

SOUTHERN AFRICA: APPER/UNPAERD At Mid Term  
and the Cost of RSA Aggression

I. Country Notes

Botswana - continued high growth (10-15% a year!) external reserve clime. Problems are sustainability of growth, suitable small farmer programme identification, employment. Drought break (in 7th year) will improve 1988 rural income.

- RSA costs - Excess Defence (ca \$60 million a year) 4% GDP, Excess Transport (RSA routes) 1-2% GDP. Open to pressure via transport and raids. Loss of annual GDP growth 1%. In context of rapid growth and huge reserves these levels are bearable, danger is RSA border closure before transport alternatives and/or direct attacks.

Zimbabwe - average GDP growth, 3-4% but erratic. (Under 1% '86, revised estimate '87 2½%, '88 probable 4-6%). Budgetary problem turns wholly on RSA costs. Import constraint also turns on defence costs, excess transport costs plus deliberate reduction of principal of external debt as a policy priority. Employment growth (1 to 2%) major problem as is resettlement - both turn on low investment and low budgetary resource availability for reasons noted plus a very (in most cases) unenterprising private business community which does not respond particularly fully or promptly to export incentives or investment opportunities.

- Severe fiscal orthodoxy practiced (given that Zimbabwe is fighting a full scale war which nobody ever has done on recurrent revenue) as well as very cautious and selective external borrowing. Liberalising in sense of decreasing regulations and increasing incentives. Parastatal losses (4 significant) as much

structural as efficiency problems - are subject of attention. Has safeguarded "human dimension". Falling receipts concessional finance 1984 onward.

- RSA costs - Excess Defence (ca \$500 million annually) 10% GDP. Fighting full scale war in defence of Mozambique and its transport routes through Mozambique. Excess transport costs (ca \$125 million) over 2% GDP. Foreign exchange impact ca \$450 million (65% defence bill plus cif higher/fob lower on imports/exports). About 75,000 Mozambican refugees - fairly well catered for in camps and with families. Serious though limited RSA and proxy attacks RSA and Mozambique borders. GDP growth would be 2 to 3% higher annually (i.e. 5 to 7% total) in absence of RSA imposed costs.

Tanzania - 1982 onward adjustment strategy continues to make progress. 1985 GDP growth 2.6%, 1986 3.8%, 1987 estimate 4%, 1988 forecast 4 to 5%. Radical reduction in real recurrent budget deficit annually since 1980/81. Limited export recovery so that rehabilitation and growth depend on late 1986 onward reversal of declining external resource transfer levels. Assistance rise plus good weather (85/86 - 86/87 - 87/88 after 78/79 through 84/85 bad to low average) has allowed moving exchange rate to a level (Sh 95 = \$1 approximately) at which exports are profitable and on comparative purchasing power basis currency is undervalued without raising inflation rate (basically still swinging near 30% a year). Lack of real prospect for major export recovery, heavy debt overhang, excess defence expenditure (RSA caused) are major problems.

- Investment has turned around but major rehabilitation backlog. Real government spending ditto. During 1981-85 extreme austerity on real spending there was a serious attempt to protect human dimension but major falls in real basic services and real wages. From 84/85 real health, education, water spending have risen and over 1986/87 and 1987/88 real minimum wages have been held constant (reversing 1974-85 trend). Real effective grower prices

(whether public or parallel) have risen fairly steadily since 1974 (except when gluts) for domestic marketed products, but fallen radically (with world prices) for export crops. Marketing board problems centre on credit ceilings (an above average crop sets off IMF trigger clause and/or leads to delayed grower payment), debilitated transport/processing and non-commercial (buyer of last resort/inter year stockholder) role of Grain Marketing Board as well as historic high cost structures. Latter issues are being addressed more rapidly than former. Very slow (if any) industrial capacity rehabilitation and utilisation recovery. Seeking to reschedule all Paris Club 1987 (October) - 1992 payments at one go to 10 years grace plus 10 payment with concessions on interest rates (e.g. 2% on delayed payments while delayed). Distinct problems with Fund on exchange rate (Fund and for a time Bank wanted straight shift to the 'black' capital flight rate which is ca Sh 150 - down from Sh 200 - vs official Sh 95) and on enterprise bank credit needed to buy crops (IMF advocated not buying grain surplus at all) and to reactivate manufacturing. Bank relations uneven but more amicable.

- RSA costs - excess defence (ca \$175 - \$200 million at 1987/88 rate of which \$125 million odd direct support to Mozambique via expeditionary force and training). 3 to 4% of GDP and forex content (75% odd) 40% of export earnings or comparable to whole (post rescheduling) external debt service. Fighting a major war in defence of Mozambique and south of Tanzania where RSA proxy forces have penetrated repeatedly (if on a small scale and swiftly beaten back) since mid-1986. Perhaps 50-75,000 Mozambican refugees in UNHCR camps and with relatives. Total GDP annual growth loss ca 2% (total achieved in its absence would be ca 6% a year).

Swaziland - Erratic GDP growth - negative 1985, 6-7% 1986, near 0 1987 estimate, 2-3% 1988 projection. Affected by weather (direct and via water flow for irrigation), sugar price and depressed state of RSA market. Poor export growth, food crop growth, employment recent trends and prospects.

- Recent firming of policy with caution on expenditure, incentive oriented tax cuts, stress on public enterprise profitability (or loss cuts). Concern for "human dimension" services real, moderate in regional terms. Not seen by international community as priority for assistance.
- RSA costs. Excess transport (damage to Maputo route), tariff and licensing shifts closing several industries, excess security costs, reducing cross border river flows unilaterally without reference Swati needs and existing uses probably total of order of \$25-30 million a year or 5% GDP. Major refugee problem. Ca 50,000 total Mozambican refugees. Half registered and other half not and basically not with relatives but competing in small business, job and (growing) crime sectors. Also RSA murder/kidnapping raids on South African refugees. Annual GDP growth loss as a result RSA action probably 1-2% a year (without it total GDP growth trend might be 3 to 4%).

