

CLASSIFICATION:

PDBCC 466

AID 1120-1 (8-88)  PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT  PROGRAM ASSISTANCE APPROVAL DOCUMENT		1. PAAD NO. 613-0233
			2. COUNTRY ZIMBABWE
			3. CATEGORY Zimbabwe Grain Marketing Reform Support Program
			4. DATE August 30, 1991
5. TO:	Ted D. Morse Director, USAID/Zimbabwe		6. OYS CHANGE NO.
7. FROM:	Patricia K. Buckles Chief, PDIS		8. OYS INCREASE Life of Activity: \$5,000,000.00 TO BE TAKEN FROM: DFA: FY 1991
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 5,000,000			10. APPROPRIATION - ALLOTMENT 72-111/21014:GSS1-91-31613-KG39
11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD AUG 91 - SEP 92	14. TRANSACTION ELIGIBILITY DATE 30 AUG 91
15. COMMODITIES FINANCED  NONE			

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.: \$5,000,000.00
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash: \$5,000,000.00	Other:

18. SUMMARY DESCRIPTION

A US\$5 million sector cash grant non-project assistance program is proposed for a Zimbabwe Grain Marketing Reform Support Program to support the GOZ in the implementation of grain marketing policy reforms required to achieve its structural adjustment objectives. The program will contribute toward improvement of rural consumer welfare by supporting a GOZ initiative to move grain marketing towards a competitive, lower cost system by reducing market controls and allowing expanded private participation in the grain trading system. The program purpose is to support specific policy and regulatory reforms which will: (a) increase access to grain in deficit areas; and (b) reduce the contribution of domestic grain trading losses to the national budget deficit. The disbursement of US\$5 million will be conditioned on specific reform actions justified in the PAAD document. The funds will be disbursed into a non-commingled Special Dollar Account to support the Open General Import License system. Procedures for tracking the U.S. dollar disbursement are found in Section 7.2 of the PAAD document. Once USAID concurs with the drawdown of the U.S. dollars from the Special Dollar Account, the GOZ will deposit an equivalent amount of local currency into a Separate Local Currency Account programmed for budgetary support of program objectives and a portion of USAID in-country administrative costs.

19. CLEARANCES	20. ACTION
DDIR <del>DDIR</del> : Stephen Spielman ✓ DATE 8/29/91	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
RLA REG/GC : Donald Keene OK 8/23/91	
ARM <del>ARM</del> : Robert Armstrong (draft) 28 AUG 91	AUTHORIZED SIGNATURE
CON A/CONT : Mary Lewellen m 3/29/91	Ted D. Morse
PRDR <del>PRDR</del> : Margo Ellis (draft)	Mission Director, USAID/Zimbabwe
PDIS <del>PDIS</del> : Patricia K. Buckles PKB 29 AUG 1991	TITLE

CLASSIFICATION:

Zimbabwe Grain Marketing Reform Support Program  
613-0233

Program Assistance Approval Document (PAAD)

Table of Contents

	<u>Page</u>
PAAD Facesheet.....	i
Table of Contents.....	ii
List of Acronyms.....	v
Design Participants.....	vi
1. <u>EXECUTIVE SUMMARY</u> .....	1
1.1. Recommendations.....	1
1.2. Program Summary.....	1
1.3. Rationale for Selecting Sector and NPA Modality.....	3
2. <u>PROGRAM CONTEXT</u> .....	5
2.1. Key Development Indicators.....	5
2.2. Macroeconomic Performance Summary.....	5
2.3. The Climate for Reform.....	6
A. The Pressures to Initiate Reform.....	6
B. A Description of the Reform Program.....	7
C. An Assessment of Direction.....	10
D. An Assessment of Commitment.....	10
3. <u>SECTORAL CONSTRAINTS ANALYSIS</u> .....	12
3.1. Agriculture Sector in the Macro-Economy.....	12
A. Agricultural Status.....	12
B. Agricultural Policy Issues.....	13
3.2. Maize in the Agriculture Sector and the Economy.....	15
3.3. Grain Marketing Constraints.....	16
A. Policy and Regulatory Framework.....	16
B. Transport and Infrastructure.....	21
C. Credit Markets & Working Capital.....	22
D. Analytical Capacity .....	22
4. <u>PROGRAM STRATEGY</u> .....	23
4.1. GOZ Plans for Grain Marketing Reform.....	23
4.2. USAID Strategy to Support GOZ Plans.....	24

2

5.	<u>PROGRAM FRAMEWORK</u> .....	25
5.1.	Program Goal.....	25
5.2.	Program Purpose.....	26
5.3.	Program Outputs.....	27
5.4.	Program Elements.....	28
	A. Conditionality.....	28
	B. Foreign Exchange.....	32
	C. Local Currency.....	32
	D. Technical Assistance.....	33
6.	<u>PROGRAM FEASIBILITY ANALYSES SUMMARIES</u> .....	36
6.1.	Technical Assessment.....	36
6.2.	Economic Analysis.....	41
6.3.	Socio-Cultural Analysis.....	44
6.4.	Institutional Analysis.....	49
6.5.	Political Assessment.....	59
6.6.	Financial Analysis.....	61
6.7.	Environmental Examination.....	66
7.	<u>PROPOSED IMPLEMENTATION ARRANGEMENTS</u> .....	66
7.1.	Implementation Risks Assessment.....	66
7.2.	A.I.D. Program Management.....	68
	A. Policy Dialogue.....	67
	B. Dollar Tracking.....	68
	C. Local Currency Management.....	70
	D. Technical Assistance Procurement.....	71
7.4.	Host Country Program Management.....	73
7.5.	Monitoring and Evaluation Plan.....	74

ANNEX I - Legal Exhibits

- A. PAIP Approval Cable
- B. Request for Assistance
- C. Statutory Checklist
- D. Environmental Determination
- E. Gray Amendment Certification
- F. Legislative Action Requirements - 611(a)

**ANNEX II - Technical Exhibits**

- A. Program Policy Matrix
- B. Short and Long Term Impact Matrices
- C. Scope of Work for Monitoring and Evaluation

**ANNEX III - Program Analyses**

- A. Technical Assessment
- B. Economic Analysis
- C. Socio-Cultural Analysis
- D. Institutional Analysis
- E. Financial Analysis
- F. Political Analysis (on file in USAID)

## List of Acronyms

<b>AGRITEX</b>	<b>Agriculture Technical and Extension Services</b>
<b>AMA</b>	<b>Agricultural Marketing Authority</b>
<b>ARM</b>	<b>Agricultural Resources Management</b>
<b>CFU</b>	<b>Commercial Farmers' Union</b>
<b>CG</b>	<b>Consultative Group</b>
<b>CSO</b>	<b>Central Statistics Office</b>
<b>ESAP</b>	<b>Economic Structural Adjustment Program</b>
<b>GDP</b>	<b>Gross Domestic Product</b>
<b>GMB</b>	<b>Grain Marketing Board</b>
<b>GOZ</b>	<b>Government of Zimbabwe</b>
<b>IMB</b>	<b>International Monetary Fund</b>
<b>IRR</b>	<b>Internal Rate of Return</b>
<b>M&amp;E</b>	<b>Monitoring and Evaluation</b>
<b>MFEPD</b>	<b>Ministry of Finance, Economic Planning, and Development</b>
<b>MIC</b>	<b>Monitoring Implementation Committee</b>
<b>MIC</b>	<b>Ministry of Industry and Commerce</b>
<b>MLARR</b>	<b>Ministry of Lands, Agriculture, and Rural Resettlement</b>
<b>MP</b>	<b>Member of Parliament</b>
<b>NFAZ</b>	<b>National Farmers' Association of Zimbabwe</b>
<b>NPA</b>	<b>Non-Project Assistance</b>
<b>NPV</b>	<b>Net Present Value</b>
<b>OGIL</b>	<b>Open General Import License</b>
<b>PAAD</b>	<b>Program Assistance Approval Document</b>
<b>PIL</b>	<b>Project/Program Implementation Letter</b>
<b>PIR</b>	<b>Project Implementation Report</b>
<b>RAMC</b>	<b>Regional Accounting Management Center</b>
<b>RCO</b>	<b>Regional Contracting Officer</b>
<b>REDSO</b>	<b>Regional Economic Development Support Office</b>
<b>SADCC</b>	<b>Southern Africa Development Coordination Conference</b>
<b>SEDCO</b>	<b>Small Enterprise Development Corporation</b>
<b>TA</b>	<b>Technical Assistance</b>
<b>UDI</b>	<b>Unilateral Declaration of Independence</b>
<b>USAID</b>	<b>United States Agency for International Development</b>
<b>ZASA</b>	<b>Zimbabwe Agriculture Sector Assistance</b>
<b>ZIMBANK</b>	<b>Zimbabwe Development Bank</b>

**Zimbabwe Grain Marketing Reform Support  
Program Development Participants**

**Agency for International Development**

Robert Armstrong	Team Leader
Patricia K. Buckles	PAAD Development Management
Joseph Carvahlo	Monitoring & Evaluation Plan
Calisto Chihera	Technical Analysis
Rene Daugherty	Macro-Economic Summary
David Gordon	Political Analysis
Richard Harber	Economic Analysis Guidance
Tom Hobgood	Technical Assistance Analysis
Rudo Jimmy	Clerical Support
Donald Keene	Regional Legal Advisor
Mary Lewellen	Financial Review
Nora Mawere	Clerical Support
Ted Morse	Review
Joshua Mushauri	Review
Stephen Spielman	Negotiations

**Consultants**

Brian DeSilva, USDA	Financial Analysis
Tom Jayne, MSU	Economic/Technical Analysis
Patricia Kristjanson, Abt Assoc.	Technical Assessment
	Institutional Analysis
Dave Rohrbach, ICRISATT	Social/Technical Guidance
J.B. Wyckoff, MSU	Technical Analysis
JoAnne Yeager, Abt Assoc.	Social Soundness Analysis

## 1. EXECUTIVE SUMMARY

### 1.1 RECOMMENDATIONS

This Project Assistance Approval Document (PAAD) justifies and recommends approval of a US\$5 million, one year non-project assistance program to support the Government of Zimbabwe's (GOZ) multi-year program for policy reform in the grain marketing sector. It also provides the sectoral analysis for any follow-on assistance, which would be further documented with submission of appropriate addenda to this PAAD proposing any new conditions, analyses, and justification therefore, and up-dating the relevant feasibility analysis where appropriate.

Under the Agency for International Development (A.I.D.) proposed program to support the GOZ's grain marketing reforms, US\$5 million in non-project assistance will be obligated in FY 1991. This PAAD provides the analyses of the grain marketing sub-sector and justification for the specific conditions which must be satisfied for disbursement of the US\$5 million in the first year of the program.

### 1.2 PROGRAM SUMMARY

A US\$5 million sector cash grant non-project assistance program is proposed to support the GOZ in the implementation of grain marketing policy reforms required to achieve its structural adjustment objectives.

The program goal is to improve the welfare of rural consumers by supporting a Government of Zimbabwe initiative to move grain marketing towards a competitive, lower cost system by reducing market controls and allowing expanded private participation in the grain trading system.

Several indicators will be monitored to measure the program's contribution to the stated goal. Specifically, as a result of the program, the number of private traders purchasing maize from the Grain Marketing Board (GMB) in specific deficit areas and re-selling through various channels is expected to increase by at least ten percent. In addition, there is expected to be a measurable increase in the number of informal millers operating in urban areas and in specific rural areas. Finally, real consumer purchase prices for maize meal in informal markets in specific grain deficit areas and in urban areas will be monitored to determine if the program has helped contribute to a measurable decrease in such prices.

The program purpose is to support specific grain marketing policy and regulatory reforms which will: (a) increase access to grain in deficit areas; and (b) reduce the contribution of domestic grain trading losses to the national budget deficit. Several indicators will be monitored to assess achievement of the program purpose. Specifically, it is expected that the volume of maize sold to informal buyers at GMB depots in

specific deficit rural areas (or in areas neighboring deficit areas) will increase by at least ten percent. Also, it is expected that at least 20 percent of maize intake at selected GMB collection points neighboring specific deficit areas will be resold to informal buyers at the same collection points. In addition, it is expected that the GMB annual domestic trading deficit will decrease by ten percent from Z\$23.8 million to Z\$21.4 million.

The disbursement of US\$5 million during the first year of the program will be conditioned on the following specific reform actions: (a) formal establishment of an autonomous Board of Directors for the Grain Marketing Board; (b) formal approval to allow the sale of grain from GMB depots to any buyer at whatever quantity is demanded greater than one bag and assurance that appropriate information regarding relaxation of sales restrictions is disseminated to relevant participants in the grain marketing system and the public at large; (c) formal approval of the policy that any buyer is allowed to re-sell grain through any channel in Natural Regions IV and V without paying any portion of revenues back to GMB and assurance that appropriate information on this policy is disseminated to relevant participants in the grain marketing system and the public at large; (d) formal approval for grain to be sold at selected GMB collection points and/or other non-depot distribution points to any buyer and assurance that this information is disseminated to the public; and (e) commitment to development, completion, and dissemination of a medium range strategy for rationalization of national grain marketing and development of a strong, competitive grain marketing system which permits and encourages private sector participation.

Two years from the date of satisfaction of the program conditionality, the impact of the proposed program reforms should begin to be apparent: the GMB will be operating with greater autonomy and implementing a plan to place the GMB on a commercial footing; private sector marketing channels will be expanded; there should be increased access to grain in semi-arid and rural areas; Government deficits derived from expenditures related to involvement with grain marketing will be reduced; and the program will have provided a demonstration of the value of increased reliance on the market system to allocate resources in grain marketing in particular and agricultural marketing in general.

Upon satisfaction of all five of the proposed conditions, US\$5 million will be disbursed into a non-commingled Special Dollar Account to support the Open General Import License (OGIL), and tracked accordingly. A full description of the procedures to be followed for tracking the U.S. dollar disbursement is found in Section 7.2. Once the United States Agency for International Development (USAID) concurs with the drawdown(s) of the U.S. dollars from Special Dollar Account, the GOZ will deposit an equivalent amount of local currency into a Separate Local Currency Account to be programmed for budgetary support of program objectives and a portion of USAID administrative costs. There will be no projectized local currency.

USAID resources available under the Zimbabwe Agriculture Sector Assistance (ZASA) program totalling approximately US\$400,000, will be used to support the proposed Zimbabwe Grain Marketing Reform Support Program with research, analysis, and monitoring technical expertise.

**1.3. RATIONALE FOR SELECTING THE AGRICULTURAL SECTOR FOR ASSISTANCE AND THE NON-PROJECT ASSISTANCE (NPA) MODALITY**

The Mission considered a number of factors in selecting the most appropriate sector for assistance. A primary reason for targeting agriculture is the sector's importance to achieving the Government's broader structural adjustment objectives. A key element of the adjustment will involve reducing Marketing Board subsidies as a means to reducing the national budget deficit. Support for reduced subsidies in the agricultural sector in the short term should contribute to a reduction of the Government's overall role in the economy and increased reliance on market forces in the long term.

Complementing this programmatic emphasis was the Mission's long term experience in agriculture under the ZASA program initiated in 1982 and scheduled for completion in 1992. The ZASA Program facilitated access to information and greatly enhanced the Mission's understanding of the key issues and constraints to sector development. The success the Government of Zimbabwe attached to the ZASA program in meeting stated objectives of supporting existing Government agricultural policy initiatives helped to strengthen GOZ interest in working with A.I.D. on the new sector program.

In addition, Zimbabwe-specific agriculture research conducted under two long-term regional USAID-funded activities, the SADCC/ICRISAT Sorghum and Millet Project and the Food Security Research Project, has provided in-depth knowledge of the grain sector in Zimbabwe and the key constraints to its development. The research was instrumental in deepening the Mission's understanding of the specific constraints in the grain marketing subsector.

Finally, Mission knowledge of the agricultural sector has been substantially augmented with the recent completion of the GOZ Agricultural Sector Assessment, conducted with World Bank support.

With respect to the choice of a non-project assistance mode, the Mission finds such an approach appropriate to the policy directions set forth by the GOZ. Specific grain marketing reforms have been recommended in the Ministry of Lands, Agriculture, and Rural Resettlement (MLARR) Zimbabwe Agricultural Sector Assessment, and broad measures to address grain marketing constraints were set forth in general programmatic terms in the GOZ's "Framework for Economic Reform" document presented in Paris in April of 1991 in support of a new economic structural adjustment program (ESAP) for Zimbabwe.

In summary, the justification for a non-project approach is based on (a) a recent and up-dated comprehensive analysis of the sector's potential and constraints, which would appear to be best addressed through non-project assistance; (b) a recognized need within the GOZ for policy reform assistance; (c) the Mission's in-depth experience with agriculture in Zimbabwe, which suggests that a non-project assistance mode would be more effective in achieving grain marketing development objectives; and (d) the existence and availability of highly skilled technical expertise to assist with policy analysis and dialogue.

There is an additional macro-economic policy justification for pursuing a non-project assistance approach. The centerpiece of Zimbabwe's economic reform program is the institution of an Open General Import Licensing System. When fully operational in 1995, the OGIL system will apply to all imports (except for a small negative list). It will allow a market determined allocation of the economy's foreign exchange resources among the most efficient users and simultaneously ensure a market determined exchange rate that will provide an adequate incentive to exporters. The donors (bilateral and multi-lateral) at the April Paris meeting pledged some US\$700 million for the first year of the Zimbabwe ESAP. While the \$700 million is sufficient, its composition is focused disproportionately on projects with an insufficient amount being made available in a non-projectized mode as untied support of the OGIL system.

The OGIL is to be fully implemented by 1995; however, its impact will be felt much sooner as some 70 percent of Zimbabwe's imports (45 percent unrestricted; 25 percent end-use specific) are scheduled to be under the system by the end of 1992. Zimbabwe's ability to adhere to this schedule, however, clearly depends on the early support it receives from the donors in the form of non-distorting foreign exchange to support the OGIL. Therefore, donor support for using a non-project rather than project mode is particularly important now in Zimbabwe, at the beginning of the structural adjustment process. Critically, the transparency and operational efficiency of the OGIL process in Zimbabwe was recently reviewed and endorsed by a World Bank team which recommended use of untied assistance.

The value and potential impact of the proposed U.S. assistance, accordingly, must be considered in the following context:

- (a) as an investment which will help to support immediate policy changes toward agricultural market liberalization and reductions in the national budget deficit;
- (b) as an investment in a longer term reform process which will increase the GOZ's reliance on market forces to strengthen the economy;
- (c) as an important means of reducing potential negative effects of the ESAP on vulnerable groups in grain deficit areas;

- (d) as an investment in establishing an important precedent among donors to provide support that facilitates the liberalization of foreign exchange allocations; and
- (e) as U.S. support for the ESAP reforms at the beginning of the process.

## 2. PROGRAM CONTEXT

### 2.1. KEY DEVELOPMENT INDICATORS

Zimbabwe's performance since Independence in 1980 has been strikingly better than most sub-Saharan economies, particularly in the areas of education, health, population, and small holder agriculture. The number of pupils at primary school almost doubled from 1.2 million to 2.2 million over the past ten years, while secondary enrollments rose from 74,000 in 1980 to 670,000 in 1989. The percentage of children fully immunized has more than tripled from 25 percent to 86 percent. Infant mortality has declined from 86 to 61 per 1,000 births. Life expectancy has increased from 55 to 59 years. Now at between 2.8 and 2.9 percent, the population growth rate has responded well to family planning initiatives; however, it is still too high to allow for more than a minimal rise in the real standard of living given the economy's sluggish growth.

Most impressively, the redirection of credit, extension, and marketing services, combined with the maintenance of appropriate producer prices, has led to a dramatic upsurge in the marketed output of small farmers. The small farmer (both communal and commercial) share of marketed maize rose from 10 percent in 1980 to more than 55 percent in 1989, and the share of cotton has risen from 10 percent in 1980 to 30 percent in 1990.

### 2.2. MACROECONOMIC PERFORMANCE SUMMARY

The Government of Zimbabwe's equity successes, however, have not been matched by economic growth. Growth in gross domestic product (GDP) during the 1980-89 period (2.7 percent per year) lagged behind population growth. Also, a disproportionate share of the nation's modest growth was in provision of social services and public administration. Fortunately, GDP growth in 1988 and 1989 has been much higher, at 5.8 and 5.6 percent, respectively, thanks to favorable weather conditions in 1988 and a considerable expansion of the manufacturing sector related to enhanced availability of imports in 1989.

Most discouraging, the increase in employment opportunities has been far from adequate to absorb the large numbers of relatively well educated young people entering the workforce annually, with the result that unemployment has reached 26 percent in 1991. There are now 200,000-300,000 school leavers each year against some 20,000 to 30,000 new jobs

being created in the formal sector. It is this growing army of the unemployed which has, in the last analysis, led the Government to look towards a more market oriented development strategy.

Zimbabwe's poor growth performance in terms of both output and employment stems from multiple historic and continuing causes -- four are highlighted. The first is an overvalued exchange rate resulting in an excess of demand for imports over supply of foreign exchange earned via exports. This, in turn, requires an administrative allocation of foreign exchange for imports with all the inefficiencies, misallocations, and critical shortages which typically plague such systems. Exporters have little incentive to expand their operations and, indeed, their very capacity to export frequently declines in response to shortages of critical inputs.

Second, is the excessive government claims on economic resources. In 1990, total public expenditures amounted to 49 percent of gross domestic product, while total public sector revenues stood at 40 percent of gross domestic product (for a public deficit equivalent to 9 percent). Such ratios leave little scope for the private sector (and the increases in income and employment that it can provide), as the Government, utilizing administered interest rates and inflation, absorbs a large portion of the savings of the sector.

Third, is the excessive level of government involvement in the economy as a direct producer of goods and services through its agricultural marketing boards, National Railways, Air Zimbabwe, and parastatal companies like Zimbabwe Steel. Many of these companies operate at a loss due to management inefficiencies or inappropriate pricing policies in pursuit of social objectives. The result has been a requirement for direct subsidies amounting to 3.7 percent of gross domestic product in 1990/91 and (rounding) amounting to 40 percent of the total Government deficit.

The last factor is the Government's involvement in the economy as a regulator. Many of the economy's controls were established during the period of Unilateral Declaration of Independence (UDI) beginning in 1965, to cope with sanctions. The Zimbabwe government simply expanded these controls to protect against South Africa "takeovers" and sudden closures by abandoned businesses, as well as to meet a new set of development objectives. As a result, the Zimbabwe economy today remains burdened with regulations (particularly in relation to agricultural marketing), price controls, labor legislation, and controls on investments.

### 2.3. THE CLIMATE FOR REFORM

#### A. The Pressures to Initiate Reform

It is evident from the above discussion that during the first decade of independence, Zimbabwe's government grew in size and scope over the economy. The public share of GDP rose from a fifth to a third; numerous

new public enterprises were established; pervasive controls were applied to prices, wages, and industrial relations; and all foreign currency transactions and investment decision-making were subject to Government's approval.

The substantial gains in the social sectors notwithstanding, the economy began to stagnate as investors lost confidence in the business environment. The central Government's fiscal deficit was in excess of 10 percent of GDP during much of the 1980's. This led to central government debt reaching 71 percent of GDP by 1989, 36 percent which was external debt. Total public sector debt was even larger at 90 percent of GDP. Inflation averaged around 15 percent per annum during the 1980's. Nominal interest rates averaged 12 percent, and hence the real interest rate was negative. The budget deficit climbed to 12 percent. There was a net outflow of capital with disinvestment exceeding new inflows. Economic growth averaged less than 3.5 percent annually -- barely adequate to keep pace with population growth. Unemployment increased from 200,000 eleven years ago to an estimated 1.25 million in 1991, and is officially estimated at 26 percent of the workforce. In 1989, gross capital formation fell below 11 percent of gross domestic product -- its lowest level since World War II. In fact, net investment has been negative in some years resulting in a shrinking, aging, and often-obsolete capital stock. Exports stagnated over the decade.

Growing recognition of the deleterious effects of existing economic policies was one of several influences culminating in the Government's decision to liberalize the economy. The shift in policies has been apparent in a number of announcements since 1988, including establishment of a one-stop investment agency, and a willingness to enter into multilateral investment guarantee agreements. Formal recognition of the need for a change in policy direction was first signalled in the July 1990 budget speech. A second major policy pronouncement was made in October 1990, followed shortly by the announcement that an economic structural adjustment program would be drawn up with the advice of the World Bank and International Monetary Fund (IMF) to be presented to a Consultative Group (CG) meeting in April 1991.

#### B. A Description of the Reform Program

The Government's "Framework for Economic Reform" sets forth measures -- and a detailed list of benchmarks -- for dealing with each of the problems outlined above over the next five years. The ESAP outlines measures required to achieve a five percent annual growth rate, stimulate investment, and remove impediments to economic growth. The external financing requirements of the entire program total US\$15.9 billion, of which the GOZ will provide US\$21.1 billion from its own resources, leaving an unfinanced gap of US\$3.4 billion. Of the US\$3.4 billion gap, the GOZ has committed disbursement of US\$1 billion, leaving a net new funding requirement of US\$2.38 billion. The central program theme is enhanced reliance on market forces and a reduction in the role of the state, a major reversal of prior policies undertaken by the Zimbabwe government.

First, Government intends to address the problems inherent in an overvalued exchange rate and administered allocation of imports by expanding the OGIL. Under an OGIL system, individuals who desire to import will go to the central bank and purchase the foreign exchange they need at an exchange rate that is market determined. If demand for foreign exchange exceeds supply, the domestic currency is depreciated -- raising the prices of foreign exchange and bringing demand and supply into equilibrium. The advantage of a fully expanded OGIL system is that it produces an efficient allocation of foreign exchange without an administrative intervention and an exchange rate that is market determined and, thus, at a level that provides an incentive to exporters.

Zimbabwe's OGIL will not attain the theoretical ideal immediately. Recognizing adjustment realities and the necessity for long protected uncompetitive industries to have time to adjust, the program is being phased in over five years, beginning in October 1990. First to be included in the expansion will be raw materials and intermediate goods -- with heavier capital goods financed initially outside the OGIL via special lines of credit. Heavier capital goods will be added in the middle years with consumer goods added in years four and five. There will be some restriction in the early years as well in that certain imports will be on OGIL only for certain uses (e.g. polymers for packaging). By 1995, however, such restrictions will completely be abolished and 85 percent of imports will be on full OGIL. The small 15 percent negative list will be related to defense, safety, and social considerations.

Most impressively, and suprisingly, the Government has committed itself to achieving by the end of 1995, a competitive exchange rate which will allow restrictions on the repatriation of dividends and profits to be removed -- a development that goes far beyond the implementation of an OGIL with respect to imports. In addition, import taxes will be reduced and made more uniform, reducing nominal and effective protection and variations in effective protection as well.

Secondly, the Government is committed to reducing its role as a claimant on economic resources. Government plans to halve the public sector deficit from over 10 percent of GDP in FY 1990/91 to five percent in FY 1994/95. Specifically, by 1995, public sector expenditure will fall to 45 percent of gross domestic product. This will be achieved by the virtual elimination of subsidies to public enterprises, by reducing the number of non-teaching civil servants by 25 percent, by increased cost recovery (especially with respect to education and health), and by general expenditure constraints. As the budget deficit declines, the Government's claims on the savings of the private sector will be significantly reduced. Interest rates, now administratively determined, will be released to market forces as the cost of deficit financing becomes less of an issue in the Government budget.

Thirdly, having incurred substantial losses, the Government is now ready to reduce and restructure its role as a direct producer of goods and services. Direct Government subsidies are to be reduced from Z\$629 million in 1990/91 to Z\$40 million 1994/95. Other indirect subsidies in the form of customs duty and other tax exemptions, loan subsidies and loan guarantees, and non-payment for government services are to be eliminated as well.

Entities which are judged to be non-viable will be liquidated, and those found to be duplicative will be merged. All others will be expected to function on commercial terms. Of these, those not classifiable as public service monopolies will be considered for divestiture to the private sector. Some entities with valid social roles will remain in Government hands with any required subsidy to achieve a specific social objective kept small and transparent. Certain Government functions now undertaken in house also are to be considered for contracting out.

Lastly, the Government intends to reduce its role as a regulator of the economy. Strict price controls now remain on only ten items, most of which are of an essential nature (such as bread and maize meal), while markup controls remain on a number of others. These price and markup controls are to be substantially phased out as the items to which they apply are placed on OGIL, thus providing competition from imports.

Reform of agricultural pricing and marketing is explicitly and visibly under review. The Government recognizes that movement controls have been counter-productive. The section of the Framework analyzing the social dimensions of adjustment and presenting its "safety net" notes that the rural poor may pay almost twice as much for maize as the urban poor as a result of extra costs resulting from these controls. Due to the complexity of the issues surrounding regulatory reforms in pricing and marketing, the Government of Zimbabwe has requested technical assistance in carrying out comprehensive analyses to best inform decisions about likely consequences and impacts of agricultural pricing and marketing changes. The problem confronting decision-makers is how to eliminate the controls in a manner which will least hurt vulnerable groups.

Zimbabwe's labor regulations are also under review, as they have acted to reduce willingness of employers to take on additional workers. Procedures for hiring and firing are to be streamlined, and a mechanism for quick labor retrenchment with compensation implemented.

In summary, the ESAP is designed to stimulate investment and remove impediments to economic growth. The central theme is enhanced reliance on market forces and a reduction in the role of the state, marking a major reversal of the policies undertaken to date by the Zimbabwe Government. The five-year program envisages foreign financing of US\$3.4 billion to achieve a 5 percent annual growth rate. Approximately 75 percent of total needed resources will come from Zimbabwe's own foreign exchange earnings and borrowing.

### C. An Assessment of Direction

From the foregoing it is clear that the "Framework for Economic Reform" has identified the key macro-economic constraints in Zimbabwe and made provision for the necessary policy actions to address them over the five years of the program. Many donors, including A.I.D., have referred to Zimbabwe's economic reform program as the best such program they have seen from sub-Saharan Africa. Specifically, the Framework deserves to be recognized for the following reasons:

- It spells out a timetable for reform against which performance can be evaluated.
- It recognizes that reform at the macro-economic level must be accompanied by specific sectoral initiatives to operationalize the package and produce an impact on the economy.
- It recognizes that the Government's role in the economy as a producer, a regulator, and a claimant on resources must be reduced and that controls have been largely counter-productive.
- Through its commitment to the establishment of a fully operational OGIL System by 1995, the Government has recognized the importance of a market determined exchange rate that provides a real incentive to exporters.

It remains, of course, to be seen how the program will be implemented in practice. Much, particularly in regard to the pace of implementation for the OGIL, depends upon the amount of up-front support received from the donor community.

### D. An Assessment of Commitment

The current reform program is Zimbabwe's first, and as such, there is no past record against which to judge the probability of its success. It is fair to say that Government commitment to the reform will be shaped by external as well as internal forces. External factors will include: (a) Zimbabwe's ability to attract the necessary foreign funding to meet its foreign exchange requirements for imports, (b) the continued momentum for change and peace in the region creating an attractive regional environment for foreign investors; (c) recognition that socialist models in Eastern Europe are no longer viable; (d) the potential for economic competition which could result from a non-sanctioned, post-apartheid South Africa; and (e) major uncontrollable variables such as drought

Some internal pressures for adherence to an ambitious ESAP have been created from: (a) recognition that Zimbabwe is unlikely to attract significant inflows of foreign investment capital without major policy change; (b) acceptance of the fact that liberalizing the economy is

necessary to create new jobs if the unemployment crisis is to be alleviated; and (c) admission that the budget deficit at existing levels is inconsistent with increased growth in the productive sector.

There is evidence that the above mentioned pressures are already having an effect in strengthening GOZ commitment to the ESAP:

- There was a 12 percent real depreciation of the Zimbabwe dollar during 1990 following an 8 percent real depreciation during 1989.
- The government has already reduced the deficit (excluding grants) from 13.1 percent of GDP in FY86/86 to 10.3 percent in FY90/91.
- To encourage exports, the Government introduced an export retention scheme effective from July 1990. This allows exporters to retain 5 to 7.5 percent of their export earnings, depending on the type of goods exported, and use them to import any items needed for their business.
- To facilitate an increase in investment, Zimbabwe has over the past two years: (a) established an Investment Center to streamline the investment approval process; (b) allowed selected new investments to repatriate up to 100 percent of profits (50 percent previously); and (c) signed MIGA and OPIC protocols.
- To further improve the investment climate, strict regulations governing the labor market have been relaxed. Amendments in the Labor Relations Act have been proposed which would streamline the procedures for hiring and firing of individual employees thereby reducing costly delays in improving productivity. A national code of conduct has been established on the basis of which companies will prepare their own codes through the process of collective bargaining. A mechanism for quick retrenchment of labor has been introduced. Direct intervention in wage setting has already been replaced by collective bargaining for all but farm workers and domestic employees.

A key measure of commitment was the recent (July 25, 1991) Budget Speech, the presentation of the first Government budget under the GOZ's "Framework for Economic Reform". The proposed budget reduces the deficit from 10.3 percent of GDP in 1990/91, to 7.6 percent of GDP in 1991/92, placing almost half of the ESAP's proposed deficit reduction (to 5 percent of GDP by 1994/95) up front. Also, the 1991 Budget Speech announced GOZ intentions to eliminate special export incentives by July 1992, which shows a clear commitment to a continued depreciation of the exchange rate. The intent to review import duties -- presumably downward and towards greater uniformity -- is also encouraging.

In summary, given the care Government has taken in preparing the ESAP, the incentives to remain committed, and the significant movement to date toward reform objectives, it appears that the Government is fully and seriously committed to the reform program's successful execution.

