Financing The Goals

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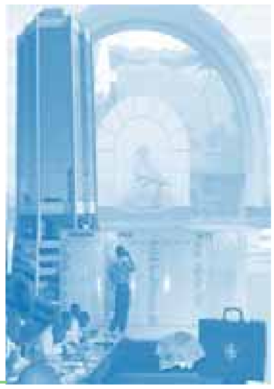
ZIMBABWE



INCOME POVERTY

Reduce extreme poverty by half by 2015:

2002- food poverty incidence = 68%
2015- poverty incidence target = 34%

2002- consumption poverty incidence = 80%
2015- consumption poverty incidence target = 40%

Required real GDP per capita growth rate = 5.5% per annum over 13 years.
Assuming that population is likely to grow by 1.1% per annum, a GDP growth rate of 6.6% is needed.

A more realistic forecast for Zimbabwe, given an average GDP growth rate of 2.6% during the period 1990 to 1999 and an average GDP of -8.5% in the period since 1999, is 5% per annum from 2003 to 2015. This growth rate corresponds to scenarios 2 & 3 in our list of options in table 2. With scenario 2, however, poverty will not be reduced by 50%, but by 27% in 2015. The halving of poverty under a 5% real GDP growth rate will only take place by 2020 (scenario 3). Scenario 2 suggests, therefore, a per capita growth rate of 3.9% per annum. Under this scenario, consumption poverty will be reduced by 31%, from 80% currently to 49% in 2015. Food poverty, under the same growth assumption, will be reduced by 27%, thus falling from 68% currently to 41% in 2015. These results are based on an income distribution (gini coefficient) of 0.57. If income distribution improves, say to a desired gini coefficient of 0.4, then it may be possible to attain a greater reduction in poverty under the same growth assumption.

Lower rates of inflation are critical to achieving any significant positive rate of GDP growth. To attain the growth rates required, inflation would need to be brought down to single digits to attract foreign investment and boost the level of savings in the economy. It is worth emphasising that the consumer basket contains ‘food and beverages’ that account for 50% of all items. A significant reduction in prices will have a marked impact on food poverty.

Sector contributions, saving / investment ratios requirements suggest that some sectors are more pro-poor growth than others. Sector development can have a direct effect on meeting the MDG targets. For example, agriculture expansion can result in higher employment and poverty reduction, while infrastructure development can improve incomes, particularly in the agricultural sector where feeder roads help farmers market their products better.

SOCIAL SECTORS

This report has estimated that the required annual expenditures (as per year 2000 US$) to meet the key MDG targets are as follows:

Option 1:

Primary Education	US$381.5mn
Health	US$43.2 mn
Water	US$48.6 mn
Housing	US$71.0 mn
HIV and AIDS	US$32.0 mn
TOTAL	**US$576.3 mn**
Ave spending per year	US$38.4 mn

Option 2:

Primary Education (with quality improvement)	US$447.8 mn
Health	US$43.2 mn
Water	US$48.6 mn
Housing	US$71.0 mn
HIV and AIDS	US$38.0 mn
Anti-Retroviral Drugs	US$1.5 bn
TOTAL	**US$2.2 bn**
Ave spending per year	US$143.2 mn

On primary education, there is a large discrepancy, based on year 2000 statistics, between net enrolment (92.6%) and primary completion rate (75.6%). In order to increase the completion rate to 100% by 2015, not only do public expenditures have to increase, but also household incomes have to increase so that parents will be able to afford to send their children to school. In year 2000, per child expenditure was Z$ 6536 (US$118), based on an enrolment of 2.4mn children. To achieve 100% net primary completion rate by 2015 and assuming a population growth rate of 1.1% per annum, the expenditure per child will need to increase by at least 4% per annum in real terms (2000 base) for the next 13 years. However, without proper functional classification, value for money audits and expenditure efficiency calculations, the costing can be very unrealistic.

Another important issue to address is the quality of education; supplies per child, teacher pupil ratios may have to be increased. If a 100% increase in supplies per child by 2015 would require a real expenditure increase of at least 4% per annum until 2015 (based on 2000), then the increase in enrolment and completion rates would require a 25% reduction in class size (from 37 pupils to 28 pupils per teacher) and a 50% real increase in teacher salaries. This inevitably requires an increase in real spending (based on 2000) in salaries and wages of 11% per annum until 2015. Since household priority surveys are not available, it is not possible to estimate the increase in household incomes and amount of spending required by households to ensure universal primary education by 2015.

