup> The Royal Government of Cambodia (1994).

## **2.1.2 The First Socioeconomic Development Plan 1996-2000 (the First SEDP) <sup>(37)</sup>**

### **(1) Central issue**

The First SEDP is formulated on the awareness that poverty underlies the socio-economic problems in Cambodia, and that poverty alleviation and eradication are the urgent issue to tackle. The plan therefore focuses on poverty alleviation.

In the plan, it is estimated that 38% of the total households (30% of the total population) in Cambodia is living under the poverty line and as many as 90% of them live in rural areas. The plan therefore places importance on rural development, based on the idea that poverty alleviation in rural areas should be given the top priority for tackling poverty in Cambodia.

### **(2) Strategy**

It is written expressly in the First SEDP that the Royal Government of Cambodia will maintain the framework of a market economy, as is written in the NPRD. The plan points out the necessity of implementing the various programs including those for health care services, the construction of water works and sewerage facilities, the extension of primary education as well as the programs focused on the socially weak people among the poor (such as widows, orphans, people who have lost their limbs, refugees and minority groups) in rural areas. The plan recognizes that Cambodia cannot depend only on the trickle-down effects of its economic growth in order to alleviate poverty at an early date. The plan, therefore, places importance on the improvement of education and health care services, together with the development of industries including agriculture and the construction of an economic infrastructure.

The plan points out that economic growth is indispensable for securing funds for implementing poverty alleviation projects comprehensively and continuously. The plan promises that the government will pursue a high rate of 7-8% annually in real GDP growth.

## **2.2 Public Sector Reform**

The First SEDP estimates the real GDP growth rate at 7.5% annually for the five years from 1996 to 2000. In Cambodia, the realization of such high growth depends on successful reform of the public sector.

Cambodia started structural adjustment on a large scale in 1995, receiving an Enhanced Structural Adjustment Facility (ESAF) from the World Bank and the IMF. The conditionality is especially focused on the state institution reform (public administration reform and the royal army reform), the institutional reform of state property (including natural resources), and financial reform. As will be discussed later, the realization of these reforms will make the Cambodian government abandon its socialistic functions, and strengthen its capability of contributing to economic growth and poverty alleviation.

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<sup>(37)</sup> Ministry of Planning (1996).

## 2.2.1 State Institutions Reform

### (1) Public administration reform

The Cambodian government's capacity for planning and implementing economic policies and development programs is still very limited. It should be pointed out that its administrative capacity and capability for planning economic policies appropriate in a market economy system are at very low levels. These capabilities need urgent improvement.

Major problems include: the administrative system established in the 1980s under socialist governance is still maintained; the number of government officials has been inappropriately increased because of increased recruitment based on political consideration; and small salaries below the poverty line have encouraged idleness among government officials. A large-scale administrative reform is needed, involving a reduction of officials and an institution reform, as a precondition of human resources development in each sector.

The Royal Government of Cambodia formulated the National Programme to Reform the Administration (NPRA) in 1994, defining the five goals: the restructuring of the public administration and a legal system; strengthened management capacity of each ministry; re-organization of public officials; human resources development; and strengthened provincial administration<sup>(38)</sup>. The reduction and re-organization of government officials has not been yet started. To the contrary, the number of officials is increasing since the NPRA was published. This is a large obstacle to starting a fundamental state institution reform.

The government expressed its will towards public administration reform in the *Policy Framework Paper 1997-99 (PEP)* compiled jointly with the World Bank and the IMF. The contents are provided below.

- To keep the number of government officials below the present level.
- To conduct an official government census including professional experience, skills, and the details of duties.
- To establish a Superior Council for State Reform and to organize a Steering Committee for Administrative Reform under it.
- To make a list of priorities in accordance with the national goals and to formulate an implementing plan.

The government again intends to identify the actual conditions of its officials and to control their numbers. To achieve this task, the first step, is to establish an efficient administrative system suited to a market economy.

### (2) Demobilization

Military spending amounts to about one half of Cambodia's expenditures, posing a considerable pressure on national finance. It is a very important challenge for economic development in Cambodia to reduce the financial burden by reducing the scale of the Royal Cambodian Armed Forces (RCAF), and to make demobilized soldiers become civilians and participate in production activities.

The Royal Government has just formulated the Cambodia Veterans Assistance Program (CVAP), as part of its efforts towards reaching the above-mentioned goal. It aims at reducing over 30% of more than 130 thousand soldiers of the Royal Cambodian Armed Forces. For the time being, gradual reduction is conducted on a trial basis, and it is expected

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<sup>(38)</sup> *Ibid.* p. 71.

that demobilization on a full scale will be carried out after the general election scheduled in 1998.

As most of the demobilized soldiers are expected to return to their homes in rural areas this could cause social issues such as unemployment, if there are few employment opportunities. It is necessary, therefore, that measures be taken for inviting and promoting labor-intensive industries as well as providing demobilized soldiers with fields for farming.

### (3) Privatization of state-owned enterprises <sup>(39)</sup>

The privatization of state-owned enterprises started with the adoption of the Foreign Investment Law in 1989. Enterprise assets, however, were not sold in the beginning, but privatization took the form of long-term leasing. State-owned enterprises came to be sold since 1991. As such, among 176 state-owned enterprises, 52 remained state-operated as of September 1996 (Table 2.2.1).

**Table 2.2.1 Present Conditions of State-owned Enterprises (as of September 1996)**

Total number	176
Complete privatization	124
Selling	20
Joint venture	10
Leasing	94
Under government control	52
To be owned by the government	14
To be privatized	38

Source: IMF (1997a), p. 41

Among the state enterprises under the control of the government, the profit-making ones are to be sold to the private sector, in accordance with the framework set by the 1995 Finance Act. Among the existing 52 enterprises, 38 are to be privatized or disbanded at an early date <sup>(40)</sup>. In June 1995, the Privatization Committee was organized on the basis of this Act and was chaired by the Minister of Economics and Finance. The committee can formulate a general plan on privatization, supervise a survey of the assets of state-owned enterprises, supervise the procedure of selling by open bidding, and so forth.

In May 1996, the Legal and Regulatory Framework on State-owned Enterprises was adopted in the National Assembly. It is stated clearly in it that the government is to stop participating in profit-making businesses and that activities of state-owned enterprises will be limited to natural resources development, social infrastructure development, and public works.

<sup>(39)</sup> The writer owes the description in this section to IMF (1997b), pp. 42-44.

<sup>(40)</sup> Among 38 enterprises, only 23 are in operation, including seven rubber plantations.

## **2.2.2 Management of State Property**

### **(1) Overall approach**

The Cambodian government is faced with a number of issues regarding the management of its state property and natural resources. Firstly, it has to enhance the people's reliance on the government by conducting fair and opened management and operation of state property including natural resources. Secondly, it has to ensure the stable revenue sources by promoting sustainable development of national natural resources (especially forest resources).

The reform which the government intends to carry out includes the following three points<sup>(41)</sup>: 1) the establishment of procedural and legal regulations - especially, all the contracts on the state property must be subjected to the approval and accounting management of the Ministry of Economics and Finance; 2) detailed rules of the Investment Law shall be applied strictly, regarding the sale of the state property as well as the provision of tax reduction and exemption for foreign direct investment in order to secure the transparency; and 3) the Corruption Prevention Act and the State Property Act shall be drafted and executed for the enhanced transparency of the state property and natural resources management.

### **(2) Forest resources management**

The management of forest resources, the important source of the revenue for the Cambodian government, has serious problems in policy implementation and management: very frequent illegal logging; unfair procedures in granting concession for logging; repeated temporary removal of embargoes; intentional reduction of or exemption from export taxes; and so forth. As a result, the national treasury receives only about one tenth of the estimated profits by the World Bank from forest development, even though so many trees are cut that a serious reduction in the area of forests has resulted producing considerable deterioration of forest resources.

The government therefore set up the National Committee on Cambodia's Forestry Policy in July 1996, and has gradually started to identify the profits from forest development and to take measures for sustainable forest development. In October 1996, the Council of Ministers formally adopted the forest management policy<sup>(42)</sup> formulated jointly by the World Bank, the FAO and the UNDP, as a policy goal of Cambodia. The government again banned the export of raw timber and sawlog, for which embargoes had been merely nominal since the export of old logs was approved in the beginning of 1996. The ban became effective in January 1997.

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<sup>(41)</sup> Cambodian Authorities (1997). p. 8.

<sup>(42)</sup> World Bank/FAO/UNDP (1996).

## 2.2.3 Financial Reform

### (1) Recent change in the fiscal condition

Recent change in the fiscal condition in Cambodia is shown in Table 2.2.2 and Fig. 2.2.1. The Government finance, which ran into an extreme shortfall of revenues in the early 1990s<sup>(43)</sup>, produced a deficit exceeding 3% of nominal GDP for three years from 1990 to 1992. As most of the fiscal deficits during this period were covered by borrowing from domestic banks with the additional printing of notes, serious inflationary pressure was produced<sup>(44)</sup>.