The above pressures to move forward with reform notwithstanding, there is a need to recognize the forces which will inevitably slow the pace of reform if they are not well managed. Lack of experience means that the process has a learning dimension. There is wariness on the part of politicians to take any tough decision which in the short run may appear to be a high risk/high stakes move without guarantees of success, a daunting endeavour for those without extensive market experience, especially when the context is a vital and sensitive area such as provision of adequate food and nutrition to the country's populace.

### 3. SECTORAL CONSTRAINTS ANALYSIS

#### 3.1. THE AGRICULTURE SECTOR IN THE MACRO-ECONOMY

##### A. Agricultural Status

Agriculture's contribution of only about 11 percent of GDP in 1989, does not reflect its full importance of Zimbabwe's economy. The sector as a whole accounted for about 40 percent of total exports in 1988. In addition, about half of the manufacturing sector relies on agriculture for inputs, and the agricultural sector accounts for approximately 70 percent of formal employment.

In analyzing the share of each individual agricultural commodity in total agricultural exports, tobacco is the most important, followed by cotton lint, sugar, and maize. In 1990, tobacco earned nearly Z\$1 billion. Maize exports vary by year. With the exception of 1983, Zimbabwe has exported large quantities of maize, mostly to the southern Africa region.

Prior to Independence, the bulk of marketed agricultural production originated in the large scale commercial sector. Under the Rhodesian government this was the sector that received the infrastructure, the research results, the government services, and the subsidies. Neglected, small scale indigenous agriculture was confined largely to the communal areas and subsistence production.

When it came to power in 1980, the Zimbabwean government was, quite rightly, determined to reverse the bias that favored the commercial sector. Credit, extension, and marketing services were redirected accordingly in a concerted effort to bring the small-holder into the formal market economy. USAID/Zimbabwe, through ZASA, played a considerable role in the effort.

The agricultural sector has undergone fundamental changes since Independence as reflected in the following: maize production in communal areas increased dramatically with small farmers' share of marketed maize rising from 10 percent in 1980 to more than 55 percent by 1989. The number of producers registered with the GMB rose from 30,000 to 490,000.

**TABLE I****I. GDP AT CURRENT PRICES**

\$ Million

	TOTAL	AGRIC. & FORESTY	% SHARE OF AGRIC
1980	3224	451	13.9
1981	4049	640	15.8
1982	4657	669	14.4
1983	5432	544	10
1984	5649	748	13.2
1985	6505	1316	20.2
1986	7431	1202	16.1
1987	8256	1061	12.8
1988	9642	1263	13.1
1989	11272	1390	12.3
1990	13029	1686	12.9

Source: C.S.O.

**II. AGRICULTURAL EXPORTS IN RELATIONS TO TOTAL**

Z\$ Million

	TOTAL	AGRICUL- TURAL	% SHARE OF AGRIC.
1980	778	278	35
1981	888	413	46
1982	807	385	47
1983	1026	460	44
1984	1271	578	45
1985	1545	783	49
1986	1757	707	40
1987	1932	923	48
1988	2585	1087	42

Source: C.S.O.

**TABLE III: SELECTED AGRICULTURAL COMMODITY EXPORTS (1)**

\$2 MILLION

	TOBACCO		COTTON LINT		SUGAR		COFFEE/ TEA		MAIZE		BEEF		HIDES	
1980	94	123	54	57	166	47	9	13	68	7	12	12	7	4
1981	131	224	54	60	177	55	11	16	238	35	2	4	4	2
1982	87	195	47	52	220	52	14	21	348	40	2	4	5	4
1983	84	230	48	74	202	52	15	29	498	41	8	11	20	9
1984	82	282	54	115	211	56	19	55	-	-	18	27	8	12
1985	84	366	63	149	235	68	22	71	139	33	16	31	6	10
1986	84	424	77	131	242	63	23	87	432	87	5	25	4	7
1987	84	431	61	121	236	79	22	64	389	66	11	55	2	4
1988	101	500	57	148	158	80	21	63	384	118	9	52	3	11
1989 (2)	104	653	61	183	146	103	-	-	313	103	2	14	-	5
1990	120	966	73	236	205	108	-	-	174	63	24	-	-	7

Source: C.S.O.

- (1) 1st column refers to tonnes ('000,) 2nd column to 2\$m  
 (2) 1989 and 1990 sourced from Board's annual reports.

TABLE IV: EMPLOYMENT IN ECONOMY AND AGRICULTURE

	THOUSANDS		
	TOTAL	AGRICULTURE	% SHARE
1980	1009.9	327	32.3
1981	1037.8	294.3	28.3
1982	1046	274.3	26.2
1983	1033.4	263.5	25.5
1984	1036.4	271.2	26.1
1985	1055	276.4	26.2
1986	1081.1	275.5	25.4
1987	1083.2	265.6	23.9
1988	1131.2	276.9	24.5
1989	1166.3	284.6	24.4

Source C.S.O.

**TABLE V: SALES OF AGRICULTURAL PRODUCTS TO MARKETING BOARDS**

**\$2 MILLION**

	TOBACCO	CATTLE SLAUGH- TERING 1	COTTON	SUGAR	MAIZE	DAIRY	WHEAT	COFFEE	OTHER 2	TOTAL
1980	99.6	81.5	71.5	73.9	71.7	27.1	22.1	11.8	28.7	487.9
1981	127	83	76.3	78.4	239.3	32.6	33.4	7.9	29.7	707.6
1982	155.5	139.4	77.5	75.7	166.9	46.2	41.2	11.6	36.7	750.7
1983	184.5	143.6	83.6	89.1	74.1	56.7	27	14.4	25.4	698.8
1984	254.5	156.2	138.1	87.1	130.4	65.2	24.5	19.3	49.1	924.4
1985	293	140.5	191.3	120.1	327.4	78	59.1	25.3	78.1	1312.8
1986	362.9	114.8	180.3	136.1	283.5	86.9	73.8	79.8	115.5	1433.6
1987	297.7	187.7	206	173.7	73	94.6	70.8	45.6	70.6	1219.6
1988	287	188.4	174.6	157.1	60.2	96.2	75.4	34.5	91.2	1164.7
1989	486.2	191.5	258.4	186.9	231.1	104.2	93	38.5	112.3	1702.1
1990	893.4	345.3	211.1	308.0	155.7	160.9	149.1	52.0	261.7	2374.3

Source: Reserve Bank Quarterly

1. Excludes slaughtering at butcheries
2. Includes soyabeans, groundnuts, sorghum, slaughtering of pig, sheep and goats.

VALUE OF AGRICULTURAL OUTPUT BY SECTOR

**\$ MILLION**

	<b>TOTAL</b>	<b>CFA</b>	<b>VALUE RETAINED</b>	<b>LSC</b>
1980	711.5	28.9	117.1	146.0
1981	1021.5	79.5	185.1	864.6
1982	1080.0	84.6	186.7	271.3
1983	969.1	68.7	97.8	166.5
1984	1257.8	128.2	139.6	267.8
1985	1980.1	240.5	366.5	607.0
1986	2187.7	251.1	344.3	595.4
1987	1708.0	135.1	271.5	406.6
1988	2378.5	344.4	375.1	719.5
1989	2685.8	355.8	340.0	695.0

Source: CSO

**TABLE V: OVERALL ANNUAL DEFICIT (\$ million)**

Year Ending	C.S.C. (1)	D.M.B. (2)	G.M.B. (3)	C.M.B. (4)
1980	30,2	4,1	11,6	(4,5)
1981	33,3	10,0	9,6	(4,1)
1982	46,4	18,3	32,7	(0,9)
1983	45,3	35,7	62,7	17,8
1984	48,1	38,7	32,8	(4,3)
1985	33,4	46,3	47,8	(56,8)
1986	28,9	55,6	68,1	14,3
1987	37,4	49,3	83,7	53,9
1988	18,0	51,3	64,6	35,4
1989	32,5	52,2	62,4	26,1
1990	50,3	59,6	49,4	22,5
Total	<u>403,8</u>	<u>421,1</u>	<u>525,4</u>	<u>240,6</u>

- (1) December  
(2) June  
(3) March  
(4) February

72

Cotton production increased from 37,000 tons to 176,000 in 1989, with small farmer share rising from 10 to 30 percent over the decade. In addition, the pattern of land use in large commercial and communal areas has changed markedly, with the large commercial farms moving away from maize and cotton production to more capital and less labor-intensive industrial and horticultural crops; and communal farmers increasing marketed volumes of maize and cotton.

## B. Agricultural Policy Issues

Zimbabwe's agricultural accomplishments notwithstanding, agricultural output still lags behind population growth, with a consequent decline in real per capita income. Concern over issues related to land distribution, employment, and exports have prompted Government to review its policies and constraints in the sector. One of the most important areas of concern which emerged was agricultural marketing.

### (1) Agricultural Marketing and the Role of Marketing Boards

The World Bank-assisted GOZ Agricultural Assessment presents the position (and the Mission agrees) that agricultural marketing may be the most important problem currently facing agriculture in Zimbabwe. Moreover, the analysis found that agricultural parastatal losses are significant, accounting for more than a third of the total Government deficit, and thus, they loom as a key problem to be addressed if Government is to succeed in meeting its structural adjustment deficit reduction targets announced in April 1991.

The key factor affecting performance of the marketing network is the centralized control of the single channel marketing network that is exercised by the public sector through the operation of the parastals and the system of administered prices. Parastal marketing boards are directly responsible for trading most commodities. Prices of controlled commodities and of all agricultural inputs are determined administratively. A wide range of regulations and licensing systems govern the activities of traders, transporters, and processors. The dominance of the parastal marketing system has severely hindered development of other markets in rural areas. Under the assumption that communal areas are self-sufficient in grain, the one-way flow of grain through the official marketing system would present few problems. However, in deficit areas, such a system may seriously restrict grain availability and inflate local prices.

Some of the important policy questions concerning agricultural marketing pertain to the balance between public and private marketing organizations in carrying out key functions. There are certain functions -- stabilizations of food supplies for instance -- in which the public sector may continue to play a leading role. Equally, functions can be identified -- the low-cost extension of improved marketing services to

outlying rural areas, for example -- in which there may be no alternative to supporting more effective private sector participation.

(2) The Marketing Board Deficits and Their Relation to the National Budget

As discussed above, a major constraint to achieving ESAP objectives is the central Government budget deficit, which at approximately Z\$1.7 billion amounted to 10.4% of GDP in FY 1990/91. Reducing transfers from the budget is critical to the Government's target of reducing the central Government fiscal deficit from 10 to 5 percent of GDP by 1994/95.

The largest contributors to the budget deficit are the agricultural marketing boards, of which GMB is responsible for the largest portion. The Government plans to cut the subsidy to the GMB from Z\$59 million in 1990/91 to Z\$30 million in 1991/92, to Z\$18 million in 1999, to Z\$12 million in 1994, and to zero in 1994/95.

The total net deficit of the GMB for the period to 1988/89 was Z\$814.1 million, while the deficit in individual years varied from Z\$34.2 in 1981/82 to a peak of Z\$59.3 million in 1986/87. Table V shows the deficit by year and in relation to total Government subsidies and advances to major public enterprises. In 1989/90, the Grain Marketing Board subsidy accounted for 12.6% of all public enterprise subsidies.

Sixty-seven percent of the accumulated GMB deficit is accounted for by maize. Over the period 1981/82 to 1988/89 as a whole, 88 percent of the trading deficit was accounted for by two crops -- maize and wheat. This aggregation conceals the contribution made by other crops in particular years, notable pearl millet and finger miller in 1985/86 and 1987/88 and of soyabeans in 1982/83 to 1983/84. Wheat is the sole commodity which ran a trading account deficit in all years of the period.

The actual current total deficit on the combined trading accounts of the GMB constitutes only a portion of the total deficit. The remainder is attributable to financial factors beyond the GMB management's control. The two main factors are: (1) the failure by Government to write-off deficits in or at the end of the year in which they occur; and (2) the devaluation loss on external borrowings by the Agricultural Marketing Authority (AMA), which are attributed to the four Marketing Boards. Further analysis is required to determine to what extent these two problems are appropriate and/or susceptible to action by the Government.

The announcement of the GMB's selling price at a later date -- and coming into effect from a later date -- than the producer price has led to unanticipated losses on the maize account. There is broad recognition of the need to move to full synchronization of the effective date for grain price changes although this has not been implemented.

### 3.2. MAIZE IN THE AGRICULTURAL SECTOR AND THE ECONOMY

Maize is by far the most important consumer crop grown in Zimbabwe. In fact, maize is probably the only crop that could be called "the national crop" due to its importance in production and consumption all over the country. It is an important crop for both large scale commercial farmers and communal farmers. As such, the production, marketing, and sale of maize is of political, economic and social importance.

Maize is a staple food for both urban and rural areas, it is used for livestock feed, and it is an industrial input especially for starch and cooking oil. Serious consideration is presently being given to starting a maize-based ethanol industry, and such a pilot plant will soon be built in the country.

Maize is also an important source of foreign exchange earnings for the country (see Table I, which shows export earnings of agricultural parastatals by commodity). Maize is grown by both large scale commercial and small scale communal farmers in the country. The increasing share of maize deliveries from the communal areas to the Grain Marketing Board is seen in Table II. At independence in 1980, slightly over 10 percent of all maize was delivered from the communal sector. Ten years later, the communal sector's share has increased to over 55 percent of all deliveries to the GMB. The reasons for this increase in maize deliveries by the communal sector have been analyzed elsewhere (Rohrlich, 1989, Masanzu and D'Silva, 1990). The main reasons cited have been: (a) an increase in the actual number of communal farmers growing maize; (b) an increase in infrastructural facilities such as feeder roads and grain depots; (c) increased use of fertilizer; (d) improved seed; and (e) credit availability.

The increased participation of communal farmers in maize production has brought larger numbers of formerly subsistence oriented farmers into the formal marketing system; it has provided a source of cash income; and it provides the basis for the development of a market economy in the communal sector.

In Zimbabwe, two types of maize are grown, yellow and white. Yellow is primarily used for livestock feed while white is preferred for human consumption, both in the country and in the region (hence the country's capacity to earn foreign exchange from maize). Yellow maize is grown primarily by the commercial farmers who also raise livestock. Also, within the commercial sector, farmers have been shifting to non-controlled crops like tobacco and horticultural crops. Yellow maize is now partially decontrolled because commercial farmers can now engage in farmer to farmer sales without going through the GMB. Presently, there is a 10 percent discount in the price being paid for the yellow maize by the GMB. In view of the reduced area planted last year to white maize and drought conditions, there is concern that the country may need to import maize early next year (which will be yellow maize) at an

**TABLE I: EXPORT EARNINGS AND AGRICULTURAL PARASTATALS (1980 - 1990)**

Year	<u>Grain Marketing Board</u>												<u>Cotton Marketing Board</u>		<u>Cold Storage Commission</u>		<u>Dairy Marketing Board</u>			
	Maize		Coffee		Groundnuts		Wheat		Soyabeans		Sorghum		Link	Beef		Hides		Cheese, Butter Skim Milk Powder Yoghurt		
	Value	% (1)	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
1979/80	22981	35,4	11177	89,6	3558	20,6	1078	4,7	2075	19,3	-	-	72764	86,0	8421	14,9	2888	50,7	-	-
1980/81	11266	14,9	10128	89,5	5528	41,1	482	1,6	114	0,79	-	-	70339	79,6	5160	8,6	1587	33,6	-	-
1981/82	39928	30,3	11469	89,8	5179	32,8	34	0,29	17	12,9	-	-	73123	82,8	6889	7,1	3367	43,4	-	-
1982/83	47099	24,2	14350	95,0	5566	38,1	-	-	-	-	295	8,6	74173	83,9	13749	11,9	3844	40,1	-	-
1983/84	26627	12,0	21374	95,3	3608	36,9	-	-	-	-	-	-	93867	86,7	22807	18,0	4043	27,9	-	-
1984/85	-	-	35324	97,6	1861	7,9	-	-	-	-	-	-	144057	80,0	31269	22,4	5292	30,2	940	1,1
1985/86	59179	32,2	50242	98,1	23377	1,5	-	-	-	-	-	-	165383	80,4	31852	23,7	3883	36,1	900	0,9
1986/87	77913	31,5	76662	97,9	9452	14,3	-	-	-	-	657	10,7	129946	74,7	65538	32,1	4759	23,3	4800	4,0
1987/88	77331	21,7	41141	96,9	14561	15,8	-	-	-	-	902	12,3	143872	75,0	66623	32,6	4725	26,1	5700	4,4
1988/89	103443	38,2	47821	96,8	15839	33,5	-	-	-	-	563	9,3	183433	78,4	14621	7,5	5447	26,7	3300	2,1
1989/90	63497	22,3	36514	94,9	15592	25,0	-	-	-	-	568	7,3	236543	77,6	24474	10,5	7501	25,6	7400	3,9

Note: (1) Percentage refers to proportion of total including local sales

88

**TABLE II: DELIVERIES OF SELECTED CROP BY SECTOR, (1980-1990)**

	CROP									
	MAIZE (IN '000 TONS)					COTTON (TONS)			SOYABEANS ('000 TONS)	
	TOTAL DELIV.	LSC SECTOR	SEC SECTOR	TOTAL NET EXP.	STOCKS	TOTAL DELIV.	LSC SECTOR	SSC SECTOR	TOTAL DELIV.	LSC SECTOR
1980/81	815	728.5	86.29	86	158	164899	110263	30575	93.6	88.5
1981/82	2014	1650.5	363.27	305	1201	173941	99254	74687	65.3	61.5
1982/83	1391	1021	369.4	492	1035	154482	105275	49822	84.3	83.7
1983/84	617	464.5	152.4	252	124	168459	107816	45364	74.4	73.7
1984/85	942	552	390	1	461	250268	138753	88543	89.8	89
1985/86	1850	1009	819	552	1426	295473	147000	123451	85.3	84.7
1986/87	1594	983.6	694	495	1806	248157	111512	113110	83.4	82.7
1987/88	403	241.73	155.8	393	755	240114	114891	97108	102.6	101.7
1988/89	1197	440.77	755.9	314	940	323268	128592	156249	122.5	120.8
1989/90	1166	510.7	654.84	174	1100	261420	100403	126627	115.8	113.6

Source: AMA

Notes: LSC refers to Large Scale Commercial Farmers  
SSC refers to Small Scale Communal Farmers

estimated cost c.i.f. Harare of Z\$700/ton. Consequently, the commercial farmers are arguing for the discount in price for yellow maize to be removed, thereby leading to increased deliveries of yellow maize by commercial farmers to the GMB.

The total area planted to maize has varied considerably over the last ten years. From a level of 1.33 million hectares in 1980, it reached over 2 million hectares in 1987 and has recently dropped down to 1.1 million hectares. There is now concern that other crops, especially in the large scale commercial areas, are competing with maize due to their higher profitability.

An indicator of the economic viability of maize vis-a-vis other crops can be seen in the relative price ratios of maize and other commodities as seen in Table III. As prices are fixed by Government, relative price ratios are used to determine the incentive provided to particular commodities. For instance, in the 1980's, when maize stocks were high, Government's policy was to encourage production of oilseeds. The relative prices of soyabeans and groundnuts were adjusted to maintain production of oilseeds.

### 3.3. Grain Marketing Constraints

In general terms, the development of a private grain marketing system is constrained by: (i) a regulatory framework which adds costs and creates inefficiencies; (ii) transport and infrastructure inadequacies; and (iii) underdeveloped rural credit markets to provide working capital. Each of the constraints is discussed in more detail below.

#### A. Policy and Regulatory Framework Constraints

The private marketing of major crops in Zimbabwe is underdeveloped as a result of past policies which have discouraged the development of private sector marketing systems, especially in the communal areas. Three policy objectives have been influential in shaping the market system: (1) the pre-Independence emphasis on providing market support as a means to promote the development of the large-scale commercial farm sector; (2) the use of market investments to facilitate income growth in the smallholder farming areas after Independence; and (3) the strong belief that market controls are necessary for national food security, income support and stabilization, avoidance of middle-man exploitation, and export crop promotion.

National market controls have been historically viewed as tools of development as much as facilitators of economic growth. Market controls established originally to support the development of large-scale agriculture were simply extended after Independence to serve, although somewhat inefficiently, small-scale agriculture. Though the costs associated with extending this system were high, a strong presumption had

**TABLE III: PRODUCER PRICE RATIOS OF SELECTED PRODUCT COMBINATIONS (1980-1990)**

	PRODUCTION COMBINATION						
	MAIZE: SOYA	COTTON: GNUTS	MAIZE: SORGHUM	MAIZE: SUNFLOWER	MAIZE: GNUTS	MAIZE: COTTON	MAIZE: BEEF
1979/80	1:2.39	1:0.97	1:1.32	N/A	1:5.05	1:5.61	1:13.4
1980/81	1:1.88	1:1.04	1:1.23	N/A	1:4.58	1:4.41	1:12.0
1981/82	1:1.41	1:1.05	1:0.95	N/A	1:3.5	1:3.33	1:10.76
1982/83	1:1.66	1:0.87	1:0.95	N/A	1:3.75	1:4.29	1:10.86
1983/84	1:2.16	1:0.87	1:1	1:2.12	1:3.75	1:4.29	1:12.33
1984/85	1:2.05	1:0.87	1:1	1:2.03	1:3.57	1:4.07	1:10.95
1985/86	1:1.77	1:1.11	1:1	1:1.77	1:4.16	1:3.72	1:9.99
1986/87	1:1.88	1:0.97	1:1	1:1.88	1:4.05	1:4.16	1:13.13
1987/88	1:2.13	1:1.12	1:1	1:2.13	1:5.	1:4.44	1:13.96
1988/89	1:2.15	1:1.17	1:1	1:2.21	1:5.12	1:4.36	1:14.24
1989/90	1:2.02	1:1.08	1:1	1:2.12	1:4.65	1:4.64	1:14.62
1990/91	1:2.16	1:1.13	1:0.96	1:2.24	1:5.55	1:5.55	1:15.34

Source: (Computed by AMA)

built up over time that market controls were necessary means to promote producer and consumer welfare.

In terms of producer and consumer welfare priorities, private sector marketing has been considered exploitative, and thus, discouraged. Accordingly, recent moves to begin deregulating the grain markets have been fraught with concerns about the possible effects on consumer welfare of the exploitative middleman. To the extent that competition in the newly opened markets may be limited as a result of the small number of participants, the potential for exploitation does indeed exist. However, the encouragement of broader participation, thereby introducing stronger competitive forces which would curb exploitation, has been limited in several key respects by the current policy and regulatory environment, as described below.

(1) Grain Marketing Board Operations

The GMB currently operates under the Grain Marketing Act of 1966, which established the GMB. The Act provided that the Minister of Agriculture could declare any agricultural product, or produce derived therefrom, to be a controlled product. Inherent in the language of the Grain Marketing Act is the control that the Minister of Lands, Agriculture, and Rural Resettlement exercises over the operations of the GMB Board of Directors.

Under the present operation of the GMB Act, the Board of Directors does not make effective decisions governing pricing of agricultural products, movement of grains within the country, and the issue of imports and exports. All such decisions are referred to the Minister of MLARR for approval. Ministerial Directives have ranged from those on matters of policy to details of personnel hiring. Many of the directives have had adverse financial implications for the "commercial" quality of Board operations. Marketing decisions, by their nature, require prompt and efficient management which currently cannot be achieved by the referral system. The GMB needs to be given appropriate executive powers to make such marketing decisions, with a requirement only to refer policy matters to the Ministerial level.

(2) Movement Restrictions

The single most important inhibitor to a more effective marketing network is the regulation that restricts the movement of controlled crops between Zone A (Large Scale Commercial Sector areas) and Zone B (Communal Areas), and between non-contiguous Communal Areas. Presently, communal farmers can sell to neighboring households but cannot sell outside Zone B. Farmers are not allowed to sell controlled crops to anyone other than the GMB. Only under the "producer to consumer arrangement" and with special permission of the GMB can farmers sell directly to consumers. The movement restrictions prevent direct sales to more distant grain deficit regions, with the effect of channeling most grain movements through

the GMB and the industrial processing sector. The combination of high GMB trading margins and industrial milling costs raises the consumer price of grain in deficit regions and reduces household food availability, food access, and nutrition.

Movement controls also have severely constrained the development of rural grain markets. Intra-rural grain markets are virtually non-existent. As a result, deficit households must rely on the purchase of industrially processed maize meal rather than benefit from the free movement of grain from surplus areas. Analysis is required to determine the most appropriate modifications to movement controls, their sequencing, and their probable consequences.

### (3) Pricing

The present practice of gazetting a single price for a commodity throughout the country, i.e., an annual price that does not vary seasonally, combined with restricted commodity movement, leads to serious distortions in the allocation of productive resources, large economic efficiency losses, and reduced consumer welfare.

Gazetting a price on an annual basis prevents the reflection of seasonal changes in supply and demand and distorts resource allocations. Farmers are discouraged from developing an on-farm storage capacity that would reduce the amount of storage required by the GMB.

On the other hand, a seasonally flexible price reflecting supply and demand conditions would encourage farmers to store at least part of their crops for later sale at higher prices and would simultaneously encourage consumers and processors to purchase more when supplies are higher and prices are lower. Greater rural and farm level stockholding would, in turn, dampen seasonal price variation and improve grain access in grain deficit regions. In addition, with the increase in the amount of grain stored by farmers, processors, and consumers, the quantity stored by the GMB would be lower, thus reducing its costs.

The GOZ requires further analysis of the consequences of pan-seasonal pricing. Analysis also is required to determine if the GMB should maintain its role as a residual buyer, offering a floor price to support agricultural incomes and investment incentives. Further analysis also is required to confirm if price gazetting for all crops except maize should be eliminated or if price gazetting should be changed to that of minimum floor prices with the market permitted to determine actual prices. Clearly, changes in pricing policy would greatly increase the potential impact of marketing policy changes; but the economic analysis demonstrates that they are not necessary to achieve some impact with marketing policy changes alone.

(4) GMB Depots and Collection Points

GMB market infrastructure, first established in smallholder farming areas during the late 1970's, sharply expanded after Independence. The extension of this infrastructure aimed to extract grain from surplus production areas to feed the urban processing industries. Within this context, buying points situated in drier regions of the country were established primarily in response to political concerns to serve outlying areas, rather than economic expectations of a significant crop surplus. It was not anticipated that restrictions on grain sales out of these depots and collection points would reduce food availability in deficit regions and raise grain marketing costs.

Although current laws and regulations allow anyone to buy grain from the GMB, a recent study found that four out of five GMB depot managers interviewed perceived it to be illegal for anyone to purchase grain from the depot in excess of his consumption needs. The majority of informal traders lack sufficient information on rules governing grain trade and perceive grain trading as illegal regardless of whether the product is controlled or not in the area in which they trade. The misunderstanding has contributed, in part, to inhibiting development of a rural grain trading market.

(5) Approved Buyers

Approved Buyers are generally established traders carrying out retail or wholesale activities for a range of goods which include grain. They are licensed representatives of the GMB responsible for buying grain at approved prices and delivering it to the nearest GMB depot. Approved Buyers vary from single individuals -- often established traders, to large companies with more than one buying location.

In effect, Approved Buyers extend the GMB depot and collection point system to a wider range of farming areas. As with collection points, any grain sold to Approved Buyers must be resold to the nearest GMB depot. This means that the grain of surplus households, once it is sold to Approved Buyers, can no longer be directly acquired by local consumers needing grain. It should be noted that Approved Buyers commonly do buy and sell grain outside GMB channels, despite the apparent legal obligation to only sell it to the GMB.

Rather than procuring grain from farmers at the producer prices and re-selling at a mark-up -- which is illegal -- the Approved Buyer must deliver the grain to the depot and then repurchase it at the higher GMB sale price, for which, ultimately, the consumer will pay. In addition, a trader must incur the added costs of getting grain from the depot back to his/her shop for resale. These additional costs depress incentives to redistribute grain back into the deficit communal areas and thus, restrict supplies of grain in those areas.

The margins offered to Approved Buyers by the GMB are low, especially for transport. The trade is not profitable if regulations are respected, thus entry into the trade is discouraged, or cheating is encouraged. The GMB's restriction of the number of Approved Buyers further reduces competition, worsens farmer access, and discourages entrance. Finally, consideration should be given to rescinding the restriction on Approved Buyers which currently requires them to pay GMB a levy for selling grain locally. This simply inflates consumer grain prices in rural areas.

The Approved Buyers already provide a nascent small-scale private trading network. The development of this network into a full-fledged and competitive private grain trading network, however, needs to be encouraged, for these are the entrepreneurs which one should most support if a competitive private trading network is to replace the GMB. The first step could be the legalization of a practice which already exists and encouragement of its expansion, i.e., any grain trader could be allowed to buy and sell grain to and from the GMB. In the case of Approved Buyers, they could be legally allowed to sell grain to any buyer, including to farm households and other rural grain traders.

(6) Disincentives for Private Storage

As noted, Approved Buyers that buy grain on behalf of the GMB are required to forward all purchased grain to the nearest GMB depot. Since the GMB's prices are pan-seasonal, there are no incentives for producers, traders, sellers, or even millers to construct more than the minimum necessary storage facilities. In most seasons, the crop is sold to the GMB as soon as possible after harvest, and the GMB absorbs the majority of the storage costs. In effect, the organization of the market blocks an established group of grain traders from engaging in a socially useful function of storage. The result is that most of the grain storage capacity in the country is owned by the GMB, and the system has not encouraged communal farmers to learn proper storage techniques.

(7) Disincentives for Retailers to Stock Cheaper Maize Meal

Preferences for various types of maize meal vary significantly across income groups. Surveys indicate that over 75 percent of the high income group prefer the highly refined and most expensive maize meal manufactured by the formal milling sector. In contrast, almost half of the relatively low-income households prefer straight-run meal from a small-scale hammer mill, price being equal.

The structure of government-controlled pricing policy on commercial maize meal creates incentives to distribute the more refined meals.

For example, food retailers who place orders for maize meal deliveries from the formal millers are given government-set markup levels over the wholesale price to cover their costs. These percentage mark-ups are constant across all types of meal. Thus, retailers receive a higher profit per bag by stocking their shops with the more expensive meals -- roller meal and parlenta -- than with the less refined and cheaper straight-run meal. In sum, Government's pricing policy with regard to maize meal retail mark-ups creates incentives that perpetuate the distribution of more expensive meal that caters to higher-income tastes, with potentially adverse consequences for food access among the urban poor.

(8) Lack of Incentives for Manufacture of Less Expensive Meal

Urban millers are not presently manufacturing straight-run meal in convenient sizes available for the other meals. Hence, cheaper meal is not easily available to low-income groups that prefer straight-run meal or could be induced to purchase it due to its price discount. The present system lacks an element of choice for those who would rather consume a more nutritious and less expensive product. It is likely that expansion in the availability of less expensive meals would significantly restrain upward pressure on staple food prices and maintain access to food among vulnerable groups during the process of structural adjustment.

B. Transport and Infrastructure Constraints

The centralized road network promotes grain deliveries to the GMB depots from grain surplus regions. The major roads lie in large-scale commercial farming areas. The major GMB depots and storage points lie in high rainfall zones, built to support the extraction of grain to serve the needs of urban based industries. The road network does not facilitate the movement of grain to rural areas facing food deficits, nor does it support the distribution of grain direct from surplus to deficit producers. As a result, Zimbabwe is virtually unique in Africa in its lack of a significant intra-rural grain trade and in its absence of an informal grain market.

The current system also encourages a circuitous flow of grain from rural areas to urban centers and then back to rural areas in the form of commercial meal. As a result, a significant portion of commercial transport is tied up in GMB contracts between depots and central silos. Policies that rely more on decentralized storage and delivery of grain from the nearest surplus areas rather than delivery of meal from distant urban mills should be analyzed for their effect on reducing transport bottlenecks currently plaguing Zimbabwe's economy.

The costs of vehicles and spare parts in Zimbabwe are wildly inflated over world prices due to import restrictions and insufficient domestic production. The resulting severe shortage of transport throughout Zimbabwe, at the level of national movements of commodities and in rural areas, severely restricts the operations of the private market, raising marketing costs and diminishing farmer access to outlets. Improved transport systems and, in particular, the development of a comprehensive and flexible private network of medium- and small-scale trucks in rural areas is likely to be a prerequisite for large scale expansion of private sector marketing systems. The Government program to import more than 2,400 trucks under a Zimbabwe billion dollar program will help address the problem. Further steps could be taken to strengthen the distribution system, e.g., the elimination of permit requirements for smaller trucks (less than ten tons) to operate.

### C. Credit Markets and Working Capital Constraints

Shopkeepers and transporters have little access to credit from formal or informal lending institutions, due to perceived high risks and lack of collateral. Working capital for crop finance by traders is scarce. Some Approved Buyers, principally the larger and longer established enterprises, have lines of credit from the commercial banks. Many traders, perhaps most, however, do not. These traders have difficulty paying cash directly to producers and then have to wait a number of weeks -- reportedly between four and six -- during the peak buying season before receiving payment by check from the GMB. As a result, Approved Buyers often offer payment in kind, requiring farmers to purchase goods of an equivalent value at their stores. Approved Buyers facing severe capital constraints may stop buying grain altogether.

A key question identified in the World Bank/GOZ Agriculture Sector Assessment is whether there are means by which the formal lending sector could more effectively meet the credit needs of crop buyers. Despite the existence of the purchased crop as a loan on funds advanced, the commercial banks appear to be unwilling to expand this lending, while the Agricultural Finance Corporation (AFC) is restricted to lending to producers. Government's recent announcement in the Budget Speech for 1991/92 of its intention to increase allocations to the Small Enterprise Development Corporation (SEDCO) and to the Zimbabwe Development Bank to promote entrepreneurial development should help ameliorate the working capital credit constraint.