Lesotho

- The dominant factors in Lesotho's economy are the South African economy (employment, tourism, 60 to 70% of government revenue) and external assistance (over \$50 per capita). Until 1980 employment in RSA (officially 150,000 largely recorded mines contracts but estimated by the government as about 400,000 actual - out of a population of 1.5 million) rose and until 1986 rising wages (especially in mining) offset stagnating numbers. Aid also rose rapidly in the 1975-84 period but has since plateaued. 1985-1987 GDP growth has been perhaps 2% a year and 1988 prospects are similar.
- There is virtually no production base beyond small scale (largely sub-subsistence) agriculture not dependent on South Africa based revenue flows and/or inputs. Aid and Customs Union transfers dominate the Budget. The currency is only nominally separate from the Rand (there is a monetary union).

- RSA economic costs turn on complete dependence and negligible (without tariff or monetary tools nor an independent household income nor state revenue base) ability to alter it. Thus they are hard to quantify. In 1985/86 a blockade (Lesotho is not merely landlocked but South Africa locked) was used to force a change of government, murder raids on South African refugees are regular occurrences and there have been sabotage raids (nominally by proxy forces) on economic targets.

Malawi

- An atmosphere of panic has built up in Malawi over the past 2 to 2½ years. The rapid growth achieved prior to 1980 was never regained despite adjustment programmes under Fund/Bank auspices. 1985 GDP growth was under 2%, 1986 under 3% and 1987 under 0.5% while 1988 prospects are for a fall or at best stagnation.

The causes are complex and cumulative but the ones triggering the crisis beginning in 1985 are excess transport costs (8% of GDP) and massive refugee influx (ca 550,000) building up over 1984-87 as a direct result of RSA aggression against Mozambique. These have exacerbated, a.) negative post 1980 terms of trade shifts leading to crisis in the plantation sector, b.) a growing land-shortage and c.) policies negatively affecting small (not large) peasant farmers and real wages. Malawi's strategy has always placed emphasis on rapid growth by the better-placed economically (incentivated by low real wages and food prices and partly financed by marketing surpluses on small peasant production - the latter virtually unique in the region since 1980) and (on a revealed preference in expenditure basis) a low emphasis on human condition public services. The refugee impact has fallen initially on relatives, food prices/supplies (exacerbated by drought reduced 87/88 maize crop and cassava mealie bug attacks). Land non-availability/degradation (related to refugee need to be at least partly self-sustaining) has sharply worsened in southern Malawi. Therefore, the impact on the poor has been especially severe.

- RSA costs turn on excess transport (8% of GDP) from blocking both rational routes to the sea and impeding the rational (Tete corridor) land route. Improving indirect access to Beira and direct to Dar es Salaam can cut these costs - perhaps by 1/5th - but only re-opening Nacala and/or Beira direct rail access can remove this ca \$150-175 million a year millstone. Excess military costs (including Malawi contingents now helping defend Tete and Nacala corridors against RSA proxy forces) are perhaps 2% of GDP and the refugee burden hard to quantify but at least of the same order of magnitude. Annual loss of GDP growth is of the order of 3% (partly because of rapid buildup of cost and limited adjustment or external resource contribution to meeting them). Without it GDP growth would be 3 to 4% (vs probable -1% to +1% 1988).

Note - Malawi position on RSA aggression has shifted radically since 1986. The RSA proxy forces in Mozambique (bandidos armados/'MNR') are denounced publicly as terrorists and causes of economic crisis. The transport and refugee crisis are publicly stressed and international help in meeting them sought. Malawi forces are fighting the proxy forces on its transport routes in Mozambique and attacks on them have resulted in President Banda summoning and denouncing RSA Ambassador. Malawi is still reticent about unilaterally denouncing RSA publicly. It is, however, happy to have its name on regional (SADCC, etc.) denunciations and to have presentations of need for aid to reduce/offset costs of RSA aggression made by multinational/international bodies (e.g. UNICEF, UNHCR, SATCC) with explicit reference to Malawi. (This is not itself for public use but to indicate what Malawi would now welcome - as it would not have before 1986 - being said on its behalf).

Zambia

- has had negative real growth after 1981 with declines in 1982, 3, 4 and 7. The 1985 increase was 1.5% and the 1986 0.5% while 1987 output fell 0.2% and 1988 is likely to be in the -1% to +1% range. There is a massive growing unemployment and absolute poverty problem, severe deferred maintenance and capacity

under-utilisation (consequent on forex unavailability for ongoing production and maintenance), relatively low investment and fiscal imbalance at a very high level. The underlying causes are, a.) terms of trade collapse (trend level in real terms post 1980 under  $\frac{1}{2}$  that of 1945-75) of copper (with by-product cobalt about 90% of exports), b.) very heavy transport cost increases from 1965 (initially Rhodesian illegal declaration of independence impact, post 1980 RSA aggression against Mozambican routes) and large excess defence costs over same period. Very large (ca \$5 billion) external debt with high % commercial, IMF, Bank and debt service arrears and high % (IMF, Bank, commercial arrears) non-rescheduleable and/or at high interest rates (IMF, Bank "bank window", commercial bank) has blocked attempts to mobilise net inward transfers of external resources to allow import recovery and has thus ensured collapse of successive stabilisation and adjustment programmes since 1975 notably in 1984 and 1987. The Fund/Bank insisted upon near wage freeze (non-intervention?), price freeing, underfinanced/free fall forex auction policies of 1986/87 led to massive social rending and riots resulting in implosion of (hopelessly under-financed as negligible net resource transfer, indeed probably negative) 1985-87 structural adjustment programme and deep hostility to Fund and Bank method of prescribing and their rigidity on timing and form/choice/speed of measures.