**Table 2.2.2 Summary of Budget Operation**

	Unit: percentage to nominal GDP (%)							
	1989	1990	1991	1992	1993	1994	1995	1996
Revenues	6.4	3.9	4.4	6.2	5.2	9.6	8.9	9.1
Tax	2.6	2.2	2.3	4.4	4.2	5.9	6.2	6.5
Customs duties	0.8	1.5	1.6	3.2	2.9	4.6	4.5	4.2
Non-tax	3.8	1.7	2.1	1.8	1.0	3.7	2.7	2.6
Forest exploitation	n.a.	n.a.	n.a.	0.1	0.1	1.4	0.7	0.3
Expenditures	9.1	8.4	7.8	9.8	11.0	16.5	16.7	16.4
Current expenditure	7.7	7.2	7.4	9.5	6.7	11.0	9.6	9.9
Military spending	3.0	3.1	3.5	4.7	4.0	6.5	5.5	4.9
Other spending	4.7	4.1	3.9	4.8	2.8	4.5	4.0	5.0
Capital expenditure	1.4	1.2	0.4	0.3	4.2	5.5	7.1	6.5
Current account deficit	-1.3	-3.3	-3.0	-3.3	-1.5	-1.4	-0.6	-0.8
Overall deficit	-2.7	-4.5	-3.4	-3.6	-5.7	-6.8	-7.7	-7.2
Financing	2.7	4.5	3.4	3.6	5.7	6.8	7.8	7.2
Foreign financing	0.8	1.2	0.5	0.1	4.3	7.0	7.8	7.0
Domestic financing	1.9	3.3	2.9	3.5	1.4	-0.2	0.0	0.2
Bank financing	1.9	3.3	1.1	4.5*	0.6	-0.4	0.1	-0.2

\*Includes the settlement of the outstanding amount carried over from 1991.

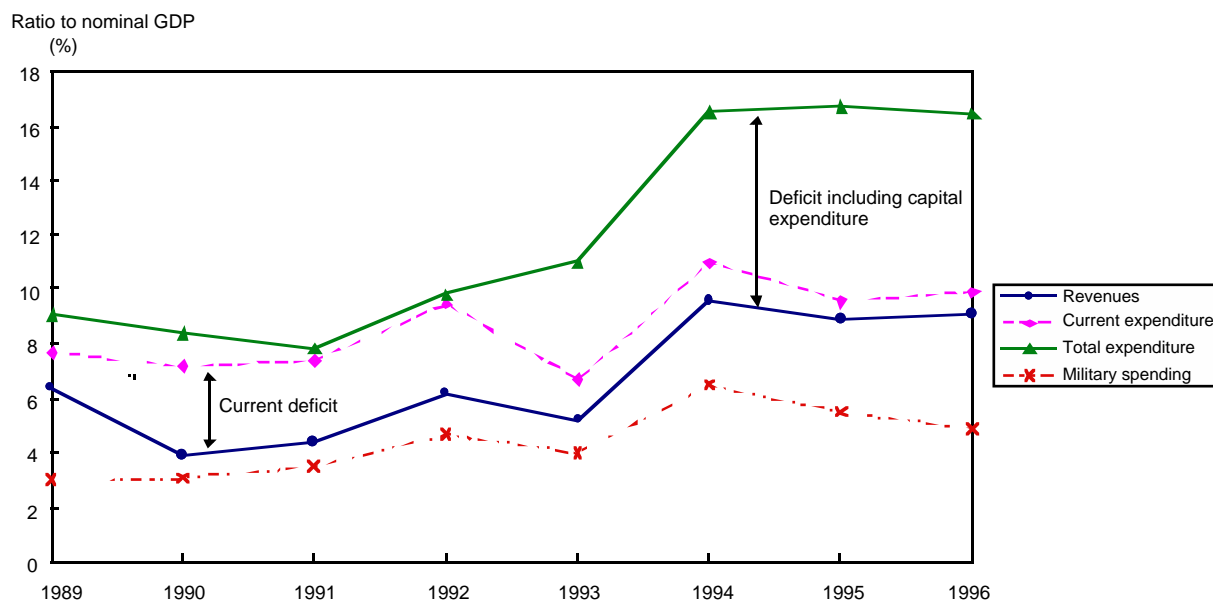
Source: Prepared by the writer from World Bank (1995), p. 109 and World Bank (1997b), p. 52.

<sup>(43)</sup> Probable causes are as follows (World Bank (1992), p. 40).

- 1) A sharp decrease in earnings of state enterprises (from 3.2% of nominal GDP in 1989 (ratio to expenditures: 36.3%) to 1.8% in 1991 (ratio to expenditures: 21.9%)).
- 2) Abolition of the compulsory delivery system for agricultural products.
- 3) Insufficient price flexibility of the state revenue sources.
- 4) A sharp decrease in assistance from the Soviet Union and other COMECON countries (1.5% of nominal GDP in 1989 (ratio to expenditures: 16.9%) to 0.75% in 1991 (ratio to expenditures: 8.9%)).

<sup>(44)</sup> The rate of inflation (the rate of consumer price index increase in December from the same month of the preceding year) during this period was 90.5% in 1989, 152.3% in 1990, 87.9% in 1991, and 176.8% in 1992 (World Bank (1995), p. 113).

**Figure 2.2.1 Change of Fiscal Condition in Cambodia**



Source: Prepared by the writer on the basis of Table 2.2.2

This serious financial crisis was met with a sharp reduction of current expenditure in fiscal 1993. Consequently, the revenue for fiscal 1994 increased greatly with the following measures: 1) improved customs duties system - almost 70% of the tax revenue used to come from customs duties since 1989, when the private sector was allowed to participate in export and import service, and the improved customs duties system in 1992-1993 contributed to enhance the customs duties revenue up to 78% of the tax revenue in 1994. Second, temporary removal of the embargo on the export of logs in June 1994 resulted in a sharp increase of non-tax revenue. In this way the current account improved, and the fiscal deficit, which had exceeded 3% of the nominal GDP, became less than 1%.

The capital expenditure, whose ratio to nominal GDP was reduced to 0.3% in 1992 by the expansion of the current account deficits, has increased sharply since 1993. The capital expenditure and current account deficits are covered by foreign capital, most of which is official assistance.

## (2) Revenue

Having shown a sharp rise in the ratio to nominal GDP, Cambodian revenue is yet sufficient to cover current expenditure. In Cambodia, the ratio of revenue to nominal GDP has been around 9% in recent years (8.9% in 1995 and 9.1% in 1996). This ratio is at the lowest level in the world<sup>(45)</sup>. This revenue shortfall is caused by Cambodia's very weak capacity of mobilizing domestic funds.

The following are major factors of the revenue shortfall<sup>(46)</sup>:

- Objects of tax collecting are very limited, because of undeveloped modern tax system.
- Low capacity of the tax collecting authority.

<sup>(45)</sup> World Bank (1997a), p. ii.

<sup>(46)</sup> *Ibid.* p. 12.

- Comprehensive tax exemption for foreign enterprises (the Investment Law) and intentional special tax exemption (export of rubber and timber, and import of automobiles). A decrease in revenues of the national treasury due to tax reduction and exemption reached 1.7% of nominal GDP in 1996.
- Insufficient management of non-tax revenue, notably those from forest development.

Customs duties account for more than 60% of the tax revenue (72.6% in 1995 and 64.6% in 1996). However, the scale of the re-export, which currently accounts for 55% of the total export (as of 1996), is expected to be greatly reduced due to the scheduled reduction in customs duties ratio and consequent loss of the gap in tax rates with the neighboring countries by entering the ASEAN and AFTA in the near future.

Strengthened capacity of mobilizing domestic funds is an urgent matter for the government with a small revenue and an expected sharp decline in customs duties revenue in the near future.

a. Tax reform and enhanced of tax collection capacity

Although tax revenue has increased remarkably in Cambodia in recent years, it accounted for only 6.5% of the nominal GDP in 1996, which is less than one half of the ASEAN average <sup>(47)</sup>.

*The Policy Framework Paper 1997-99* sets the goals of raising the ratio of revenues to the GDP to 13% by 2000, and intends to take the following measures:

- Faithful execution of the Tax Act (adopted in February 1997), which is aimed at the complete reform of the existing tax system
- Strengthening of the taxation and customs authorities (organizational reform, implementation and strengthening of inspection, strengthened examination of imports)
- Control of tax reduction and exemption under the Investment Law

b. Non-tax revenue

Non-tax revenue account for about 30% of the total revenue (30.3% in 1995 and 28.6% in 1996). It is thought, however, that there are considerable flows of funds which are not incorporated in the national budget. Ministries and government organizations often raise funds outside the control of the financial authority of the Ministry of Economics and Finance. Therefore, it is stipulated in *the Policy Framework Paper 1997-99* that the power of the Ministry of Economics and Finance be enhanced regarding the disposal of state property for the purpose of improving this situation.