### D. Analytical Capacity Constraints

The Government of Zimbabwe has identified broadly defined objectives under the ESAP, but it has moved cautiously to commit to specific policy changes because it has not had the analytical work completed to determine, sector by sector, what steps to take in what order to link specific reforms with the broadly defined ESAP objectives. The analytical requirements are substantial, particularly taking into account the political and social concerns which must be addressed if the entire reform process is to have the necessary public support.

The Government needs to identify what specific actions are necessary to achieve ESAP goals, the policy changes that are needed to facilitate the actions, and the structural changes in each sector (and sub-sector, such as grain marketing) that will have to be accomplished. The Mission, in its dialogue with Government, has observed that a well articulated, structured analytical process has the potential to inform political as well as technical decision-making. On the other hand, where analysis is limited or non-existent, decision-making is slow and is likely to result in a second best solution that may not fully take into account technical merits when finally coming to agreement on the most appropriate solution.

Some progress toward addressing the aforementioned constraints can be made with appropriate programming of local currency generations. In addition, Government's own initiatives, as evident in the announcements of increased credit allocations to the Zimbabwe Development Bank (ZIMBANK) and to the Small Enterprise Development Corporation (SEDCO) will be helpful. Most importantly, achieving a maximum potential impact from the proposed program requires that implementers carry out a continuous dialogue with relevant interest groups representing traders, millers, and transporters and with entities such as SEDCO and ZIMBANK. A.I.D. will fund agricultural marketing research, analysis, and monitoring assistance to bolster GOZ decision-making bases.

#### 4. PROGRAM STRATEGY

##### 4.1. GOVERNMENT OF ZIMBABWE PLANS AND POLICIES FOR GRAIN MARKETING

The Government goals in the agricultural sector during the current structural adjustment exercise are described in general terms in the "Framework for Economic Reform" paper presented in Paris in April 1991. These are to be accomplished by 1994/95. In essence, the achievement of the stated goals will require attention to the following strategic objectives in the grain marketing sub-sector over the long term:

- The GMB to operate as a commercial organization alongside other marketing channels;
- Elimination of GMB trading account deficits;
- Reduction in marketing margins, thereby improving the returns to farmers and/or lowering the costs of grain to consumers;
- Provision of ready access to grain markets to all major producers;
- Establishment of a competitive grain marketing system with private participation.

#### 4.2. USAID STRATEGY TO SUPPORT GOZ PLANS AND POLICIES FOR GRAIN MARKETING

USAID would like to support the GOZ grain marketing reform policies with non-project assistance. The Mission's proposed program is based on a two-pronged strategy that is expected to yield both short term and long term results. The conditions which must be met for disbursement of US\$5 million in the first year will be specific actions necessary for grain market liberalization over the long term, but which will also achieve specific and real returns in the short term. The proposed program will support GOZ efforts in achieving the following immediate objectives:

- Reduction in the GMB trading account deficits and promotion of a more commercial orientation in GMB trading operations;
- Improvement of rural consumer welfare; and
- Movement toward a competitive grain marketing system with broadened private sector participation -- particularly in smallholder farming areas and in outlying farming regions more distant from major industrial processing agents.

To achieve the above objectives, specific reform measures will be included in the proposed first year program to accomplish the following:

- o To reduce the amount of grain moving from GMB depots into the cities and back out to rural areas in the form of commercial maize meal.

The aim is to establish the appropriate policy and regulatory environment within which small scale traders and millers will have an incentive to buy the grain from GMB depots and process it closer to the rural areas where it is needed. It is expected that the savings in transport and processing costs would make cheaper, locally-milled meal more available to rural consumers who currently must buy more expensive refined commercial meal. This would also reduce the costs of transporting grain onward to main depots, of handling and storing the grain, and of transporting expensively packaged commercial meal or food aid back into deficit areas. Economic studies have estimated that locally-milled meal could be produced at 12 to 15 percent lower cost than the current price of subsidized commercial roller meal.

- o To make more grain and straight-run meal available to consumers and traders in urban areas.

Increased access of individuals to grain from GMB depots should provide the incentive for more private sector participants, particularly traders and small peri-urban consumers. The large scale mills are currently not making straight-run meal available to consumers. The re-introduction of straight-run meal (which in surveys has shown to be the meal of choice of a large portion of low-income consumers) sold in convenient size packages, should result in lower staple meal prices for the poor. The program will be monitored closely to determine if this expected impact is achieved or if other constraints must be addressed to achieve the expected change in behavior.

- o In the short-run, to expand the scope for intra-rural trade, and, in the long-run, to encourage rural informal trade such that it replaces the GMB's function of wholesaling where the GMB is not competitive in providing such services.

Allowing collection points and/or other non-depot distribution points to re-sell to any buyer should open up GMB-owned stocks to rural consumers, traders, and small-scale millers instead of funneling supplies directly to urban centers. In the long run, it should provide viable alternative market outlets for producers and reliable supplies for rural consumers at lower cost than commercial maize meal. Beginning this new operation in selected collection points and/or other non-depot distribution points and carefully monitoring any additional costs as well as savings will indicate if the establishment of additional distribution or sales points should be encouraged.

## 5. PROGRAM FRAMEWORK

### 5.1. PROGRAM GOAL

The program goal is to contribute toward improvement of the welfare of rural consumers by supporting a GOZ initiative to move grain marketing towards a competitive, lower cost system by reducing market controls and allowing expanded private participation in the grain trading system. Indicators which will be monitored to determine the proposed policy reform contributions to the program goal are the following:

- a. The number of private traders purchasing maize from the GMB in specific grain deficit areas and re-selling through various channels increases by at least ten percent.
- b. GMB maize sales to informal buyers in deficit rural areas increases in volume by at least ten percent.
- c. A measurable increase in the number of informal millers operating in urban areas and in specific rural areas.
- d. The real income of producers in selected areas which neighbor deficit areas increases by at least ten percent.
- e. Average real consumer purchase prices for maize meal in informal markets in specific grain deficit rural areas decreases by at least ten percent.
- f. Average real consumer purchase prices for maize meal in informal markets in urban areas decreases by at least ten percent.

The following assumptions will be monitored for their influence on achievement of the program goal:

- a. The Government will come to grips with the redistribution of land in a way that does not reduce investment, financing, and, ultimately, agricultural productivity.
- b. Adverse public opinion of private traders does not significantly restrict or retard expansion of private participation in grain trade.
- c. The distribution of grain from surplus areas into grain deficit communal areas is not now being adequately accomplished by either the public or the private sectors.
- d. Market reform is accompanied by GOZ initiatives that alleviate major non-policy as well as policy barriers to private sector entry and investment in grain trading, storage, transport, and rural processing.
- e. Policy changes will be uniformly implemented once they have been made law.
- f. Weather conditions permit normal grain yields.

#### 5.2. PROGRAM PURPOSE

The program purpose is to support specific policy and regulatory reforms which will: (a) increase access to grain in deficit areas; and (b) reduce the contribution of domestic grain trading losses to the national budget deficit. At the end of the proposed program (two years from signing of the Program Grant Agreement), it is expected that the following will be evident:

- The Grain Marketing Board will be operating with greater autonomy.
- New or enhanced private sector marketing channels will begin to meet producer and commercial consumer requirements.
- There will be increased grain availability in identified semi-arid and rural areas.
- Government deficits derived from GMB operating costs will be reduced.
- There will be a demonstration of the value of increased reliance on the market system to allocate resources in grain marketing in particular and agricultural marketing in general.

Indicators and targets which will be monitored to determine the extent to which the program purpose has been achieved are the following:

- a. The volume of maize sold to informal buyers at GMB depots in specific grain deficit rural areas (or in areas neighboring deficit areas) increases by at least ten percent in those areas.

- b. At least 20 percent of maize intake at GMB collection points and/or other non-depot distribution points neighboring specific grain deficit areas is resold to informal buyers at the same collection point and/or non-depot distribution point.
- c. The GMB annual domestic trading deficit decreases by ten percent from Z\$23.8 million to Z\$21.4 million.

In addition to the assumptions stated previously, accomplishment of the program purpose involves the following assumptions, which will be monitored throughout implementation to determine their validity:

- a. The GOZ follows through with its plan to decontrol grain movements between communal and commercial areas in Natural Regions IV and V.
- b. The costs associated with selling at collection points and/or at other non-depot distribution points is lower than the combined costs of transporting grain onward to main depots, handling and storing the grain by the GMB, and transporting processed meal or drought relief back into these same areas.
- c. City, or other governmental administrative unit or sub-unit by-laws are amended to permit informal milling in non-residential areas, or the existing restrictions in non-residential areas are not enforced.
- d. Transportation will be adequate to support increased private sector grain marketing activities in rural areas.
- e. The development of reliable informal trade will improve grain availability and access in rural areas.
- f. Improved grain availability and access will reduce the number of hunger-prone households.
- g. The reduction in the number of hunger-prone households will reduce the size and costs of drought relief and supplemental feeding programs.
- h. Most rural hunger-prone consumers are within 100 km. of a grain sale point.
- i. The GOZ follows through with its plan to reduce GMB subsidies from Z\$59 million in 1990/91, to Z\$30 million in 1991/92, and to Z\$18 million in 1992/93.

### 5.3. PROGRAM OUTPUTS

The expected outputs of the program will be policy changes on the part of the Government. Specifically, Government removal of several policy and regulatory-related barriers to entry into informal grain distribution and processing is expected to create the following environment by the end of the two-year program:

- a. An autonomous Board of Directors is functioning for the Grain Marketing Board.
- b. There is open sale of grain from GMB depots to any buyer at whatever quantity is demanded greater than one bag, and depot managers and relevant participants in the grain marketing system are aware of that change in policy.
- c. Buyers are permitted to re-sell grain through any channel in Natural Regions IV and V, and depot managers and participants in the grain marketing system are aware of the change in policy.
- d. Grain is being sold at selected GMB collection points and/or other non-depot distribution points to any buyer on a trial basis and being monitored for impact on grain availability and operational costs.
- e. A plan has been drafted and approved for development of a medium range strategy for liberalizing national grain markets and promoting the development of a strong, competitive marketing system with expanded private participation; and the strategy is being implemented.

There are two key assumptions for accomplishment of the program outputs: (1) the GMB, once empowered to act "autonomously", will accept that power and make independent operational decisions on grain marketing; and (2) policy changes will be uniformly and effectively implemented.

#### 5.4. PROGRAM ELEMENTS

##### A. Conditionality

The results of research, analysis, and dialogue to date suggest several policy areas where A.I.D. can effectively support the GOZ efforts to develop a multi-channel grain marketing system that allows for greater private sector participation. Five policy areas have been identified for immediate support for gradual grain market reform. More extensive changes could provide greater benefits over the long run; however, it is important to understand the skepticism with which private traders are viewed in some circles. These misgivings, coupled with the fact that the effects of promoting informal grain marketing are untested in Zimbabwe and represent a distinct shift away from the currently highly controlled and regulated system, argues for a more gradual approach to reform.

The following are the first year program conditions that have been agreed upon with the MLARR:

- (a) Government formally establishes an autonomous Board of Directors at the Grain Marketing Board.

The Government of Zimbabwe will be asked to take the actions necessary for establishment of an autonomous Board of Directors at the GMB. As part of this

process, the GMB is to examine and complete an analysis of its current operations with the objective of identifying actions necessary to reduce its operational deficits and guide the Board toward a more commercial orientation.

This condition will be partially met with a 1991 Amendment to the Grain Marketing Act, which provides for an independent Board of Directors for the GMB. This Amendment does not, however, state what specific actions the Board of Directors will be able to take without resort to Government's approval.

There are a number of issues to be addressed in the course of achieving the proposed reform. The GOZ's "Framework for Economic Reform" states that public enterprise boards and management will be subject to more flexible regulations and compensation provisions in the hiring and firing of labor, in setting pay scales, and in procurement policy.

The GMB Board of Directors' position is that "independent" means they will be given sufficient powers and autonomy to allow management to meet the cost reduction targets which they are expected to meet (as outlined in the GOZ's Economic Policy Framework). The GMB currently has assigned to its staff the task of reviewing the Grain Marketing Act and identifying specific actions which are required to give them operational autonomy. The Board does not expect to be granted autonomy over maize pricing.

Based on discussions with the GMB and MLARR, autonomy for purposes of this program is tentatively defined as the GMB's power to make decisions over most operational management decisions without having to obtain permission from the MLARR. Autonomy is not defined in terms of control over policy decisions, particularly pricing decisions. Analysis suggests that illustrative areas in which the GMB can realistically be allowed to have autonomy over decision making include:

- Salaries and hiring and firing of non-executive personnel (below Assistant General Manager level), subject to existing labor and other applicable laws;
- Distribution and procurement, subject to existing laws concerning GOZ Tender Board and foreign exchange allocation; and
- Export activities not in conflict with the "national interest."

(b) Government formally allows sale of grain from GMB depots to any buyer at whatever quantity is demanded greater than one bag and ensures that this information is disseminated to the public and GMB managers.

Government will be asked to take the actions necessary for the GMB to actively engage in selling grain in any quantity over one bag (the current minimum) to any buyers, including informal traders. The GMB will be asked to widely disseminate this and other information pertaining to the rules governing grain purchase and resale. The dissemination of this information will be targeted to local GMB staff as well as the general public. The aim is to create incentives for small scale traders and millers to buy the grain from GMB depots and process it closer to the rural areas where it is needed.

To open sales from depots is, in fact, legal at present. The Grain Marketing Act (CAP 113, 1966) states that anyone will be permitted to acquire and sell or re-sell controlled products (including maize) without reference to the Board provided that the controlled product does not leave Areas "B" (the communal areas). If the product does leave Area "B", the destination must be the GMB. Thus, current legislation does not constrain free marketing in the Communal Lands (defined as Zone B in the GMB Act), nor does it restrict the purchase of maize from the GMB by buyers in these areas. In fact, the past action to reduce the minimum sale quantity from one ton to one bag (50 kg net) was intended to encourage maize sales in the Communal Lands.

Despite the fact that the rules are clearly stated in GMB publications, they have been subject to a wide variety of interpretations, both within GMB and in rural areas. The action now required to be taken is wide dissemination of information on this policy by both the GMB and the MLARR. The GMB and the MLARR shall publish and widely distribute the information that the GMB sells grain at depots (e.g., posters at depots, announcements in the newspaper and over the radio).

- (c) Government, at the Cabinet level, formally approves the policy that any buyer is allowed to re-sell grain through any channel in Natural Regions IV and V, without paying any portion of revenues back to GMB.

Notwithstanding that the present legislation permits free trade and marketing in Zone B (largely Communal Lands in Natural Regions IV and V), the contract between the GMB and Approved Buyers specifically prohibits re-sale of maize purchased by the Approved Buyers, except to the GMB. Consequently, while the Approved Buyer provides an outlet for marketable surpluses, the Approved Buyer is precluded from performing the function of satisfying the non-GMB demand for maize in these areas.

Cabinet is currently considering a proposal for removing movement controls in Natural Regions IV and V. Thus, the condition is stated as a policy action since the goal is a change in stated policy, with routine implementation expected to follow the announcement.

Relaxation of the existing contractual restriction prohibiting the Approved Buyers and/or Traders to re-sell in Natural Regions IV and V should remove the regulatory constraint to allowing them to perform both functions; namely, to provide an outlet for surplus maize, and to satisfy the non-GMB demand for maize in Natural Regions IV and V.

- (d) Government formally allows grain to be sold at selected GMB collection points and/or other non-depot distribution points to any buyer, and ensures that this information is disseminated to the public.

Although this condition calls for expanding the function of selected rural collection points and/or other non-depot distribution points, it may only

require the GMB to provide grading and selling facilities at such points. It may also require a decision to keep open the collection points a few extra months (to perhaps October 31st) or until stocks are depleted. It does not inhibit closing of collection points or necessarily require establishment of additional collection points.

- (e) Government submits, in form and substance satisfactory to A.I.D., a plan for development, completion, and dissemination of a medium-range strategy for rationalization of national grain marketing and the development of a strong, competitive grain marketing system which permits and encourages private sector participation.

A specific condition for disbursement of the US\$5 million will be commitment by the MLARR to development of a medium-term (three-year) strategy for rationalization of national grain marketing and the progressive development of private grain marketing channels.

A.I.D., the GOZ, and other interested participants in grain marketing have already entered into and will be continuing an active dialogue on the specific content of the plan. It is expected that the plan will address both analytical and process concerns of decision-makers by:

- (i) listing, illustratively and in order of priority, the topics of operational research (including both policy and non-policy constraints to traders, millers, and transporters entering into grain marketing (Section 5.4.D, includes an illustrative list of possible areas requiring analysis); and
- (ii) providing for development of a time-phased, action-specific implementation plan for any accepted recommended actions arising from the research/analysis.

In addressing research concerns, it is expected that the choice of analyses to be included in the illustrative list would take into consideration the needs of policy makers to understand -- to the extent possible from analyses -- the full potential impact and/or consequences of any particular policy changes before action is taken. In addressing process concerns, it would also be appropriate if the plan called for the analysts who will be involved in the development of the medium term strategy to identify -- in the course of their analyses -- where targeted assistance would be required to alleviate the losses of the most vulnerable populations.

Also, and in consideration that the ultimate strategy developed must make sense to policy makers and provide them with readily understandable information regarding probable impacts, it would be helpful if, within the plan for strategy development, analysts are requested to summarize findings in a multi-criteria matrix, including, but not limited to such measures as: economic significance of the change on farmers, consumers, and the government budget; expected impact on production; estimated efficiency gains in marketing

functions; expected impact on each farming sector, e.g., communal, commercial, and resettlement; and expected impact on such areas as household access to food. The plan might call for development of a sub-strategy to solicit the support of those expected to gain from the policy change.

Finally, the plan should provide a tentative time schedule for accomplishing the necessary analyses and include recognition of a need to disseminate the contents of the final strategy developed to key public and private sector opinion influencers and decision makers.

#### B. Foreign Exchange

A total of US\$5 million is planned as a single dollar disbursement to be provided by a sector cash grant in support of proposed policy reforms. The proposed US\$5 million will be disbursed on satisfaction of the conditions, as described above. The funds will be disbursed into a non-commingled Special Dollar Account to be released therefrom in support of the newly instituted OGIL -- the centerpiece of Zimbabwe's economic reform program. When fully operational in 1995, the OGIL will apply to all imports except for a small negative list. It will thus allow a market determined allocation of the economy's foreign exchange resources among the most efficient users and simultaneously ensure a market determined exchange rate that will provide an adequate incentive to exporters.

The OGIL will not be fully implemented until 1995. Its impact, however, should be felt much sooner as some 70 percent of Zimbabwe's exports (45 percent unrestricted and 25 percent end-use specific) are scheduled to be under the system by the end of 1992. Zimbabwe's ability to adhere to this schedule clearly depends on the support it receives from the donors in the form of non-distorting front end foreign exchange to support the OGIL.

The US\$5 million will not be directly tied to U.S. imports. The release of the US\$5 million will be subject to review against a list of importers who received foreign exchange allocations to purchase goods off the OGIL which were sourced in the United States. Upon receipt and satisfactory review of the list and a checking against a "negative list", USAID will approve the draw-down of dollar funds from the Special Dollar Account established for that purpose in the Reserve Bank of Zimbabwe (or in some other Bank in the United States or Zimbabwe, as may be agreed upon in writing), in accordance with the procedures outlined in Section 7.2.B.

#### C. Local Currency

The U.S. dollars provided for the OGIL, given that they will be attributed to private sector imports, will result in generations of local currency in an equivalent amount. Accordingly, the Government of Zimbabwe will be required to deposit an amount of local currency equivalent to the U.S. dollar draw-down amount into a non-commingled Separate Local Currency Account within 20 days

after USAID approves each draw-down of dollar funds from the Special Dollar Account established as described above and in Section 7.2.B. The Separate Local Currency Account will be interest bearing, with any interest earned programmed as if it were principal.

Consistent with A.I.D. guidance, the local currency will be programmed to support economic development objectives as defined in current legislation (Section 575(A) of the 1991 Foreign Assistance Appropriations Act (FAA)). The local currency in the Separate Local Currency Account may not be used for police training or for military or para-military purposes.

The Mission will discuss jointly programming the local currency deposited in the required Separate Local Currency Account for two broad purposes: (a) a Trust Fund amounting to 10 percent of the total grant to be used to partially cover USAID administrative costs in Zimbabwe; and (b) GOZ budget line item support for the program objectives, i.e., grain market strengthening activities, which may include but not be limited to: GOZ counterpart requirements for other donor projects, credit guarantees and/or credit to encourage private sector storage, milling, and grain trade development; and support for the Social Fund to assist vulnerable groups under the ESAP. Budgetary line items with best potential for supporting proposed program objective will be given highest consideration in the joint programming exercise. Management of the local currency in the Separate Local Currency Account is discussed in Section 7.2.C.

#### D. Technical Assistance (TA)

A three-year technical assistance package will be developed to provide support in three key areas: (1) analyses to support program implementation; (2) analyses to support development of the medium range grain marketing commercialization strategy and its implementation; and (3) analyses required by entities involved with grain marketing in Zimbabwe (the GMB, AMA, Transporters, Millers, Traders, farming groups, credit institutions, etc.) to support grain market development.

In addition, USAID will use PD&S funds to fund monitoring and evaluation requirements. An illustrative list of needs in all three areas is presented below:

##### (1) TA Needed to Support 1991 Program Implementation

For the work listed below technical assistance will be sought to assist with supervising and/or carrying out the analyses.

##### a. First Year Implementation Studies

- Analysis of cost/savings implications of selling grain at the GMB collection points.

- Analysis of margins offered to Approved Buyers by the GMB, restrictions on numbers of Approved Buyers, and the requirement for Approved Buyers to repay a portion of revenues to the GMB.
- Analysis of the impact of Government pricing policy with regard to maize meal retail mark-ups on perpetuating the distribution of more expensive meal that caters to higher-income tastes.
- Assessment of the impact of current laws prohibiting informal maize milling in urban areas to determine the merits of revising the laws to prohibit the establishment of maize milling in residential areas.
- The potential impact of Government authorization of the manufacture of straight-run meal in convenient sizes, similar to other meals.
- The impact of the permit system on transporter entry into grain marketing.

b. Medium Term Strategy Development

Policy Analyses to Develop Strategy:

- Probable impacts of eliminating movement controls in Regions I, II, and III.
- The impact on consumers, producers, and the GMB of introducing regional and seasonal variations in prices for grain.
- Analysis of the future organization and specific responsibilities of the Boards of Directors for the Marketing Boards, particularly the GMB.
- Costs of management of strategic stock reserves.
- Synchronization of producer, wholesale, and retail price gazetting.
- Amelioration of Grain Marketing Board losses due to foreign exchange losses on external borrowing.

Non-Policy Analyses

- Analyze needs of traders: transport, credit, infrastructure, market information, etc.
- Analyze needs to establish local grain processing capacity in deficit zones: credit, technology, market information, etc.
- Analyze needs of transporters: vehicles, roads, credit, etc.

- Analyze constraints and possible incentives for increased on-farm storage or incentives for trader storage.
- Analyze the need for a Market Information System (MIS) as a necessary investment to allow and encourage private sector market development.

Technical assistance will be required to incorporate monitoring and implementation results as well as the results of the analyses identified above into a succinct Medium Term Strategy document. The technical assistance contractors will also help plan and carry out a workshop to disseminate the results of the analyses and present the final medium term strategy.

## (2) TA Needed to Establish Monitoring and Evaluation System

Using the draft illustrative scope of work in Annex II-C, an A.I.D. agricultural economist will develop the final scope of work for monitoring and evaluation requirements, which, in addition to areas of emphasis identified in the draft scope of work, may include the following:

- Impact of removing movement controls in Natural Regions IV and V.
- Measurement of prices paid and quantities purchased in the informal market (outside the GMB).
- Measurement of relative changes in quantities, sources, and prices of maize, sorghum, or millet purchases in rural areas.
- Measurement of changes in quantities, sources, and prices of purchases of grain or locally milled meal in urban areas.
- Monitoring of trader activity.
- Monitoring of GMB sales.
- Survey of grain transporters and traders derived from GMB sales lists.

The Scope of Work for executing the monitoring and evaluation plan will include provision for the contractor to identify in the proposal where data is already being collected by relevant entities and how that data collection would be used and coordinated with any additional data collection requirements. The contractor will also be asked to analyze all data collected to synthesize and document impacts of the proposed program on: (i) the grain marketing system; and (ii) the program beneficiaries.

### (3) Technical Assistance II - Primary Activities

A second phase of technical assistance will involve the commitment of resources for two principal purposes: (i) analyses and operational research for implementation of the medium term strategy developed under the first phase of technical assistance; and (ii) analytical support for non-governmental entities with an interest and/or role in grain market development.

## 6. PROGRAM FEASIBILITY ANALYSES SUMMARIES

### 6.1. TECHNICAL ASSESSMENT

A Technical Assessment (Annex II-A) was conducted to: (a) examine the feasibility of carrying out the policy reforms to be supported during the first year of the program; and (b) identify relevant technical constraints remaining after the regulatory reforms which would inhibit broader private sector participation in grain marketing. The analysis complemented the Economic Analysis (Annex II-B), focussing on practical and operational difficulties rather than economic incentive issues. The key findings of the Technical Assessment are summarized below.

#### A. Technical Feasibility of the Proposed Policy and Regulatory Reforms

The technical feasibility of each of the reforms to be supported under the proposed program is discussed below.

- (1) Government formally allows sale of grain from its depots to any buyer at whatever quantity is demanded greater than one bag and ensures that this information is disseminated to the public and GMB managers.

The technical assessment found that the majority of depot managers do not know that they can sell to traders who wish to re-sell grain; thus, they do not permit sales to informal traders. Consequently, less than two percent of the GMB's total maize intake since 1980 has been sold to consumers or to private traders. As a result, rural areas in semi-arid regions have become almost totally dependent on urban centers to meet the rural household grain shortfalls during deficit periods (September through February).

The Technical Assessment (Annex II-A) and the Economic Analysis (Annex II-B) determined that the total demand for maize grain from the Communal Land depots in Natural Regions III, IV, and V during the deficit periods is 56,870 tons per annum. If sales from the GMB depots were at the GMB selling price, the implementation of the proposed regulatory change would have no detrimental effect on the GMB's trading account. The GMB would, however, benefit from the savings on transport that would result from avoidance of moving grain into the urban areas for milling. Also, the GOZ would be saved costs of moving drought relief into formerly deficit areas. Thus, the action required, i.e., wide dissemination of the information regarding the modification in the regulation through posters at GMB depots and announcements in the newspaper and over the radio should contribute to achieving the planned program objectives.

- (2) Government, at the Cabinet level, formally approves the policy that any buyer is allowed to resell grain through any channel in Natural Regions IV and V.

Relaxation of the existing contractual restrictions prohibiting Approved Buyers and/or traders to re-sell grain in Natural Regions IV and V will remove the regulatory constraint presently preventing them from performing two important functions: providing of an outlet for surplus maize and satisfying the demand for maize in deficit areas. As determined from the Economic Analysis (Annex II-B), the economic incentives for the Approved Buyers and traders to serve the aforementioned functions are apparent: financial benefits to the local economy would be the distribution of the margin between the retail cost of commercial roller meal (about Z\$626 per ton of meal) and the GMB producer price (Z\$270 per ton of grain) between:

- Consumers who are required to supplement their own supplies of maize grain or producers with marketable surpluses and
- Traders or Approved Buyers who buy, store, and re-sell maize on their own account or buy from the GMB to re-sell locally.

It is apparent that once the regulatory constraint is removed, the extent to which Approved Buyers and traders will actually be able to carry out the function of satisfying demand for maize in rural areas will not hinge upon the economic incentive structure; it will depend upon success in overcoming the technical requirement for financial resources, or access to credit to finance the stock holdings.

In urban areas, Approved Buyers can be quite large, diversified businessmen already involved in other grain marketing activities such as transporting and wholesaling grain. The GMB believes, probably quite accurately, that if Approved Buyers are allowed to buy directly from farmers and re-sell to anyone, the Approved Buyers will probably begin contracting directly with farmers and re-sell the grain to the large urban millers. This is the kind of competition the GMB is trying to avoid and will probably resist quite strongly. For this reason, further analysis and experience is required before extending the proposed modification in regulations to the remaining Natural Regions I, II, and III.

- (3) Government formally allows grain to be sold at GMB collection points and/or other non-depot distribution points to any buyer and ensures this information is disseminated to the public and to GMB managers.

Collection points are seasonal operations established by the GMB in the more remote areas of the Communal Lands. Their function is to facilitate the receipt of marketable surpluses from smallholder farmers and evacuation of the same to a parent depot. The purpose of having the GMB sell grain from the collection points is to retain marketable surpluses in the area to satisfy demand during deficit periods.

Demand and supply are out of sync at the collection points -- i.e., during July, August, and September, farmers want to sell to the collection points, whereas households may run out of grain and have to purchase it during December, January, and February. If the GMB were to have to maintain a permanent presence in the area to receive, store, and re-sell the grain it would incur additional costs and perhaps discourage private enterprise from performing the sale function.

Alternatively, the collection points could remain temporary points, announcing early in the season that anyone could buy grain up until the collection point is closed (which would be at a later date in the season, such as October or November). The operating costs of the collection point for a few extra months would be less than a depot. In fact, if GMB pays the official producer price and sells at the selling price, it should actually be making higher profits at collection points (coupled with lower transportation costs, since less grain will be moving on to depots).

Currently, all transactions at collection points are made on a stop-order system, which means no cash transactions are made between the collection point agent and the producers. If collection points can not only buy from farmers, but also re-sell to consumers or traders, they will be dealing in cash for the first time. Security is the main problem. If cash sales were to occur at collection points, scales and agents trained in grading would also have to be supplied. These are operational issues which can be overcome fairly easily.

In sum, expanding the function of rural collection points and or non-depot distribution points will only require the GMB to provide grading and selling facilities at these points. It does not inhibit closing of collection points or require establishment of additional collection points.

#### B. Technical Constraints to Broader Private Sector Participation in Grain Marketing

As noted above, the Technical Assessment found that the proposed reforms will remove most of the regulatory constraints to broader private sector participation in grain marketing. However, a number of other constraints face potential rural traders, i.e., storage capacity, access to credit, and shortage of vehicles for transporting commodities (and high cost of transportation). It is rural shopkeepers who typically sell maize meal in rural areas at present. The shopkeepers receive the meal from the large scale urban millers on credit and it is delivered once a month, overcoming all 3 constraints -- credit, storage, and transport. The proposed reforms which will receive program support will not interfere with the continuance of this practice.

Nevertheless, diversifying marketing channels to broaden private sector participation in grain marketing beyond that which already exists will require attention to the constraints described in Section 3 and analyzed

in the Technical Assessment included as Annex II-A to this PAAD. The analysis recommends that during program implementation specific efforts be made to sensitize involved entities to the importance of beginning to address constraints, particularly with measures similar to those described below.

- (a) Credit - The formal lending sector must be provided appropriate incentives to more effectively meet the credit needs of crop buyers. Specifically, the Zimbabwe Development Bank or SEDCO must be challenged to play a role by targeting credit for specific private investments such as vehicles, hammer mills, spare parts, storage, marketplace facilities, etc. in rural areas.
- (b) Storage - Further pricing or policy changes will be needed to create incentives for the construction of private sector storage capacity (an alternative is to lease out GMB facilities to the private sector). Improving the technology of local grain storage is also needed to provide greater incentives for temporal arbitrage in grain, promoting local availability of grain later in the season.
- (c) Transport and Infrastructure - Limited domestic production vehicles, high import taxes on foreign-purchased vehicles, and poor access to hired transport in remote areas (in part due to the poor quality of rural roads) all limit the potential for increased private sector activity in grain trading. Efforts to move imports of high-priority vehicles to the OGIL and ongoing efforts to rationalize the foreign exchange regime will help alleviate this constraint over time. Government must be encouraged to invest in rural roads serving to connect rural markets and not just rural to urban markets.

The GOZ's Framework document acknowledges that transportation restrictions such as the requirement for transporters to obtain permits to operate on established routes (which acts as a rationing device limiting competition) have constrained development of the private sector, and the permit system will be reviewed with the goal of relaxing some of these controls.

The development of the medium-range strategy for grain market liberalization must include a comprehensive study of the transportation sector looking at constraints to completion and possibilities for encouraging the expansion of rural, small-scale transporters involved in grain trade.

- (d) Information on the Rules of the Game - The majority of informal traders lack sufficient information on rules governing grain trade and perceive grain trading as illegal regardless of whether the product is controlled or not in the area in which they trade. The first-year program reforms address this constraint.
- (e) Limited Specialization in Marketing Functions - Because of the current lack of specialization in informal grain trade, buyers in surplus areas must find their own means of disposing of the grain,

typically to consumers or GMB. A recent study found that there were no reported cases of re-sale between traders, indicating a less specialized informal marketing system than those commonly found throughout Africa, in which first handlers, wholesalers, trader/transporters, and retailers have developed their own niche in the marketing channel. Information and management requirements and transactions costs increase without specialization. Part of the problem in Zimbabwe is a lack of organized rural markets where these activities would take place and buyers and sellers come together. Historical restrictions on grain trade and historical subsidies on maize meal have inhibited the development of such a grain trading network. The actors exist, but they do not move grain. The proposed reforms seek to begin shifting the structure of incentives and opportunities in favor of extending the coverage of established market institutions into grain trade.

- (f) Lack of experience in dealing with private sector on the part of Small Scale farmers; lack of entrepreneurial experience on part of traders

Lack of training in entrepreneurial skills is a problem in rural areas where the risks to starting new enterprises are probably much higher than in urban areas. Overcoming notions of "exploitative" private traders is not a technical issue, but will require some effort to overcome. The government can play an important role by widely disseminating information regarding the new "rules of the game".