Zambia's 1987-88 interim go-it-alone adjustment approach is austere and has (helped by the now past copper mini-boom) performed slightly better than last two Fund/Bank designed packages. But as aid inflows are run down, arrears (ca \$750 million to Fund/Bank by end 1988) rising and exports adequate neither to finance imports for rehabilitation with growth nor for production adequate to achieve fiscal balance or even static real personal consumption it is not viable beyond 1988-89. It is made even less sustainable by a fixed exchange rate becoming significantly over-valued as inflation remains in 20-30% range (down from 60% during "free fall auction, free increase price" period). [Not for publication - domestic economic management is unstable over time, inconsistent at any time and openly disagreed

with by many decision takers in marked contrast to, e.g. Botswana, Zimbabwe, Tanzania or Mozambique.]

- RSA costs include excess defence spending (ca \$125-150 million - shakier estimate than Tanzania, Zimbabwe, Angola, Mozambique, Botswana) or 5% of GDP; 2-3% of GDP excess transport costs (being reduced with shift to Beira, Dar routes); higher costs of RSA sourced imports (combined transport and credit squeeze) and refugees (20,000 registered, 50,000 probable total Mozambique and up to 4 or 5 times as many Angola).

Proxy force (Mushala gang) sabotage and terrorism in past and (from Mozambique by bandidos armados) present plus direct RSA raids on South African refugees. Annual GDP growth loss perhaps 2% a year suggesting 3 to 4% growth in absence RSA destabilisation. [I am hesitant here as in past Zambia has tended to mismanage windfall gains rather badly.] Human condition costs severe as government has been unable to protect health/education/water or real wages nor to devise approaches actually benefitting small farmers or urban informal self-employed/employed.

Mozambique - The central economic facts in Mozambique are war costs (exacerbated by drought) and external resource transfers. Real GDP is less than half what it would have been (on 77-80 trend) without RSA aggression/destabilisation. From 1980 through 1985 real output fell about 5% a year. Its recovery in 1986 (1.5%) and 1987 (5 to 6%) with 1988 (4½ to 5%) continuation projection are from this destroyed base level; totally dependent on soft aid increases (ca \$400 million a year 1985 to 1988 increase including Donor Group and Emergency Group probable flows out of \$600 million odd annual increase at pledge levels), and are based on very shaky (because of war) agricultural output guesstimates which probably overstate. Nevertheless recovery especially in several cities (not just Maputo) and significant rural areas where security has improved (e.g. but not only parts of Tete



which is under normal conditions grain basket) is very real and noticeable.

Over 1986-1988 Mozambique has radically revamped economic strategy and policy and been able to implement these (and earlier policy initiatives previously resource barred at implementation level) because of massive increases in external real resources to support production and emergency (food, logistics of delivery, health offset to aggression now running \$300 million a year versus perhaps \$100-150 before 1987) forex needs. Rural incentives (goods, inputs, services, "food for work" plus improved security), subsidy reduction, a realistic exchange rate, the beginnings of tax and enterprise management overhaul have been put in place. Export production (including transport services actually and even potentially comparable to visible goods) is again profitable. Mozambique remains "human condition" oriented. Wage increases, allocations to increase employment and real wages (including a "food bank"), increased goods availability at official or legal free (vs candongo or illicit) market prices and partly restored health, education, water services have to date meant most of poor people are no worse, and many better, off. Fees which did damage access to health services and drugs are being corrected. Mozambique views PRE as analogous to Lenin's NEP or Gorbachev's perestroika (whether the Bank, Fund and bilaterals see or accept that is much less clear).

But the situation is very precarious. Short lags in food aid can bring whole cities to hunger (e.g. when a 20,000 tonne shipment condemned as weevil infested/unfit for human consumption at another African state's port was sent to Mozambique and recondemned the physical gap nearly shattered Maputo's maize ration for a month); any fall in import support finance could reverse production recovery. GDP is at best \$150 per capita (lowest in region). Visible and invisible exports are below debt service due after rescheduling.

RSA costs include ca \$250-275 million or 12% of GDP excess defence spending; up to 8% of GDP loss of transit transport

earnings from landlocked states; rural and urban production blocking by sabotage-terrorism-fear. Deaths (direct and indirect) attributable to the war will exceed 800,000 by mid-1988; over 7 million Mozambicans have been made internal refugees over 1980-85 by terrorism with over 1 million additional international refugees. Total population late 1988 15.0 million. 3.6 million receive food relief (another 1.4 to 2 million would qualify if RSA proxy forces did not bar access to deliver aid) and 2.3 million urban population depends on food rations sold to them but dependent on grant imports because war makes adequate rural production/transport impossible. Exports are about 80% (goods and non-factor services) below levels in absence of RSA destabilisation aggression. Growth of GDP is of the order of 4 to 5% a year below what would be possible in the absence of war, i.e. for 6 to 8 year recovery period 8% or more a year would be attainable with peace and present aid levels.

Angola

- Angola's economy is dominated by war and oil. Data are shakier than for other states and the oil factor makes overall real GDP performance misleading. Over 1980-88 oil sector output has been on a 7½% growth trend. Because of war the 1980-86 non-oil GDP growth trend was in the -3% to -5% a year range analogous to Mozambique. In 1986 oil prices fell over 50% (with only partial recovery since) exacerbating the collapse of the non-oil economy (probably -15% a year in 1986 and 1987 and -5% or worse in 1988). For what it is worth 1985 GDP (oil and non-oil) probably fell 1%, 1986 and 1987 experienced real falls of at least 6% annually and 1988 will show a lower (perhaps 1% to 3%) fall. Non oil GDP is at less than half what it would plausibly have been in the absence of 1980-88 RSA aggression and destabilisation (a conservative estimate as it excludes massive base 1980 production losses from 1975-79 RSA actions).

BOP data are equally subject to misreading. Angola has built up substantial visible trade surpluses with what appear to be relatively generous visible and invisible import levels.