Revenue from forest resources exploitation, which is less than 4% of the revenues (1996), is expected to become a very important source of non-tax revenue. The World Bank estimates that a national revenue of \$100 million will be produced annually, given an appropriate forest policy. This sum is equivalent to one third of Cambodia's revenues, or more than 3% of 1996 GDP.

In October 1996, the Council of Ministers formally adopted the forest policy formulated jointly by the World Bank, the FAO and the UNDP <sup>(48)</sup> as one of Cambodia's policy

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<sup>(47)</sup> According to ADB (1997b), p. 33, the ratio of tax revenue to nominal GDP in ASEAN countries except Brunei (i.e., Indonesia, Malaysia, the Philippines, Singapore and Thailand) was 16.6% on the average in 1995.

<sup>(48)</sup> World Bank/FAO/UNDP (1996).



goals. Cambodia has thus taken the first step for the implementation of appropriate forest policy.

### (3) Expenditures

Having been faced with serious problems in the macroeconomic indicators in the beginning of the 1990s, the government cut the current expenditure in 1993 to a considerable extent and have maintained it at around 10% of the nominal GDP. As a result, the current account deficits are less than 1% of nominal GDP in recent years.

Though the government has succeeded in macroeconomic stabilization for the time being, the current expenditure structure has a number of factors which could impede economic growth in the long run. Firstly, military spending accounts for about one half of current expenditure. Second, salary payments to the soldiers of the Royal Armed Forces and government officials account for nearly one third of current expenditure (29.1% in 1994, 27.1% in 1995, and 26.1% in 1996)<sup>(49)</sup>. Third, current expenditure was reduced by reducing social spending and public investment.

The Cambodian government is well aware of the necessity of improving this current expenditure structure. There has been certain improvement since 1994 (Table 2.2.3). Still, it is obvious that a drastic change in fund allocation is indispensable. To this end, it is important to improve the capacity of budget and spending management, to reduce soldiers and government officials, and to reform public institutions.

**Table 2.2.3 Current Expenditure by Sector**

	1994	1995	1996
	Ratio to current expenditure		
Defense and security	59.1	57.6	50.5
Education	9.2	9.9	10.1
Health	4.5	3.6	5.5
Agriculture and rural development	1.9	2.1	2.4
	Ratio to nominal GDP		
Defense and security	6.4	5.9	4.9
Education	1.0	1.0	1.0
Health	0.5	0.4	0.5
Agriculture and rural development	0.2	0.2	0.2

*Source: Prepared by the writer from World Bank (1997a), p. 20 and p. 40.*

<sup>(49)</sup> World Bank (1997a), p. 54.

### **3. Major Challenges in Social and Economic Development**

#### **3.1 Rehabilitation from the Disturbances of War**

##### **3.1.1 Establishment of the Rule of Law**

The people of Cambodia had been exposed to the possibility of violent destruction for more than 20 years from around 1970. This resulted in very poor socio-economic infrastructure in Cambodia. These social conditions produced the collapse of the rule of law. As Cambodian society lacks a rule of law, military power is acknowledged as a source of power and a means of contending, thus greatly threatening the stability of people's lives.

The First SEDP clarifies that it is urgent and indispensable to establish a reliable judicial system in order to promote the rule of law. It proposes the establishment of a trial system which has courts at three different levels, the fostering of judges, law practitioner training, and establishment of laws most notably including codes of civil and criminal procedures and criminal law.

##### **3.1.2 Land Mine Removal**

It was in the end of the 1960s that land mines were first used in Cambodia. Mine laying continued for more than 20 years since then, and Cambodia is estimated to have as many underground mines as its population. Fig. 3.1.1 is a map of mines identified in a survey by the Cambodian Mine Action Center (CMAC). Mine fields are concentrated in the northwestern part of Cambodia and reach the southeastern coast along the railway lines. As the number of mines is comparatively small in the central plateau, it is estimated, fortunately, that the mine fields in this region account for only 2.9% of the arable fields where rice cultivation is possible <sup>(50)</sup>. Still, a large number of people are living in constant fear of mines <sup>(51)</sup>.

It must be pointed out, first of all, that injuries from mines concentrate on men in the prime of life. They are injured when they are soldiers, but many other men are also injured by engaging in work such as land clearing and felling trees, in which they are likely to be injured by mines. Second, mines deprive people of their working capability by making their limbs amputated. As a result, both the person who has been injured by a mine and also his entire family could fall into poverty.

Mines not only make land sterile but also have an economic effect of substantially reducing the working population. In order for the standard of living in Cambodia to be improved, land mine removal and care of the injured are very important.

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<sup>(50)</sup> Calculated by the writer on the basis of the Association for International Cooperation of Agriculture and Forestry (1997). Table III-13.

<sup>(51)</sup> P. Davis (1994).

### Figure 3.1.1 Land Mine Map of Cambodia

Land mine field  
Refugee camp  
Major cities  
Major national roads  
Railways

Thailand  
Laos  
Mekong River  
Vietnam  
Mekong Delta  
Suay Rieng  
Phnom Penh  
Kampot  
Kampong Speu  
Gulf of Thailand  
Site 2  
Tonle Sap  
Kompong Thom  
Pursat  
Siem Reap  
Angkor Wat  
Battambang  
Sisophon  
Svay Chek  
Pailin  
Sadao  
  
Thma Pôk  
Treng

*Source: P. Davis (1994), p. 74.*

### 3.1.3 Poverty Alleviation <sup>(52)</sup>

The disturbances of war and international isolation deprived Cambodia of means of development for a long time. Yet Cambodia is one of the poorest countries in the world even though it has achieved an annual rate of more than 6% in real GDP growth after signing the Paris Peace Accords in 1991. Poverty alleviation is therefore the most important challenge for Cambodia.

According to the World Bank estimates based on the data obtained in the socio-economic survey of 1993-94, 39% of the Cambodian people were living below the poverty line. As about 35% of the people were excluded from the survey for security or traffic reason, it is highly likely that poverty in rural areas was underestimated.

Poverty situation in Cambodia is described below, on the basis of the World Bank estimate.

(i) Geographic distribution of poverty

Forty-three percent of the rural population are classified as poor. In Phnom Penh, however, the poor account for only 11% of the residents.

(ii) Poverty distribution by occupation

Farming is the occupation in which the proportion of the poor is the largest. Among the households headed by farmers, 46% are classified as poor. Among households which include government officials as family members, the ratio of the poor is the lowest. Among these occupations the poor account for 20%.

(iii) Poverty distribution by degree of education

Among households with uneducated heads 47% are poor. Among families whose heads have had secondary education the ratio of the poor declines to 30%.

(iv) Poverty distribution by sex

Among female-headed households 35% are poor while 40% in male-headed households. It cannot be said, therefore, that families whose heads are female are likely to be poor.

According to this analysis, poverty is most frequent among rural families headed by farmers with low educational levels. In poverty alleviation, it is necessary to take measures focused on these people.

As already mentioned in 1.2.5, social infrastructure is notably very poor in rural areas. Focusing on the social infrastructure development of rural areas will therefore greatly improve the living standards of rural people which will consequently contribute to poverty alleviation. In addition, it is necessary to provide access to education for rural people for the purpose of cutting off the vicious circle of poverty given that the rate of school enrollments is much lower in rural areas than in cities.

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<sup>(52)</sup> The description in this section depends on World Bank (1997a), pp. 3-5. Figures are therefore different from estimates in the First SEDP.

## 3.2 Rural Development

### 3.2.1 Income Generation for Farmers

Primary industry employees account for more than 80% of the employed in Cambodia (Table 3.2.1). In other words, an overwhelming majority of the people make their livelihood and support their family by agriculture, forestry or fishery. The proportion of primary industry production, however, is only 40% to 50% of the GDP. This imbalance makes it easy to suppose that the income levels of families engaged in agriculture, forestry, or fishery are much lower than those of families employed in other industries.

**Table 3.2.1 Employment Structure in Cambodia**

Unit: %

	Whole country			Cities			Rural areas		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
Primary industry	81.6	77.4	85.2	36.4	32.3	40.8	87.5	84.1	90.4
Secondary industry	2.8	3.7	2	7.6	10.2	4.7	2.2	2.6	1.9
Tertiary industry	15.6	18.9	12.8	56	57.5	54.5	10.3	13.3	7.7

Source: National Institute of Statistics, Ministry of Planning (1996). p.31.