- (g) Lack of Market Information - Surveys have shown that despite price controls, grain prices are highly variable in the rural areas, particularly in regions experiencing grain supply deficits. Improved market information encourages the movement of grain from low to higher price regions, offering benefits to both producers and consumers.
- (h) Lack of Storage and Processing Plant - As was mentioned earlier, producers, private traders, and shopkeepers lack storage facilities and knowledge of techniques for properly storing grain and meal (e.g. proper fumigation techniques). Similarly, the small-scale milling industry is underdeveloped.
- (i) Lack of Competition - The issue of lack of competition continually arises regarding grain transportation. Again, the rationing of imported vehicles and parts coupled with a permit system controlling who transports what and where, has effectively limited competition and raised the price of transport considerably. Opening up imports of vehicles and spare parts will partly alleviate this problem, but more encouragement of competition in the transport industry -- particularly small transporters serving communal farmers -- is needed.

The Technical Assessment identified the basic issue as one of how to stimulate a private sector that has actively been discouraged for many years in grain marketing. Implementing the proposed policies may be a necessary but insufficient condition. Analyses suggest, however, that the proposed policy changes, accompanied by policy changes outside the program which have been recently announced, will result in achievement of program impact. Additional efforts to address the non-policy constraints would result in even greater program impact. Moreover, A.I.D. resources under other projects, the Zimbabwe Business Development Project and the Zimbabwe Manpower Development II Projects in particular, will be directed towards addressing, to the extent practicable, some of the constraints discussed above.

It is suggested that the most important step is the development of government support for new entry and investment in rural grain trade and processing. For example, the Zimbabwe Development Bank or SEDCO could be asked to target credit for specific private investments such as vehicles, hammer mills, spare parts, storage, and marketplace facilities in rural areas. Also needed is government investment in rural infrastructure. In addition, Government could allow vehicles and spare parts needed by traders to be imported without restrictions (i.e. inclusion as part of OGIL).

Since an efficient private marketing system requires good access to information on market conditions, the development of a market information system, where rural areas are monitored and market information disseminated on a timely basis (e.g. on the radio), would also support private sector involvement in grain marketing.

## 6.2. ECONOMIC ANALYSIS

An Economic Analysis (Annex II.B) was conducted to determine whether the expected program benefits would exceed expected program opportunity costs. The analysis also identified incidence of impact to clarify who would be the beneficiaries and who would be negatively effected.

With respect to methodology, the economic analysis concentrated on technical reforms to grain marketing and the impact of relaxing marketing controls on the rural economy in the Communal Lands in the semi-arid, maize deficit areas (Natural Regions III, IV, and V). The impact on the low income, urban population of encouraging straight-run maize meal consumption was also taken into account. The analysis evaluated both the internal rate of return (IRR) of the program and net present value (NPV) of the grant funds, which used the GOZ discount rate of 10.5 percent. It should be noted that in the context of the proposed program, the calculation of an IRR may be misleading. The policy reforms can be implemented at virtually no cost, or at very little direct cost and offer high returns. The grant, yielding a separate set of returns, is simply an inducement to encourage the process of policy reform -- not a direct investment cost.

The analysis determined the costs and benefits of the first year of the proposed program to encourage informal marketing in the Communal Lands of Natural Regions III, IV, and V. Offsetting the stream of benefits over 5 years against the total program cost, an IRR of 12 percent is projected in the rural areas. Employing a discount factor of 10.5 percent (the cost of Government funds to Ministries and parastatals), an NPV of Z\$875,000 is anticipated. On the assumptions employed regarding growth of the rural market, the payback period of the program investment is less than four years. If only half the benefits are achieved, the IRR of the program becomes negative (12 percent) with a negative NPV of Z\$15.275 million.

The costs and benefits of encouraging informal milling in the urban areas, thereby improving the availability of straight-run maize meal in this market, was calculated. Offsetting the flow of benefits against the total proposed program, a negative IRR of -22 percent results. Using the GOZ interest rate of 10.5 percent to discount the 5-year benefit flow, a negative NPV of Z\$21.686 million is projected.

The costs and benefits of the combined rural and urban benefit streams offset against the total program costs resulted in an IRR of 32 percent and NPV of Z\$23.834 million. These are unambiguously positive and suggest strong financial incentives to implement the reforms. The lack of an established private grain market and historical existence of price controls make it impossible to determine the allocation of these benefits to producers, marketing agents, and consumers. In all likelihood, a portion of benefits will accrue to each.

Having recognized the difficulty of allocating benefits to any one set of producers, marketing agents, or consumers, the economic analysis identifies some obvious gains and losses arising from proposed program implementation:

- Food self-sufficiency in the Communal Lands of Natural Regions III, IV, and V will be improved. Marketable surpluses of maize will be retained in the rural areas to satisfy demand from grain deficit households (estimated to 56,870 tons per annum).
- Although there will remain a requirement to move grain into the semi-arid areas, this will be reduced considerably and targeted to specific vulnerable areas.
- Income will be retained and circulated within the rural economy. Based on a net benefit of Z\$200 per ton of grain retained in these areas, total benefit to the rural economy will be about Z\$11.3 million per annum
- Cost savings to the GMB and, therefore, to the Exchequer, from reduced movement of maize will be about Z\$1.525 million per annum (net of the GMB cost of transporting additional maize into acute, deficit areas).

- Commercial millers will lose market share (56,870 tons of maize grain equivalent), which will be partly offset by transport savings arising from reduced haulage of maize meal into remote areas (Z\$2.670 million per annum). It should be noted that even though commercial millers may lose market share, they may not be losers of benefits. Commercial millers are currently cross-subsidizing sales in outlying areas with the profits from sales in urban areas. They are probably also cross-subsidizing roller meal returns with high returns from super-refined meal. If they sell less in outlying areas, less cross-subsidy will be necessary and urban meal prices could even decline.
- In the urban market, there is a significant demand for straight-run meal; particularly from among lower income groups. This demand is not being supplied, largely due to the application of consumer subsidies to the more refined roller meal and super-refined meal. Review of subsidy policy and straight-run maize meal sold in small units will direct assistance more directly to vulnerable groups and, probably, significantly reduce the demands on the Exchequer and tax payer.
- Straight-run maize meal is more nutritional than both roller meal or super-refined meal. Increased production and consumption of this product will improve the nutritional status and health of the rural and urban populations.

It is important to emphasize the fact that the estimated total net benefits in the economic analysis represents only the direct return to the policy reforms themselves. Based on a five year stream of benefits only, and assuming constant population, the estimate is highly conservative. Moreover, the benefit stream does not represent all of the benefits accruing from the program since it does not take into account the stream of net benefits that will also accrue from allocating the US\$5 million grant resources to the OGIL, nor does it calculate the returns from the GOZ counterpart investment supporting the national budget.

It is difficult to estimate the magnitude of the benefits from supporting the OGIL without knowing how the foreign exchange will specifically be allocated. However, historically, severe foreign exchange constraints and exchange rationing have created a demand for exchange which could be allocated to investments yielding very high returns. Industry faces widespread shortages of imported manufacturing inputs. Foreign exchange appears likely to remain constrained in the near future and associated investment returns should remain favorable. As a rough estimate of magnitude, a 25-30 percent average annual return to foreign exchange investments is possible. As mentioned, a further stream of benefits will likely accrue to the GOZ counterpart commitment of Z\$16.7 million. Since it is not known how this will be invested, it is impossible to estimate the magnitude of this return.

Finally, it should be noted that the policy reform benefit stream was estimated for only the five years of the expected liberalization effort; thus, the benefit stream does not reflect the continuing benefits after that time. Moreover, the policy reforms are clearly a first step forward toward a wider range of market reforms which are expected to yield additional positive returns. In a sense, the program is an investment toward a range of liberalization opportunities which extend well beyond the bounds of this initial adjustment. Without this commitment, the entire process of market reform could be postponed.

### 6.3. SOCIO-CULTURAL ANALYSIS

The Technical Assessment examined regulatory and structural constraints, and the Economic Analysis looked at the appropriateness of the economic incentive structure for achieving planned program objectives.

To complement those efforts, the Socio-Cultural Analysis (Annex II-C (a) focussed on the expected impact of the program on affected groups, including beneficiary groups and those who might be adversely affected (b) identified a number of attitudinal and customary constraints which could inhibit private sector involvement in grain marketing; and (c) recommended measures to ameliorate any potential negative impacts of the proposed program.

#### A. Impact of Proposed Program-Supported Reforms

In the short term (1-2 years), there are no anticipated negative impacts of allowing grain to move more freely within Natural Regions IV and V. However, if there is a time lag in the gazetting of the policy changes and delayed entrance of new private sector participants into the system, vulnerable groups could be affected.

##### (1) Short Term Impacts

Table 1 summarizes the short run impacts of the five proposed policy reforms. From the table it is apparent that the short term gainers are:

- Low-income urban consumers. With a daily diet of sadza most low-income urban consumers are dependent on commercially milled maize, whatever the price. Over 35 percent of the low-income group interviewed stated that they would switch if straight-run meal were 18 percent cheaper than the more refined roller meal. The reforms are expected to result in an increased availability of straight-run maize meal. Also, consumption of straight-run meal should improve nutrition levels.
- Rural and semi-rural consumers in deficit areas - The grain trade in the semi-arid regions (Natural Regions III, IV and V) is described in detail in the literature. The salient points are summarized below:

- 10-20 percent of households are surplus grain producers and account for the bulk of sales to the GMB;
- 80 percent of households are net grain purchasers; and
- On average, 25 percent of the total population deplete their own stocks in September and need to purchase 644 kg. to satisfy the household grain requirements until green maize from the following crop becomes available (165 days); and 50 percent deplete their stocks in December and need to purchase 176 kg. of grain to bridge the period (45 days) until green maize becomes available.

The majority of communal farmers (60 percent) are located in Natural Regions IV and V, which also contain 30 percent of Zimbabwe's population. From five to 40 percent of these farm households are maize sellers, depending on rainfall. But the areas are prone to severe drought, and movement and re-sale restrictions have traditionally limited the amount of grain available in these areas during the months of January through May, before the maize is harvested.

Due to the single-channel nature of the GMB system, rural consumers often purchase maize meal which has been milled in Harare, then sent back out to the rural areas. The processed maize meal is much higher cost than a locally milled straight-run meal would be. The straight-run meal is not readily available due, in part, to the restrictions on movements of maize. Commercial meal may comprise up to 90 percent of grain purchased in the drier smallholder areas. The loss of real cash income due to dependence on commercial maize meal rather than locally traded grain may be as high as 30 percent. Therefore, both economic and nutritional benefits should accrue to the rural poor as more maize becomes available for local milling.

- Laborers on commercial farms. - The lower cost of locally milled maize meal should be passed on to commercial farm labor. If cheaper, locally milled maize meal becomes available and sold close to their homes, the commercial farm workers may be able to increase their real income by consuming less expensive maize meal.
- Small industrial and informal millers. - Five major urban millers dominate the maize meal manufacturing industry. Commercial millers account for 80 percent of the grain purchases from the GMB. GMB usually covers the costs of storage and since most GMB depot managers will not sell to private sector traders, the urban millers are guaranteed unlimited maize stocks from the GMB.

The GOZ places significant controls on the commercial millers by forcing them to procure white maize from the GMB only and by determining the price of processed maize meal. However, even within these restrictions, their margins are currently twice as high as the margins charged by small-scale hammer mills for manufacturing straight run meal.

In a survey, most rural consumers (over 70 percent) stated a preference for locally-milled maize meal over the commercially milled maize meals (roller meal and super-refined meal). The cost of milling grain informally is well below the cost of industrially milled maize. Consequently, the bulk of maize consumed in rural areas is milled by the informal sector. However, due to seasonal deficits, grain must be consistently purchased. Due to historical market controls, the most readily available grain for purchase is industrially milled maize. The major constraint presently faced by small scale millers is the initial capital investment and a steady supply of maize in the rural areas.

Removing restrictions on movement and re-sale in Natural Regions IV and V -- to the extent that they will increase the availability of maize in these regions -- will allow the smaller scale mills to increase the availability of locally milled maize meal. The lower cost of straight-run maize meal in the rural areas will reduce the amount of income spent on the higher priced maize meal and free up income to purchase increased amounts of lower cost and nutritionally superior straight-run maize meal.

-- Private traders and transporters - Aside from on-farm storage, virtually all the marketable maize surplus is moved out of the production areas and stores by the GMB at central depots. What little is stored locally by traders is generally resold by October -- six months before the next harvest. This situation is attributed to the following factors:

- Traders have insufficient working capital to finance the holding of maize stock for extended periods;
- Misconceptions on the part of both GMB depot officials and traders regarding the legality of purchasing grain from the GMB for re-sale; and
- Most wholesalers and commercial millers deliver commercial maize meal to the rural areas free of charge (all costs of transport in this study are based on the GMB tender rate for moving maize on rural roads, i.e., 40 cents per kilometer ton).

Economic estimates show that in the short run transport costs will be reduced due to the increased availability of maize in rural areas. By allowing private traders to operate officially, traders will have more incentives to move grain locally.

## (2) Longer-Term Impacts

Table II summarizes the anticipated impacts over a 2-5 year time frame. In the long-term, benefits will continue to accrue to those identified in the short-term. Additional gains will accrue to the communal and small scale commercial farmers who may be receiving a higher producer price from traders than the GMB. The GMB will continue to be a residual buyer,

so the negative impacts will be mitigated. The only negative impact may be on the commercial millers who will lose market share over the long run as more informal local millers come into operation and compete with the established industrial millers. On the other hand, commercial millers are currently cross-subsidizing sales in outlying areas with the profits from sales in urban areas. They are probably also cross-subsidizing roller meal returns with high returns from super-refined meal. If they sell less in outlying areas, less cross-subsidy will be necessary and urban meal prices could even decline.

B. Socio-Cultural Constraints Which May Inhibit the Expansion of the Private Sector in Grain Marketing

(1) Negative Perception of the Private Sector

In response to the unbalanced development of the agricultural sector under colonial rule, the advent of Independence stressed equity and social welfare. The government role was to "level the playing fields" for the smallholder farmer, providing access to markets and at the same time protecting the low income consumer. Government regulation was seen as the protecting hand - large scale commercial businessmen would not be allowed to exploit the poor rural peasant who was at the mercy of the trader for goods and services. This government protectionism and regulation dominated the system even before Independence and people have over time come to accept the notion of the "exploitative trader".

Similarly, village milling had traditionally been viewed as a service to the community. It is believed that a local miller is there to provide a service at a fee but should not be profiting from the community's need for milled maize.

While negative sentiments of the "private trader" have been ingrained in the rural psyche, it is reasonable to assume that views within the government and the public sector at large regarding the exploitative nature of traders are already changing sufficiently to accommodate the reform steps proposed. Moreover, there is already substantial agreement within the government on the need for increased private sector participation in the economy. Indeed, the entire Economic Reform Program is predicated on movement toward greater reliance on market forces.

It is recommended that the program develop an appropriate plan for monitoring price levels and private participation in grain marketing. In addition to the official outlook on private sector trade, Zimbabwe has the basic infrastructure for changing perceptions. High education levels and good information systems (newspapers, radio and television) give people access to new ideas and concepts. Interviews with farmers (both men and women) indicated that they understand the nature and value of entrepreneurs and competition. A key area of concern remains the potential for sufficient competition to keep prices in check.

(2) Drought Relief versus Private Grain Trade

Since its initiation in 1982, the Drought Relief Program has been one of the largest buyers of maize from the GMB. The criteria for Drought Relief is sufficiently broad so that a large number of rural people are eligible for the food aid. In relation to the proposed grain marketing reforms, there is concern that food aid may well prove a disincentive for a rural private trader to move grain from surplus to deficit areas. Furthermore, politicization is evident in that a number of non-deficit provincial areas receive aid.

While most feel that drought relief is essential, there are critics of the program. Some feel it is creating dependency and that farmers are not producing as much because of the promise of free grain.

Government is now assessing the impacts of the Drought Relief Program and the merits of targeting subsidies and welfare programs to the most needy. In general it is felt that people would prefer to receive cash instead of maize. Especially as more rural cost-recovery programs are instituted in rural areas (for health and education), rural households will need money to cover additional costs. While the current program is a food-for-work program, the shift to a public works-cash payment program is seen as a way of encouraging people to be productive and to improve the marketing infrastructure for communal areas.

The issue remains for the proposed policy reforms, that if drought relief continues to be disbursed at the rate it currently is, it may well prove a disincentive for a rural private trader to move grain from surplus to deficit areas. If a public works program, where households receive cash, is initiated the trader would be providing a service for which the rural worker could pay.

On the other hand, if the private sector does not respond as quickly as hoped, the government must be able to provide a "safety net" for the most vulnerable groups. Any phasing out of food aid programs must be gradual in order to minimize the negative effects on vulnerable groups.

C. Conclusions and Recommendations

Of primary concern for the success of the proposed program is the pace at which private participation could be expected to expand in grain marketing. The Socio-Cultural Analysis recommends a process approach to reform. Most importantly, Government should make a concerted effort to support the development of and expansion of a competitive system of rural grain trading and processing institutions. In addition to development of an attractive policy and regulatory enabling environment, key areas for government intervention are: rural infrastructure, foreign exchange allocation for vehicles and spare parts, and targeted credit for milling, trading, and storage through small enterprise development organizations that are within the Government's control.

The program design has taken into account the findings and recommendations of the socio-cultural analysis in the selection of which reforms to support, the pace of the policy dialogue with the GOZ, and in suggested programming of local currency to address some of the non-policy concerns of infrastructure and credit. The support for the OGIL will, over time, ameliorate the foreign exchange constraint by allowing market forces to allocate foreign exchange.

#### 6.4. INSTITUTIONAL ANALYSIS

An Institutional Analysis (Annex II-D) was carried out to: (a) identify the major organizations that will necessarily be involved in the program in terms of major decision-making and resource flows; (b) identify any organizational incentives/disincentives for undertaking the program activities; (c) assess the capability and willingness of all organizations that will be involved in the program to carry out required activities in accordance with the planned time-table; and (d) recommend measures to ameliorate organizational weaknesses or to overcome problems identified based on the overall findings of the institutional analysis. The analysis identified the following participating organizations:

##### A. Public Sector

1. Ministry of Lands, Agriculture and Rural Resettlement (MLARR)
2. Grain Marketing Board (GMB)
3. Agriculture Marketing Authority (AMA)
4. Cabinet
5. Ministry of Industry and Commerce (MIC)
6. Ministry of Finance, Economic Planning, and Development (MFEPD)

##### B. Private Sector

1. Millers (Large Scale/Small Scale)
2. Approved Buyers
3. Transporters
4. Potential Informal/Small Scale Traders and Private Transporters

##### C. Interest Groups

1. Commercial Farmers Union (CFU).
2. National Farmers Association of Zimbabwe (NFAZ).
3. Zimbabwe National Farmers Union (ZNFU).
4. Indigenous Commercial Grain Producers Association.

The mandates, functions, and capacities of the institutions listed above were analyzed. All indications are that the MLARR is fully supportive of the first year program measures. A proposal has been presented to

Cabinet making recommendations to modify grain marketing. The proposal includes not only measures similar to those proposed for A.I.D. program support but also additional measures fully discussed in Annex II-D. The MLARR is fully supporting an analysis-informed process of policy reform. Some analyses have been completed, but it is clear that further work is needed to better inform policy makers of the implications of changes in the following areas:

- o Regional Pricing
- o Strategic Reserve
- o Producer Price Stability
- o Level and Stability of Consumer Price of maize
- o Pace and Sequencing of Reforms

#### A. Public Sector Institutions

##### (1) The MLARR

The MLARR was found to have sound economic analytical capabilities, but could be strengthened in the analytical areas of agricultural marketing reform, design, and implementation. There do not appear to be any major conflicting objectives among the various branches of MLARR with respect to the proposed reforms.

##### (2) The GMB

The GMB is one of the four agricultural marketing boards responsible for the physical implementation of Government interventions in the marketing of controlled commodities: white maize, yellow maize wheat, soybeans, groundnuts, sunflower, edible beans, rice, and coffee. White sorghum, red sorghum, pearl millet, and finger millet have recently been decontrolled.

The GMB differs markedly from other grain marketing boards in eastern and Central Africa in the degree of efficient management, organization, and long-established high standards of both physical grain management and financial controls. The substantial trading losses in the last decade can be attributed to the policy mandate within which the GMB operates. Specific problem areas are: reserve stock holding, pricing, depot network expansion, the tendency of the government to allow losses to be carried over from one financial year to another, and the devaluation loss on external borrowings by the AMA. The expansion of the GMB (from 1980 to 1990, the number of depots expanded from 39 to 70, and 121 seasonal collection points were established in 1985) has been dramatic. As a result, the volume of intake increased from very low levels to a peak of 820,000 tons in 1985/86. The number of producers registered with the GMB rose from 30,000 in 1980/81 to 490,000 in 1989/90.

The expansion of the GMB has been achieved at a cost and the GMB financial deficit has become a major area of concern to Government in recent years. A 1988 efficiency study of the GMB (Coopers and Lybrand, July 1988) concluded that the structures and systems, which dated prior to Independence, had not developed to reflect either the major changes in objectives which Government was setting for the GMB or the change in scale and diversity of operations of the GMB in the 1980s. There was, accordingly, a mismatch between the organization and management of the GMB and its objectives which affected almost every aspect of its operation. The major recommendation of the study was to redefine the objectives of the GMB in line with government policies, making a distinction between commercial and non-commercial activities.

The real issue facing the GOZ and the GMB is what level of withdrawal from activities is consistent with reaching the overall goals of reducing deficits, stabilizing producer and consumer incomes, and achieving national food security objectives. These are technical questions, and the Government is logically following a cautious path on reforms, choosing to base policy decisions on solid technical analysis of the impacts of the proposed reforms.

(a) Commercial versus Non-Commercial Activities

The Government's "Framework for Economic Reform" proposes a broad strategy for parastatal management which is based on drawing a distinction between parastatals which provide commercial (or marketable) services which are actually or potentially profitable, and those which are deemed to provide developmental (or non-commercial) services and can be expected to incur financial deficits. In this regard, the Framework follows the recommendations of the report of the Justice Smith Committee of Inquiry into the Administration of Parastatals. Under the proposed strategy, Government will ensure parastatals in the commercial category are adequately capitalized with equity capital and given a mandate to manage for profitability. Those in the non-commercial category will be treated as an extension of Government and be given financial performance targets in terms of deficits or subsidies. Capital requirements will be provided through loan finance rather than equity.

Since some of the activities of the GMB are commercial, and some non-commercial (especially the management of the maize market), how this approach will be implemented for the GMB is still not clear. The GMB has just completed a process of distinguishing its activities in these terms and of separating its accounts, and has submitted a Business Plan for the consideration of its Board. The major non-commercial objectives which GOZ is presently pursuing through GMB maize operations are:

- o Food security reserve stocking
- o Price and market stabilization (i.e. guaranteeing GMB will buy and sell at fixed prices)
- o Extending the depot and collection point network beyond commercial requirements of the GMB.

(b) Establishing an Autonomous Board of Directors

The Grain Marketing Act provides the regulations governing the Grain Marketing Board. In 1991, it was amended to provide for an independent Board of Directors to be appointed by the President according to recommendations made by the MLARR.

In terms of power to make policy decisions affecting the operation of the GMB, the Act states that the Minister of Agriculture may give directions on matters of policy. The Minister determines which agricultural products are "controlled products" and the Act outlines restrictions on movement of controlled products into or out of prescribed areas. The Minister, by notice in the Gazette, fixes the price payable by the Board each year for all controlled products sold to the Board.

The issue of exactly what degree of decision-making authority the Board of Directors will have (i.e. what decisions can be made without permission from MLARR) is currently being debated, and will probably be an ongoing resolution process between MLARR and the GMB for some time. Realistically, it appears the Board will have the autonomy to make functional management decisions, such as salaries, hiring, and firing at non-executive personnel level (i.e. below Assistant General Manager level); distribution and procurement, subject to allocations of foreign exchange and the Government tender board process; and export activities -- all subject to a clause that the Minister can direct the Board to undertake particular activities deemed to be in the National interest. These decision-making powers will not extend to pricing decisions, where the Board will only play an advisory role.

(c) GMB Position on Proposed Policy Reforms

The only mention GMB makes of opening up depots, or collection points to selling is that "the Board will carry out a review of its zone centers policy and local sales rules, with a view to recovering transport costs for customers. The marketing of commodities on location will also be reviewed with respect to storage costs and undrawn balances." The July 25 edition of the Financial Gazette states that the GMB will be undertaking a detailed review of the policy of allowing the use of GMB collection points as local distributors and millers would be encouraged through the realization of the current transport regulations and the admission of small-scale buyers to the maize market."

No amendment to the Grain Marketing Act would be required to make the proposed policy changes of opening up depots and collection points to selling. All that is required is a change in GMB policy, and dissemination of the information that anyone to buy and re-sell from the GMB (e.g. announcements posted at depots, in newspapers and over the radio). Changing the role of the collection points to be able to not only buy from farmers but also to re-sell to consumers or traders will require some infrastructural support. Currently, all transactions are

made on a stop-order system which means no cash transactions are made between the collection point agent and the producers. Security is the main problem, which could be addressed by the provision of security guards and safes. Scales and agents trained in grading would also have to be supplied. These operational constraints can be overcome fairly easily.

The GMB has been given the mandate to reduce costs, and since the reforms proposed in the first year program will help them achieve this objective, they do not have any major objections to them.

(d) Institutional Capacity

The GMB has a new Planning Unit which is staffed by economists. This unit has been involved in putting together a Business Plan (with the aid of several economists from the Food Services Group in Cambridge, England), and will be involved in ongoing policy analysis. The level of training and capacity of the GMB Board of Directors to understand ongoing analyses is also quite strong.

(3) Agriculture Marketing Authority (AMA)

The AMA was established in 1967 to advise Government on the policy and management of the Boards. One of the AMA's principal functions has been to mobilize crop finance on a seasonal basis for the Boards' crop purchases. The AMA also makes an annual submission to MLARR as part of the price-setting process.

(a) Structural Adjustment and the Changing Role of the AMA

With the recent decision to establish independent Boards of Directors to oversee individual marketing boards, the functions of the AMA, as described in the AMA Amendment Act (1991), will continue to be advising the Minister of Agriculture on pricing of various agricultural commodities, marketing guarantees and subsidies, and borrowing for the Marketing Boards. The Economics Department will continue to be responsible for research, data processing, and analysis on the agricultural situation at international and national levels for all agricultural products. The AMA emphasizes its coordination role, since it looks at pricing and other issues for all the controlled commodities, not just grain. They also feel they provide a necessary policy analysis function which will help the Government define the path of policy reform to be pursued.

A key function of the AMA has been, and continues to be, borrowing overseas for all of the parastatals. Theoretically, if all of the parastatals wipe out their deficits, this function will no longer be needed. However, since the AMA is borrowing considerable amounts of money and uses the export earnings of the Boards as collateral, they are

able to benefit from competitive international interest rates. The AMA has commented that the overseas lenders are not interested in dealing with individual Boards. The GMB has argued that they would like to be able to borrow for their needs domestically, and not be subject to foreign exchange losses incurred by the AMA.

One of the issues that arises with the creation of separate Boards of Directors for each of the Marketing Boards is to what extent the policy analysis activities of the AMA will be replicated by each Board. The other issue is that in most countries, the research and information role of the AMA is the responsibility of the Ministry of Agriculture. It is not clear to what extent the activities of the MLARR overlap with AMA.

(b) AMA Position on Proposed Reforms

The AMA supports the proposed reforms outlined in the first-year program, and in the longer run supports a cautious, analysis-driven reform agenda. Like the MLARR, the AMA emphasizes the inter-relationships between agricultural industries and the need for a good understanding of the linkages and probable impacts before going ahead with reforms.

(4) Cabinet

The Cabinet is made up of various Members of Parliament from different areas of the country -- representing the diverse interests of communal farmers, commercial farmers, and urban consumers.

MP's from communal areas may voice concern about possible exploitation of peasant farmers by middlemen. GMB assured them of a market, and now risks may be increased for small scale communal farmers. Urban MP's, on the other hand, are likely to be concerned that consumer prices will increase. Since reactions are going to be mixed, it is likely that Cabinet will prefer to proceed cautiously with reforms. A long-term strategy may be supported if year one results are positive (i.e. lower grain prices in deficit areas, higher producer prices, improved availability of grain, and different types of meal available to consumers).

A proposal outlining several policy changes including movement decontrol in Natural Regions IV and V (Condition 3) is currently waiting to be passed by Cabinet. If these policy changes are passed, significant progress will be made towards opening up at least certain regions to private marketing participants.

One issue with respect to the GMB is if the Cabinet will allow the GMB Board of Directors to have autonomy in setting prices (Cabinet would still have veto power, but under normal circumstances would not be involved in the price setting process, making it more flexible). Various parties have indicated that this is not likely, at least in the short-run.

(5) Ministry of Industry and Commerce (MIC)

The MIC plays a central role in administering wholesale and retail price controls for a wide range of commodities, including key agricultural products and inputs. One of the issues raised with respect to the role played by MIC is the need for better synchronization of announcement of producer and consumer prices.

(6) Ministry of Finance, Economic Planning and Development (MFEPD)

The MFEPD is putting strong pressure on the GMB (and the other parastatals), to reduce their deficits to zero over a five year period. They are coming from a purely fiscal point of view. On the other hand, the GMB is still responsible for meeting the country's food security objectives. A fuller discussion of the MFEPD role in supporting the reforms is found in Annex III-D.

B. Private Sector Entities

(1) Commercial Millers

Five major urban millers dominate the maize meal manufacturing industry. National Foods controls over 50 percent of the market, Blue Ribbon has close to 30 percent, and Midlands Milling Company supplies around 10 percent. Triangle Milling Company and Premier Milling also manufacture maize meal but have a very small percentage of the market. The commercial millers account for 80 percent of the grain purchases from the GMB. Milling operations are typically located next to GMB depots in the major urban areas.

All the millers' grain is bought from the GMB at the Government established purchase price, and the meal and flour produced is sold through a network of wholesale and retail outlets in urban and rural areas. The millers are subject to foreign exchange restrictions for imports of equipment; wage rates and labor practices are defined by Government; and the sales prices of flour and meal are controlled.

The GMB delivers the grain free of charge to "Zone Centers", the main urban locations which account for much of the industry's milling capacity. Since the GMB is willing to pay transport and storage costs, the millers have had no incentive to locate mills to minimize transport costs, nor have they been motivated to invest in storage capacity.

Millers' Response to Proposed Reforms

Although the millers face a tightly controlled regulatory environment, the margins between the buying and selling price they are receiving are currently more than twice as high as the margins charged by small-scale

hammer mills for manufacturing straight-run meal. Millers currently buy maize from the GMB at \$360/ton and sell super-refined meal (60 percent extraction rate) at \$770/ton, and roller meal (85 percent extraction rate) at \$570/ton. By contrast, small-scale hammer mill margins recorded from household surveys during 1990/91 were in the range of \$40-60/ton. The current situation also provides the urban commercial milling sector with an assured market share in both urban and rural areas due to policy restrictions on informal maize movement.

Restrictions on movement of maize in rural areas and the GMB depot system have resulted in maize being transported to urban centers to be milled, then shipped back out to rural areas in the form of refined maize meal. In a normal year, 130,000 tons of urban-milled maize meal is shipped back to rural areas for consumption. In a drought year, the figure may rise to 275,000 tons. This process is repeated each season. Frequently, at the time that maize is unavailable in rural areas the more expensive milled maize meal can be found in excess. The Economic Analysis (Annex II-B) estimates the potential savings in transport costs if the maize remained to be milled in rural food deficit areas.

Because of their assured markets and high fixed margins, the millers potentially have the most to lose from the introduction of competition in the milling industry. One miller estimated that around 80 percent of their maize meal revenues came from sales in urban centers. This means that the successful introduction of rural, small-scale mills will not make a substantial difference to the large urban-based millers. They perceive the risks of opening larger-scale mills in rural areas as being high at the moment.

It will be much more difficult for small millers to compete successfully in urban areas, however, and the large millers feel that they will not because consumers prefer refined and roller meal to straight-run meal. The only way small millers will be able to compete successfully next to such a large established industry is if they are able to produce and market a differentiated product at a reasonable price. This issue is discussed in the context of rural mills in the economic analysis.

## (2) Small-Scale/Informal Rural Milling Sector

Most maize consumed in rural areas is milled by small scale millers producing straight-run meal on a batch basis. The milling margins of these informal mills are from one-third to one-half of that of the government-set margin for commercial roller meal.

### (a) Small-scale Millers Response to Proposed Reforms

The proposed reforms will make it easier for traders and small-scale millers to operate in rural areas. The reforms will permit millers to buy grain from surplus households (by offering a higher price than the

GMB), and then sell locally-milled meal to deficit households. Millers will have the option of buying from GMB depots or collection points, and transporting milled meal to deficit areas. Traders, millers, and shopkeepers will be able to store and sell locally-milled maize meal instead of urban-milled maize meal to rural consumers. There appears to be both demand for this enterprise and profits to be made if the proposed policy changes are implemented and the public is made aware of the changes.

### (3) Approved Buyers

Approved Buyers are licensed agents that buy grain on behalf of the GMB. They are required to forward all purchased grain to the nearest GMB depot. Since the GMB's prices are pan-seasonal, Approved Buyers have no incentive to store grain (although they are required to have some storage facilities in order to get a license from the GMB). The organization of the market thus effectively blocks an established group of grain traders from engaging in a socially useful function. Allowing any buyer to re-sell grain through any channel in Natural Regions IV and V will allow approved Buyers to act like private traders, and, indeed, they will have to compete with new traders. In this respect, the Approved Buyer will be losing his monopoly buying position.