In fact, the visible imports to defend Angola against direct and proxy (UNITA rebels) force aggression built up to at least \$750 million a year by 1987 or well over half total visible imports. Invisibles are dominated by the oil sector and in fact include capital investment costs by external oil companies. External debt is of the order of \$5,000 million including private (oil sector) unguaranteed loans and trade arrears (and going into serious arrear despite massive import cuts since the 1986 oil price collapse and rescheduling by the USSR, Brazil and Portugal).

Angola planned an adjustment strategy analogous to Mozambique's PRE (but called CEF in Angola). The 1986/87 debt rescheduling (along lines subsequently proposed by ADB more generally), IMF/Bank membership applications, foreign investment incentive generalisation beyond oil, joining ACP and seeking Donors Conference/Emergency Conference help routes analogous to Mozambique were all integral to this approach for which new personnel, policy designs and programme skeletons were in place. With the debt rescheduling rejected, the IMF/Fund applications indefinitely delayed [clearly US veto but whether this can be said by ECA I do not know], negligible aid increase prospects and South African war enhancement, Angola decided late in 1987 it could not risk proceeding with CEF. As not only have many of the measures been mothballed but key personnel replaced, the recreation of a structural adjustment strategy when oil prices recover, net transfers rise markedly and/or aggression costs fall will be both delayed and politically difficult. [To put it bluntly the failure has reinforced the old material balances, bureaucratic allocation, no possibility of deals with major capitalist powers or IFI's fraction in the leadership and understandably so. The USA's open support for RSA's terrorist proxy - UNITA - and apparent veto of Fund/Bank applications and the muted Western European criticism of these actions create a wholly different climate than in Mozambique where PRE won backing and USA denounced the proxy - MNR - as terrorist, the RSA policy as "holocaust folly comparable to second world war" at the 1988 Emergency Conference and is putting in ca \$150 million emergency

and transport rehabilitation grants over 1988/89. How ECA can say this I don't know - it needs to be said!] The very modest 1988 Emergency Programme request for \$105 million in May 1988 probably represents a retesting of the potential availability of international cooperation more generally as well as a renewed attempt to avert starvation while cutting the grain burden on the balance of payments.

- RSA costs include excess defence ca 25% of GDP or \$1,250 million, loss of transit traffic revenue ca 2% of GDP; massive output loss from sabotage and terrorism (including 80% non-oil exports). Direct and indirect deaths by the end of 1988 will exceed 650,000; nearly 4.0 million people will have been forced to become internal and over 0.5 million international refugees out of a total population of at most 10 million in 1988. Those receiving food relief may total 1 million and urban ration sales are lower than in Mozambique because much more limited availability of food aid and logistical support has prevented comparable Emergency Programme creation (and because the population is two-thirds as large) not because the need is less. In the absence of RSA aggression and with interim net resource inflow boosts (and no further real fall in oil prices) Angola could for 6 to 8 recovery years achieve 10% annual real GDP recovery/growth.

## II. Regional Notes

- GDP growth regionally in 1988 after 2 to 2½% levels in 1985-87 may achieve 3 to 3.5%. But this will be uneven with Botswana over 10%; Tanzania - Zimbabwe - Mozambique 4 to 6%; Swaziland - Lesotho 2 to 3%; Zambia and Malawi under 2% (and perhaps negative) and Angola negative. Export growth (physical) will be significant (say 5% or over) in Zimbabwe, Mozambique, Angola and probably Tanzania and Swaziland but very low in Zambia and Malawi and inconsequential in Lesotho (where visible exports finance under one-tenth of imports). Weather in 1987/88 (1988 harvest) has been uneven with Zimbabwe, Tanzania, Zambia, Swaziland, Botswana (barring some flood -!- losses) good; Mozambique mixed to poor and Malawi poor. Lesotho seems to be moderately good but has a huge normal year food deficit and in Angola war outweighs weather (which was apparently mixed). Food production per capita is above mid-1970s levels in Tanzania and clearly adequate absolutely in Zimbabwe. It may be above mid-1970s levels (even excluding sugar which is an export crop) in Swaziland and slightly below (excluding refugees) in Malawi. In Lesotho and Zambia it is probably 15-20% lower (vs over 25% lower in 1984 in these cases).

In Botswana it was at least 50% lower before the drought broke in its 7th year in 1987-88 while in Mozambique and Angola the war has reduced it to 50 to 60% of mid-1970s levels. (For example, for minimum consumption levels Mozambique would need 1.0 to 1.25 million tonnes of grain imports and at least 0.3 to 0.4 million of other foods in respect of a population of 15 million - it may in 1988/89 receive 0.7 of grain and 0.25 of other basic food on 1988 pledge levels, shipment delays and pipeline arrears to come from 1987/88 pledges.) Food aid reduces the gap so that only in war ravaged Mozambique and Angola plus refugee swamped Malawi are there massive physical availability problems but poverty (lack of entitlement in Sen's terminology) caused malnutrition is endemic in all nine countries.

"Human dimension" has the highest priority in Zimbabwe, Mozambique, Tanzania and Botswana in all of which modest gains are likely in 1988 in health, education, water quantity and quality and probably average real incomes of most poor people. Priority exists in Zambia, Swaziland and Lesotho but is less focussed and 1988 outturn is more problematic. In Angola war and

hydrocarbon price collapse cost crisis management has nearly overwhelmed longer term goals albeit basic primary health care has received enhanced emphasis over 1986-88. Malawi has historically given little explicit attention [or at any rate positive attention -] and allocated few resources to support human dimensions aspects. This may change on attention side, but with severe resource constraints further deterioration in real incomes of poor Malawians and of health-education-water quality and effective access is likely in 1988.