It is, however, very difficult to identify the income levels of those engaged in agriculture, forestry, and fishery. It is especially difficult regarding the income of farmers. First, except for field farmers who produce cash crops in larger quantities and a few large-scale rice-producing farmers, the large majority of farmers is very small-scale rice-producing farmers who produce and consume their rice basically for themselves. Second, it is very difficult to identify gross annual sales and total earnings, because they sell their rice only when they need cash. Third, it is also difficult to identify cash earnings, which are produced irregularly, apart from those from selling the rice. It is therefore more realistic to determine the income levels of those engaged in agriculture, forestry, and fishery from data on their expenditure.

As the socio-economic survey conducted in 1993-94 classifies households according to their place of residence, rural households are not always households engaged in agriculture, forestry, or fishery. Still, in view of the fact that primary industry accounts for 87.5%, secondary industry 2.2% and tertiary industry 10.3% of employment in rural areas<sup>(53)</sup>, households living in rural areas can be regarded as households which are probably engaged in agriculture, forestry, or fishery.

According to the survey<sup>(54)</sup>, monthly spending of one household (5.6 members is the national average, 5.9 members is the Phnom Penh average, and 5.5 members on the rural average) is about \$312 on the average in Phnom Penh, while it is about \$96 on the average in rural areas, producing a gap of more than three times. The breakdown of expenditure is shown in Table 3.2.2. The ratio of food spending is especially conspicuous among rural

<sup>(53)</sup> National Institute of Statistics, Ministry of Planning (1996). p. 31.

<sup>(54)</sup> National Institute of Statistics, Ministry of Planning (1995).

households (about 64%). They appear to spend their incomes to obtain necessary minimum goods and services for their basic living needs.

**Table 3.2.2 Household Expenditure (4th quarter 1993 - 3rd quarter 1994)**

Average monthly expenditure (U.S. \$)	Phnom Penh 312.4	Rural areas 95.5
Breakdown (%)		
Food	45.1	63.6
Alcoholic drinks, tobacco	3.1	3.5
Clothing, foot gear	3.6	4.0
House rent, fuel, and light	23.9	8.0
Furniture	2.1	1.9
Health services	5.8	8.7
Transportation, communications	8.9	3.8
Education, leisure	3.2	1.6
Other expenses	4.5	4.9

*Source: Prepared by the writer from National Institute of Statistics, Ministry of Planning (1995). pp. 64-65.*

Table 3.2.3 shows the average monthly household expenditure by household expenditure decile by stratum. According to the table, \$96, the average expenditure of rural households, is in the seventh decile. This shows that at least 60% of rural households are spending below the average.

It is obvious that rural households tend to have low incomes. This implies that the incomes of households engaged in agriculture, forestry, and fishery are much lower than those of households employed in other industries.

**Table 3.2.3 Average Monthly Household Expenditure by Household Expenditure Decile by Stratum (rural areas)**  
(4th quarter 1993 - 3rd quarter 1994)

Average	U.S. dollars 96	%
1st Decile	36	3.7
2nd Decile	49	5.2
3rd Decile	59	6.2
4th Decile	68	7.1
5th Decile	77	8.0
6th Decile	87	9.1
7th Decile	99	10.4
8th Decile	116	12.2
9th Decile	138	14.5
10th Decile	225	23.6

*Source: National Institute of Statistics, Ministry of Planning (1995). p. 67.*

### 3.2.2 Creation of Employment Opportunities

A rapid increase of the working population is expected in rural areas. First, young people born in 1979 and thereafter, the baby boomers, will participate in the labor market soon. As 85% of the families live in rural areas in Cambodia <sup>(55)</sup>, and as secondary and tertiary industries cannot absorb many labor forces due to its infant stages, the rapid increase of the labor force will take place first in rural areas. Second, a sharp reduction of soldiers of the Royal Armed Forces is scheduled. As most of them are from rural areas and have no special skills, the vast majority of demobilized soldiers are expected to return to the rural home villages.

As such, the working population will considerably increase in rural areas. As it is impossible for secondary and tertiary industries to absorb the rural work force on a large scale for the time being, rural workers will be absorbed in the agriculture sector for the time being. This, however, could further lower farmers' income levels, which may cause social unrest.

The raising of agricultural income levels should therefore be regarded as an urgent social issue. For this purpose, the commercialization of agricultural products and the pursuit of a side job can be considered for a while, but insufficient economic infrastructure such as roads in rural areas will impede such trials. It is therefore necessary and to construct roads to improve market facilities.

### 3.3 Export Industry Development

The rehabilitation of the production base which had been destroyed completely in the 1970s was tried with socialist policies in the 1980s. The results were, however, very limited. While the state-owned enterprises reform and privatization have started under the economic liberalization policy since the beginning of the 1990s, industrial development has been promoted by adopting the policy in favor of foreign investment. This was successful to a certain extent, as shown in the increased export of domestic-made products which jumped from \$67.3 million in 1991 to \$298 million in 1996 and in the expanded manufacturing sector which increased from 7.0% of real GDP in 1991 to 7.9% in 1996.

Industrial development in Cambodia has just started. It is indispensable to further develop export-oriented industries in order to maintain steady economic growth and to increase people's incomes.

#### 3.3.1 Promotion of Labor-intensive Export Industries

The unemployment rate in Cambodia is 2.5% on the whole, but it is 7.9% (5.7% for males and 10.1% for females) in urban areas <sup>(56)</sup>. It can be said that unemployment is concentrated in urban areas. The unemployment rate in rural areas is 1.8% (1.6% for males and 1.7% for females), which is very low <sup>(57)</sup>. In view of the fact that agriculture, forestry, and fishery which employ more than 80% of the workers produce only a little more than 40% of GDP, considerable underemployment can exist behind this low rate of unemployment. As mentioned in the preceding section, it is expected that the working population will

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<sup>(55)</sup> *Ibid.* p. 21.

<sup>(56)</sup> National Institute of Statistics, Ministry of Planning (1996). p. 29.

<sup>(57)</sup> *Ibid.* p. 29

increase especially in rural areas. It is therefore necessary to generate and promote labor-intensive industries which will absorb jobless people in cities as well as invite rural industries which will absorb part of the working force in rural areas.

Cambodia's manufacturing businesses are very young. Until recently only state enterprises have been of a scale that exceeded that of home industries. Rapid development of domestic industries cannot be expected. Meantime, labor-intensive export industries such as the garment industry have been gradually shifted from neighboring countries since the signing of the Paris Peace Accords as well as the enforcement of the Investment Law in 1994. These industries are the engines for the growth of Cambodian manufacturing industries.

As the domestic market is very limited in Cambodia, industrial development is inevitably oriented towards exporting. The exportation of industrial products shows a sharp increase since 1995 (see non-traditional exports in Table 3.3.1), but these products are manufactured mainly by foreign enterprises.

It would be necessary that labor-intensive export industries be further promoted by foreign direct investment and measures are needed for this purpose.

**Table 3.3.1 Major Exports of Cambodia**

Unit: millions U.S. dollars

	1992	1993	1994	1995	1996
Total export value	51	219	462	809	659
Re-exports	...	117	228	540	361
Domestic exports	51	102	234	269	298
Traditional exports	42	101	234	227	186
Rubber	12	11	30	41	32
Logs	25	50	124	112	53
Sawn timber	...	34	73	73	96
Other	5	6	7	1	5
Non-traditional exports	...	...	...	43	113

*Source: Prepared by the writer from World Bank (1997a). p. 49.*

### 3.3.2 Rehabilitation of Existing Export Industries

Rice, rubber, and timber are traditional exports of Cambodia. Each industry is faced with serious problems.

#### (1) Rice

Through the 1960s after the independence in 1954, rice was Cambodia's principal export item, together with rubber. Cambodia, however, became a rice importing nation in 1971. The attainment of self-sufficiency of rice had been a challenge for Cambodia until recent years.

Although opinion is divided on Cambodia's capacity for exporting rice, the improvement of the distribution system will enhance its export capacity. Due to its insufficient



transportation networks, a considerable quantity of rice seemingly flows from eastern provinces into Vietnam and from western provinces into Thailand.

In order to make rice will be made an export item again, both increased production and the improved transportation networks and institutional systems are needed.

## **(2) Rubber**

The planting of rubber originated with the plantations development by French capital in Kompong Cham in the 1920s. In Cambodia, rubber cultivation was monopolized by French capital until the 1960s. French capital withdrew from Cambodia due to the civil war in the first half of the 1970s and the rubber plantations came under the control of the Rubber Plantation Authority of the Ministry of Agriculture, Forestry, and Fisheries after the Pol Pot period. In addition to plantations, rubber cultivation was also promoted in the 1960s as a family business. It is conducted today on almost the same scale as in those days.