On the other hand, since the Approved Buyer has access to credit and transportation, he will be in a better competitive position than new traders. The GMB Business Plan apparently proposes liberalizing the granting of Approved Buyer licenses -- i.e. allowing more Approved Buyers to operate, which will encourage competition between traders. They are also proposing increasing the maximum margin which the Approved Buyers can charge, which the Approved Buyers have argued were not large enough to cover their costs, particularly the high cost of collection and transportation in communal areas.

### (4) Transporters

A full discussion of the role of transporters and constraints to expanding operations is included in the Socio-Cultural Analysis (Annex II-C).

### (5) Potential Informal/Small-Scale Traders

The absence of public markets throughout the rural areas where grain and other products are bought and sold distinguishes Zimbabwe's rural marketing system from many other African countries. With households geographically dispersed and bad roads between communal areas, the absence of local market-places where buyers and sellers interact suppresses the articulation of supply and demand conditions, makes trading very risky, and raises the transactions costs of identifying potential buyers and/or sellers. Movement restrictions have exacerbated the problems facing potential traders.

### C. Interest Groups

#### (1) Commercial Farmers Union (CFU)

The CFU represents 4,500 large-scale commercial farmers. The CFU is comprised of a number of producers' associations which play an influential and active role in marketing policy analysis. The producer associations are: the Commercial Cotton Grower's Association, Commercial Grain Producers' Association, and the Zimbabwe Cereal Producers' Association.

Commercial farmers are calling for the elimination of the marketing boards and a free market system with complete liberalization of prices. The CFU argues that they are capable of competing successfully in a free market system, and that the Government has not paid them high enough prices in the last few years, particularly for maize, so that they would be better off without the GMB. This position may be a bargaining stance on the part of the commercial farmers in order to pressure the Government into announcing a pre-planting price for maize. Although maize production by communal farmers has increased in recent years, it has become evident this year that Zimbabwe is still heavily reliant on the commercial farming sector if it wishes to be self-sufficient in maize production. If commercial farmers are given a pre-planting price at a level they deem sufficient (i.e. they are making money producing maize), it is unlikely that they would prefer the instability of free markets to an assured and stable market coupled with the other services supplied by the GMB (i.e., storage and transport).

With regard to the proposed reforms, the commercial farmers would not be disadvantaged by the changes and thus would not oppose them. Since the reforms are in the direction of greater liberalization of grain marketing, they are supportive.

(2) National Farmers Association of Zimbabwe - represents some 500,000 communal and resettlement farmers.

(3) Zimbabwe National Farmers Union - represents some 12,500 small-scale commercial farmers.

The NFAZ and ZNFU have recently merged due to common interests, and are supporting the development of an informal rural grain trading sector. They envision the gradual reduction of the role of the GMB in grain wholesaling activities in dry rural areas, but emphasize the need for investment in infrastructure (vehicles and roads) and support for small farmers in the areas of credit and market information. They feel that the historical imbalance in Government investment in the agricultural sector has to be addressed at this time, and are calling for Government investment in the communal and small-scale commercial and resettlement regions in the areas of: communications, irrigation, input subsidies (which the GOZ recently announced they would implement), credit, and transport. They are also asking that priority be given to the resettlement program.

The National Farmers Associations would support the proposed program policy reforms. The gradual approach to reducing the role of the GMB is consistent with the Association's belief that the GMB must continue to play an active role in the marketing of grain in both the commercial and communal farming areas while conditions are being created for more private sector involvement in the rural grain marketing. In fact, the Association has explicitly stated support for these kinds of changes in a formal document. Moreover, the Association suggests that Government must go further in provision of non-policy related support such as credit, infrastructure development in rural areas, and transport equipment to promote development of private traders and millers in the rural grain market.

#### Producers' Influence on Pricing

The three unions (NFAZ, ZNFU, CFU) combine through their Joint Presidents Agricultural Committee (Chaired in rotation) to make an annual price submission to MLARR as part of the price setting process. Their detailed analyses, together with their political weight, ensure that in Zimbabwe, more than in any other African country, the price-setting process is affected by strong and well organized producer interest (World Bank, 1991).

### 6.5 POLITICAL ASSESSMENT

An analysis of the political feasibility of the reforms proposed for program support was conducted. The full analysis is available in the USAID Official Project Files. For both the overall reform program and maize marketing reform, the analysis describes the political and institutional context in which the reform programs are being undertaken and addresses both the forces facilitating implementation of the reform program and those inhibiting it. The general conclusion of the political assessment is that the proposed program is politically viable.

#### A. The Economic Reform Program

The analysis concluded that the forces facilitating implementation of the reform program are likely to outweigh the forces inhibiting it. A number of reasons for optimism are apparent. First, the reforms were initiated in a favorable context. The World Bank has argued that economic reform initiatives are most likely to succeed when: (1) they are initiated before the country sinks into the depths of economic crisis; (2) they are the result of a "home-grown" effort of grappling with policy difficulties; and (3) the Government explicitly undertakes the building of political support for the program. All of these features are present in the case of Zimbabwe. While adjustment has been postponed in Zimbabwe, it has not been put off to the point that the reforms needed are socially jarring and the likelihood of an investment supply response is remote. While the World Bank has played a major role in formulating the Zimbabwe

adjustment program, this is not an externally-imposed effort. The overall approach, as well as the specifics, have been developed locally. Finally, the GOZ is actively mobilizing political support for the program.

Second there appears to be a broad technocratic consensus on the necessity of economic reform; while the consensus is strongest in the core economic ministries, it is also present in many of the line ministries as well.

Third, the organized private sector has also shifted to a much more consistently positive attitude towards reform. The events in Eastern Europe and, especially, the impending changes in South Africa, have focussed the attention of Zimbabwe's industrial and commercial elite on the need for enhanced competitiveness.

Finally, and perhaps of overriding importance is the strong political support for the reforms. The party Central Committee has officially endorsed the program and party teams are building support among the party's mass base.

At present, the main organized opposition to the economic reform program comes from the trade unions, and that opposition is by no means a unified stance.

Key to the success of the reform program will be whether it generates an investment supply response, both domestically and internationally. Important concerns influencing the response will be the decisiveness of Government in approving new investment and Government stance on the land issue. These risks, however, are not judged to be of greater influence to the success of the overall reform program than the positive elements discussed above.

#### B. The Proposed Maize Marketing Reforms

There are also good reasons to believe that the specific policy reforms to be supported by the A.I.D. non-project assistance program will be politically viable. The principal factor driving maize marketing reform is the need to diminish the GMB's draw on central Government funds. The GOZ has also announced in the ESAP its intention to remove existing restrictions on the movement of maize within the communal areas. The policy themes that comprise the A.I.D. reform agenda are geared to facilitating this process in a way that supports the continued (and even enhanced) access of poorer groups, in both the urban and rural areas, to maize at a reasonable cost by expanding the "informal" side of the maize market in order to promote the broader distribution of coarser, less-expensive forms of maize meal.

Also, since there is nothing in the A.I.D. policy agenda that could conceivably lead to a sudden, sharp increase in the price of maize, the risk of reform implementation resulting in political unrest is remote.

In addition, political viability is enhanced by the following factors: (a) the high likelihood that the GOZ will keep to its intention of limiting the GMB's success to budgetary resources; (b) any political opposition that may develop is unlikely to be strong or to negatively influence GOZ decision-making; and (c) the openness of the key institutions involved to the kinds of changes that A.I.D. is proposing to support. Moreover, it is clear that the A.I.D. agenda does not imply radical changes in the current maize marketing regime; and, therefore, it is unlikely to generate substantial opposition from those who would stand to lose if the current regime were significantly changed.

The political risks involved in this program concern less the implementation of the policy agenda and more the possibility of limited impact and what that might mean for future efforts at reform. Limited impact is possible in two interrelated areas. The first is the increase in consumption that is expected among both poor rural consumers and, especially, poor urban consumers. The second limited impact is in creating new private sector traders, hammer-mill operators, and other intermediaries. The limited nature of the policy changes that have been identified may not be sufficient to generate a short-term increase in the volume of private sector activity, especially given other constraints to the development of the private sector such as lack of credit, poor transportation infrastructure, and little market knowledge. If private sector activity does not expand, then the direct impact on consumption will be limited.

The political risk here is that the GOZ and other actors may read the lesson of this as being the inappropriateness of liberalization of the maize market, rather than the need for more comprehensive reform and a concomitant effort to remove the other constraints to expanding the private sector. It is not easy to calculate the scope of this risk. Certainly, this risk would be very much reduced if restrictions on the movement of maize from Natural Region III were removed. This would provide a much larger scope for the movement of surplus maize by the "informal" sector into deficit areas.

## 6.6. FINANCIAL ANALYSIS

Of key interest to policy makers considering the program's proposed grain marketing reforms is the likely impact of the reforms on GMB deficits specifically and the national budget in general. A Financial Analysis (Annex II-F) was conducted to examine the current status of the GMB deficit in the context of the national budget and to determine any potential impacts of the proposed reforms on the deficit.

### A. Deficits of Parastatals

A key objective of the GOZ's Economic Structural Adjustment Program is the reduction of the overall fiscal deficit. Central areas of focus are

the deficits of the agricultural marketing parastatals and causes of these deficits. Related to the deficit reduction objective has been the reconstituting of the Marketing Boards, especially in their organization and management.

The cumulative deficits of agricultural marketing parastatals as of June 1, 1991, stood at Z\$1.056 billion. The largest accumulated deficit was for the GMB, followed by the Dairy Marketing Board (DMB), and the Cold Storage Commission (CSC) (see Table V). It is these accumulated deficits that have focussed Government attention on the agricultural parastatals; reduction of their deficits will lead to a reduction of the overall deficit. The GOZ goal is that by 1995 all of the agricultural parastatals will be operating with no subsidy from the Government.

An analysis of the Marketing Board deficits by the Agricultural Marketing Authority (AMA) has highlighted their major causes: foreign exchange losses, lack of Government synchronization between announcement of producer and consumer prices, continued interest payments on past deficits, reluctance on the part of Government to increase consumer prices, overhead costs, high carrying costs of large stocks, and increases in transport costs in the last three years.

(1) Foreign exchange losses:

Foreign exchange losses occur when devaluations take place and debt has to be repaid. The AMA borrows extensively on overseas capital markets to finance the operations of the Marketing Boards (GMB, CSC, DMB, CMB). This will continue under the restructuring of the AMA and the Boards, because the amended legislation which restructured the AMA still allows AMA the power to borrow overseas to finance Board operations. While these losses have to be met by the Government, they are shown on the books of each Board, but are separated out in their accounts as a separate line item.

(2) Lack of synchronization in the announcement of producer and consumer prices:

As both producer and consumer prices are set by Government, it is important that changes in these prices be synchronized. For example, if the producer price that GMB has to pay the farmers is increased on April 1 by 10 percent and the price that GMB can sell the maize is not announced until May 1, then for an entire month the differential between the GMB buying and sale prices becomes a loss to the GMB that it has no control over but carries forward on its books as a component of its annual deficit. If the announcement and effectiveness of these prices were the same day, then no deficit from this component would accrue to the Board. Similarly, there is a lack of synchronization between prices millers pay to the GMB and

the consumer price. Hence, millers who at times have not been given price increases refuse to pay the increased price to the GMB, letting GMB carry the loss.

(3) Continued interest payments on past debt:

At the end of each financial year, the deficit that has accrued to each Board because of its operations is supposed to be assumed by Government, and the Board is supposed to start operations for the new year without a deficit carry-over. This procedure, however, has not been followed. As a result, the individual Marketing Boards are having to pay interest on the debt that they carry forward. Until 1991, the Government was usually two years behind in settling these deficits.

(4) Carrying costs of large carryover stocks:

Carryover stocks, especially of maize by the GMB, have been quite high since 1985, with an average level of over one million tons. While national and regional food security considerations have been the reasons behind maintaining such a high level of stocks, there has been a cost associated with it and these costs are, once again, borne by the Boards.

(5) Transportation Costs:

If a Board uses the National Railway or Government transport facilities, it must pay the cost. As Zimbabwe is a land-locked country, its increasing fuel costs over the past three years have resulted in increased transport costs for the Boards.

Underlying the above factors affecting the deficits of the agricultural parastatals is that they have no control over prices. The determination of both producer and consumer prices is under the direct purview of the Cabinet. The AMA submits its analysis and recommendations to the MLARR on producer prices which, in turn, submits to Cabinet its recommendations. While MLARR recommendations are taken into consideration by Cabinet in its price determination process, other factors are also considered at this level which may include distributional questions. The bottom line is that without the ability to set prices, the Boards have to focus on their operational costs to reduce their deficits.

## B. Trading Accounts for Major Commodities

As stated earlier, the deficits of the Boards are caused by a variety of factors. An attempt is made to separate out the deficits which are attributable to the actual purchases, sales, and stockholding of major commodities. These are known as Trading Accounts and are shown for the major commodities in Table VI for the 1980-1990 period. With the exception of soybeans in recent years, all of the Trading Accounts show deficits. This breakdown is important because the GMB is responsible not only for maize, but also for wheat, soybeans, groundnuts, and small grains. Hence, losses in one commodity could partially be offset by profits in another commodity. But for all the Boards, the overall picture is the same.

### (1) GMB's Deficits and Response to the Economic Reform Program

Under its recently completed business plan proposed to Government, GMB analyzed the operating costs for each of its depots. The depots it will retain are grouped into four categories: 21 Permanent, 17 Seasonal, 19 Intermediate, and 4 Food Security. There is a fifth category comprised of 33 depots the Board plans to close. The depot closures are expected to provide major savings of Z\$3.57 million during the 1991/92 year.

The 1991/92 budget announced on July 25, 1991, is the first budget under the ESAP. Two elements of the budget presentation as they relate to the agricultural parastatals and GMB in particular stand out in importance. First, the budget includes a reduction in the overall allocation for all subsidies from a level of Z\$650 million in 1990/91 to Z\$598 million for 1991/92 (a major part of this, Z\$139 million is for the Zimbabwe Iron and Steel Corporation). While the exact allocations for each agricultural parastatal have not been announced, it is clear that over the next four years the level of subsidy will be reduced. This is further seen in the significant reduction of the MLARR's vote, which is reduced from Z\$600.1 million in 1990/91 to Z\$498 million for 1991/92. The reduced budget must finance the Marketing Boards.

Second, a specific allocation of Z\$598 million was made to clear accumulated parastatal losses up to the end of June 1991. This means that the accumulated debt on which the Boards have been incurring interest will not be paid off; in effect, the Boards will be starting with a clean slate and a specific reduced level of subsidy.

### (2) Potential Impact of the Proposed Reforms on the GMB's Deficit

The proposed program has five conditions related to the disbursement of the US\$5 million. Of these conditions, the first and fifth do not have a direct fiscal impact on the operations of the GMB. It is only the combination of the second, third, and fourth conditions that will have a direct effect on GMB operations and, hence, its fiscal status.

**TABLE VI: TRADING RESULTS - Deficits**

	<u>Beef</u>		<u>Milk</u>		<u>Maize</u>		<u>Wheat</u>	
	\$m	c/kg	\$m	c/l	\$m	\$/l	\$m	\$/l
1979/80	24.5	26.06	4.10	2.72	9.70	10.73	(0.7)	(3.58)
1980/81	30.2	39.61	10.00	6.80	6.00	7.48	0.20	0.73
1981/82	46.6	46.76	18.30	12.12	20.40	20.98	9.30	41.82
1982/83	37.6	37.59	35.70	20.64	43.60	28.33	12.10	51.85
1983/84	27.4	29.13	38.90	21.38	17.00	11.12	5.80	24.97
1984/85	10.8	12.51	43.30	23.03	42.70	49.69	4.40	20.16
1985/86	15.8	23.51	44.00	21.78	46.30	54.75	5.80	23.56
1986/87	19.7	23.02	37.40	16.70	57.30	47.47	14.30	56.87
1987/88	4.5	6.36	42.80	18.06	58.50	39.52	2.90	10.87
1988/89	14.1	21.11	39.20	16.27	12.90	13.02	27.50	95.52
1989/90	29.7	42.75	41.50	16.27	20.10	21.49	22.40	65.20

Excluding interests on past deficits and provision for AMA forex loss

Bracketed figures indicate surpluses

BLE VI (cont)

	<u>Soya beans</u>		<u>Sunflower seed</u>		<u>Groundnuts</u>	
	\$m	\$/t	\$m	\$/t	\$m	\$/t
1979/80	1.90	25.09			(0.3)	34.19
1980/81	1.10	12.95			(0.3)	(29.15)
1981/82	2.10	27.67			0.50	42.80
1982/83	5.70	65.46			0.60	55.32
1983/84	3.60	48.20	0.05	11.36	(0.2)	28.66
1984/85	0.50	5.73	(0.03)	(2.83)	0.20	77.89
1985/86	1.40	15.93	0.20	17.13	0.40	112.04
1986/87	(0.2)	(2.08)	(0.6)	29.80	0.60	57.37
1987/88	(0.3)	(3.38)	0.01	0.65	0.80	55.95
1988/89	(1.8)	(14.57)	1.10	27.58	0.80	59.22
1989/90	(4.9)	(41.27)	0.60	11.06	1.90	160.69

The effect of implementing the cited three conditions is that movement decontrol of maize takes place in the communal areas of Natural Regions IV and V. An underlying assumption of the proposed reform is that the GMB will not transport the maize out of Regions IV and V, as they are deficit areas and, hence, maize will be resold to local traders and individuals. Furthermore, implementation of the conditions would allow farmers to sell not just to the GMB, but also to traders or to deficit households. As the regions are net deficit areas, some grain will also come in from surplus areas and be sold either by GMB or through private traders.

(a) Transport Savings

The net effect of the proposed changes on GMB operations will definitely be a reduction in its maize transportation costs, especially as some of its depots in Natural Regions IV and V are far off the line of rail. Depots in these regions are also some of the highest cost depots (in relationship to unit cost of throughput) due to the low volume of grain moving through the depots. It is unlikely that GMB will stop operating these depots because of the political significance of having depots operating in the communal areas and their use in drought relief activities. What might happen is that the GMB may allocate the costs of the operation of the high-cost depots toward the socially desirable activities account and not the commercial account. In this way, the actual cost of the running of these depots is borne by Government and not by the GMB.

If current transport costs for each of the GMB depots in Natural Regions IV and V were available, one could obtain an accurate estimate of the financial benefits for GMB of the proposed reforms. The data are not available, hence the analysis must rely on reasonable assumptions concerning transport costs and distance that grain moves under the present arrangement. These assumptions are similar to those made in the economic analysis.

A review of the calculations by depot in each of the two Natural Regions shows that the aggregate financial savings in transportation amount to Z\$1.136 million, of which Z\$1.102 million is attributable to Natural Region IV. This is an annual figure, and we can assume that it will be of the same magnitude for the duration of the program.

(b) Other Operating Costs Savings

Depot unit operating costs have been estimated for the 1988/89 season for each of the GMB depots in the country. These costs are related to handling and storage at the depot and do not include any transportation costs. Analyzing these costs for depots in Natural Regions IV and V, shows that some of the highest cost depots in the country are in Natural Regions IV and V. Two depots (one in each of the regions) average Z\$10 handling costs per bag, or nearly Z\$100 per ton. This is in contrast to the average of the low cost depots in other parts of the country of Z\$1 to Z\$5 per ton.

If as a result of the proposed reforms increased private sector trading takes place outside of the GMB, then it is quite possible that the throughput of the Natural Regions IV and V depots will be reduced, thereby increasing unit operating costs. However, if increased activity takes place through the GMB, i.e., both deliveries to GMB and sales from GMB, then the unit operating costs could decrease, leading to a reduction in average overall unit operating costs of the GMB.

## 6.7 ENVIRONMENTAL EXAMINATION

Although it is recognized that policy reform can have environmental implications, the proposed program will be limited to policy review/analysis and technical assistance to support implementation of policy changes. The direction that the policy adjustments will take is, at this juncture, sufficiently diffuse to preclude meaningful analysis of environmental impacts, if any. A.I.D.'s assistance is not designed to result in activities directly affecting the environment, such as the construction of grain marketing facilities. For these reasons the project qualifies, as determined in the Initial Environmental Examination (Annex I-D), for a categorical exclusion in accordance with the criteria set forth in 22 CFR, part 216, 2(c) relating to technical assistance (subsection (2) i) and development of host government capacity for future planning (subsection (2) xiv).

The Africa Bureau Environmental Officer concurred with the above determination in STATE 277473 (Annex I-D), provided the Mission included several suggested topics within the Monitoring and Evaluation Plan for the proposed program. The questions are set forth in the Monitoring and Evaluation Plan (Section 7.5 of this PAAD), and they are incorporated into the Illustrative Scope of Work for the contractor (Annex II-C) expected to carry out the monitoring and evaluation for the program.

## 7. IMPLEMENTATION ARRANGEMENTS

### 7.1. IMPLEMENTATION RISKS ASSESSMENT

Based on the technical, economic, financial, political, institutional, and socio-cultural analyses undertaken for this PAAD, along with the significant amount of economic analyses already undertaken by the technical assistance team under the regional Food Security Project, the GOZ believes that sufficient incentives exist for private sector market participants to respond to new opportunities opened up through the policy changes supported under this program.

The program analyses are presented in their entirety in Annex II. Summaries of key findings have been included in Section 6 of the PAAD. The specific results of the analyses, which give credence to the

conclusion regarding the adequacy of incentives for private sector market participation once the policy changes supported by the program are implemented, are briefly summarized below.

- o The economic analysis demonstrates that there is considerable scope for making profits by engaging in the trade and processing of maize in rural areas.
- o Although there are significant technical constraints to private sector marketing participation, there are already profit-making efforts of the above nature going on (even though it is perceived to be illegal). While many complain of poor infrastructure, in comparison with many African countries, the levels of infrastructure, education, communication, and dissemination of information (factors that are necessary for markets to work efficiently) are quite impressive in Zimbabwe.
- o The only substantial cost to undertaking these reforms would occur if the GMB were to pull out of rural areas altogether, and the private sector were unable or unwilling to take over the necessary functions the GMB is providing -- particularly grain storage and transportation. However, both the GMB and the MLARR have indicated that the GMB will continue to provide these services, until such time as the private sector is able to provide these same services as efficiently and at a lower cost.
- o The socio-cultural analysis shows that while there are constraints facing private sector marketing participants, such as the perception that traders are exploitative (the "myth of the evil middleman"), progress in overcoming these perceptions is already apparent. Furthermore, a Social Fund Committee has been developed to assist vulnerable groups during the reform process, and they are currently considering various "safety net" programs, so that access to food is ensured.

There are obviously no guarantees in undertaking policy changes of this kind. Given that the rural private sector has been actively discouraged from grain marketing for so many years in Zimbabwe, it is likely that it will take some time to overcome some of the physical and socio-cultural constraints facing them. There is every reason to believe, based on the analyses, that the reforms will achieve some impact. The intensity of the impact will be increased with concomitant reforms such as the decontrol of grain movements in Regions IV and V, announced separately from the program, along with attention to other constraints such as credit, infrastructure, and transport. The magnitude of the impact will be known only after the incentive structure shifts. For this reason, the monitoring of the impacts of the policy changes and further research as to impacts of further reforms are vital to the success of this program. Since policy reform is a process rather than an event, using well-informed judgements along the way will improve both the process and the outcome.

## 7.2. A.I.D. PROGRAM MANAGEMENT

With the completion of a number of on-going projects projected over the next six months (the Basic Education and Skills Training Project, the Zimbabwe Agriculture Sector Assistance Project, the Commodity Import Program, the Zimbabwe Manpower Development I Program, and the Regional Livestock Development and Food Security Project) and the withdrawal of the Mission from projectized local currency programming, the Mission will be in a position to take on the administrative and management responsibility of the proposed new program.

### A. Policy Dialogue

Management of the proposed program will be the responsibility of the Mission's Agricultural Resources Management (ARM) Office. The ARM Office has recently expanded its local staff to include an agricultural economist formerly employed in the MLARR's planning division. He will be assigned to the new program and will be supervised by the ARM Office Chief. A Program Implementation Committee will be formed to assist them in expediting implementation actions. Key management, implementation, monitoring, and evaluation plans are discussed in Section 7.2.D., Technical Assistance Plan, and Section 7.5, Monitoring and Evaluation Plan.

### B. Dollar Tracking

A total of US\$5 million is planned as a single dollar disbursement to be provided by A.I.D. as a sector cash grant in support of proposed policy reforms. The proposed US\$5 million will be disbursed on satisfaction of conditions, as described above. The funds will be disbursed into a non-commingled Special Dollar Account to be released therefrom in support of the newly instituted OGIL system -- the centerpiece of Zimbabwe's economic reform program. When fully operational in 1995, the OGIL will apply to all imports except for a small negative list. It will thus allow a market determined allocation of the economy's foreign exchange resources among the most efficient users and simultaneously ensure a market determined exchange rate that will provide an adequate incentive to exporters.

The OGIL will not be fully implemented until 1995. Its impact, however, should be felt much sooner as some 70 percent of Zimbabwe's imports (45 percent unrestricted and 25 percent end use specific) are scheduled to be under the system by the end of 1992. Zimbabwe's ability to adhere to this schedule clearly depends on the support it receives from the donors in the form of non-distorting front end foreign exchange to support the OGIL.

The US\$5 million will not be directly tied to U.S. imports. It will be subject to review against a list of importers who received foreign exchange allocations to purchase goods off the OGIL which were sourced in

the United States. Upon receipt and satisfactory review of the list and its checking against a "negative list", USAID will approve the draw-down of dollar funds from the Special Dollar Account established in the Federal Reserve Bank of Zimbabwe (or other Bank in the United States, as may be agreed upon in writing), in accordance with the procedure outlined below:

- (1) A.I.D. and the GOZ will sign a Program Grant Agreement which will contain conditions precedent to dollar disbursement that are based on GOZ implementation of agreed upon policy reforms. The conditionality will be set forth in substantive terms with the understanding that elaborations and clarifications, within the substantive context, may be undertaken by the Mission through Program Implementation Letters.
- (2) Upon GOZ satisfaction of the conditions (in form and substance satisfactory to A.I.D.), USAID will prepare, in consultation with the GOZ, a Financing Request. The Financing Request will be signed by an authorized representative of the GOZ and will be approved by the Mission Director.
- (3) The Financing Request will be sent to A.I.D./Washington and will request that a Direct Reimbursement Authority be established for the US\$5 million in Non-Project Assistance funds.
- (4) Upon receipt of the Direct Reimbursement Authority, the USAID/Zimbabwe Controller will certify for payment the voucher prepared by the USAIZ/Zimbabwe Agricultural Resources Management Office and approved by the Project Officer. The voucher will authorize the Regional Accounting Management Center (RAMC) in Paris to issue a U.S. dollar check to a Special Dollar Account (a separate interest bearing Special Dollar Account specifically established for deposit of the USAID dollar funds under the proposed program) in the Reserve Bank of Zimbabwe or other bank in Zimbabwe or the United States, as may be agreed upon by USAID in writing.
- (5) Upon receipt of the check, the USAID Controller will hand-carry the check to the Treasury of Zimbabwe, which will issue a receipt. USAID/Zimbabwe will deliver a copy of the receipt to the Ministry of Finance. Immediately upon deposit of the U.S. dollar check into the Special Dollar Account established at the Reserve Bank of Zimbabwe (or other bank in Zimbabwe or the United States, as may be agreed upon by USAID in writing), the bank will send a receipt containing the check number, amount, and date of deposit to the USAID Controller.
- (6) The Government of Zimbabwe will not draw-down funds from the Special Dollar Account without prior USAID/Zimbabwe concurrence. The Reserve Bank (or other approved bank) will provide monthly bank statements to USAID/Zimbabwe on the funds on deposit in this Special Dollar Account, including interest earned.

- (7) The Government may request draw-downs from the Special Dollar Account upon confirmation by USAID/Zimbabwe, as described herein, that GOZ resources equivalent to or greater than the amount of the Special Dollar Account dollar disbursement requested have been allocated for U.S. imports. To ensure that funds provided under the proposed program can be tracked, the Government of Zimbabwe will be required to provide to USAID/Zimbabwe a list of importers who received foreign exchange allocations under the OGIL to purchase goods sourced in the United States applicable to goods ordered (with imports arriving after the date of the signing of the Program Agreement).

The GOZ will need to certify that no other donor provided resources for the funding of the import transactions reported to USAID/Zimbabwe. The list will provide information on the importers and goods imported, along with evidence that the goods arrived in country after the date of signature of the Program Grant Agreement. After review of the list of goods imported against a negative list of prohibited or restricted commodities for A.I.D. funding, USAID will approve the draw-down of the U.S. dollar funds in the Special Dollar Account up to the amount allocated for eligible U.S. sourced goods, not to exceed the total amount of funds available under the Grant. Interest earned on funds in the Special Dollar Account will be approved for draw-down in the same manner described above.

- (8) Upon notification of A.I.D. approval of each draw-down of the U.S. dollar funds, the Government of Zimbabwe will disburse an amount of local currency equivalent to the U.S. dollar draw-down amount (exchanged at the maximum rate not unlawful in Zimbabwe on the date of the approval of the draw-down of funds) into a Separate Local Currency Account in accordance with the procedures outlined in this Agreement.
- (9) The GOZ agrees to permit a USAID audit of the Special Dollar Account if so requested by USAID/Zimbabwe.

The tracking system described above will maintain the operational focus of the non-project assistance grant on the implementation of reforms within the grain marketing sector -- and not on the use of U.S. dollar resources, which are considered an incentive, as distinct from an input, for purposes of this program. USAID estimates that the funds will be approved for draw-down in two tranches, the first draw-down occurring approximately within three months of the U.S. dollar deposit in the Special Dollar Account.

### C. Local Currency Management

The U.S. dollars provided for the OGIL, given that they will be used for private sector imports, will result in generations of local currency in

an equivalent amount. Accordingly, the Government of Zimbabwe agrees to deposit an amount of local currency equivalent to the U.S. dollar draw-down amount into a non-commingled Separate Local Currency Account within 20 days after USAID approves each draw-down of dollar funds from the Special Dollar Account established as described above.

USAID/Zimbabwe and the GOZ will jointly program the local currency deposited in the required Separate Local Currency Account. It is planned that two broad purposes will be considered for the local currency: (a) a Trust Fund for USAID in-country administrative costs (not to exceed 10 percent of the generated funds); and (b) GOZ budget line item support for the program objectives, which, illustratively, may include: counterpart requirements for other donor-funded projects; support for credit guarantees and/or for credit provided to encourage private sector storage, milling, and grain trade development; and support for the Social Fund to assist vulnerable groups under the Economic Reform Program. Local currency in the Separate Local Currency Account will not be used for police training or for military or paramilitary purposes. Prior to concurrence with GOZ program of local currency, the mission must generally satisfy itself that the quality of overall sectoral activities and technical and administrative capability of the implementing entity or entities to carry out the program are satisfactory.

With regard to management of the local currency, the Ministry of Finance, Economic Planning, and Development (MFEPD) will provide the USAID Controller's Office with quarterly financial reports and reconciled bank statements. The reports will track the deposits of the local currency into the Separate Local Currency Account and withdrawals from that account by category used, for: (a) the Trust Fund; and (b) GOZ budgetary support line items. Reporting of interest earned on the funds remaining in the Separate Local Currency Account will also be included in the reports. The Controller, after analyzing these reports, will share the pertinent data with the USAID Office of Agricultural Resources Management (ARM) Project Officer and Mission management, as appropriate. The Program Agreement will require the GOZ to agree to allow audits to be conducted of the Separate Local Currency Account.

The Mission and the GOZ have entered into a separate agreement on the approved uses of funds allocated to the Trust Fund. USAID will report periodically to the GOZ on the uses of the Trust Funds.

#### D. Technical Assistance Procurement

Technical assistance to support 1991 program implementation and medium term strategy will be partially accessed from existing technical assistance resources under the Regional Food Security Project, Zimbabwe component. Illustrative plans to access technical assistance for monitoring and evaluation requirements, medium range strategy implementation, and resources for private sector analytical needs are presented below:

---

1. TA Needed to Establish Monitoring and Evaluation System\*\*

---

- 1 OCT - 30 OCT 91 Finalize Scope and PIO/T
- 1 NOV - 30 DEC 91 Compete contract (advertise)
- 1 JAN - 15 JAN 92 Receive proposals
- 15 JAN - 30 JAN 92 Review and Select proposals
- 1 FEB - 15 FEB 92 Contract mobilization

\*\* This schedule could be changed by: (1) asking a number of companies to submit proposals for under US\$100,000 to do what is needed; or (2) Buy-in to AMIS, asking them to sub-contract local firm and supervise.

---

2. TA Needed to assist with Medium Range Strategy Implementation and Respond to Private Sector Analyses Requirements (3 year contract)

---

- 1 SEP - 30 SEP 91 Long Term TA Request for Proposals (RFP) drafted
- 1 OCT - 15 OCT 91 RFP reviewed and cleared
- 15 OCT - 15 DEC 91 RFP advertised
- 15 DEC - 15 JAN 92 Technical Proposals received
- 16 JAN - 30 JAN 92 Technical Proposals reviewed by Committee
- 30 JAN - 5 FEB 92 Technical Evaluation submitted in writing by Project Manager provides scores and rank order - includes discussion points - sent to RCO, REDSO/ESA
- 5 FEB - 10 FEB 92 RCO establishes competitive range for negotiation based on technical rankings and cost. Offerors whose costs are extremely high or extremely low might be excluded at this point, but cost analysis has not been performed -- rule is that the competitive range shall include all proposals that have a reasonable chance of being selected for award.
- 10 FEB - 15 FEB 92 Project Manager provides RCO with technical evaluation of costs of offers in competitive range to answer such questions as:

- Is further cost information needed
- Does the number of labor hours proposed seem reasonable for the effort?
- Are the proposed labor categories appropriate?
- Does the proposed material seem reasonable?
- Are there items of work which should be added or deleted?