Aid and net resource transfers to the region have risen since 1985. But this is a combination of significant rises to Mozambique and Tanzania and sustained high transfers to Botswana with relatively high but not rising per capita levels to Malawi, and Swaziland and declines to Zambia and Zimbabwe. Lesotho has had a decline as - since early 1987 - has Zambia while Angola's modest increase is (excluding military equipment purchase soft loans) from a very low level. Donors cannot be said to have provided the resource transfers/debt relief envisaged in APPER/UNPAERD except (barely) in the first three cases. Certainly their performance in this sub-region is not inconsistent with Wass Report view that at least another \$5,000 million a year is needed for 37 SSA members of the Bank/Fund (excluding Cote D'Ivoire and Nigeria). Southern Africa share - excluding war cost issues - would probably be of the order of \$1,000 to \$1,250 million annually. Further, their tendency to proliferate, resist coordination and guideline setting by the host (or to be fair anybody else, e.g. Bank or UNDP!) and seek to impose standard global export models without respect for domestic initiatives/alternatives or local conditions and sheer bloody-minded petty bureaucratic and personal/institutional aggrandisement concerns erode their efficiency and are building up widespread resentment (even in countries always or now seen as "model adjusters" and verbally quite polite or soft spoken in debate with "donors"). [Note - the OECD Development Centre data exclude CMEA countries which seriously distorts Angola series relative to those of the other 8.]

RSA costs now total about \$2,500 million ~~excess~~ defence expenditure (65-75% forex cost) and \$750 million excess transport costs via RSA/transit traffic revenue loss (all forex cost) annually. These forex costs alone are half total likely 1988 regional visible exports. In the absence of RSA aggression/destabilisation the 1988 regional GDP growth could be 2 to 3% odd higher, i.e. 5 to 6% not 3%. Cumulative GDP loss over 1980-86 (excluding

1975-80) came to \$25,000 to 30,000 million comparable to regional GDP. By the end of 1986 it will total about \$37,500 to 45,000 million (same basis updated Annex to UNICEF Children on the Front Line) or 1½ to 1.2/3rd times regional GDP and will be running at about one-third of achieved Regional GDP. For Mozambique the loss is over 50%; for Angola over 35%; for Zimbabwe over 20% for Tanzania, Malawi, probably Zambia over 10% and for Botswana - Lesotho - Swaziland less but significant. The loss of life directly and indirectly caused by war of aggression waged (direct and by proxy) by RSA over 1980-88 will exceed 1,500,000 souls (same basis updating Annex UNICEF COTFL plus USA State Dept. Gersony Report). With 1,500,000 external refugees (and over 1,000,000 incoming refugees from Angola and Mozambique is other states) and 10 million internally displaced at some point over 1980-88 plus 40% odd health/education/water facility destruction, war/terrorist prevention of food production and war/export loss pressure on budgets "human dimension" costs are shattering in Mozambique and Angola and high in Tanzania, Malawi and probably Zambia plus (on employment and self-employment creation front) Zimbabwe.

#### What Is To Be Done About RSA Costs?

1. Recognition (by donors but also by states) of nature and magnitude of war and war related costs. (SADCC, Hanlon, Martin and Johnson and UNICEF work have begun this process but only begun -)
2. Recognition that for Mozambique and Angola war is the dominant economic reality and to ignore it is as fatuous as to ignore (drought, terms of trade, etc.) while for Malawi, Zimbabwe and Tanzania war costs (indirect via Mozambique and response to very real RSA threat) they are among the most important macro economic parameters. No analysis and no policy or programme not specifically taking this fact into account can hope to be fully relevant or adequate except by accident.
3. Meeting emergency costs - food, logistics of distribution, health, and rehabilitation via resettlement and agriculture/rural basic services restoration - in Mozambique, Angola and (for 500,000 odd refugees) Malawi is crucial to human survival and a pre-condition for national economic stabilisation or recovery. For Mozambique the annual cost minimum (converting food from market to donor accounting prices) is (on a

carefully done basis) about \$450 million a year. For Angola it might be \$250 million (two-thirds the population) and for Malawi refugees ca \$50 million a year. This is a continuing cost until RSA aggression is reduced or security against it increased. NB Food aid without transport (including spares and fuel as well as new equipment) is little use so heavily are the emergency-wracked economies eroded.

4. Transport restoration/rehabilitation via Dar, Maputo, Beira, Nacala and Lobito corridors would save and earn up to \$700 million a year in forex for Southern African states. For about \$1,500 million (maximum) by end of 1989 capacity can exist to re-route all (except Lesotho) SADCC states and all Zaire external trade now forced to use longer, higher cost RSA routes - even if Lobito Corridor is not by then operational. This requires fulfilling commitments donors have made already to SATCC/SADCC Priority Programme and contractors maintaining present momentum. The one addition (for Zaire) is stepping up Lake Tanzania rail ferry and Tanzania Railways main line rehabilitation to match Kigoma and Dar es Salaam Harbour progress (perhaps \$100 million). As transport is key to RSA leverage on landlocked states this debottlenecking would reduce economic leverage over them well beyond transport costs.
  
5. Trade among SADCC states and with third countries replacing RSA sources could profitably be stepped up when No. 4 is attained. The SADCC (and 1988 Special Meeting PTA) trade programmes do focus on and outline ways and means to this end:
  - a. pre-export/import finance for exports (analogous to Zimbabwe and tiny, prototype, Tanzanian funds) with base foreign fund to revolve when exports flow. Advanced SADCC proposals and tentative Nordic and USA interest;
  
  - b. expansion of regional trade credit by a combination of larger bilateral swing accounts and external finance for PTA Clearing House (allowing longer clearing period) and/or for national 90-180 day normal and 540-1080 day capital goods export credit facilities.
  
  - c. restoration of 90-180 day trade credit guarantees to SADCC states to offset South Africa's clever use of up to 18 month guaranteed credit



and 20 to 30% price hikes to capture an increased share of Zambian and Malawian markets.

With direct transport routes to the sea open for many goods RSA will no longer be a low cost supplier. This will be particularly so if its plans to revise and cut payments under Customs Union Arrangements drive Botswana and possibly Swaziland out of it. (Probable if changes now mooted are attempted in case of Botswana when Botswana has access to Beira and Maputo).