In the 1960s rubber was a principal export along with rice. In the 1980s it was an important item in trade with the Soviet Union and COMECON countries. In the latter half of the 1980s rubber accounted for more than 50% of the domestic-produced exports <sup>(58)</sup>. It accounts 10-15% of the domestic-produced exports even recently <sup>(59)</sup>.

As rubber production has been completely neglected for more than ten years from the 1970s to the first half of the 1980s, rubber trees are now very old. Moreover, inefficiency in state plantations is considerable, and consequently, the output and productivity are far below the level attained in the 1960s.

Rubber is the only agricultural product that Cambodia can export today. In order to maintain and raise the present level of export, rehabilitation of existing plantations and management efficiency are urgently needed.

## **(3) Timber**

Cambodia's export of timber increased sharply in 1991, in both quantity and value <sup>(60)</sup>. Forest exploitation is advancing very rapidly in recent years to the extent that forest resources can no longer be reproduced. Cambodia's forest resources have been deteriorated rapidly. Table 3.3.2 shows the changing log production. It recovered to the level of the 1960s in the end of the 1980s, and then increased suddenly in the beginning of the 1990s. During this period, logs were actively produced in mainly northern and western regions of Cambodia, providing an important financial source for anti-People's Party groups including the Pol Pot group <sup>(61)</sup>. With the establishment of the new government log production was further increased rapidly to an estimated 1,500m<sup>3</sup> in recent years. This is four times the production level of the 1960s.

Since 1994, the government has been making efforts to control logging, through its policy of banning the export of raw timber, while permitting enterprises (mainly foreign enterprises) to cut trees and export wood, under the condition that they invest in the timbering industry. As embargoes on raw timber have been temporarily lifted frequently on the pretext of approving the export of old logs, the government's policy has only produced a sharp increase in cutting volume.

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<sup>(58)</sup> Calculated by the writer on the basis of World Bank (1994). pp. 175, 176.

<sup>(59)</sup> Calculated by the writer on the basis of World Bank (1997a). pp. 49, 51.

<sup>(60)</sup> World Bank (1995). pp. 104, 105.

<sup>(61)</sup> IMF (1997b). p. 54.

**Table 3.3.2 Change in Log Production in Cambodia**

	Unit: m <sup>3</sup> /year
Year	Output
1960-70	350,000
1971-80	100,000
1981	19,000
1982-83	68,000
1984	70,000
1985	97,000
1986	127,000
1987	167,000
1988	200,000
1989-90	300,000
1991	600,000
1992	900,000
1994	1,500,000
1995	1,500,000

*Source: IMF (1997a). p. 54.*

In order for forest exploitation to be established as a sustainable industry, policies need general reconsideration. A review has been started in line with the forestry policy formulated jointly by the World Bank, the FAO, and the UNDP. Its early completion is desired.

## 4. Aid Trends to Cambodia

### 4.1 Outlook

Cambodia had received generous humanitarian assistance from the international community in 1979-81 just after the collapse of the Pol Pot regime. From 1982 on, however, when the UN declared that the emergency in Cambodia had come to an end, Western countries and the UN banned development assistance. Cambodia received limited humanitarian aid from the former Soviet Union, Vietnam, COMECON countries, and a few international organizations and NGOs. The international community resumed its assistance in rehabilitation and reconstruction in Cambodia on a full scale with the conclusion of the Paris Peace Accords in 1991<sup>(62)</sup>.

As to the change of the amount of the aid<sup>(63)</sup>, net ODA value leaped \$206.8 million in 1992, when assistance was resumed on a full scale, \$452.8 million in 1996. Bilateral assistance in 1996 reached \$252.5 million. The value of assistance from multilateral organizations was \$200.3 million in the same year.

In bilateral assistance, Japan has contributed actively since 1993 and became the top donor, providing a net ODA of \$71.3 million. Japan was followed by France (\$52.1 million), Australia (\$28.2 million) and the United States (\$28.0 million).

Among multilateral organizations the Commission of the European Communities (CEC) stood first in 1996 (\$52.6 million), replacing the Asian Development Bank (ADB) which was the top donor institution in the preceding year. This was followed by the IDA (\$45.6 million), the UNDP (\$37.5 million) and the ADB (\$32.1 million). The IMF has suspended its loans since 1996 for the reason that it is impossible for Cambodia to meet the conditions of the Enhanced Structural Adjustment Facility (ESAF).

Assistance is provided mainly in the form of grants, of which technical assistance accounts for nearly 50%.

By sector, bilateral assistance was provided in high proportions for social infrastructure including education, health, and sanitation. It accounted for 38% of the assistance in 1996. This was followed by economic infrastructure development including energy, transportation, and communications accounting for 16% of the assistance in 1995.

By region, a little more than 80% of assistance was appropriated to Phnom Penh, the capital, from 1994 to 1996<sup>(64)</sup>. This is because many rural areas are not safe due to the Pol Pot group, the increased crime and mines and unexploded shells. In addition, the assistance implementation is difficult due to the insufficient economic and social infrastructure as well as lack of information and poor planning capacity in the rural areas.

The new government established in September 1993 issued the government ordinance in December 1993 and set up the Council for the Development of Cambodia (CDC) as the government organ which coordinates and manages foreign assistance and private investment. The government is implementing its structural adjustment policy, with the guidance

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<sup>(62)</sup> The international community unanimously agreed to resume assistance for Cambodia at the Ministerial Conference on Cambodian Reconstruction held in Tokyo in June, 1992. In response to this agreement, the International Committee for the Reconstruction of Cambodia (ICORC) was organized as the coordination mechanism for medium and long-term reconstruction assistance.

<sup>(63)</sup> The source of assistance values in this chapter is OECD (1997), unless specified otherwise.

<sup>(64)</sup> Association for International Cooperation of Agriculture and Forestry (1997). p. 124.

and assistance of multilateral organizations such as the IMF and the World Bank, for stabilizing macroeconomic indicators.

## 4.2 Japan's Aid Trends to Cambodia

### 4.2.1 Overview

According to *Japan's Official Development Assistance: ODA Annual Report 1996*, Japan has been actively providing assistance for rehabilitation and development in Indochina area with a view that stabilization and development in this region are important for peace and stabilization among Asian and Pacific nations. Japan, whose assistance results has been the highest since 1993, is promoting aid coordination by holding and presiding over various donor conferences.

Priority areas of Japan's assistance have been defined in policy dialogues with Cambodia. They include (1) economic infrastructure such as transportation and energy; (2) basic living needs such as health care; (3) agriculture; and (4) human resources development for improving the capacity of absorbing assistance.

### 4.2.2 Results of Assistance by Type

In fiscal 1968-1973, Japan provided 1,517 million yen in loan aid, 2,637 million yen in grant aid, and 1,663 million yen in technical cooperation. Japan had suspended its bilateral assistance since fiscal 1974 due to Cambodia's domestic conditions. Meanwhile, Japan had continued humanitarian assistance towards Cambodian displaced people through multilateral organizations such as the World Food Programme (WFP). Japan resumed the bilateral assistance in 1989 as the condition improved. The cumulative aid amount up to fiscal 1996 is composed of 2,320 million yen<sup>(65)</sup> in loan aid, 42,740 million yen in grant aid, and 8,524 million yen in technical cooperation.

Japan began accepting participants for technical training again in 1989 and dispatching experts in 1991, notably to support capacity building for government officials. Advisory experts are now active in several Cambodian ministries for the purpose of collecting information and forming appropriate projects. After those programs were resumed, Japan accepted 476 training participants and dispatched 63 experts by fiscal 1995.

With grant aid, Japan restored the Chory Chamgwar Bridge (Japan Bridge) connecting Phnom Penh to the right bank of Tonle Sap and the national road Route 6A. Assistance in the restoration of Routes 6 and 7 is now under way. A survey is also being conducted on the construction of a Mekong bridge in Kompong Cham. In addition, Japan has provided assistance for the improvement of water supply facilities, the telecommunications network, and electric power supply facilities in Phnom Penh. Basic infrastructure in Cambodia is being improved and rehabilitated rapidly with the assistance of Japan and other donor countries.

Japan resumed the dispatch of JOCVs in 1992 and the Cambodian Refugee Resettlement and Rural Development Project (so-called Triangular Cooperation) in 1993 with the cooperation of Cambodia and four ASEAN countries. In 1995 a youth invitation program has started in accordance with the Japan Indochina Friendship Program. In April 1995,

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<sup>(65)</sup> Rescheduling was conducted for 803 million yen in fiscal 1996 for the Prek Thnot Power and Irrigation Development Project (fiscal 1968, 1,517 million yen). Loan aid has not yet been provided, except for this project.

the Maternal and Child Health Project started in Phnom Penh as the first technical cooperation project after assistance was resumed. Its completion is expected in March 2000.