- 15 FEB - 15 MAR 92 RCO holds negotiations with each offer in the competitive range. The Project Manager participates. Specific questions are asked related to specific areas where improvement of technical approach is possible.
- 15 MAR - 30 MAR 92 RCO requests final revised proposals
- 30 MAR - 15 APR 92 Best and Final Proposals prepared/received
- 15 APR - 20 APR 92 Proposals reviewed, ranked by Project Manager
- 20 APR Award Recommendation made by Project Manager
- 30 APR RCO makes award decision (cost becomes a factor only if scores are very close)
- 1 JUL 92 Long Term Technical Assistance in Place

Every effort will be made to reduce the contracting time required to have the long term technical assistance in place.

#### 7.4. HOST COUNTRY PROGRAM MANAGEMENT

##### A. Plan for Monitoring the Structural Adjustment Program

A key element of the monitoring of the program will be the effects of the program on potentially vulnerable groups. The program will rely in part on the tasks assigned to the MFEPD under the ESAP. A.I.D. program implementers will coordinate A.I.D. program monitoring and evaluation with the efforts of the MFEPD, to the extent practicable.

The Under Secretary of MFEPD is responsible for the GOZ plans for monitoring and evaluation of the ESAP. The GOZ has established a Monitoring and Implementation Committee to oversee the monitoring. This interministerial committee is chaired by the Senior Secretary, MFEPD, and has members at the Permanent Secretary level from the Ministries of:

- Lands, Agriculture and Rural Resettlement
- Industry and Commerce
- Mines
- Labour, Manpower Planning and Social Welfare
- Information
- Director, National Planning Agency

Forming the Secretariat for the MIC is the Implementation and Monitoring Unit, chaired by the Deputy Permanent Secretary, MFEPD. This unit will be making policy recommendations to the MIC. The unit will be composed of seven chief economists covering the following areas along with their support staff:

- Macroeconomic analyses
- Industry and Commerce
- Mines
- Labour, Manpower Planning, and Social Welfare
- Information
- Director, National Planning Agency

Currently the Implementation and Monitoring Unit has a staff of 12 but is expected to expand to 20. The Chief Economists will be expected to track implementation, monitor impact in their respective areas, and formulate policy recommendations to the MIC.

#### B. Social Dimensions of Adjustment

The Under Secretary, Ministry of Finance, Economic Planning, and Development is currently the head of the Social Dimensions Group. The Group plans to draw on the household data of the Central Statistics Office (CSO), and the National Planning Agency (NPA), which are already collecting additional data to monitor the social impacts of the program. The Social Dimensions Group has indicated a need for additional analytical assistance since there may be a need for further analysis of data received from CSO and NPA.

#### 7.5. MONITORING AND EVALUATION PLAN

The Monitoring and Evaluation (M&E) Plan is designed to measure the performance and impact of the Zimbabwe Grain Marketing Reform Support Program. The program supports the GOZ in the implementation of grain marketing reform policies which are expected to benefit consumers and reduce annual budget losses of the GMB by helping to alleviate grain shortage problems in grain deficit areas through a more efficient marketing system.

The M&E plan includes mechanisms for monitoring program inputs, outputs, and household level impacts as well as for monitoring the validity of key assumptions. Although all conditions are expected to be satisfied and funds disbursed during the first year of the program, the M&E activities

will be carried out over a two year period. It is expected that it will take at least two years to begin to see significant program impact. Upon signature of the Program Grant Agreement, one of the first steps to be taken will be to collect and assemble baseline information and to establish systems to collect information on performance and impact indicators.

A major aspect of the program is to document the benefits of opening up the grain marketing system. These activities will be conducted with collaboration between USAID and representatives from the AMA, GMB, MFEPD, MLARR, and the Central Statistics Office (CSO).

In particular, the Farm Management Section and the Early Warning Unit in the MLARR are actively involved in collecting information on agricultural crop production, grain utilization, and prices in the informal market (other than GMB). The CSO assists the Early Warning Unit in collecting agricultural production information and publishes its own annual Agriculture and Livestock Survey of communal lands.

#### A. Input Monitoring

It will be the responsibility of the USAID Program Manager, under the supervision of GDO Office Chief, to monitor the provision of program inputs. The satisfaction of conditionality, disbursement of the US\$5 million, and agreed upon programming of local currency will be documented through the normal correspondence including Program Implementation Letters (PIL's), financial reports, and Program Implementation Reports (PIR's).

#### B. Output Monitoring

The program outputs listed in the Policy Framework/Log Frame Matrix in Annex II-A are discussed in Section 5.3. The outputs reflect the satisfaction of conditions discussed in Section 5.4.A. Specific indicators to use in measuring the achievement of program outputs are also included in Annex II-A. The USAID Program Manager, under the supervision of the GDO Office Chief, will be responsible for monitoring these outputs.

In the case of the condition requiring GOZ establishment of an autonomous Board of Directors for the GMB, monitoring will require making sure that the appropriate documentation is complete, including GOZ official documentation establishing the appointment of a board, certification from GMB that the necessary functional agreements have been established, and/or other pertinent documentation.

For outputs related to the changes in regulations for grain marketing, performance indicators will be the official gazetting of policy changes by government or equivalent actions. Also, in each case it will be necessary to receive GOZ documentation of actions taken to adequately disseminate the policy changes (e.g., newspaper articles, radio and TV transcripts as well as notices posted at depots and collection points).

USAID will approve the plan for formulating a strategy for liberalizing national grain markets, and this approval will serve as verification of output (e). The criteria for compliance with each of the outputs are generally discussed in Section 5.4.A, but will be set forth in more detail in Project Implementation Letters (PILs) to be issued by A.I.D. and countersigned by the GOZ.

### C. Purpose-Level Monitoring

The program purpose is to support specific policy and regulatory reforms which will (a) increase access to grain in deficit areas; and (b) reduce the contribution of domestic grain trading losses to the national budget deficit. Indicators and targets which will be monitored to determine the extent to which the program purpose has been achieved are the following:

- (a) The volume of maize sold to informal ("informal" refers to any grain marketing activities other than those conducted by GMB and sales to the large millers) buyers at GMB depots in specific grain deficit rural areas (or in areas neighboring deficit areas) increases by at least 10 percent in those areas.
- (b) At least 20 percent of the maize intake at GMB collection points neighboring specific deficit areas is resold to informal buyers at the same collection point.
- (c) GMB annual domestic trading deficit decreases by 10 percent from Z\$23.8 to Z\$21.4 million.

Information on indicator (c) can be obtained from GMB and MFEPD records. It is anticipated that monitoring activities for indicator (a) and (b) will be carried out by a private firm under the supervision of the USAID Program Manager. Adequate monitoring and evaluation will require establishing appropriate baseline data for this indicator and for those to be monitored for goal achievement and conducting surveys periodically throughout the life of the program to measure performance. In order to keep the monitoring activities manageable, it is expected that monitoring will be conducted in specific areas where impact can be expected. Thus, interpretation of results will be limited to impacts on these specific areas and not on the country as a whole.

Information on indicators (a) and (b) is readily available at GMB depots and summarized on a weekly basis. This information is also available at GMB offices in Harare and can be made available on computer. There is also the "GMB Report and Accounts" published by the AMA which provides aggregated annual statistics on the GMB. Thus, only periodic (quarterly) monitoring and disaggregation of the data will be required. Selected depots could then be singled out to obtain areas specific impact.

It is expected that the program manager and the firm hired to conduct the monitoring activities will receive assistance in setting up a monitoring system from a REDSO agricultural economist and the principal economist working under the regional sorghum and millet project and resident at the experiment station in Bulawayo. An agricultural economist working on the University of Zimbabwe/Michigan State University (UZ/MSU) Food Security Project based at the University of Zimbabwe will be available at the beginning of the program to add further assistance in initiating the monitoring and evaluation activities. Assistance in survey methodology and design will also be provided by the Early Warning Unit, the Farm Management Section, and CSO. To maintain coordination with the GOZ on program monitoring quarterly reports will be submitted to appropriate government agencies as well as USAID/Zimbabwe.

#### D. Goal-Level Monitoring

The program is to improve the welfare of rural consumers by assisting a Government of Zimbabwe initiative to move grain marketing towards a competitive, lower cost system by reducing market controls and allowing expanded private participation in the grain trading system. Indicators which will be monitored to determine the proposed policy reform contributions to the program goal are the following:

- (a) The number of private traders purchasing maize from the GMB in specific grain deficit areas and re-selling through various channels increases by at least ten percent.
- (b) GMB maize sales to informal buyers in deficit rural areas increases in volume by at least ten percent.
- (c) A measurable increase in the number of informal millers operating in urban areas and specific rural areas.
- (d) The real income of producers in selected areas which neighbor deficit areas increases by at least ten percent.
- (e) Average real consumer purchase prices for maize meal in informal markets in specific grain deficit rural areas decreases by at least ten percent.
- (f) Average real consumer purchase prices for maize meal in informal markets in urban areas decreases by at least ten percent.

The monitoring activities for goal-level monitoring will be similar to those outlined above for the purpose level indicators. In the case of indicators (d) through (f), assistance can be provided by the AGRITEX Early Warning Unit and the Farm Management Section of the MLARR by

obtaining baseline data and conducting additional survey work. In addition, the CSO has recently conducted a household income and expenditure survey which will provide valuable household level baseline information. They plan to repeat the survey in 1994/95 which would provide impact assessment data a couple of years after project completion. The CSO has also been requested by the GOZ to assist in conducting survey work related to understanding the impact of structural adjustment on the poor and vulnerable groups. However, it has not been determined what specifically this will entail.

#### E. Monitoring of Key Assumptions

It is important to monitor key assumptions to insure that the program is achieving its intended impact. It will be the combined responsibility of the program manager and the consultants to determine if the assumptions are valid through the life of program.

- (1) Transportation. One of the key assumptions of the program is achieving transportation will be adequate to support increased private sector grain marketing activities in rural areas. Specifically, this means that the availability of privately owned trucks and other means of transportation (scotch carts) will be sufficient to meet increased demand resulting from the market reforms. Transportation problems may also arise from the poor conditions of roads in rural areas.

The GOZ is presently taking steps to make up to 2,000 new 8 to 10 ton trucks available to private sector agents; however, no such provisions are being made for smaller one to two ton trucks (pick-ups) which are generally in short supply. In some areas, particularly at GMB collection points, increased transportation requirements may be met by scotch carts which appear to be abundant and affordable.

As a component of the monitoring program it will be important to determine if this assumption is valid. If not, it should be expected that the impact of the project would be diminished considerably. Government records should be adequate to provide information on the disposition of the vehicles they have procured for resale to the private sector to be used to support activities in specific sectors. The program manager will be responsible for keeping up with government procurement and sectoral distribution of vehicles. In addition, part of the scope of work for the consultants will be to monitor for constraints which may limit the impact of the program.

Hence, the consultants will be required to observe if trucks and scotch carts are adequate and road conditions are sufficient to support increased grain movement in specific areas being monitored under the program.

- (2) Weather. A major assumption of the program is that there will be a normal rainfall year. If this is not the case, the impact indicators will need to be adjusted to account for this. The necessary information should be available through Government rainfall records. The program manager will be responsible for following these events.
- (3) Dissemination and Implementation of Policy Changes. Another important assumption is that policy changes will be uniformly implemented once they have been made law. It could be that Government officials working in the field for one reason or another are slow or reluctant to implement the changes or perhaps there is a considerable lag time before people recognize the policy changes are in effect. Hence, it will be important to make sure that the policy changes are being implemented in a uniform manner. This should be the joint responsibility of the program manager and the consultant team conducting the survey field work.
- (4) Acceptability of Traders. In Zimbabwe the feeling that traders are exploitive is relevant. Hence, in order for this program to be successful, it is important that traders are not constrained in their activities or that these adverse feelings create any additional barriers to entry for new traders. In addition to monitoring the numbers of traders actively operating in specific grain deficit areas, along with their volume of trade, it may be useful to periodically talk to traders to determine if they are experiencing any operating difficulties due to adverse public opinion.
- (5) Movement Decontrol in Agro-Climatic Zones IV and V. It is anticipated that the GOZ is going to implement recommendations to decontrol movements of grain between communal and commercial areas in agro-climatic zones IV and V. Impacts of the program will be curtailed considerably if these reforms are not enacted. The Program Manager will be responsible for determining if the appropriate legal steps have been taken and will work with consultants to determine if the information is properly disseminated and if people are responding to the decontrol. Impact indicators would need to be adjusted if this assumption is not valid.
- (6) City By-Laws Prohibiting Informal Maize Milling are Repealed. In Harare, there is a law which prohibits informal milling of maize meal. The city council is presently under pressure to repeal or amend this law. If this is not done it may reduce the impact of the program on urban consumers, depending on enforcement of the law. Hence it is important to verify if this law is changed and if informal millers are operating in Harare.

**7.6 Coordination with Other Donors**

**(to be further developed)**

ACTION: AID-3 INFO: AMB DCM//5

VZCZCSB0453  
RR RUEHSB  
DE RUEHC #1040/01 1780301  
ZNR UUUUU ZH  
R 270258Z JUN 91  
FM SECSTATE WASHDC  
TO RUEHSB/AMEMBASSY HARARE 7027  
INFO RUEHMB/AMEMBASSY MBABANE 2025  
BT  
UNCLAS SECTION 01 OF 03 STATE 211040

LOC: 217 048  
27 JUN 91 0652  
CN: 24993  
CHRG: AID  
DIST: AID

RECEIVED  
JUN 27 1991

OFFICIAL FILE

DATE	ACTION	INFO
DIR		
DD		
PRO		
CONT		
ARM		
PDIS		
EXO		
LIB		
CHRON		
RF		
DUE DATE	7/30/91	
ACTION TAKEN		
INITIALS DATE		

AIDAC MBABANE FOR RLA

E.O. 12356: N/A

TAGS:

SUBJECT: REVIEW OF ZIMBABWE GRAIN MARKETING REFORM PROGRAM PAIP (613-0233)

1. ON WEDNESDAY, JUNE 5, 1991, DAA/APR E.L. SAIBERS CHAIRED AN ECPR OF THE PAIP FOR THE ZIMBABWE GRAIN MARKETING REFORM SUPPORT PROGRAM. THE MEETING WAS ATTENDED BY APR/TR, APR/SA, APR/PD, APR/DP, AND GC/APR. THE ECPR APPROVED THE PAIP, SUBJECT TO THE GUIDANCE CONTAINED HEREIN, AND CONFIRMED MISSION DIRECTOR AUTHORITY TO AUTHORIZE THE FIRST-YEAR DOLS 5 MILLION IN THE FIELD UNDER DOA 551.

2. PROGRAM OBJECTIVE. FURTHER DESIGN OF THE PROGRAM SHOULD CENTER ON ESTABLISHING AND DEFINING A MULTI-YEAR PROGRAM, WHICH CONTAINS A MULTI-YEAR, NOT A ONE-YEAR, PURPOSE AND OBJECTIVE FOR THE PROGRAM. THAT OVERALL PURPOSE SHOULD FOCUS ON THE HOUSEHOLD LEVEL BENEFITS OF MARKET LIBERALIZATION IN THE GRAIN SUBSECTOR, AND ELIMINATE THE REFERENCE TO REDUCTION OF THE BUDGET DEFICIT. THE OVERALL OBJECTIVE AND END POINT OF THE PROGRAM SHOULD BE AS SPECIFIED IN THE GOZ' STATEMENT OF ITS 1995 OBJECTIVE FOR THE GRAIN MARKETING SUBSECTOR; I.E., QUOTE GMB TO OPERATE AS A COMMERCIAL ORGANIZATION

ALONGSIDE OTHER MARKETING CHANNELS. GRAIN MARKETING ACT TO BE AMENDED TO PERMIT THIS. END QUOTE. AS PART OF THE NEGOTIATIONS AND THE PROGRAM AGREEMENT, THE GOZ SHOULD FORMALLY COMMIT ITSELF TO ACHIEVING THAT 1995 OBJECTIVE AS WELL AS TO A DEFINITION OF QUOTE COMMERCIAL END QUOTE WITHIN THAT OBJECTIVE STATEMENT THAT CONSISTS, AT A MINIMUM, OF THE FOLLOWING CONDITIONS: (A) ANY BUYER CAN BUY FROM ANY SELLER; (B) THERE WILL BE NO SUBSIDIES IN THE SYSTEM EXCEPT FOR NARROWLY TARGETED SUBSIDIES TO POPULATIONS CLEARLY AT RISK; (C) PRODUCTS AND PRICES WILL BE FREE TO MOVE OVER SPACE AND TIME; (D) THERE WILL BE NO IMPEDIMENTS TO ENTRY INTO THE TRADE, TRANSPORT, STORAGE AND MARKETING OF AGRICULTURAL COMMODITIES; AND (E) THE GRAIN MARKETING BOARD WILL NOT DOMINATE THE MARKET (E.G., THEY SHOULD PROBABLY NOT BE INVOLVED IN MORE THAN 15 PERCENT OF MARKET TRANSACTIONS). IN FACT, IT IS PREFERABLE THAT THE MISSION TRY TO NEGOTIATE THAT THE GMB

*Action  
Transferred  
To PDIS  
which has  
Consulted  
Copies  
N/A  
R.A.*

962853-98

WILL ONLY SERVE AS A BUYER AND SELLER OF LAST RESORT, SETTING FLOOR PRICES TO PROTECT FARMERS AGAINST MONOPSONY, AND CEILING PRICES TO PROTECT CONSUMERS FROM MONOPOLY. THE PROCESS OF SETTING THESE PRICES SHOULD BE TRANSPARENT, AND THE PRICES SHOULD BE SET SO THAT THE VAST MAJORITY OF TRANSACTIONS WILL NOT BE AFFECTED. BOTH THE OBJECTIVE STATEMENT AS WELL AS THE DEFINITION OF THAT OBJECTIVE SHOULD BE EXPLICIT IN A.I.D.'S AGREEMENT WITH THE GOZ.

3. INTERMEDIATE INDICATIVE CONDITIONALITY. THE ECPR AGREED THAT THE MISSION HAS ALREADY DONE THE WORK FOR A SECTOR/CONSTRAINTS ANALYSIS FOR A 5-YEAR PROGRAM, THAT COULD EASILY BE INCORPORATED INTO A 5-YEAR PAAD. AS THE PAIP INDICATED IN ITS COMPREHENSIVE AND EXCELLENT CONSTRAINTS ANALYSIS, ALL OF THE CONSTRAINTS TO ACHIEVING THE 1995 OBJECTIVE WILL NOT BE ADDRESSED BY THE FIRST YEAR PROGRAM CONDITIONALITY PROPOSED BY THE MISSION, NOR WOULD ONE EXPECT THEM TO BE. HOWEVER, UNDER A MULTI-YEAR PROGRAM IT IS EXPECTED THAT THESE OTHER STEPS BE INCORPORATED INTO THE OVERALL DESIGN AND IMPLEMENTATION STRATEGY. MR. MORSE EXPLAINED THAT THE MISSION WAS NOT IN A POSITION TO REACH AGREEMENT WITH THE GOZ ON SPECIFIC ACTIONS TO ACHIEVE THAT OVERALL OBJECTIVE AT THIS TIME. RATHER, THE MISSION WISHED TO ENTER INTO A PROCESS WITH THE GOZ DURING WHICH THE GOZ WOULD LEAD THE ANALYSES AND MAKE THE CONCLUSIONS AS TO THE EXACT STEPS TO BE TAKEN TO ACHIEVE THE OBJECTIVE. THE ECPR SUPPORTED THIS APPROACH.

IN DEVELOPING A MULTI-YEAR PROGRAM WITH THE GOZ NOW, THE MISSION NEED ONLY ESTABLISH FIXED CONDITIONALITY FOR THE DOLS 5 MILLION PROPOSED FOR AUTHORIZATION IN FY 91. THE AREAS TO BE COVERED BY CONDITIONALITY IN YEARS 1992-1995,

HOWEVER, SHOULD BE EXPLICITLY CITED IN THE PAAD AND OBLIGATING DOCUMENT. THIS MAY BE DONE IN AN INDICATIVE MANNER, BUT IT SHOULD BE EXPLICIT. IT MAY ALSO HELP TO NEGOTIATE THESE AREAS OUT AS QUOTE FURTHER STEPS END QUOTE REQUIRED BY THE GOZ TO ACHIEVE THE STATED OBJECTIVE RATHER THAN AS QUOTE CONDITIONALITY END QUOTE PER SE. THE AREAS MENTIONED BY DIRECTOR MORSE DURING THE ECPR WHICH WILL BE OF IMPORTANCE FOR THE GOZ TO ADDRESS ARE: POLICIES WHICH INHIBIT ACCESS TO TRANSPORTATION EQUIPMENT (VEHICLES AND SPARE PARTS) AND INFRASTRUCTURE; POLICIES WHICH REDUCE THE AVAILABILITY OF, AND ACCESS TO LENDING CAPITAL FOR TRADERS AND TRANSPORTERS; THE DISTRUST OF THE PRIVATE SECTOR TRADERS AND MIDDLEMEN AMONG PRODUCERS AND CONSUMERS; AND REGULATORY POLICIES WHICH INHIBIT FULLY COMMERCIAL OPERATIONS IN THE GRAIN MARKETING SECTOR, INCLUDING BUT NOT LIMITED TO MOVEMENT RESTRICTIONS, RESIDUAL PRODUCER

AND CONSUMER PRICE CONTROLS, CONTROLLED COLLECTION AND SALES POINTS, AND THE APPROVED BUYER SYSTEM. WHILE THE PROPOSED CONDITIONALITY FOR THE FIRST YEAR OF THIS PROGRAM WILL BEGIN THE PROCESS OF DISMANTLING THE REGULATORY POLICIES WHICH INHIBIT THE COMMERCIAL FUNCTIONING OF THE GRAIN MARKETING SECTOR, THE INTERMEDIATE INDICATIVE STEPS SHOULD BE SUFFICIENT BOTH TO FULLY DEREGULATE THE SECTOR AS WELL AS ENSURE THAT THE OTHER INPUTS NECESSARY TO COMMERCIAL PERFORMANCE ARE IN PLACE BY THE END OF THE PROGRAM.

4. FY 91 CONDITIONALITY. THE MISSION PROPOSED FIVE CONDITIONS FOR DISBURSEMENT OF FY 1991 FUNDS. HOWEVER, THE PAIP MENTIONED THAT NOT ALL OF THE FIVE WOULD NECESSARILY FORM PART OF THE FINAL PROGRAM. MISSION DIRECTOR MORSE STATED THAT HE FELT THAT THE ESTABLISHMENT OF AN AUTONOMOUS BOARD OF DIRECTORS FOR THE GRAIN MARKETING BOARD AND THE SUBMISSION OF JOINTLY DEVELOPED AND AGREED UPON TERMS OF REFERENCE FOR A STUDY WHICH WOULD LAY OUT THE STRATEGY TO ACHIEVING A LIBERALIZED GRAIN MARKETING SYSTEM WERE SUFFICIENT CONDITIONS FOR DISBURSEMENT OF FIRST YEAR FUNDS. IT WAS THE CONCLUSION OF THE ECPR THAT IN THE CONTEXT OF A MULTI-YEAR PROGRAM, AND ONLY IN THAT CONTEXT, THOSE TWO CONDITIONS MIGHT BE MINIMALLY SUFFICIENT, ALTHOUGH BEST EFFORTS SHOULD BE MADE TO SEEK ALL FIVE OF THE FIRST YEAR CONDITIONS PRIOR TO DISBURSEMENT. IN DOING SO, WE BELIEVE THAT THE GOZ WOULD BE INDICATING THAT IT TRULY IS COMMITTED TO THE GRAIN MARKETING REFORM PROGRAM. IF ONLY THE TWO CONDITIONS CITED ABOVE ARE ACHIEVED DURING THE FIRST YEAR, NOTHING IRREVERSIBLE AND NOTHING THAT WOULD NECESSARILY BENEFIT PRODUCERS WOULD BE PERMANENTLY IN PLACE. THEREFORE, THE MISSION IS ENCOURAGED TO SEEK AGREEMENT ON ALL FIVE OF THE

PROPOSED CONDITIONALITIES DURING THE FIRST YEAR. IF, HOWEVER, IT DOES MAKE SENSE TO MOVE ONE OR TWO BACK, THEY SHOULD STILL BE EXPLICITLY STATED AS PART OF THE STEPS NECESSARY TO ACHIEVING THE OVERALL PROGRAM OBJECTIVE AND INDICATIVELY SCHEDULED FOR IMPLEMENTATION AT THE APPROPRIATE POINT WITHIN THE FIVE YEAR PROGRAM IMPLEMENTATION PERIOD:

5. FORMALIZING THE MULTI-YEAR AGREEMENT WITH THE GOZ. THERE ARE SEVERAL SUCCESSFUL MODES OF FORMALIZING THE MULTI-YEAR APPROACH WHICH ARE AVAILABLE TO THE MISSION. SOME MISSIONS HAVE SUCCESSFULLY USED A LETTER OF INTENT APPROACH TO REACHING AGREEMENTS PRIOR TO OBLIGATION; AND, OTHERS USE POLICY MATRICES. WE ENCOURAGE THE MISSION TO CONSULT WITH AFR/SA, AFR/TR AND AFR/PD AS THE DESIGN OF THIS PROGRAM UNFOLDS. WE WILL BE HAPPY TO PROVIDE EXAMPLES OF DIFFERENT SUCCESSFUL APPROACHES. AT A MINIMUM, THE FINAL, FULLY NEGOTIATED PROGRAM AGREEMENT MUST INCLUDE THE CONDITIONS PRECEDENT TO DISBURSEMENT OF THE FY 91 FUNDS (AS DISCUSSED ABOVE), AGREEMENT ON THE FIVE YEAR OBJECTIVE AND ITS DEFINITION AS PRESENTED ABOVE EITHER AS A COVENANT OR CONDITION OF DISBURSEMENT; AND AN AGREEMENT ON THE ADDITIONAL INDICATIVE STEPS OR INDICATIVE AREAS TO BE ADDRESSED IN ORDER TO REACH THE FIVE YEAR

## OBJECTIVE AS A COVENANT OR CONDITION.

6. AUTHORIZATION OF THE PAAD. MISSION DIRECTOR AUTHORITY TO AUTHORIZE A DOLS 5 MILLION PROGRAM IS CONFIRMED. MISSION SHOULD CONSULT WITH AID/W THROUGH AFR/SA ON FINAL NEGOTIATED CONDITIONALITY AND APPROACH TO INCORPORATING THE FIVE-YEAR OBJECTIVE INTO THE PROGRAM AGREEMENT PER DISCUSSIONS AT THE ECPR. AID/W SHOULD BE CONSULTED PRIOR TO AUTHORIZATION OF SUBSEQUENT YEAR INCREMENTS OF A MULTI-YEAR PROGRAM.

7. ALTHOUGH THE ABOVE ECPR AGREEMENTS ARE THE PREFERRED METHOD FOR PROCEEDING WITH THIS PROGRAM, THE MISSION MAY STILL PROCEED WITH THE ONE YEAR PROGRAM IF THE 5 CONDITIONS SPECIFIED IN THE PAIP ARE FULLY ACCEPTED BY THE GOVERNMENT AND IF THE PROGRAM PURPOSE IS RESTATED TO REFLECT A ONE YEAR OBJECTIVE.

## 8. OTHER CONCERNS.

A. ENVIRONMENT. THE NEW DFA STATUTE ALSO REQUIRES THAT NPA PROGRAMS SHALL INCLUDE MEASURES TO PROTECT LONG-TERM ENVIRONMENTAL INTERESTS FROM POSSIBLE NEGATIVE CONSEQUENCES OF THE REFORMS. THE IEE SHOULD COMMENCE THIS PROCESS BY DISCUSSING THE POTENTIAL LONG-TERM IMPACTS OF

THE REFORMS ON THE ENVIRONMENT. THE IEE SHOULD BE SUBMITTED TO THE BUREAU ENVIRONMENTAL OFFICER (BEO) AS SOON AS POSSIBLE, SINCE IT IS REQUIRED TO ACCOMPANY THE PAIP, BUT IN ANY CASE IN TIME FOR ANY BEO INPUT TO BE INCORPORATED INTO THE PAAD.

B. LOCAL CURRENCY USE PLAN. MISSION PROPOSAL TO TRACK LOCAL CURRENCIES TO BUDGET SUPPORT IN PROGRAM RELEVANT

UNCLASSIFIED

STATE 211040/02

AREAS IS APPROVED. MISSION SHOULD NOT PLAN TO PROJECTIZE OR OTHERWISE FINANCE OFF-BUDGET EXPENDITURES UNDER THIS PROGRAM.

C. VULNERABLE GROUPS. THE NEW DFA STATUTE REQUIRES THAT NPA PROGRAMS SHALL INCLUDE MEASURES TO PROTECT VULNERABLE GROUPS. THUS, THE PAAD MUST CONTAIN SUCH MEASURES. IT IS INSUFFICIENT TO STATE THAT THEY WILL BE STUDIED OR DEVELOPED DURING PROGRAM IMPLEMENTATION. IF IT IS CLEARLY RECOGNIZED THAT STATUTORY REQUIREMENTS ARE BEING MET ANNUALLY FOR EACH TRANCHE OF FUNDS AS THEY ARE AUTHORIZED, RATHER THAN IN THE INITIAL DOCUMENT AS IS USUAL, THE INITIAL PAAD AND EACH AMENDMENT COULD IDENTIFY PROTECTIVE MEASURES APPLICABLE TO REFORMS SUPPORTED BY THAT YEAR'S FUNDS, IF NECESSARY. IF ANY YEAR'S REFORMS WILL NOT NEGATIVELY IMPACT ANY VULNERABLE GROUP, THE PAAD SHOULD MAKE THIS EXPLICIT. ✓

D. LEGISLATIVE ACTIONS. UNDER FAA SECTION 611(A)(2) NO FUNDS MAY BE OBLIGATED UNLESS, PRIOR TO OBLIGATION, A.I.D. HAS IDENTIFIED ANY LEGISLATIVE ACTION NECESSARY TO ACCOMPLISH THE PROGRAM'S PURPOSE AND CONCLUDED THAT IT WILL BE ACCOMPLISHED ON A TIMELY BASIS. THUS, THE PAAD SHOULD IDENTIFY SUCH ACTIONS, IF ANY, AND EXPLAIN THE BASIS, WITH SUPPORTING FACTS, UPON WHICH THE MISSION HAS CONCLUDED THAT IT WILL BE ACCOMPLISHED ON A TIMELY BASIS. ✓

E. SECTION 611(A)(1). NORMALLY SECTION 611(A)(1) ADEQUATE PLANNING REQUIREMENTS ARE MET PRIOR TO INITIAL APPROVAL OF THE ENTIRE PAAD, EVEN THOUGH FUNDS MAY BE TECHNICALLY AUTHORIZED AND OBLIGATED IN INCREMENTS. IF ABSOLUTELY NECESSARY (BUT ONLY IF THAT IS THE CASE), THE ECPR RECOGNIZED THAT CERTAIN STATUTORY REQUIREMENTS APPLICABLE TO FUTURE YEAR INCREMENTS UNDER THIS PROGRAM MAY NOT BE FULFILLED UNTIL AUTHORIZATION AND OBLIGATION OF THOSE INCREMENTS. IF THIS IS THE CASE FOR ANY REQUIREMENT, THE PAAD SHOULD STATE THAT EXPLICITLY, TO ENSURE THAT THE REQUIREMENT IS NOT IGNORED IN THE SUBSEQUENT YEAR. THE ECPR ALSO RECOGNIZED THAT, AS LONG AS THE BASIC REQUIREMENTS CONTAINED IN PARAS 2-5 ABOVE ✓

WERE CONTAINED IN THE INITIAL PAAD, THE PAAD IN CERTAIN OTHER RESPECTS (SUCH AS INDICATING THE TOTAL AMOUNT OF THE A.I.D. CONTRIBUTION OVER 5 YEARS) MAY NOT CONTAIN ALL THE ELEMENTS NORMALLY CONTAINED IN A 5-YEAR PAAD. IN OTHER WORDS, THE SUBSEQUENT YEAR DISCUSSION MIGHT PROVIDE A FRAMEWORK FOR A 5-YEAR PROGRAM, RATHER THAN THE FULL PROGRAM ITSELF.

BAKER

BT

#1040

NNNN

UNCLASSIFIED

STATE 211040/03

Telegrams: "MINFIN", HARARE  
Telex: 2141  
Telephone: 722101/794571

Private Bag 7785, Causeway  
Zimbabwe



References:

A/28/75

Annex I-B  
Page 1 of 6  
59378

MINISTRY OF FINANCE, ECONOMIC  
PLANNING AND DEVELOPMENT  
Munhumutapa Building  
Samora Machel Avenue  
Harare

29 August 1991

Mr T. D. Morse  
The Director  
USAID/Zimbabwe  
1 Pascoe Avenue  
BELGRAVIA

Dear Mr Morse

**RE : REQUEST FOR SUPPORT FOR THE ZIMBABWE GRAIN MARKETING  
REFORM PROGRAMME US\$5 MILLION**

The Government of Zimbabwe welcomes support from donors in the implementation of the Economic Structural Adjustment Programme by their provision of assistance to the business community. The Zimbabwe Grain Marketing Reform Support Programme which seeks to assist Government efforts to increase investment and economic growth will provide a total of US\$5 million during next year.