6. Energy dependence on RSA (in general at high cost and giving power to destabilise) is being reduced in case of Botswana (own plant and links to Zimbabwe/Zambia sources). Swaziland and Maputo dependence (ca two-thirds on RSA power) could be ended in 2 years by ca \$100-150 million restoration/extension of Cahora Basa line to Maputo and Swaziland. Cahora Basa could also usefully be linked to Zimbabwe grid to lower border area power costs and avert need for very expensive added capacity at Wankie Thermal plant. Transmission line cost perhaps \$25-30 million.
7. The security cost imposed by RSA combined with insecurity imposed by RSA and proxy forces is - literally killing Mozambique and Angola and gravely debilitating Zimbabwe, Tanzania and probably Zambia. Direct lethal military aid is not the only option open to donors. Others include:
  - a. logistics protection, e.g. armouring trains and lorries, training and supporting (armed) railway and road police;
  - b. similar assistance to security features and personnel of key economic projects (e.g. power lines, factories, quarries, plantations);
  - c. non-lethal (food, fuel, uniforms, transport equipment, communication equipment) to the (defensive) armed forces of the five seriously to catastrophically affected countries;
  - d. general production and transport operating and rehabilitation import support grant enhancement specifically to offset part of security cost haemorrhage of forex caused by RSA aggression;

- e. effective pressure (of whatever kind external state chooses so long as it works) to force RSA to halt its trans-border aggression and abandon (or bring back to RSA and disband) its "MNR" and "UNITA" proxy forces.
8. Employment losses from RSA repatriation could run up to or over 1,000,000 dominantly falling on Lesotho (up to 400,000) and Mozambique (perhaps similar but with up to the same number of dependents). This number (and RSA's estimate of 1,500,000 SADCC state legal, quasi-legal and illegal employees in RSA) clashes so sharply with the 300,000 odd figure usually used as to require explanation. 300,000 is the legally registered, term contract total (and basically those employed by members of the Chamber of Mines) not total nor even total legal employment of nationals in RSA. In the case of Mozambique the late 1987 figures are 54,000 Chamber of Mines; 3,000 other mines; about 15,000 other legal; perhaps 23,000 legal seasonal agricultural and 155,000-405,000 (informed guesses simply do not yield any consensus) illegal (some - especially rural - officially known to and condoned by RSA, some of over 10 years permanent absence from Mozambique to RSA, some overlapping the 250,000 refugee estimate) plus up to 500,000 dependents (of illegals and rural quasi-legals).

Analysis and pilot programmes (one by Norad - Unions of B-L-S and Mozambique-ILO) have to date centred on miners. Ironically these are smallest component and the one which while already being phased down (notably in respect to Mozambique) is least likely to be pushed out in short run because they are crucial to gold mining where they are bulk of long term, semi-skilled and skilled black labour force. The urban (largely illegal) workers including domestics and some of rural illegals/condoned categories are far more vulnerable but very little is known about numbers, home areas, skills or remittances.

Apart from building data; initial programmes are needed - RSA is squeezing these people out and has been for several years. (Whether - as with Mozambican miners - this deliberate economic aggression or - as with many urban workers - it is to reduce black employment problem in RSA, the cost to SADCC states and their citizens and the need to rehabilitate and economically re-integrate the returnees is the same.) In the short term the need is for emergency programmes including food, logistics and tools

to create largely rural family sector self-employment possibilities for the majority and "food bank" type funds to allow urban employers to rehabilitate facilities and employ the semi-skilled/skilled minority.

Pilot programmes of the order of \$25-50 million a year in Lesotho and Mozambique and \$5-10 million in Swaziland, Malawi and Botswana should be planned and implemented by 1989 both to meet present needs and to have a base on which to build if massive expulsions by RSA do take place.

9. Exchange rates, balance of payments and fiscal balances-imbances should be evaluated with explicit attention to RSA aggression/destabilisation costs. Nobody has ever fought a full-scale war and very few built up defenses to guard against one with either recurrent fiscal or external current account balance. Surely the degree of imbalance matters but so does the fact of war/war-related costs as a cause. Similarly the main calculations on sustainable exchange rates, fiscal balance/domestic state borrowing requirement, enterprise credit needs should be after a plausible net resource transfer package and debt rescheduling is in place not without it with the parallel implication that the rescheduling and flows of quick disbursing (including emergency) resources should parallel (not effectively lag 9 months behind) policy changes or even be slightly in advance of them. Front end loading costs and back end loading potential benefits is a recipe for economic emasculation, human condition worsening, political will disintegration and programme abandonment especially in the context of the massive (often ignored, always underestimated) costs of RSA aggression and economic destabilisation.

#### Extra Financing Requirements

The costs of the foregoing are not included in World Bank or UN (Wass Report) calculations of additional resource flows needed. Nor, indeed, are they by any means fully included in APPER or UNPAERD. A rough estimate of a reasonable external level of additional external resource transfers (in grants or IDA term loans) annually over 1988/89-1991/92 might be:

- a. additional emergency aid - \$100 million Mozambique, \$200 million Angola,

\$50 million Malawi (refugees), \$25 million other (refugees) - total \$375 million;

- b. rehabilitation support for internal displaced persons and returning refugees \$150 million Mozambique, \$150 million Angola - total \$300 million;
- c. additional finance to speed up SADCC priority transport projects and to fund key energy links - total \$350 million about \$100 million in Mozambique, \$175 million in Angola, \$25-30 million each in Botswana, Tanzania, Zambia, Swaziland, Malawi and Zimbabwe;
- d. to one-half excess defence/security costs (perhaps three-fourths of their forex content) - \$1,250 million total of which \$625 million Angola, \$250 million Zimbabwe, \$150 million Mozambique, \$87.5 million each Tanzania and Zambia, \$30 million Botswana, \$20 million other.