The number of grant assistances for grassroots projects increased rapidly to 41 projects in 1995 after the assistance resumed. There are increasing social development projects, such as the construction and the maintenance of the primary and secondary educational facilities as well as the construction of health care facilities.

Japan places special importance on women in economic and social development (WID). In the Japan-US Common Agenda, Cambodia is specified as a target country for WID, following Guatemala, and a study is being made on the possibilities of specific coordination between Japan and the U.S. <sup>(66)</sup>. Polio and Expanded Program on Immunization (EPI) vaccines (totaling to 310 million yen from 1992 to 1997) provided in a project for providing materials and equipment have reportedly greatly raised the rate of infant immunization <sup>(67)</sup>.

Japan provides assistance for the improvement of the judicial system, through the United Nations, and conducts cultural cooperation by holding the International Conference on the Preservation and Restoration of Angkor Monuments in October 1993.

### **4.3 Trends among Major Aid Organizations and NGOs**

#### **4.3.1 Multilateral Organizations**

##### **1) World Bank group**

The International Development Association (IDA) of the World Bank Group formulated Country Assistance Strategy (CAS) for Cambodia for the tenth IDA Fund Expansion Period (1993-96) and specified priorities in the World Bank's assistance as: (1) capacity building in the central government; (2) analytical service for raising knowledge levels; and (3) selection on the necessity of important rehabilitation and reconstruction works <sup>(68)</sup>.

In response to this, the World Bank actively supported an urgent rehabilitation project in 1994 (\$62.7 million on a commitment basis), a technical assistance project (\$17.0 million on a commitment basis), a social fund project (\$20.0 million on a commitment basis) in 1995, an economic rehabilitation project (\$40.7 million on a commitment basis), and the Phnom Penh Electricity Supply Rehabilitation and Reconstruction Project (\$40.0 million on a commitment basis) in 1996.

##### **2) Asian Development Bank (ADB)**

The ADB's assistance strategy for Cambodia concerns: (1) the strengthening of systems and institutions at the sector level; (2) support for economic growth by economic infrastructure reconstruction; (3) improved access for the poor to employment opportunities; and (4) capacity building through natural resources management and environmental protection. The ADB focuses on poverty reduction through economic growth and projects which especially benefit the poor in rural areas.

In fiscal 1996, the ADB committed itself to five loans (\$105 million) and 16 technical assistance projects (\$9.4 million) <sup>(69)</sup>.

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<sup>(66)</sup> Ministry of Foreign Affairs (1997). p. 62.

<sup>(67)</sup> Based on internal material of JICA Medical Cooperation Department. UNICEF gives guidance in the management and distribution of vaccines in Cambodia.

<sup>(68)</sup> World Bank (1997b). p. 95.

### **3) Other multilateral organizations**

Assistance from the Commission of the European Communities (CEC) has been increasing since 1990. In 1996, it stood first in net ODA value among the multilateral organizations. At the second CG Meeting in July 1997, the CEC committed itself to providing assistance for rural development, basic education, institution and system building, health care, land mine removal, human rights, civil society, and good governance.

The UNDP is supporting strengthening administrative capacity by dispatching experts and regional development including poverty alleviation in rural areas and land mine removal. In addition, the UNDP is also implementing various projects including the sectors of the environment and tourism in cooperation with other institutions.

UNICEF, which has the most experience in assisting Cambodia among the UN organizations, started its activities in 1952. UNICEF resumed activities in 1980 and has been active in the sectors of water and environmental sanitation, education, health, and improved nutrition for female-headed families, WID, and children of poor families.

#### **4.3.2 Bilateral Aid Agencies**

##### **1) France**

Assistance from France, which is second after Japan in net ODA value since 1994, consists mostly of grants, and has been increasing since 1991. It focuses on development administration, human resources development, social development, agriculture, forestry and fishery, transportation, health, sanitation, and humanitarian emergency assistance. France, as a former colonial power, is active in assistance, including contributions to the CEC.

##### **2) The U.S.A.**

Net ODA value of the U.S., which was fourth among donors in 1996, totally consisted of grants from 1991 to 1993. From 1994 to 1996, repayment was in excess of disbursement in loan aid. The US focuses on health and sanitation, transportation, regional development, social development, development administration, and humanitarian emergency assistance.

##### **3) Other countries (South-South cooperation)**

Assistance for Cambodia is characterized by direct assistance from developing economies such as the ASEAN countries, Korea, India, and China, reflecting the importance of the Indochina region, although it only accounts for only several percent of total value of aid. Multilateral organizations are also promoting South-South cooperation between developing countries <sup>(70)</sup>.

#### **4.3.3 NGOs**

In 1997, there were 341 NGOs registered with the government active in Cambodia. 136 were NGOs from foreign countries and 205 were Cambodian NGOs <sup>(71)</sup>. These NGOs are engaged in project activities with their own funds and implement projects in Cambodia

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<sup>(69)</sup> ADB (1996). p. 133.

<sup>(70)</sup> Association for International Cooperation of Agriculture and Forestry (1997). p. 119.

<sup>(71)</sup> CDC (1997b).

with the financial assistance of donor countries or multilateral organizations. They also act as subcontractors <sup>(72)</sup>. Having had accumulated knowledge and experiences in Cambodia for a long time, they compensate for the insufficient operations by the government. They focus mainly on refugee assistance, human rights, health care, vocational training, agricultural development and WID. Their activities have reached the provinces.

In the 1980s, when Western countries and the UN suspended development assistance, NGOs played an especially important part in economic rehabilitation and the reconstruction of the social infrastructure in Cambodia <sup>(73)</sup>.

The number of Japanese NGOs active in Cambodia increased rapidly, with 1993 and 1994 as the dividing line <sup>(74)</sup>.

#### **4.3.4 Aid Coordination**

The international community's cooperation in assistance for Cambodia has entered a new stage. In response to the agreement reached at the ICORC <sup>(75)</sup>, which had played an important role in promoting international coordination for assistance in rehabilitation and reconstruction after the dispute, the CG Meeting was organized as a new mechanism coordinating assistance for Cambodia. Its first meeting was held in Tokyo in July, 1996 and the second was held in Paris in July 1997.

In Cambodia, the UNDP office is in charge of communication and coordination among the donors. In the sectors of education, roads, transportation, and electric power, for instance, the ministries concerned hold meetings with donors under the support of the World Bank or the ADB.

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<sup>(72)</sup> Association for International Cooperation of Agriculture and Forestry (1997). p. 119.

<sup>(73)</sup> Amakawa (1997). p. 29

<sup>(74)</sup> *Ibid.*

<sup>(75)</sup> Refer to (62).

## **5. Future Development Directions and Major Challenges: Based on the DAC's New Development Strategy**

### **5.1 Development Direction and the DAC's New Development Strategy**

#### **(1) Toward good governance**

Cambodia, having lagged behind Laos and Vietnam, will join in ASEAN in the very near future. Cambodia, together with the neighbors, is responsible for both national and Southeast Asian peace and development. The Cambodian government has to satisfy the requirements of being a country in a state of peace, removal of the mines, establishment of a democratic government, improvement of the legal system, ensured transparency and accountability of government mechanisms and policies. The fulfillment of these conditions will bring full scale assistance from the international community for infrastructure development which will, in turn, create an environment that encourages Cambodian people's self-help efforts for its economic development.

#### **(2) Position of NDS goals**

According to the World Bank Paper of 1997 compiled for the CG meeting to be held on July 1997, 39% of the population were living under the poverty line, the rate of population increase was as high as 3%, infant mortality was as high as 110 per 1000 live births, and the average life expectancy was as short as 52 years. Forest areas are also decreasing <sup>(76)</sup>. In these circumstances, the NDS goals aim at satisfying the people's basic needs and conserving the national lands as quickly as possible. The *First Socioeconomic Development Plan (SEDP) 1996-2000* which the Government of Cambodia has focused on poverty reduction and consideration for women and children is in conformity with the NDS. The plan states, in its preface, that the primary object is social development. This means rural development, because 90% of the poor live in rural areas, and poverty alleviation measures are focused on health care, water, sanitation, primary education, and measures for the vulnerable groups. Given the present conditions in Cambodia, these are urgent matters which cannot wait for trickle down effects from economic growth.