The programme's goal is to improve the welfare of rural communities by supporting Government's initiative to move grain marketing towards a competitive, lower cost system by reducing market controls and allowing expanded private participation in the grain trading system.

The following are the first year programme conditions that have been agreed upon with the Government of Zimbabwe;

- (a) Government formally establishes an autonomous Board of Directors at the Grain Marketing Board.
- (b) Government formally allows the sale of grain from the Grain Marketing Board depots to any buyer at whatever quantity is demanded greater than one bag and effectively disseminates information on this policy to the public and to the Grain Marketing Board Managers.

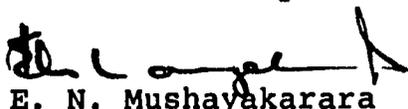
2/...

- (c) Government, at the Cabinet level has formally approved the policy that any buyer is allowed to resell grain through any channel in Natural Regions IV and V. without paying any portion of revenues back to the Grain Marketing Board.
- (d) Government formally allows grain to be sold at selected Grain Marketing Board collection points and/or other non-depot distribution points to any buyer and effectively disseminates information on this policy to the public and the Grain Marketing Board managers.
- (e) Government submits, in form and substance, satisfactory to A.I.D., a plan for development, completion, and dissemination of a medium range strategy for rationalisation of national grain marketing and the development of a strong, competitive grain marketing system which permits and encourages private sector participation.

I hereby, on behalf of the Government of Zimbabwe, formally request the Government of the United States of America, through you, to support this programme.

I hope this request will meet your favourable consideration and that we will be signing the Programme Grant very soon.

Yours sincerely



E. N. Mushayakarara  
**SENIOR SECRETARY FOR FINANCE**  
**ECONOMIC PLANNING AND DEVELOPMENT**

/mm

**5C(2) - ASSISTANCE CHECKLIST**

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

**CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?**

Yes.

**A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS**

**1. Host Country Development Efforts (FAA Sec. 601(a)):** Information and conclusions on whether assistance will encourage efforts of the country to:  
(a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

The assistance will open grain marketing to competition and assist the GOZ in meeting ESAP objectives, which, over time, will open the economy to increased trade flows and competition.

**2. U.S. Private Trade and Investment (FAA Sec. 601(b)):** Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The assistance requires the GOZ to demonstrate, through attribution, that an equivalent amount of imports from the U.S. are permitted. The assistance will encourage priority to be given to applications for foreign exchange which is to be used for U.S. imports.

105

### 3. Congressional Notification

a. General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

The U.S. Congress has been properly notified of the proposed obligation.

b. Notice of new account obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

Yes.

4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an obligation in excess of \$500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes.

5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

Any legislative action has been taken into account in program design. No actions are required to meet the conditions precedent to disbursement.

6. **Water Resources** (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N/A

7. **Cash Transfer and Sector Assistance** (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

Yes.

8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A

9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

The assistance will discourage monopolistic practices by encouraging establishment of a more open grain marketing system which permits broadened private participation and increased competition for the GMB.

10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The U.S. dollars will support the OGIL. Since GOZ must demonstrate that an equivalent amount of U.S. dollars have been made available to import U.S. goods before disbursement, the assistance will encourage priority approval for applications for imports from the U.S. through the OGIL.

## 11. Local Currencies

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The Program will result in the generation of local currency in an amount equivalent to the drawdowns of the A.I.D. U.S. Dollar Grant assistance. The local currency will be used to support policy reform objective through their programming in the GOZ budget.

b. **U.S.-Owned Currency** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

c. **Separate Account** (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1)(a) Yes.  
(1)(b) Yes.  
(1)(c) Yes.

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

Yes.

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

Yes.

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

Yes.

## 12. Trade Restrictions

a. Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

N/A.

b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

N/A.

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

N/A.

14. Sahel Accounting (FAA Sec. 121(d)): If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?

N/A.

15. PVO Assistance

a. Auditing and registration (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N/A

b. Funding sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A

16. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

This requirement will be met after signing of the Program Agreement

17. Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the

Not applicable to NPA dollar grant

extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

18. Women in Development (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Women will be the primary beneficiaries, since the reforms will mostly affect rural communal farmers, who are mostly women.

19. Regional and Multilateral Assistance (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No.

20. Abortions (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No.

b. Will any funds be used to lobby for abortion?

No.

21. Cooperatives (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

No.

111

**22. U.S.-Owned Foreign Currencies**

a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services. N/A

b. Release of currencies (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? N/A

**23. Procurement**

a. Small business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? No.

b. U.S. procurement (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him? Yes

c. Marine insurance (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? N/A

d. Non-U.S. agricultural procurement (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) N/A

e. Construction or engineering services (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible N/A

under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

N/A

**f. Cargo preference shipping (FAA Sec. 603):** Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

N/A

**g. Technical assistance (FAA Sec. 621(a)):** If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

N/A

**h. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974):** If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

N/A

**i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504):** If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

N/A

**j. Consulting services**  
(FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

N/A

**k. Metric conversion**  
(Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

N/A

**l. Competitive Selection**  
Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes. However, no contracts are envisioned with regard to the NPA sector cash grant

#### 24. Construction

**a. Capital project (FAA Sec. 601(d)):** If capital (e.g., construction) project, will U.S. engineering and professional services be used?

N/A

**b. Construction contract (FAA Sec. 611(c)):** If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

N/A

- c. Large projects,**  
**Congressional approval (FAA Sec. 620(k)):** If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? N/A
- 25. U.S. Audit Rights (FAA Sec. 301(d)):** If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A
- 26. Communist Assistance (FAA Sec. 620(h)).** Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes
- 27. Narcotics**
- a. Cash reimbursements (FAA Sec. 483):** Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? Yes
- b. Assistance to narcotics traffickers (FAA Sec. 487):** Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? Yes

28. **Expropriation and Land Reform (FAA Sec. 620(g)):** Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes.
29. **Police and Prisons (FAA Sec. 660):** Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes
30. **CIA Activities (FAA Sec. 662):** Will assistance preclude use of financing for CIA activities? Yes
31. **Motor Vehicles (FAA Sec. 636(i)):** Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes
32. **Military Personnel (FY 1991 Appropriations Act Sec. 503):** Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes
33. **Payment of U.N. Assessments (FY 1991 Appropriations Act Sec. 505):** Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? Yes
34. **Multilateral Organization Lending (FY 1991 Appropriations Act Sec. 506):** Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes
35. **Export of Nuclear Resources (FY 1991 Appropriations Act Sec. 510):** Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? Yes

36. Repression of Population (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes

37. Publicity or Propoganda (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propoganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propoganda purposes not authorized by Congress? No

38. Marine Insurance (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? N/A

39. Exchange for Prohibited Act (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? No

**B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY**

**1. Agricultural Exports (Bumpers Amendment) (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment):** If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

N/A

118

2. **Tied Aid Credits (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"):** Will DA funds be used for tied aid credits?

N/A

3. **Appropriate Technology (FAA Sec. 107):** Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

4. **Indigenous Needs and Resources (FAA Sec. 281(b)):** Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

The Program supports the development of analytical capability in GOZ institutions for policy analysis.

5. **Economic Development (FAA Sec. 101(a)):** Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes

6. **Special Development Emphases (FAA Secs. 102(b), 113, 281(a)):** Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries

The program will provide primary benefits to the rural and urban poor. The rural communal farmers, mostly women, will be primary beneficiaries. The policy changes will ensure that the changes are sustainable over time and in fact could be expanded.

119

and the improvement of women's status; and  
(e) utilize and encourage regional  
cooperation by developing countries.

**7. Recipient Country Contribution**  
(FAA Secs. 110, 124(d)): Will the  
recipient country provide at least 25  
percent of the costs of the program,  
project, or activity with respect to which  
the assistance is to be furnished (or is  
the latter cost-sharing requirement being  
waived for a "relatively least developed"  
country)?

Yes, the Host Country will  
provide 25% of project cos  
at least

**8. Benefit to Poor Majority** (FAA  
Sec. 128(b)): If the activity attempts to  
increase the institutional capabilities of  
private organizations or the government of  
the country, or if it attempts to  
stimulate scientific and technological  
research, has it been designed and will it  
be monitored to ensure that the ultimate  
beneficiaries are the poor majority?

Yes

**9. Abortions** (FAA Sec. 104(f); FY  
1991 Appropriations Act, Title II, under  
heading "Population, DA," and Sec. 535):

a. Are any of the funds to be  
used for the performance of abortions as a  
method of family planning or to motivate  
or coerce any person to practice  
abortions?

No

b. Are any of the funds to be  
used to pay for the performance of  
involuntary sterilization as a method of  
family planning or to coerce or provide  
any financial incentive to any person to  
undergo sterilizations?

No

c. Are any of the funds to be  
made available to any organization or  
program which, as determined by the  
President, supports or participates in the  
management of a program of coercive  
abortion or involuntary sterilization?

No

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?

10. **Contract Awards (FAA Sec. 601(e)):** Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

11. **Disadvantaged Enterprises (FY 1991 Appropriations Act Sec. 567):** What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

The non-project assistance sector cash grant nature of the A.I.D. U.S. dollar assistance will not allow for set asides.

12. Biological Diversity (FAA Sec. 119(g)): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

N/A

13. Tropical Forests (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) & (g)):

a. A.I.D. Regulation 16: Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

Yes

b. Conservation: Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions

N/A

128

which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. **Forest degradation:** Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded

No

No

4) The U.S. Dollar assistance will not be used for this purpose. Generated local currency may be allocated to GOZ budget line item that covers these type of activities.

forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

No  
No

d. **Sustainable forestry:** If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

N/A

e. **Environmental impact statements:** Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

N/A

14. **Energy (FY 1991 Appropriations Act Sec. 533(c)):** If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

N/A

15. **Sub-Saharan Africa Assistance (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)):** If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) to be used to promote sustained economic growth, encourage

Yes

Yes

124

private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) to be provided in a manner that takes into account, during the planning process, the local-level perspectives of the rural and urban poor, including women, through close consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) to be implemented in a manner that requires local people, including women, to be closely consulted and involved, if the assistance has a local focus; (e) being used primarily to promote reform of critical sectoral economic policies, or to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities; and (f) to be provided in a manner that, if policy reforms are to be effected, contains provisions to protect vulnerable groups and the environment from possible negative consequences of the reforms?

Yes

Yes

Yes

Yes

16. Debt-for-Nature Exchange (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.

N/A

17. **Deobligation/Reobligation** (FY 1991 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

N/A

18. **Loans**

a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

N/A

b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

N/A

c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

N/A

d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

N/A

19. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from

The Program grain marketing reforms should encourage more rural trade and attendant investment in rural milling and storage.

126

cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

**20. Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A):**

**a. Rural poor and small farmers:** If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

The rural farmers will benefit from increased access to grain at lower prices.

**b. Nutrition:** Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

To the extent that more straight run meal is eaten and less super-refined meal, the nutrition of rural and low-income urban consumers should improve.

**c. Food security:** Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

The program will have a positive impact on rural food security if reforms are implemented uniformly.

**21. Population and Health (FAA Secs. 104(b) and (c)):** If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A

**22. Education and Human Resources Development (FAA Sec. 105):** If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

N/A

**23. Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106):** If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

N/A

128

- a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment; N/A
- b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations; N/A
- c. research into, and evaluation of, economic development processes and techniques; N/A
- d. reconstruction after natural or manmade disaster and programs of disaster preparedness; N/A
- e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance; N/A
- f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development. N/A

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability (FAA Sec. 531(a)):** Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? N/A
2. **Military Purposes (FAA Sec. 531(e)):** Will this assistance be used for military or paramilitary purposes? N/A
3. **Commodity Grants/Separate Accounts (FAA Sec. 609):** If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).) N/A
4. **Generation and Use of Local Currencies (FAA Sec. 531(d)):** Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).) N/A
5. **Cash Transfer Requirements (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b)).** If assistance is in the form of a cash transfer:
  - a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? N/A

b. **Local currencies:** Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

N/A

c. **U.S. Government use of local currencies:** Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

N/A

d. **Congressional notice:** Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

N/A

DRAFTER:GC/LP:EHonnold:5/17/91:2169J

131

Initial Environmental Examination

OR

Categorical Exclusion

**Project Location:** Zimbabwe

**Project Title:** Zimbabwe Grain Marketing Reform Program  
Project (613-0233)

**Funding:** \$15,000,000

**Life:** FY's 1991 - 1992

**IEE Prepared By:** Ernest R. Rojas, Regional Engineer,  
USAID/Zimbabwe

Activity Description:

The program is intended to support the Government of Zimbabwe (GOZ) in the implementation of grain marketing policy reforms required to achieve structural adjustment objectives. Anticipated outputs include policy reforms that will improve the welfare of rural consumers and producers by assisting the GOZ in moving grain marketing towards a competitive, lower cost private sector system resulting in lower consumer prices and higher producer prices and reduction in the Governmental Budget deficit.

Environmental Action Recommended:

Positive Determination : \_\_\_\_\_  
Categorical Exclusion : \_\_\_\_\_ X  
Negative Determination : \_\_\_\_\_

Discussion:

The project qualifies for a categorical exclusion in accordance with the criteria set forth in 22 CFR, part 216, 2 (c) relating to technical assistance (subsection (2) i) and development of host government capacity for future planning (sub-section (2) xiv). Although it is recognized that policy reform can have environmental implications, this activity will be limited to policy review/analysis and technical assistance to support implementation of policy. The direction that the policy adjustments will take is, at this juncture, sufficiently diffuse to preclude meaningful analysis of environmental impacts, if any. A.I.D.'s assistance is not designed to result in activities directly affecting the environment, such as the construction

132

of grain marketing facilities. Nonetheless, to maintain environmental oversight, the Mission Environmental Officer (MEO) should be part of any interim or mid-term evaluation, at which time policies to be implemented will be reviewed, and should also participate in the final evaluation. Additionally, if there are any amendments or extensions, A.I.D. assistance will be used to support activities having a direct effect on the environment, the provisions of 22 CFR, part 216.2 should be revisited, and the MEO should be notified in such eventuality and should participate in the exercise.

**Determination:**

Ted D. Morse, Mission Director, USAID/Zimbabwe

Approved: *Ted D. Morse*

Date: *Aug. 1, 1991*

**Bureau Environmental Officer's Recommendation:**

Approved: \_\_\_\_\_

Disapproved: \_\_\_\_\_

**Clearance:**

CPDIS: PKBuckles	<u><del>(DRAFT)</del></u>	Date: <u>July 22, 1991</u>
GDO: RArmstrong	<u><del>(DRAFT)</del></u>	Date: <u>July 31, 1991</u>
RLA: TCRiedler	<u>(DRAFT) Full</u>	Date: <u>Telefax dated 31/07/91</u>

DD *[Signature]*



UNCLASSIFIED

STATE 277473

Annex 1-D  
Page 4 of 4

4. IF ABOVE RECOMMENDATIONS/SUGGESTIONS ARE TAKEN INTO CONSIDERATION IN FINAL PAAD DESIGN, BEO CONCURS IN CATEGORICAL EXCLUSION.

5. GC/AFR HAS CLEARED THIS CABLE. BAKER  
BT  
#7473

NNNN

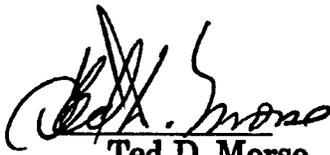
UNCLASSIFIED

STATE 277473

135

**CERTIFICATION FOR COMPLIANCE WITH GRAY AMENDMENT**

I, Ted D. Morse, USAID/Zimbabwe Director and the Principal Officer of the Agency for International Development in Zimbabwe, do hereby certify that the Zimbabwe Grain Marketing Reform Support Program was developed with full consideration of maximally involving minority and women-owned firms, or Gray Amendment organizations, in the provision of required goods and services, if any. The non-project assistance sector cash grant nature of the A.I.D. U.S. dollar assistance, however, will not permit significant, if any, minority or Gray Amendment contracting.

 Date: Aug. 29, 1991  
Ted D. Morse  
Director  
USAID/Zimbabwe

Drafted by RLA:DKeene

**LEGISLATIVE ACTION REQUIREMENTS: FAA 611(a)**

Analysis of legislative requirements and the political/administrative environment of the proposed policy reforms strongly indicate that the necessary legislative actions in furtherance of program objectives can be expected to be achieved in a timely manner.

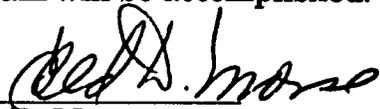
Of the five conditions precedent for the successful implementation of the proposed program, only condition one requires any legislative action. Based on discussions with Government officials and representatives of the Government, it is the Mission's understanding that the requirement Government formally establish an autonomous Board of Directors at the Grain Marketing Board will be gazetted in a timely manner to permit implementation of the program.

Conditions two, three, and four can be accomplished without legislative or statutory changes. Conditions two and four can be accomplished by administrative approval at the Grain Marketing Board level. Condition three is to be authorized by the Cabinet.

Condition five, requiring the terms of reference (plan) for development of a medium range strategy to accomplish stated goals in the Government's Economic Structural Adjustment Program will require action by the Markets Branch of the Ministry of Agriculture in conjunction with the Grain Marketing Board. Discussions with Ministry and Grain Marketing Board officials indicate that such terms of reference, or plan, can be completed in a timely manner necessary for program implementation.

Based on the foregoing representations of senior GOZ personnel, the analysis of legislative requirements, and the recent relevant experience and favorable political environment, it is reasonable to conclude that the simple timely legislative action required for the negotiated and agreed upon program will be accomplished.

Approved: \_\_\_\_\_

  
Ted D. Morse  
Director, USAID/Zimbabwe

Disapproved: \_\_\_\_\_

Ted D. Morse  
Director, USAID/Zimbabwe

Date: \_\_\_\_\_

Aug. 29, 1991

PROGRAM POLICY/LOGICAL FRAMEWORK  
ZIMBABWE GRAIN MARKETING REFORM SUPPORT  
613-0233

PROGRAM GOAL	INDICATORS	VERIFICATION	ASSUMPTIONS
<p>To improve the welfare of rural consumers by supporting a GOZ initiative to move grain marketing towards a competitive, lower cost system by reducing market controls and allowing expanded private participation in the grain marketing system.</p>	<p>a. The number of private traders purchasing maize from the GMB in specific grain deficit areas and reselling through various channels increases by at least ten percent.</p>	<p>Government and private sector statistical analyses.  Survey of Rural HH</p>	<p>a. The Government will come to grips with the redistribution of land in a way that does not reduce investment, financing, and, ultimately, agricultural productivity.</p>
	<p>b. GMB maize sales to informal buyers in deficit rural areas increases in volume by at least ten percent.</p>	<p>GMB records, GMB Annual Report</p>	<p>b. Adverse public opinion of private traders does not significantly restrict or retard expansion of private participation in grain trade.</p>
	<p>c. A measurable increase in the number of informal millers operating in urban areas and in specific rural areas.</p>	<p>GMB records, GMB Annual Report</p>	<p>c. The distribution of grain from surplus areas into grain deficit communal areas is not being adequately accomplished by either the public or the private sectors.</p>
	<p>d. The real income of producers in selected areas which neighbor deficit areas increases by at least ten percent.</p>		<p>d. Market reform is accompanied by GOZ initiatives that alleviate major non-policy as well as policy barriers to private sector entry and investment in grain trading, storage, transport, and rural processing.</p>
	<p>e. Average real consumer purchase prices for maize meal in informal markets in specific grain deficit rural areas decreases by at least ten percent.</p>		<p>e. Policy changes will be uniformly implemented once they have been made law.</p>
	<p>f. Average real consumer purchase prices for maize meal in informal markets in urban areas decreases by at least ten percent.</p>		<p>f. Weather conditions are normal.</p>

BEST AVAILABLE DOCUMENT

138

## PROGRAM PURPOSE

## INDICATORS

## VERIFICATION

## ASSUMPTIONS

To support specific policy and regulatory reforms which will: (a) increase access to grain in deficit areas; and (b) reduce the contribution of domestic grain trading losses to the national budget deficit. At the end of the proposed program (two years from signing of the Program Agreement), it is expected that the following will be evident:

a. The Grain Marketing Board will be operating with greater autonomy.

b. New enhanced private sector marketing channels will begin to meet producer and industrial consumer requirements.

At least 20 percent of maize intake at GMB collection points neighboring specific grain deficit areas is resold to informal buyers at the same collection point.

c. There will be increased grain availability in semi-arid and rural areas.

The volume of maize sold to informal buyers at GMB depots in specific grain deficit rural areas (or in areas neighboring deficit areas) increases by at least ten percent in those areas.

d. Government deficits derived from GMB operating costs will be reduced. The GMB annual domestic trading deficit decreases by ten percent from Z\$23.8 million to Z\$21.4 million.

Survey of producers

Survey of Rural HH

Survey of Urban HH

GMB records  
MFEPD records

Terms of reference

a. The GOZ follows through with its plans to decontrol grain movements between communal and commercial areas in Natural Region IV and V.

b. The costs associated with selling at collection points is lower than the combined costs of transporting grain onward to main depots, handling and storing the grain by the GMB, and transporting processed meal or drought relief back into these same areas.

c. City by-laws are amended to permit informal milling in non-residential areas or the existing restrictions in non-residential areas are not enforced.

d. Transportation will be adequate to support increased private sector grain marketing activities in rural areas.

e. The development of reliable informal trade will improve grain availability and access in rural areas.

f. Improved grain availability and access will reduce the number of hunger-prone households.

BEST AVAILABLE DOCUMENT

**PROGRAM PURPOSE**

**INDICATORS**

**VERIFICATION**

**ASSUMPTIONS**

GMB Records

g. The reduction in the number of hunger-prone households will reduce the size and costs of drought relief and supplemental feeding programs.

GMB Records

h. Most rural hunger-prone consumers are within 100 km of grain sale point.

i. The GOZ follows through with its plan to reduce GMB subsidies from Z\$59 million in 1990/91 to Z\$30 million in 1991/91 and to Z\$18 million in 1992/93.

j. The GMB incurs no new domestic grain trading losses.

BEST AVAILABLE DOCUMENT

144

PROGRAM OUTPUTS	INDICATORS	VERIFICATION	ASSUMPTIONS
Autonomous GMB Board of Directors.	1. Legislation for the establishment of a board.	1. Formal Documentation	1. An autonomous Board will be able to make independent decisions re grain marketing.
	2. Appointment of board members.	2. Formal Documentation	
Open sale of grain from GMB depots to any buyer at whatever quantity is demanded greater than one bag and publicize the change in policy.	1. Changes officially gazetted or otherwise enacted.	1. GOZ Gazette, other source.	1. Policy changes will be uniformly implemented.
	2. Announcements in newspapers, radio and TV; postings at GMB depots and collection points; and/or other medium.	2. Transcripts, articles and postings.	
GOZ allows approved buyers to resell grain through any channel, in Natural Regions IV & V without having to repay any portion of revenue to the GMB and publicize this change in policy.	1. Changes officially gazetted or otherwise enacted.	1. GOZ Gazette, other source.	
	2. Announcements in newspaper, radio and TV; postings at GMB depots and collection points; and/or other medium.	2. Transcripts articles and postings.	
GOZ allows grain to be sold at selected GMB collection points to any buyer and publicizes this change in policy.	1. Changes officially gazetted or otherwise enacted.	1. GOZ Gazette, other source.	
	2. Announcements in newspapers, radio and TV; postings at GMB depots and collection points; and/or other medium.	2. Transcripts articles and postings.	
GOZ formally establishes the plans for a medium range strategy for liberalizing national grain markets and promoting the development of a strong, competitive private sector marketing system, in form and substance suitable by AID.	1. Terms of Reference submitted and approved.	1. Officially approved by USAID.	

BEST AVAILABLE DOCUMENT

## First Year Proposed Policy Reforms Short Term Impact

Group	+	0	-	Assumptions	Constraints
<u>Private Traders/ Transporters</u>					
Approved Buyers	Reduce transportation costs and sell directly to rural consumers along with GMB.			Approved Buyers will be able to store and transport maize efficiently.	Storage and transportation must be improved.
Shop Owners	Deficit families will come to local shops to buy rather than GMB.			Shop owners may deal in either maize or meal. Consumer price will be lower due to reduced transportation costs.	
Truckers - Large Commercial		No Impact.		Operations will not change.	
Independent Lorries	Private trade activity will increase demand for transport.			Vehicles and spare parts will be available.	
Scotch Carts	Private trade activity will increase demand for transport.			Village-to-Village trade will increase	
<u>Vulnerable Groups</u>					
Children	Food will be kept in region; reducing malnutrition in deficit areas.			Price of maize will be reduced. Income savings will increase nutrition-welfare.	
Women	Food will be kept in region; income savings				
Elderly	Food will be kept in region; income savings.				
Urban unemployed	Lower cost food will be available.			Lower income groups will eat straight-run if the cost is lower. Targeted subsidy on straight-run.	Urban millers will produce straight run.

First Year Proposed Policy Reforms  
Short Term Impact

Group	+	0	-	Assumptions	Constraints
<u>Surplus Producers</u>					
Large Scale Commercial Farmers		Little impact		Producer price will increase slightly.	MLARR will need to further analyze the impacts of removing pan seasonal and pan territorial pricing.
Small Scale Commercial Farmers		Little impact			
Communal Farmer		Marginal		It will take a few years for private traders to start trading in significant amounts GME will continue to be residual buyer for communal farmers.	Private trader transportation and credit.  Lack of credit
<u>Deficit Producers</u>					
Small Scale Commercial Farmers	Will diversify production patterns since maize meal readily available			Knowledge & desire to grow other crops than maize.	Lack of appropriate technologies, credit, information; high perceived risks.
Communal Farmer					
<u>Urban Consumers</u>					
Upper Income		No impact		Higher income groups will continue current consumption patterns.	
Middle Income		Marginal		Lower end of the scale may try to buy lower cost maize meal.	Urban millers may not be willing to produce straight-run.
Low Income	Depends on cost differential			Price of straight-run will be lower due to targeted subsidies and/or small millers can produce meal more cheaply.	City by-laws currently prohibit operation of informal mills in some urban areas.

First Year Proposed Policy Reforms  
Short Term Impact

Group	+	0	-	Assumptions	Constraints
<u>Rural Consumers</u>					
Semi-Urban	More maize will be available locally.			Traders will trade grain locally, trading from surplus areas to deficit.	Availability of transportation and credit.
Deficit Households	More maize will be available locally.			Small-scale will be set up in villages to process straight-run maize meal. Drought relief will be reduced, otherwise sets up disincentive for trading.	Availability of transportation and credit.
Laborers on Commercial Farms	Maize meal will be available at a lower cost.				
<u>Millers</u>					
Large Commercial		Marginal		Small scale mills will take 1-2 years to start operations.	
Small Industrial	More maize will be milled in regions other than Harare.			Traders and millers will be able to access maize surpluses.	Availability of credit and gazetted of new regulations. Maize deficit areas; if costs of transport and storage are too high, may be a disincentive.
Rural Local Mill	Greater demand for straight-run			Deficit families who previously bought commercial refined meal will buy the cheaper locally milled meal.	Traders must be able to access surpluses; transportation, storage.

## First Year Proposed Policy Reforms Longer Term Impact

Group	+	0	-	Assumptions	Constraints
<u>Surplus Producers</u>					
Large Scale Commercial Farmers		Little impact		Producer price will increase slightly.	MLARR will need to further analyze the impacts of removing pan seasonal and pan territorial pricing.
Small Scale Commercial Farmers		Little impact		Impact will occur if movement restrictions are lifted	
Communal Farmer	Traders will go directly to farmers for grain; price may go up.			It will take a few years for private traders to start trading in significant amounts. GMB will continue to be residual buyer for communal farmers.	Private trader transportation and credit.
<u>Deficit Producers</u>					
Small Scale Commercial Farmers	Increasingly diversified cropping patterns				
Communal Farmer					
<u>Urban Consumers</u>					
Upper Income		No impact		Higher income groups will continue current consumption patterns.	
Middle Income		Marginal		Lower end of the scale may try to buy lower cost maize meal.	Urban millers may not be willing to produce straight-run.
Low Income	Food security of low income groups will improve as less expensive meal is made available.			Price of straight-run will be lower due to targeted subsidies.	Legislation may prohibit operation on informal mills in urban areas.

## First Year Proposed Policy Reforms Longer Term Impact

Group	+	0	-	Assumptions	Constraints
<u>Rural Consumers</u>					
Semi-Urban	More maize will be available locally.			Traders will trade grain locally, trading from surplus areas to deficit.	Availability of transportation and credit.
Deficit Households	Maize meal will be available at a lower cost.			Hammermills will be set up in villages to process straight-run maize meal. Drought relief will be reduced; otherwise sets up disincentive for trading.	Availability of transportation and credit. Enhanced food security in these areas requires movement decontrol and better road networks.
Laborers working on commercial farms	Maize meal will be available at a lower cost.			Local shop owners pass on cost savings to laborers.	
<u>Millers</u>					
Large Commercial			Negative. Large millers will lose market share.	Small scale mills will take 1-2 years to start operations.	Large millers will focus on urban markets, more refined products.
Small Industrial/peri-urban	More maize will be milled by informal small-scale mills.			Traders and millers will be able to access maize surpluses.	Maize deficit areas; if costs of transport and storage are too high, may be a disincentive.
Rural Local Hammermill	Greater demand for straight-run			Deficit families who previously bought commercial mealie meal, will buy the cheaper locally milled meal.	Traders must be able to access surpluses; transportation, storage.

## First Year Proposed Policy Reforms Longer Term Impact

Group	+	0	-	Assumptions	Constraints
<u>Private Traders/ Transporters</u>					
Traders				Private traders can efficiently provide those services at a lower cost	Storage, transportation credit, information
	GMB will gradually reduce its role in rural areas as private traders take over the functions they are currently performing				
Shop Owners				Shop owners may deal in either maize or meal. Consumer price will be lower due to reduced transportation costs.	
	Deficit families will come to local shops to buy rather than GMB				
Truckers - Large Commercial		No Impact.		Operations will not change.	
Independent Lorries				Vehicles and spare parts will be available.	
	Private trade activity will increase demand for transport.				
Scotch Carts				Village-to-Village trade will increase	
	Private trade activity will increase demand for transport.				
<u>Vulnerable Groups</u>					
Children				Price of maize will be reduced. Income savings will increase nutrition-welfare.	
	Food will be kept in region, reducing malnutrition in deficit areas.				
Women					
	Food will be kept in region, income savings				
Elderly					
	Food will be kept in region, income savings.				
Urban unemployed				Lower income groups will eat straight-run if the cost is lower. Targeted subsidy on straight-run.	Urban millers will produce straight run.
	Lower cost food will be available.				

Zimbabwe Grain Marketing Reform Support Program

Monitoring and Evaluation Plan: Illustrative Scope of Work for Surveys

Introduction

The monitoring and evaluation plan for the Zimbabwe Grain Marketing Reform Support Program requires that field surveys are conducted in specific rural areas. The main purpose of the surveys are to monitor the impact of the program on the real income of grain consumers and producers and increased market activities at government grain depots and collection points. USAID/Zimbabwe seeks the assistance of a consulting firm to conduct field surveys and to collect required data from the GMB and to analyze and report on the results over the course of the program and the preceding year (approximately 2 years total).

It will be essential for the firm selected to undertake this consultancy to fully understand the goals and purpose of this program and to study the monitoring and evaluation plan described in the Program Assistance Approval Document (PAAD). The firm is required to collect baseline information (or conduct a baseline survey if necessary) on the key indicators provided below and to periodically (quarterly) monitor changes in these indicators as the policy reforms are implemented. The firm will also be required to monitor the key assumptions described in the monitoring and evaluation plan.

Since an important aspect of the program is to demonstrate to the GOZ the impact of grain market reform on grain producing and consuming households, the work needs to be collaborative involving the participation of the GMB; the Ministry of Lands, Agriculture and Rural Resettlement (MLARR); and USAID. Within the MLARR the Early Warning Unit and the Farm Management Section collect information on grain utilization, crop production, prices in the in-formal grain market as well as other farm level information. Hence, any field survey activities should be coordinated with these sections. In addition, the Central Statistics Office (CSO) should be consulted prior undertaking surveys.

Selection of Survey Sites

The consultant should select six survey sites, which are near GMB depots or collection points to monitor rural household maize producers and consumers. The sites should be selected based on their potential to demonstrate impact resulting from the policy reforms. Suggested sites would include: Gutu, Ndanga, Mataga, and Gwanda in the Southern part of the country; Buhera in the mid-region; and Mutoko in the North, however the consultant is

148

free to select other sites if they are deemed more appropriate. Since this is not a random sample, results will not be interpreted to be representative of the country as a whole, but, rather as the impact on these specific areas.

It will be necessary to survey rural maize consumers which live in the vicinity of the survey sites. This will involve sampling grain consuming households which live at least 30 km from each depot or collection point but not more than 100 km away. It is felt that consumers living within this proximity of sale points are most likely to feel the impact of the reforms.

In addition, it will be necessary to survey maize consumers in urban areas. Suggested urban sites are Chitungwica (Harare suburb) and Bulawayo.

### Survey Methods

It will be important to seek approval on methodology and approach from those collaborating in the monitoring and evaluation effort. Assistance will be provided in designing survey instruments and setting up survey procedures from people experienced in working in the survey areas including; the Early Warning Unit, the Farm Management Section of the MLARR and the CSO. The ICRISAT Principal Economist, Economists from the MSU/UZ Food Security Project, and USAID will assist in reviewing information to be collected and in selecting appropriate times and places to collect information. It is essential that appropriate survey methods are used such that statically valid conclusions can be drawn in relation to the indicators identified to be monitored in the program. Of course it is recognized that the results will be limited in scope to the specific areas selected for monitoring. Information at the GMB depots and collection points can be obtained at either the specific depot or at the GMB offices in Harare. The contractor is required to review these records, as well as the annual GMB Report and Accounts published by the AMA, and to provide a quarterly summary report. Special attention will need to be given to disaggregate purchases by households for own consumption and purchases for resale. This will require agreement from GMB to allow the consultant (c: USAID) to use their record keeping system and to assist in disaggregating data if needed.