These items total \$2,275 million or an amount equivalent to gross ODA receipts of the sub-region from DAC and OPEC economies in 1986 (\$2,473 million). The largest country claimants are Angola (\$1,050 million), Mozambique (\$500 million), Zimbabwe (\$275 million plus refugee support additions). In each case the total exceeds gross ODA receipts (even including those from CMEA) for 1986. Whether a reduction could be expected after 1991/92 depends on whether RSA had reduced its aggression thus allowing completion of the transport and energy priority projects, rehabilitation and economic reintegration of displaced persons and refugees and reallocation of some portion of the resources now required for defence against RSA and proxy force actions.

### III. Exchange Rates and All That

The Southern African region is not homogenous as to degree of over or undervaluation, sustainability or determination of rates.

Lesotho/Swaziland are on a rand standard. Therefore they are probably undervalued in comparative purchasing power terms. Lesotho has no significant visible exports and Swaziland's key actual (sugar) and potential (coal) exports at the moment face global gluts so exchange rate changes would not radically alter exports and could significantly improve the BOP only by cutting (already depressed) domestic demand and creating a downward spiral as to import linked sector production, maintenance of capital stock and new investment unless paralleled by massive resource inflows which would have to be concessional finance.

Botswana has a managed currency pegged to a (basically Rand/\$ basket). It has used limited revaluation against the rand to hold down inflation. Because the dominant exports are diamonds and EEC quota beef it has had no balance of payments problems beyond a brief 1981/82 hiccup when the combination of the trough of the diamond market and peak of hoof and mouth disease caused a brief, well managed mini-crisis. On a global comparative purchasing power calculation Botswana's pula is not overvalued but against the rand and Zim \$ it arguably is. This does hamper the (growing) manufacturing sector as to import substitution and exports so Botswana may have a mild, incipient case of the "Dutch disease".

Zimbabwe operates a managed float (basket pegged at any one time) about comparable to excess inflation with frequent small changes. On a comparative purchasing power basis the 1979-83 real revaluation has been more than wiped out and the Zim \$ is undervalued. Except for sugar and steel (global gluts in both cases and need to modernise and reposition output mix in latter) exports are profitable. But relative to the rand the Zim \$ is overvalued which creates export and some domestic problems for industry. Knowledge, market access and the rather sluggish (in general) private sector not the exchange rate hold back the (quite respectable) rate of non-traditional (as to goods and markets) export growth rate.

Malawi's kwacha is now overvalued on comparative purchasing power terms largely as a result of the massive terms of trade loss (fob export price falls and cif import cost rises) imposed by RSA proxy forces' cutting all rational import/export routes and exacerbated by recent poor weather and poor commodity terms of trade. Exports are discouraged by present prices and in some cases physically unmoveable. Whether devaluation would help much is less than clear - it might (on a managed float parallel to excess inflation after an initial moderate downward phasing) help reduce side distortions but restoration of rational transport access and debt burden reduction are essential to any lasting improvement.

Zambia's kwacha was probably nearly "correct" on comparative purchasing power terms when set at K8 = \$1 in 1987. With high inflation and no subsequent changes it is now (despite USA devaluation) overvalued, i.e. K10 = \$1 might be rational on pure cpp grounds. However, beyond the unfortunate mechanism of a fixed rate adjusted rarely but in large chunks it is not clear what devaluation alone could do. Removal of export/turnover taxes has restored the metal industry (95% of exports) to modest profitability (helped by a limited price recovery) but if the rate remains fixed it is likely to go into the red in 1989. Non-traditional exports are hamstrung by import constraints on production and investment.

The auction system was a disaster. Negative (and self-fulfilling) expectations of a free fall plus gross failure of external sources to deliver adequate or predictable flows (as anticipated) to keep the auction afloat led to a collapse to a grossly undervalued and inflationary (to 60% a year) K22 = \$1 over 1985-87. Speculation that the Fund/Bank will impose a new auction or a K20-30 to \$1 rate holds the parallel market rate at K25 = \$1. Restructuring to regain a plausible BOP requires massive net transfers (negligible over most of 1975-87 adjustment efforts including present go-it-alone one) over an extended period.

Tanzania's move from Sh 16 = \$1 to about Sh 95 = \$1 over 1986-88 has been made possible by prior real domestic borrowing cuts, use of a managed float devaluing monthly by excess inflation plus a small real devaluation and increased external import support funding. It has therefore strengthened the 1984-88 recovery of GDP growth and fiscal balance and not accelerated

inflation from its 30% post 1980 annual trend rate. Exports (including non-traditional) are now profitable and backed by incentives but with inadequate (in several cases) access to pre-export import finance. Their recovery remains erratic and dependent on processing/manufacturing plant and transport rehabilitation. As two-thirds of imports are external transfer financed vs one-third export financed, the dominant influence on the sustainable rate in the medium term is the level of transfers.

On a comparative purchasing power basis the TSh at 95 = \$1 is undervalued. Further devaluation ahead of inflation can not (in present production structure/condition/capacity context) boost exports much but could boost inflation. The retail capital flight rate of Sh 150 = \$1 is down from Sh 180 and the 'true' smuggling rate is probably ca Sh 100 = \$1 (from major operator in candid mood plus scattered evidence). The no forex import licence system may well now (vs 1984) be counter-productive as it encourages export smuggling to reap high profits on amenity imports and snaps up remittance and expatriate local purchases flows which at the 95 = \$1 rate could reasonably be expected to follow legal channels and provide finance for higher priority imports.

Mozambique has devalued radically to M 450 = \$1 (from about M 30 as of late 1986). On cpp terms it is probably slightly undervalued. Major surviving exports (including port and rail transport) are again profitable. Unfortunately Fund insistence has resulted in a large, infrequent cut policy not (as Mozambique would prefer) a managed downward float analogous to Tanzania and Zimbabwe. Exports have been cut 80% by war and their recovery depends on security restoration (proceeding) and foreign finance (now rising) far more than exchange rates. In the medium term over 80% of imports will continue to be financed by transfers so they (plus further debt burden reduction) determine what exchange rate is viable.