#### **(3) Challenges for sustainable growth**

Still, it is evident that poverty elimination and improved social well-being need long lasting economic growth. Measures for economic growth include the development of agriculture and agriculture-related industries, the promotion of export processing industries for securing employment and obtaining foreign currency, and tourism development. It is also necessary to take account of Cambodia's role in the region. As agriculture is a Cambodia's key industry, the enhanced productivity is an important issue concerning both food security and capital formation. Water control is the key for agricultural development. Cambodia has irrigation systems such as ring levees utilizing the changing flow of the Mekong and colmatage systems. It is necessary to rebuild and improve these irrigation systems to and establish communities for maintaining these systems. Seeds, fertilizers, and technology has also become important in increasing unit yields in addition to the construction of irrigation sys-

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<sup>(76)</sup> World Bank (1997a).



tems. Problems concerning this have also been pointed out by NGOs on the use of pesticides and other issues <sup>(77)</sup>.

As pointed out in the World Bank report, the government cannot pursue these measures fully, due to insufficient government revenue, inefficient allocation of the budget and insufficient institutional capacity. In other words, tax reform, administrative reform and accountability and transparency in its economic management have not been pursued enough. There is uncertainty with regards to the enforcement of forest policy as well as the deposit of forest earnings into the national treasury. Institutional reforms which will overcome these matters are necessary to realise long-term economic growth. Moreover, Cambodia, yet classified as LLDC, has an immature market economy, weak government capacity and insufficient private capital. Therefore, to solve the above-problems does not necessarily bring about economic growth at once. Capacity building of both the government and the private sector as well as infrastructure rehabilitation are necessary. In addition, a wide-area development plan formulation and implementation must seek the sustainability of the development, with due consideration to the environment.

## **5.2 Major Development Challenges**

### **5.2.1 Poverty**

In view of the fact that 90% of the poor live in rural areas, rural development should be given priority for poverty alleviation. Regarding industry, policy assistance should be provided for small and medium-sized labor-intensive businesses. It is also desirable that assistance be provided for traditional industries which have been jostled by imports from Vietnam and Thailand. As Cambodia is endowed with valuable resources, which can be used for tourism, it is desired to use these resources for tourism with environmental consideration. As a large number of people are employed in the informal sector, it would be effective to provide financial assistance for business managers in this sector. These challenges contribute to poverty alleviation through increased employment opportunities.

The primary objective of the First SEDP is to reduce poverty by the provision of public services (education, health, and rural infrastructure) and human resources development. The plan connects poverty reduction with employment generation. It classifies the target people to be lifted out of poverty as the vulnerable groups (physically disabled people, internal migrants, refugees, and female-headed households), and the skilled but with insufficient capital (small farmers and workers in the informal sector). The government is providing assistance for the vulnerable groups, who are war victims, with NGOs and UN organizations, in vocational training and rehabilitation. As refugees and internal migrants mostly come from rural areas, resettlement and the provision of equipment, as well as guidance in agricultural management, are needed. Credit and training as a side job should be also provided. Problems of the female-headed households include low educational levels and difficult access to land and credit. They are engaged in farming, manual industries such as sericulture, and selling in the markets. It is necessary to provide them with credit (such as animal banks) and training in business management. Assistance for them is important due to their significant roles in development. Regarding small farmers, it is necessary to provide not only guidance in agricultural management, and equipment and credit, but also opportu-

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<sup>(77)</sup> Tasaka (1993).

nities to gain earnings from side jobs. For the informal sector, which needs less credit than the formal sector, it is necessary to provide credits for purchasing input goods.

In this manner, the plan focuses on poverty eradication using direct assistance for the poor. To realize such assistance requires either economic growth accompanied by a redistribution mechanism or the international assistance. Cambodia has to rely on the latter at present. It is also desired that Japan will continue vocational training by the grant assistance for grass-roots projects along with regional development by the Triangular Cooperation and capacity building for women. In addition, infrastructure development, which will contribute to regional development, is also necessary.

### **5.2.2 Education**

The *First SEDP* sets the goals of raising the rate of primary school enrollments to 90%, eliminating gender disparity in primary education, and raising the proportion of female students to 45% of the students, in the first stage of secondary education by 2000. These goals are in conformity with NDS goals of universal primary education by 2015 and elimination of gender disparity in primary and secondary education by 2005.

The expansion of basic education is an urgent issue in Cambodia, in which Children 14 years and under account for 44% of the population and Cambodia's future depends on youth education. The World Bank regards improved educational levels as very important for poverty alleviation <sup>(78)</sup>. Supply, however, cannot meet such demand. The largest problem is an insufficient educational budget. Salaries for the teachers account for 90% of the budget, leaving little funding for constructing and repairing school buildings and procuring equipment. The salary scale for the teachers is small and the student enrollment also has problems.

The level of education is far behind that of the neighboring nations as a result of the war and the rule of Pol Pot government. There seems to be a great demand for education among both youths and people of various age groups. Cooperation activities are possible not only in basic education but also other various areas such as technical guidance, adult education, collection of books, succession of traditions, and protection of their cultural heritage.

### **5.2.3 Health Care**

The First SEDP aims to have over 80% of the population immunized against polio, neonatal tetanus, and measles. The plan aims to provide obstetric services in all health centers and referral hospitals, to have 80% of deliveries in cities and 40% of deliveries in rural areas attended by health workers, to raise the ratio of tetanus vaccination by 50% from the 1995 level and to offer prenatal care. The plan further aims to have all provincial and county referral hospitals and health centers equipped with essential medicine, to have qualified doctors and paramedical personnel in referral hospitals and to have qualified nurses and midwives at the health centers. This plan will certainly contribute to the attainment of the DAC goals. Although international assistance is very effective in these areas, collaboration with the public institutions is desired as these issues are correlated with poverty, lack of information and social infrastructure. In Phnom Penh, the Maternal and Child Health Care Center opened with the assistance of Japan. Activities need to reach the rural areas.

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<sup>(78)</sup> World Bank (1997a).

## 5.2.4 The Environment

Although pollution from factory waste is expected in the future, the environmental impacts on agriculture, forestry and fishery, especially the loss of related resources, will take place while Cambodia is pursuing the development of the primary industry. Environmental destruction by tourism is also concerned.

As agricultural production is promoted, environmental management measures will be necessary for preventing pesticide pollution in the production stage. According to the Ministry of Environment, insecticides of high toxicity are used with little awareness of how to use them safely and there are no regulations on the use of pesticides <sup>(79)</sup>.

Regarding forest resources, the World Bank proposes the monitoring of the border and the ports, budgetary appropriations to the Secretariat of the National Committee for Forest Policy, and the suspension of new concessions <sup>(80)</sup>. The First SEDP also considers it necessary to control illegal acts and to review the existing concessions. It also recognizes the necessity of the working on forestry inventory and assessment on the loss of forest resources. Goals to be attained by 2000 include 5,000ha annual reforestation and the maintenance of the proportion of the forests to the total area of national land at 40-50%.

Coast management issues include the formulation of a zone master plan, development of management plans and local institutions in concerned regions, waste water and waste treatment facilities, and regular monitoring.

Water management requires the establishment of a system for controlling pollution from mining. The system will consist of a permission system for discharge, appropriate standards and monitoring.

Fishery management requires surveying the loss and reproduction of fishing resources, the establishment of a research institution, and human resources development.

Tonle Sap ecosystem management requires the listing of fishing resources, improvement of permission to fish and reports of the catches made, and control of illegal fishing.

For a time being, priority would be given to development over environmental measures. In this respect, it is necessary to build an administrative capacity which can keep compatibility between development and environmental sustainability. This requires a study on a strategy on wide-area development involving neighboring countries and environmental protection.

## 5.2.5 Participatory Development and Good Governance

### (1) Participatory development

Then Prince Sihanouk took the initiative in water works construction to raise the morale of the people. Participatory development is defined so as to empower the people through their participation in development. Present political confusion, however, makes mobilization of the people difficult, causing the country to depend on assistance. It is expected that donor countries, multilateral organizations and NGOs will provide assistance in a way to enhance Cambodian people's will to self-reliance.

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<sup>(79)</sup> Ministry of Environment (1994).

<sup>(80)</sup> World Bank (1997a).

## **(2) Good governance**

*JICA Report on Participatory Development and Good Governance* argues that the target of assistance should be limited to good governance as the government functions and that the legitimacy of the government and security of human rights should be determined by the people and the government <sup>(81)</sup>. However, the Japanese government demands democratization to some extent for resuming assistance concerning the recent political dispute (the confusion caused by the deportation of the Ranariddh group). If the new government is properly established by the 1998 election, international assistance will be resumed on a full scale.

## **(3) Ownership and partnerships**

As mentioned earlier, the Cambodian government has formulated the First SEDP which is in conformity with the NDS goals and its implementation is crucial. The Cambodian Development Council (CDC) coordinates foreign investment and assistance and capacity building of the CDC staff is necessary. As one sector often involves multiple ministries, it is necessary to strengthen the coordination capacity of these ministries with regard to acquiring knowledge, information management, data base preparation, and the checking the compatibility with the plan <sup>(82)</sup>.