On health, it is important to note that more than one ministry/agency is involved in attaining the health targets. For example, the water ministry is responsible for providing access to clean water, which will reduce water borne deceases, thus reducing infant/under-5 mortality. Also important are household income level and their affordability in purchasing drugs and supplies. In order to reduce infant mortality, under five mortality and maternal mortality and reach targets at 2015, expenditure on preventive services (which account for about 11% of health budget) should increase in real terms by 5.6% (including population growth of 1.1% per annum) per annum. However if combating AIDS as a target is taken into consideration, then substantial funding will be needed. A very tentative estimate shows that to reduce the current level of fully blown AIDS of 600,000 persons (plus population growth) by 50% by 2015 through the intake of anti-retroviral drugs *(whose cost is around US$2500 per year per person and assuming prices remain constant),* the average spending over the next 13 years would be over US $ 1bn per year. This is significantly higher than the total health budget, which was US$ 170 mn in 2000.

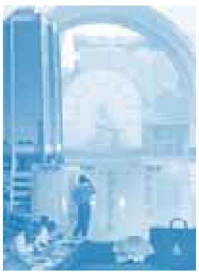
On water, recent statistics show that in 2000, 75% of the population (rural) had access to clean water. Given this high access, Zimbabwe should aim to reach 100% earlier than 2015, perhaps by 2010. Access to clean water also has significant impact on infant mortality, since many children die of Malaria, diarrhoea - water-borne decease. With reference to the budget estimates of 2000 (Vote 9), a real 5% (including population growth of 1.1%) annual expenditure is required for new expansion to reach 100% target by 2010. However, maintenance and connection charges should be added to this 5% expansion figure. In many countries, this additional expenditure is borne by consumers of water. Once again, better budget classification and budget audits will provide better estimation for accuracy and efficiency.

The Ministry of Local government, Public Works and National Housing's department of Housing and Stateland management provided the costing on housing.

RESOURCES

Government revenue and other domestic resources: Zimbabwe's revenues mainly come from tax revenues, accounting for nearly 95% of total revenue. In the last 3 years, the revenue to GDP ratio has averaged around 28%. It is envisaged that this is likely to continue in the future. If high positive GDP growth rates can be achieved with appropriate macroeconomic policies and sector revival measures, then revenue generation can be enhanced. These revenues will form a significant part of the financing required for attaining the 2015 MDG targets.

It is important to note that the country is being impacted negatively from the current wave of international isolation, which has had the same impact as a country under sanction. Given this reality, the government has embarked on general asset redistribution (land redistribution, ability of public to own shares on the stock exchange, etc.) as one approach to addressing structural imbalances in the economy, so as to reduce poverty and inequality. The Government is committed to meeting its millennium development goals, first and foremost, from its own resources. However, should international relations improve, external inflow of resources (grants and external



borrowing) will go a long way to soften pressures on domestic resources.

Grants: These flows have slowed down significantly in the past 5 years. However, in the late 80's and early 90's Zimbabwe had received grants averaging US$250 million per year. Once macroeconomic performance improves and good international co-operation is restored, Zimbabwe can expect these flows to resume to the same magnitude of US$ 250mn per year in real terms. It is even possible to envisage grants to account for about 10% of GDP provided the country is not burdened with the absorptive capacity constraint. These flows will make a significant contribution to financing and subsequently to the attainment of the goals.

External borrowing: The current debt burden of Zimbabwe is excessively high, with a total external debt stock in excess of US$4 billion. Of this, nearly 1.5billion is in arrears to multilateral, bilateral and other creditors. It is important, therefore, that Zimbabwe takes the necessary steps to clear these arrears, especially the amounts owed to multilateral creditors. Followed by good macroeconomic performance, Zimbabwe can enter into negotiations with other creditors with the view to obtaining further debt relief. Once these initiatives have been completed, Zimbabwe can place itself in a credible position to borrow in the future, but ensuring that the debt situation is always within the sustainable limit. This will require the authorities to formulate and implement sustainable external borrowing policies.

Domestic borrowing: Since mid 1999 (when arrears started to build up), external borrowing opportunities have been drastically reduced to a trickle, leaving the country to raise financing from the domestic sector. This has led to a heavy domestic debt burden comprising short-term treasury bills and bank overdraft facility. Though administered interest rates have been kept low, real interest rates have remained negative, thus resulting in low savings and investment ratios. Heavy borrowing by the Government has also led to crowding out of the private sector. The challenge, therefore, is to have positive real interest rates so as to encourage higher savings and investment in the economy.

Conclusion: It is worth mentioning that Zimbabwe remains committed to working towards meeting its 2015 MDG targets, irrespective of the current state of inaccessibility to external resources (grants and Loans).