Angola's exchange rate is totally unrealistic. The kwanza is nominally under 30 = \$1 while cpp might suggest a minimum of 300 and perhaps 450 (comparable to Mozambique). There are a series of separate markets with uncertain shares. Further, the candongo one is oddly self-integrated (to buy on it one must also sell on it). Thus 'true' price index is unknowable. This relates primarily to the costs of RSA's war of aggression combined with the 1986 oil price collapse (95% of exports) albeit the virtually fixed 1975-85 rate had already created serious cpp overvaluation before 1986. Tentative plans to move to a

more rational rate and rate setting mechanism were evolved in 1986/87 as part of a package including an innovative debt restructuring (along lines similar to subsequent ADB proposals), Fund and Bank membership, a Bank Consultative Group pledging conference, an Emergency (food and logistic aid) Conference parallel to Mozambiques, and selective de-bureaucratisation/selective liberalisation (analogous to Zimbabwe, Tanzania, Mozambique). With no response to the debt proposals, its Bank/IMF membership applications put on hold, no chance of Consultative Group or Emergency Conferences and a massive upsurge in direct (a fact agreed by RSA and world press) RSA aggression, the whole strategy (including exchange rate adjustment) has been put on hold or temporarily reversed; albeit the 1988 Emergency Conference, if successful, could be a first step toward reviving it.

General conclusions from the regional experience relate not to specific rates but to key factors:

1. external pressure for massive devaluations as a pre-condition for considering later, unguaranteed transfer increases is counterproductive. It delayed Tanzanian, Zimbabwean and Mozambican adjustments, is delaying Angolan, and makes Zambian harder;
2. while gross overvaluation does deter exports, adequate export recovery/growth requires massive rehabilitation, restructuring, pre-export import finance support so no rapid bop balancing can come from devaluation beyond the cpp rate or slight cpp (historic price) undervaluation;
3. in the short (1-2 years) and medium (3 to 10 years) term net resource transfers and reduction of RSA aggression costs (plus domestic fiscal policy) not exports (or even export prices) will dominate the sustainable exchange rate for Angola, Mozambique, Zimbabwe, Tanzania, Malawi and Zambia. Thus these issues not devaluation should be at the centre of international cooperation dialogue;
4. in the context of sharp increases in external support, devaluation can be useful, not increase inflationary trends and be consistent with human dimension concerns, e.g. Tanzania, Mozambique. Otherwise it can be applied safely on a large scale only by a quite strong economy with a



trade surplus or near balance, e.g. Zimbabwe, Botswana;

5. rates fixed for long periods with rare, major changes and under-financed auctions are clearly inferior to frequent, smaller changes (excess inflation plus discretionary real devaluation) as practised by Zimbabwe and Tanzania (and to a lesser degree because less needed, Botswana);
6. The constant harping on exchange rates by Fund (and often Bank) is counter-productive and inefficient in downgrading real (physical), forex flow and allocation), RSA aggression and debt restructuring issues which should be at the centre of domestic and international attention. This is especially true once the rate is at or about historic price cpp parity. Massive overvaluation is costly but usually requires parallel resource transfer boosts to correct; large undervaluation cannot fuel an export boom but can cause massive inflation, production loss and erosion of both the human condition and the political base essential to successful, sustained structural adjustment.
7. 8%, 3 years grace and 3 to 4 to repay money whose arrival is very uncertain because of multiple, rigidly imposed (or slowly, ponderously, bureaucratically waived) conditions - i.e. standard IMF finance - is totally unsuitable for financing structural adjustment over 7 to 12 years (realistic time frame for severely impacted economies unless overnight end to RSA actions); like cocaine it gives a short high and a prolonged down with grave withdrawal difficulties. (Zimbabwe, Tanzania and Mozambique share this view and the first two have drawn little even when they could have negotiated for more.) ESFA at 1% and 5 + 5 years may be more suitable if more certain, e.g. built in "conditions" under which "trigger clause" targets would be eased and/or additional drawings provided. (At least in private the Bank fully agrees and the Fund wants to use ESFA to refinance the huge overhangs which can for foreseeable future only be rolled over - or defaulted - e.g. Zambia in region and Somalia, Sudan, Ghana, Zaire, Liberia elsewhere in SSA.)
8. The recent Fund and (less uniformly) Bank pressure to shift official rates to the most readily known parallel market ones is unsound for several reasons:

- a. Some rates are very erratic suggesting a narrow and atypical market;
  - b. cross rates (e.g. \$ - Rand in Mozambique, \$ - KSh in Tanzania) show a high dollar premium over alternative (dominant in Mozambique and probably Tanzania cases) trading currency. This suggests "known" parallel rate is really retail capital flight and/or special use (e.g. external magazine subscription, mail order of auto spare part) rate not the basic trade parallel market rate;
  - c. when (rarely) discoverable the "wholesale" parallel rate by smuggling may be much lower, e.g. TSh 100 = \$1 when "retail", \$ note/t cheque rate was TSh 160 = \$1 and is the logical rate to focus on in considering official rate adjustments;
  - d. devaluation to the parallel rate is a theoretical nonsense. The technically correct approach (as Bank knows and sometimes remembers to say) is a volume of transactions (value) weighted average of all major rates not unification at the highest rate;
  - e. unification of rates at the retail parallel market one will rarely stick if there are functioning luxury import, direct mail order and/or capital and capital service payment restrictions. Users for these purposes will pay a premium above the official rate (whatever its level) if they cannot receive forex directly.
9. The disproportionate length of this section relative to others and the (perhaps) 5 to 10% role of the exchange rate in needed policy measures is the result of the Fund/Bank overstress on devaluation and the equal and opposite domestic reaction against any flexible exchange rate policy not of the author's view of its intrinsic relative importance.

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