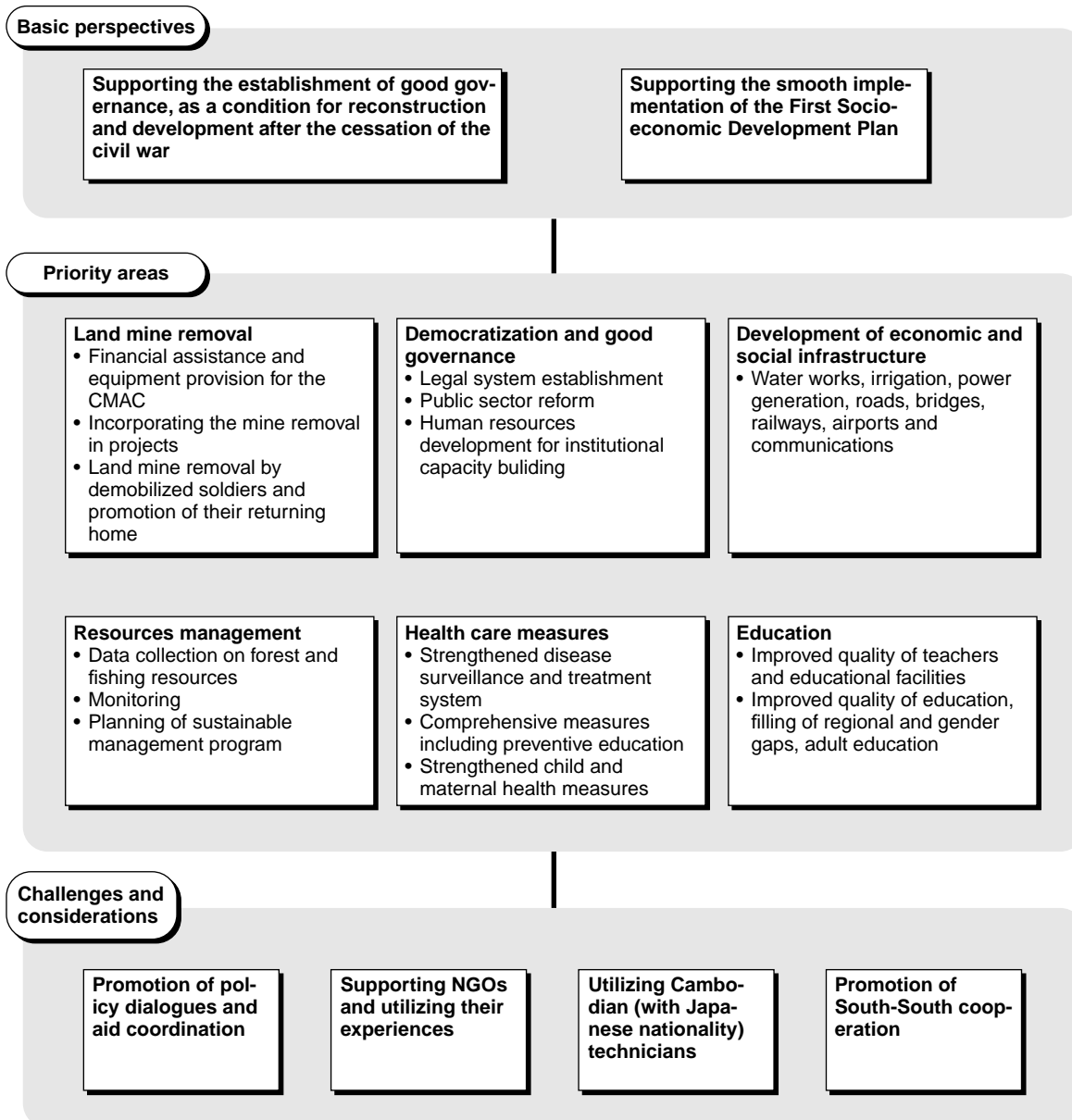
As to the issue of partnerships, donor coordination (division of their roles and collaboration) is necessary as various international organizations are active in the areas they are concerned with. The capacity of the private sector is not strong enough to take a comprehensive approach. Therefore, an enabling environment to encourage the private activities should be established first. In addition to the capacity building of the government, the role of NGOs should be emphasized. It is desired to hold some seminars to promote the exchange of the views among the institutions concerned.

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<sup>(81)</sup> JICA (1995).

<sup>(82)</sup> according to JICA materials

## 6. Framework for Japan's Assistance for Cambodia



## **6.1 Basic Perspectives**

The nations of Indochina are Japan's important partners in Asia and are being given priority in assistance. Especially for Cambodia, Japan has been extending cooperation through its efforts for peace in October 1991 and cooperating with UNTAC. Then Prime Minister Miyazawa proposed the Indochina Integrated Development Forum in January, 1993. Cambodia is also expected to join in this regional development in the Greater Mekong Initiative.

As mentioned earlier, good governance is a precondition for Cambodia's reconstruction and development after the civil war. The basic perspective of Japan's assistance for Cambodia will start with the assistance for good governance (legal system establishment and public sector reform).

Challenges in economic development are expressed in the first SEDP. As they also conforms with NDS goals focusing on poverty alleviation, Japan will provide assistance for the plan's smooth implementation.

## **6.2 Priority Areas**

### **6.2.1 Land Mine Removal**

The removal of the land mines is indispensable for extending both people's economic activities and assistance activities to the provinces. It is therefore necessary to provide the Cambodia Mine Activity Center (CMAC) with funds and equipment. It is also necessary to incorporate land mine removal in assistance projects according to regional conditions. One of the ideas is to give demobilized soldiers training of land mine removal and to promote their return to home villages by engaging in mine removal.

### **6.2.2 Democratization and Good Governance**

Regarding good governance, which involves the establishment of a legal system and public sector reform, Japan can provide assistance such as the dispatch of the experts and training in Japan and other countries. Assistance is needed especially for establishing a judicial system in order to realize the rule of the law, not to rely on armed forces. It is desired that Japan will provide financial assistance and dispatch experts for training judges<sup>(83)</sup>. For public sector reform, it is necessary to formulate and implement a plan attentive for employment options after a reduction of government officials and soldiers in addition to human resources development.

### **6.2.3 Development of Economic and Social Infrastructure**

The construction and improvement of infrastructure including waterworks, irrigation facilities, power generation plants, roads, bridges, railways, airports, and communications are the first challenges for improving the living conditions of the people and then securing sustainable growth and promoting the introduction of private capital. This area involves urban planning in Phnom Penh, and multipurpose dam development projects for water resources utilization for irrigation and power generation.

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<sup>(83)</sup> Sakuragi (1997).

#### **6.2.4 Resources Management**

Data collection on forest and fishery resources, monitoring, sustainable management programs must be pursued first in order to prevent the environmental deterioration, which will be brought about by the implementation of a wide-area development plan. If it is difficult to conduct field surveys, Japan should prepare human resources development by third-country training.

#### **6.2.5 Health Care Measures**

It is necessary to strengthen the disease surveillance and treatment system for the purpose of preventing the spread of infectious diseases affecting a wide range of age groups. Comprehensive measures including preventive education for the people must be taken. It is also necessary to take effective measures for child and maternal health as maternal and infant mortality are higher in Cambodia than in neighboring countries.

#### **6.2.6 Education Attainment**

Challenges in this area include the improvement of the quality of education, filling of regional and gender gaps, and education for adults who have had no educational opportunities. Priority should be given to assistance in the improvement of quality of teachers and the expansion of educational facilities.

### **6.3 Challenges and Considerations**

#### **6.3.1 Policy Dialogues**

As development issues cover wide-ranging areas, it is necessary to identify priorities and roles to be played for efficient assistance. To this end policy dialogues with the Cambodian government are needed. Information exchange and coordination are necessary among the donor institutions. Intellectual assistance services by intellectual people would be also useful in policy dialogues and coordination among the donor institutions.

#### **6.3.2 Support for NGOs**

It is useful to support NGOs active in assisting Cambodia in their respective areas as well as to utilize their experiences.

#### **6.3.3 Utilization of Locally Experienced Personnel**

It is also useful to dispatch technicians inside and outside the country who are former refugees or family members with a deep understanding of Cambodian culture. The Cambodian government is unable to bear large amounts of recurrent costs due to its small revenue. If Japan could support parts of training costs for its counterparts, it will contribute to smooth project implementation and human resources development.

As it is difficult to extend human resources development to the provinces for the present, it is possible to invite local personnel for training in Phnom Penh. Such incentives and expenses should be studied.

#### **6.3.4 South-South Cooperation**

Third-country training and the dispatch of third-country experts should be further promoted. These are especially effective in vocational training in agriculture and other industries, and in tropical medical science.



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