It will also be necessary for the contractor to survey consumers living between a 30 km to 100 km radius from the depots and collection points to determine if their accessibility to grain is increasing and to determine the average prices which are being paid for maize and maize meal. In the case of prices it is important to use households which are similar distances from sale points when making comparisons. For example it would not be

appropriate to compare prices paid by households living 30 km away from the sale point with households living 90 km away. It may be appropriate to survey the same households throughout the monitoring period. The surveys would be conducted periodically (quarterly) and should include approximately 30 consumers in each of the six monitoring points.

### Indicators

At the GMB depots and collection points it will be important to record numbers of buyers and sellers as well as the volume of sales and purchases. It will also be important to determine who the buyers and sellers are (farmers, traders, millers, food relief, etc.). The main indicators of performance which need to be determined are:

1. The volume of grain being sold to informal buyers at the GMB depots and collection points in specific deficit areas (or in areas neighboring deficit areas),
2. Maize intake at GMB collection points neighboring specific deficit areas which is resold to informal buyers at the same collection point,
3. The number of buyers and sellers, and specifically traders, operating at the depots and collection points in selected areas,

It is also anticipated that there will be upward pressure on prices paid to maize producers in deficit areas, or in areas which neighbor grain deficit areas, as a result of the program. Hence, it is important to monitor maize prices paid to producers in these specific areas and to identify who they are selling to (i.e., GMB, other households, traders, etc.).

For consumers it is important to know who they are purchasing grain from (farmers, traders, GMB, etc.) and their purchase price associated with the type (maize, sorghum, millet, etc.) and form (unmilled, milled, refined, etc.) of grain purchases. There is information on these indicators for rural households which is available through the AGRITEX Early Warning Unit and they have ongoing studies which may be of assistance in selected areas.

For the urban households the CSO may be of assistance in selecting households to survey and in establishing a baseline. The indicator which needs to be monitored is: the average real consumer purchase price for maize and maize meal in urban areas and grain deficit rural areas. In calculating the real purchase price it will be important to determine an inflation rate which is appropriate to the area where the prices are being collected. It is believed that in many rural areas the inflation rate is much higher than the rate published for the nation. Hence, careful attention should be given toward determining real prices (however it is not implied that the contractor conduct a separate study in each survey area to determine an inflation rate for grains).

The firm will also need to measure the number of informal millers operating in urban areas and specific rural areas since it is expected that these numbers will increase and play an important role in program impact. The early warning unit and the Farm Management Section of the MLARR should be helpful in gathering this information.

Most importantly, it may be appropriate for the contractor to survey traders, and transporters of grain in rural and urban areas to obtain more in-depth understanding of any changes in the level of trade activity. It may be useful to include at least five traders and five transporters in each site surveyed, along with all millers in the areas. Names of traders and transporters should be available from the GMB lists.

In addition to assessing impact on program beneficiaries, the contractor should address the following environmental concerns:

- The extent to which the policy change has resulted, if at all, in new land being put under cultivation;
- If new land has been put under cultivation, the extent to which soil conservation/agroforestry techniques are being put in place;
- If new land is not opened up for cultivation, the extent to which intensification of farming has resulted in practices that are environmentally unsound;
- The extent to which changes in grain marketing have also brought about changes in grain storage techniques, e.g., more or less dependence on least-toxic pest management techniques.

Product

The consultant is expected to submit to USAID/Zimbabwe quarterly reports which briefly summarize the data which has been collected and comments on any problems which the monitoring program is encountering or any factors which arise which may jeopardize the impact of the program. An example might be if any of the assumptions which were made at the beginning of the program are no longer valid. This would include assumptions regarding transportation, weather, the implementation of policy reforms, the acceptability of traders, and others which may be appropriate.

At the end of the program monitoring period the consultant will be required to submit to USAID a final document which sets out program impact. This includes data on indicators at each monitoring interval and a summation of total impact at project completion. The report will include an analysis of impacts which can be directly attributed to the policy reforms and to the degree possible demonstrate this causal relationship.

### Technical Assessment

This analysis examines the objectives of the proposed one year policy reforms and identifies the technical constraints to reaching these objectives. Technical is defined in the sense of practical or operational difficulties rather than economic incentive issues. Suggestions as to possible approaches to overcoming these constraints to enhance the success of the policy reforms are made.

#### Objectives of Proposed Reforms

The objectives of authorizing the GMB to sell grain in any quantity over 1 bag to all buyers, and widely disseminating this information (Condition 2); and allowing any buyer to resell grain through any channel in Natural Regions IV and V (Condition 3) are:

- o To reduce the amount of grain moving from GMB depots into the cities and back out to rural areas in the form of commercial maize meal.

The aim is to create incentives for small scale traders and millers to buy the grain from GMB depots and process it closer to the rural areas where it is needed. The savings in transport and processing costs will in turn make cheaper locally milled meal available to rural consumers who currently must buy more refined commercial maize meal. This will also reduce the costs of transporting grain onward to main depots, handling and storing the grain, and transporting expensively packaged commercial meal or food aid back into deficit areas. Economic studies have estimated that this meal could be produced at 12 to 15% lower cost than the current price of subsidized commercial roller meal.

- o To make more grain and straight-run meal available to consumers and traders in urban areas.

By increasing access of individuals to grain from GMB depots it is anticipated that more private sector participants, particularly traders and small scale millers, will process and sell straight-run meal to low income urban and peri-urban consumers. The large scale mills are currently not making straight-run meal available to consumers. The re-introduction of straight-run meal, which is surveys have shown to be the meal of choice of a large portion of low-income consumers, would induce lower staple meal prices for the poor. The objectives of allowing collection points to resell grain to any buyer (Condition 4) are:

- o In the short-run, to greatly expand the scope for intra-rural trade by opening up GMB-owned stocks to rural consumers, traders, and small-scale millers instead of funneling supplies directly to urban centers.

- o In the long-run, to encourage rural informal trade, such that it replaces the GMB's function of wholesaling, by providing viable alternative market outlets for producers and reliable supplies for rural consumers at lower cost than commercial maize meal.

Underlying assumptions

- (1) Private traders, transporters, and millers will have sufficient economic incentive to enter into grain trading and processing activities (i.e. they will perceive it to be profitable enough to overcome the associated risks). This will be addressed in the economic analysis.
- (2) Allowing depots and collection points and any buyers within NR's IV and V to resell will lead to increased competition between buyers, increased access by farmers, and encourage entry into grain trade. Increased competition will lead to lower consumer prices and higher producer prices (i.e. the current marketing margins will be squeezed).
- (3) There is demand for straight-run meal in both urban and rural areas that is currently not being met by the large scale millers.
- (4) Low income consumers will switch from refined to straight-run meal if it is made available at a lower price.
- (5) Small scale millers will be able to process maize meal more cheaply than the large scale millers, and traders will be able to get it out to rural consumers at a lower price.
- (6) Licensing or other regulations will not serve as constraints to anyone (i.e. barriers to entry) from buying, selling, trading, and milling grain.
- (7) Collection points can offer grain for sale into particular rural areas cheaper than the depots. Otherwise the collection point should only operate as an input point.

Technical Constraints to Achieving these Objectives

1. Technical Constraints Facing Potential New Private Sector Grain Marketing Participants

The major technical constraints facing potential rural traders are: storage capacity, access to credit, and shortage of vehicles for transporting commodities (and high cost of transportation). These, along with poor access and high cost of inputs, are also the constraints facing small scale communal producers.

154

It is rural shopkeepers who typically sell maize meal in rural areas at present. These shopkeepers receive the meal from the large scale urban millers on credit and it is delivered once a month, overcoming all 3 constraints -- credit, storage, and transport.

(i) Credit

Successful grain trading requires the ability to exploit economies of scale in transactions. Shopkeepers and transporters have little access to credit from formal or informal lending institutions, due to perceived high risks and lack of collateral. The inability to secure loans through either the formal or informal sector represents a major barrier to trading in grain. One of issues that needs to be examined in more detail is whether there are means by which the formal lending sector can more effectively meet the credit needs of crop buyers.

(ii) Storage

The system of pan-seasonal pricing creates no incentives for producers, traders, sellers, or even millers to construct more than the minimum necessary storage facilities. The crop is sold to GMB as soon as possible after harvest and the Board absorbs the majority of the storage costs. The result is that most of the grain storage capacity in the country is owned by GMB. Farmers lack knowledge about proper storage techniques. Further pricing or policy changes will be needed to create incentives for the construction of private sector storage capacity (an alternative is to lease out GMB facilities to the private sector). Improving the technology of local grain storage is also needed to provide greater incentives for temporal arbitrage in grain, promoting local availability of grain later in the season.

(iii) Transportation Issues

The centralized road network promotes bulk grain sales to GMB depots in towns rather than movement between surplus and deficit communal areas; it promotes grain and oilseed processing and related agro-industrial activity in the town centers, transferring employment opportunities and money circulation out of the rural areas.

Limited transport capacity is typically cited as the major factor limiting a more efficient grain marketing system in Zimbabwe. Limited domestic production of vehicles, high import taxes on foreign-purchased vehicles, and poor access to hired transport in remote areas (in part due to the poor quality of rural roads) all limit the potential for increased private sector activity in grain trading. The cost of vehicles and spare parts in Zimbabwe is much higher than world prices due to these import restrictions and insufficient domestic production. This limits the quantity and quality of transport services (both public and private) and undoubtedly increases customer costs.

Regulation of transport also serves as a constraint to more private sector trading. Transporters must get permits to operate on established routes, which acts as a rationing device limiting competition. The GOZ's Framework document acknowledges that transportation restrictions have constrained development of the private sector and the permit system will be reviewed with the goal of relaxing some of these controls.

2. Other Technical Constraints to Private Sector Participation in Grain Trading

(i) Lack of information regarding the rules governing grain trading

Although current laws and regulations allow anyone to buy from the GMB, a recent study found that four out of five GMB depot managers interviewed perceived it to be illegal for anyone to purchase grain from the depot in excess of his consumption needs (Jayne et. al, 1990). The majority of informal traders lack sufficient information on rules governing grain trade and perceive grain trading as illegal regardless of whether the product is controlled or not in the area in which they trade. USAID's proposed policy reform #2 directly addresses this constraint.

(ii) Limited specialization in marketing functions

Because of the current lack of specialization in informal grain trade, buyers in surplus areas must find their own means of disposing of the grain, typically to consumers or GMB. A recent study found that there were no reported cases of resale between traders, indicating a less specialized informal marketing system than those commonly found throughout Africa, in which first handlers, wholesalers, trader/transporters, and retailers have developed their own niche in the marketing channel (Jayne et. al, 1990). Information and management requirements and transactions costs increase without specialization.

Part of the problem in Zimbabwe is a lack of organized rural markets where these activities could take place, and buyers and sellers come together. The historical restrictions on grain trade and historical subsidies on maize meal have inhibited the development of a grain trading network. The actors exist, but they do not move grain. The proposed reforms seek to begin shifting the structure of incentives and opportunities in favor of extending the coverage of established market institutions into grain trade.

(iii) Lack of experience in dealing with the private sector on the part of farmers; lack of entrepreneurial experience on part of traders

156

Lack of training in entrepreneurial skills is a problem in rural areas where the risks to starting new enterprises are probably much higher than in urban areas. Overcoming notions of "exploitative" private traders are not technical issues, but ones that will require some time to overcome. Again, the government can play an important role by widely disseminating information regarding the new "rules of the game".

(iv) Lack of market information

Surveys have shown that despite price controls, grain prices are highly variable in the rural areas, particularly in regions experiencing grain supply deficits. Improved market information encourages the movement of grain from low to high priced regions, offering benefits to both producers and consumers.

(v) Lack of Storage and Processing Plants

As was mentioned earlier, producers, private traders, and shopkeepers lack storage facilities and knowledge of techniques for properly storing grain and meal (e.g. proper fumigation techniques). Similarly, the small-scale milling industry is underdeveloped.

(vi) Lack of competition

The issue of lack of competition continually arose regarding grain transportation. Again, the rationing of imported vehicles and parts coupled with a permit system controlling who transports what and where, has effectively limited competition and raised the price of transport considerably. Opening up imports of vehicles and spare parts will partly alleviate this problem, but more encouragement of competition in the transport industry -- particularly small transporters serving communal farmers, is needed.

Possible Approaches to Overcoming Constraints

The real issue is how to stimulate a private sector that has actively been discouraged for many years. Changing the policies may be a necessary but insufficient condition.

The most important step will be developing government support for new entry and investment in rural grain trade and processing. Jayne (1991) points out that the Zimbabwe Development Bank or SEDCO could play a role by targeting credit for specific private investments such as vehicles, hammer mills, spare parts, storage, and marketplace facilities in rural areas. Also needed are government investment in rural infrastructure and allowing vehicles and spare parts to be imported without restrictions (i.e. inclusion as part of OGIL).

Since an efficient private marketing system requires good access to information on market conditions, the development of a market information system, where rural areas are monitored and market information disseminated on a timely basis (e.g. on the radio), would also support private sector involvement in grain marketing.

A comprehensive study of the transportation sector looking at constraints to competition and possibilities for encouraging the expansion of rural, small-scale transporters involved in grain trade is needed.

158

Economic Analysis

1. INTRODUCTION

1.1 Background

USAID/Zimbabwe (USAID/Z) is considering a grant for US\$ 5.0 million from the Development Fund for Africa account to support the first year of the Government of Zimbabwe's (GOZ) multi-year program for policy reform in the agricultural marketing sector. Specifically, the US\$ 5.0 million sector cash grant is to support the GOZ implementation of grain marketing policy reforms required to achieve structural adjustment objectives. (Taking into account the GOZ counter-part funds and TA and maintaining and evaluation expenses, the total program cost is Z\$35.05 million).

1.2 Program Goals and Objectives

The program goal is to improve the welfare of rural consumers and producers by moving grain marketing towards a competitive, lower cost, private sector system resulting in lower consumer prices and higher producer prices. The sub-goal is to support implementation of policy and regulatory changes which seek to increase the availability of grain in rural areas by reducing market controls and promoting the development of a lower cost competitive, private grain trading system. Implementation of policy and regulatory reforms will reduce the contribution of grain trading losses to national budget deficits and strengthen rural markets, thereby increasing real producer and consumer incomes.

1.3 Program Conditions

The disbursement of the U.S. dollars will be conditional on specific reform actions:

- a. Establishment of an autonomous Board of Directors for the Grain Marketing Board (GMB);
- b. Government approval of the sale of grains from its depots to any buyer, in any quantity;

159

- c. Government approval to allow Approved Buyers to resell grain through any channel;
- d. Government approval to allow grain to be sold at GMB collection points to any buyer; and
- e. Government commitment to development of a medium range, time-phased strategy and action specific implementation plan for liberalizing national grain markets and promoting the development of a strong, competitive private sector marketing system.

Reforms (a) through (d) are considered preliminary and the subject of further negotiations and refinement. The last reform (e), is considered elemental to any policy reform program.

#### 1.4 Program Benefits

At the end of the proposed one-year program the following benefits are anticipated:

- a. GMB should be operating with greater autonomy - with the authority to make decisions which would move the Marketing Board toward more commercial operations;
- b. Private sector marketing channels will be enhanced;
- c. Government deficits derived from expenditures related to involvement with grain marketing operations will be reduced;
- d. There will be increased grain availability in semi-arid and rural areas; and
- e. The program will have provided a demonstration of the value of increased reliance on the market system to allocate resources in grain marketing in particular and in agricultural marketing in general.

## 2. ECONOMIC ANALYSIS

### 2.1 Introduction

This economic analysis determines to what extent the expected program benefits exceed expected program costs. The analysis identifies the incidence of impact to of the marketing reforms. Four components to this study were identified for analysis:

- a. The justification for liberalization offered by economic theory;
- b. The justification for liberalization increasing the returns to producers;
- c. The reduction in costs of the GMB; and
- d. The identification of winners and losers.

More specifically, the economic analysis examines the potential of the proposed reforms to reduce marketing margins (procurement, transport, milling, and retail distribution), thereby increasing real incomes for consumers. Measures to ameliorate constraints that discourage establishment of the optimum economic incentive structure or enabling environment to facilitate private trader entry into grain marketing are also recommended.

## 2.2 Terms of Reference

The Terms of Reference (TOR) for this are attached as Appendix 1. The TOR state that the analysis should concentrate on evaluating the impact of the proposed reforms on the rural economy. More specifically, to assess the effect on the rural population in the Communal Lands (CL's) in the semi-arid areas of Natural Regions III, IV and V. At the request of USAID/Z mission officials, this analysis has been extended to include the potential effect on the urban population.

## 2.3 Methodology

The approach to the analysis takes guidance from the memorandum prepared for USAID/Z by R. Harber TDY Economist (AFR/SA), dated 21 June 1991.

- a. The economic analysis concentrates on conditions (b), (c) and (d) set out in Section 1.3 above and the impact of relaxing market controls on the rural economy in the Communal Lands in the semi-arid, maize deficit areas (Natural Regions III, IV and V).
- b. The impact on the low income, urban population of encouraging straight-run maize meal consumption has also been taken into account.
- c. The analysis period has been confined to a five (5) year period.

- d. "Project costs" are taken to be the US\$5 million grant for the program. Also taken into account is the cost to USAID of providing a Technical Assistant for 2 years (US\$ 400 000 total, total taken to be the counter-part funds for the US\$5 million grant (Z\$15 million) plus funding from the ZASA Program (Zimbabwe Agricultural Sector Assistance Program) for monitoring and evaluation of the market reforms over two years (Z\$348 000 to obligated up-front). Any additional costs which arise as a result of implementing program reforms are taken into account as dis-benefits.
- e. All costs and benefit streams are expressed in local, Zimbabwe dollar (Z\$) terms and at constant mid-1991 prices.

This analysis evaluates both the internal rate of return (IRR) of the program and net present value (NPV) of the grant funds. In the latter case, the GOZ discount rate of 10.5% has been employed.

The rural market scenario has been further segmented to identify the costs and benefits to the:

- a. Rural population within a specified radius of GMB collection points;
- b. Rural population within a specified radius of a GMB depot;
- c. Encouragement of maize trading by Approved Buyers;
- d. Transport savings (and costs) to the GMB moving maize grain between depots;
- e. Reduced, rural demand for commercial maize meal and consequential transport savings;
- f. Estimated reduced reliance on social welfare through retail marketed maize in the deficit areas; and
- g. Estimate the potential demand for straight-run meal in the urban areas and benefits to the urban poor.

It should be noted that in the context of the proposed program the calculation of an Internal Rate of Return (IRR) may be misleading. The policy reforms can be implemented at virtually no cost, or at very little direct cost and offer high returns. The grant, yielding a separate set of returns is simply an

inducement to encourage the process of policy reform -- not a direct investment cost.

#### 2.4 References

This analysis relies heavily on survey work and other studies prepared by the University of Zimbabwe/Michigan State University Food Security Project. In particular:

Jayne T.S.; et al (May 1991) "Structural Adjustment and Food Security in Zimbabwe : Strategies to Maintain Access to Maize by Low Income Groups during Maize Marketing Restructuring".

Rukuni, M, and Wyckoff J.B. (ed) (May 1991) "Market Reforms, Market Research Policies and SADCC Food Security".

UZ/MSU Food Security Project (1990) "Proceedings of the First National Consultative Workshop on Integrating Food, Nutrition and Agricultural Policy."

### 3. CHARACTERISTICS OF THE MAIZE MARKET IN THE CL's IN THE SEMI-ARID REGIONS

#### 3.1 Household Self Sufficiency

The grain trade in the semi-arid regions (Natural Regions III, IV and V) is described in detail in the literature. The salient points are summarised below:

- 10 - 20% of households are surplus grain producers and account for the bulk of sales to the GMB;
  - 80% of households are net grain purchasers; and,
- of the total population:
- 25% deplete their own stocks in September and need to purchase 644 kg to satisfy the household grain requirements until green maize from the following crop becomes available (165 days); and
  - 50% deplete their stocks in December and need to purchase 176 kg grain to bridge the period (45 days) until green maize becomes available.

A household is taken to consist of 8 persons normally resident in the rural areas.

### 3.2 Consumer Preference for Alternative Maize Meals

Most rural consumers (over 70%) stated a preference for locally - milled maize meal over the commercially milled maize meals (roller meal and super-refined meal). However, despite being higher priced and less desirable, the commercial meals constitute the residual staple food source in these areas. This is principally due to a lack of available grain to process locally.

### 3.3 Role of Rural Traders

Aside from on-farm storage, virtually all the marketable maize surplus is moved out of the production areas and stored by the GMB at central depots. What little is stored locally by the traders is generally resold by October - six months before the next harvest. This situation is attributed to the following factors:

- a. Traders have insufficient working capital to finance the holding of maize stock for extended periods;
- b. Misconception on the part of both GMB depot officials and traders regarding the legality of purchasing grain from the GMB for re-sale.
- c. Most wholesalers and commercial millers deliver commercial maize meal to the rural areas free of charge (all costs of transport in this study are based on the GMB tender rate for moving maize on rural roads i.e. 50 cents per kilometer tonne);

### 3.4 GMB Operations in the Communal Lands in Natural Regions III, IV AND V

In the regions under consideration, the GMB operates 15 depots in the Communal Lands and three other depots draw supplies from both Communal and Commercial farming areas. In addition, the Board operates 12 seasonal collection points, and has licensed 84 approved buyers to act as agents on its behalf. The distribution of these depots and collection points is summarised in Table 1 below.

Maize intake by the GMB at the above depots over the past five seasons (1986 - 1990 harvests) is presented in Appendix 2. Of note, is the marked seasonal variation; a characteristic of crop production in these areas. For the 13 CL depots the 5-year average was 67 700 tonnes; varying from 7 200 tonnes to 86 900 tonnes per annum. More dramatic variances can be observed within different depots.

164

TABLE 1

Distribution of GMB Depots and Collection Points in the Communal Lands  
(1991 Season)

Natural Region	Communal Land Depots	Mixed Depots	Collection Points	Approved Buyers
III	6		4	48
IV	6	2	7	34
V	1	1	1	2
TOTAL	13	3	12	48

Source : Grain Marketing Board

165

4. ESTIMATES OF MAIZE SELF-SUFFICIENCY AND DEMAND FOR STRAIGHT-RUN MAIZE MEAL IN NATURAL REGIONS III, IV AND V

4.1 Estimated Demand for Maize during the Deficit Period (September - February)

The benefits of relaxing market constraints will arise during the maize deficit period September - March. During periods when farmers have their own maize available, they will either process it themselves or pay a service charge for it to be milled locally.

To estimate demand, a value judgement has been made of the area of influence for each of the identified GMB depots. This takes into account the depot location within the Communal Land as well as the extent of commercial farming areas, national parks, forest areas, etc within the "sphere of influence". The 1982 population census figures, adjusted for population growth during the past decade, were used to estimate the population in the areas of influence. The factors discussed in Section 3.1 were then applied to estimate total demand for maize grain during the deficit period. As detailed in Appendix 3a, total maize demand by deficit households during this 6-month period is estimated to be 81 200 tonnes of grain.

By confining the analysis to the semi-arid regions of the country, the estimate of benefits is under-stated in that the relaxation of controls will also affect the Communal Lands in the main grain producing areas (Natural Region II). However, the impact in these areas, where the majority of households are self-sufficient in maize, will be marginal.

Given the misconceptions and constraints on Approved Buyers regarding the purchase and re-sale of maize in the Communal Lands, it is assumed that only 25% of the potential demand will be realised in the first year. The full potential for this rural trade is expected to be realised in the third season; recognising that portion of the population (30%) will continue to have a preference for commercial maize meal. A 5-year demand projection by depot is detailed in Appendix 3b, together with the 5-year average maize intake by depot.

4.2 Shortfall of Local Maize Supplies to Satisfy Local Demand

Allowing for a consumer preference for commercial roller meal (30% total maize meal demand), the demand for grain for straight-run meal is 56 870 tonnes. This compares to an average seasonal maize intake at the 13 depots of 67 730 tonnes (Appendix 3b).

However, inspection of the detail presented for each depot reveals significant shortfalls at individual depots. These are highlighted in Appendix 3c, which shows the depots at which the demand in a given year exceeds the 5-year average intake at the depot. This represents the maize grain or meal equivalent that will still have to be moved into these depot areas to satisfy demand. In the long term, this represents the structural imbalance between maize demand (a function of population numbers) and the potential of the areas to produce sufficient grain (agro-ecological constraint). (Note: no provision has been made for future population growths, which is presently increasing at an average rate of about 2.8% per annum).

Based on the assumptions employed (period that rural households suffer a maize deficit, the demand for maize grain equivalent during this period, the total population within the influence area of the depot) and the phased development of the rural demand for maize from the GMB depots, the requirement for maize to be imported into these depots will rise from 2 700 tonnes to 18 700 tonnes per annum. The principal depots affected are :

Nyika depot in N/R III which could draw supplies from Masvingo railhead).

Jerera depot in N/R IV which could draw supplies from Masvingo (railhead).

Mataga depot in N/R IV which could draw supplies from a railhead on the Rutenga line.

Gwanda depot in N/R V which is on the line of rail, which facilitates the transfer of maize from areas of surplus.

## 5. DEVELOPMENT OF THE INFORMAL RURAL GRAIN MARKETING SYSTEM

### 5.1 Introduction

Development of private maize trading in the rural areas has been segmented into three scenarios:

1. Sale of grain by the GMB from collection points (CP's);
2. Sale of grain by the GMB from depots; and
3. Purchase and resale of maize by approved buyers (AB's).

These options are discussed below. This section concludes with a cost-benefit analysis of developing this informal market in the CL's in Natural Regions III, IV and V.

## 5.2 Maize Sales from GMB Collection Points

Collection points are seasonal operations established by the GMB in the more remote areas of the Communal Lands. Their function is to facilitate the receipt of marketable surpluses from smallholder farmers and evacuation of the same to a parent depot. It has been suggested that the GMB sell grain from these CP's, thus retaining marketable surpluses in the area to satisfy demand during deficit periods.

However, the bulk of the maize intake is delivered to the GMB during the period June - August while the main demand for maize to supplement home retentions is during the period September - February. To implement this proposal the GMB will have to maintain a permanent presence in the area to receive, store and re-sell the grain. Not only will this result in the GMB incurring additional costs it will also be contra to the objectives of the policy reforms to encourage private enterprise to perform these functions. This option is not considered a viable proposition. Furthermore, successful implementation of the policy reforms to encourage on-farm storage and/or local storage by traders should remove the necessity for operating collection points.

However, provision is made in the cost benefit analysis (Table 3) for additional costs incurred by GMB to maintain a presence (principally the provision of scales and staff costs) at Z\$10 000 per collection point.

## 5.3 Sale of Grain From GMB Depots in the Communal Lands

Current legislation neither constrains free marketing in the Communal Lands (defined as Zone B in the GMB Act) nor restricts the purchase of maize from the GMB by buyers in these areas. In a move to encourage maize sales in the CL's, the GMB has reduced the minimum sale quantity from 1 tonne to 1 bag (90 kg net).

However, the majority of GMB depot managers do not permit sales to informal traders. Consequently, less than 2% of the Boards total maize intake since 1980 has been sold to consumers or private traders (Jayne, 1991). This has resulted in the rural areas in semi-arid regions becoming almost totally dependent on urban centres to meet the rural household grain shortfalls during deficit periods (September - February).

In the areas under consideration for this study, the estimated total demand for maize grain from the CL depots specified is 56 870 tonnes per annum. Sales from GMB depots into the Communal Lands would take place at the GMB selling price, there would be no detrimental effect on the Board's trading account. The Board would, however, benefit from the savings on transport that would result from avoidance of moving grain into the urban areas for milling.

#### 5.4 Purchase and Re-sale of Maize by Approved Buyers

Notwithstanding that the general legislation permits free trade and marketing in the Communal Lands, the contract between the GMB and Approved Buyers (AB) specifically prohibits resale of maize purchased by the AB, except to the GMB. Consequently, while the AB provides an outlet for marketable surpluses, the AB is precluded from performing the function of satisfying demand for maize in these areas.

Relaxation of this contractual restriction will allow the AB's to perform both functions (provide an outlet for surplus maize and satisfy the demand for maize). The extent to which they will be able to do this will depend on their financial resources, or access to credit, to finance the stock holdings. Within the dimensions of this study, the quantities involved are included in the total estimated household demand for supplementary grain (56 870 tonnes per annum).

The financial benefits to the local economy will be the distribution of the margin between the retail cost of commercial roller meal (about Z\$ 626 per tonne of meal) and the GMB producer price (Z\$ 270 per tonne of grain) between :

- a. Consumers who require to supplement their own supplies of maize grain;
- b. Producers producing marketable surpluses;
- c. Traders or AB's who buy, store and resell maize on their own account or buy from the GMB to resell locally.

#### 5.5 Cost-Benefit Analysis (Rural Market)

The underlying hypothesis of the proposed reforms is that informal millers can produce straight-run maize meal at a lower cost than the alternative maize meals available from the commercial, large-scale millers. Coupled with the removal of constraints on access to GMB maize by private traders, larger quantities of maize grain will be retained and processed in the rural areas to the benefit of both rural grain producers and consumers. The benefit to the GMB will be the savings on transporting grain, which will remain at the depot sites.

Values for locally milled straight-run maize meal quoted in the literature were based on observed milling charges levied by traders in surveyed locations. These varied markedly both in absolute terms and seasonally with an inconsistent seasonally variation between survey sites (Rukuni, et al - page 128 : figures 2a and 2b illustrate this variance in charges). Whether these observed charges truly reflect the costs incurred may also be questioned. Past experience and a reluctance by financial institutions to provide finance for mills in the future suggest that charges levied are often insufficient to recover both operating costs and provide for the repayment of capital loans.

For the purposes of this analysis, a hypothetical cost structure has been derived based on information supplied by local manufacturers (Appendix 4).

To recoup the operating costs and provide for loan repayments, on the assumptions detailed an operator should charge at least Z\$19 per hour or Z\$25 per tonne of maize milled. This charge would be raised as a service charge for milling maize brought in for milling. Alternatively, it becomes the milling costs added to the price of maize a trader/miller purchases to mill and sell on his own account.

If the traders are to play a role in retaining and processing maize gain the deficit areas, the misconceptions about purchasing from the GMB for resale must be dispelled. Allied to this is a required change in GMB policy to permit the Approved Buyers to buy and resell maize purchased from producers.

The informal market may be expected to develop where the cost of buying grain from the GMB (or of holding stocks) plus any transport costs together with the cost of milling permits the end product to be price-competitive with delivered commercial maize meal (roller meal).

To what extent consumers, producers and/or the rural traders/millers will benefit is difficult to define or quantify:

- a. Consumers will benefit from any retail price differential between the commercial/roller meal and the locally milled product;
- b. As the rural market becomes more sophisticated, traders will offer producers higher prices for grain stored on-farm, to compensate for such storage and to avoid transport costs of "importing" maize from a GMB depot; and
- c. Traders may also be encouraged to hold their own stocks to meet a future demand for meal.

For purposes of this analysis, the most conservative benefits are taken into account. Most sales of straight-run meal by traders will take place during the period between the depletion of the output from one harvest and the availability of green maize from the next. Therefore, the GMB selling price of (Z\$ 390 per tonne) is taken as the base value for maize grain (rather than the GMB producer price of Z\$270 per tonne). While some traders will be located near to GMB depots, others will be some distance away and an average factor of 40 kilometers has been employed. (The distribution of approved buyers and distance from depots is summarised in Appendix 5).

Table 2 details the costs associated with purchasing maize for milling and the margin between the resultant straight-run meal and commercial roller meal (at the legislated retail price) available for distribution within the rural economy. On the assumptions employed, the local processing of maize will benefit the rural economy by some Z\$200 per tonne of grain processed. (This will be marginally higher for localities closer to GMB depots and lower for those more distant).

TABLE 2  
Comparative Cost of Straight-Run Maize Meal and Roller Meal (Rural Markets)

	<u>Z\$ per tonne</u>
Purchase of grain from the GMB	360
Transport from GMB depot (40 km at 50 c/km.t)	20
Cost of milling (break-even cost)	25
	—
	405
Breakeven cost of straight-run meal (97% extraction)	417
say	420
	—
Legislated retail price of commercial roller meal (20 kg bags)	626
	—
Cost benefit to the rural economy per tonne of maize grain processed*	206
say	200
	—

\*The bulk of the grain milled in these rural areas is brought to the mill and removed by the consumer/purchaser in their own container (eg. bag or bucket). Therefore no packaging has been provided for. Inclusion of this cost (5 or 10 kg double-layer paper bags) would reduce the margin by Z\$85 per tonne of grain.

The costs and benefits of Phase I of the USAID/Z program to encourage informal marketing in the CL's of N/R III, IV and V are summarised in Table 3. Offset against the cost of the program (US\$ 5 million equivalent to Z\$ 15 million) are the following benefits or dis-benefits.

- a. Rural cost saving of locally processed straight-run maize meal against commercially supplied roller meal (Z\$200/tonne grain as detailed in Table 2), applied to the total estimated demand for supplementary maize in these areas;
- b. GMB cost saving on transport as a result of holding and disposing of maize in the rural areas (based on an average haulage distance from rural depot to urban/commercial miller of 100 km and a blend transport charge of 40 c/km.t).
- c. GMB transport cost of moving in maize grain to those depots with a structural imbalance between demand for and supply of maize grain (again assuming cost of 40 c/km.t); and
- d. Commercial millers savings on transport to supply roller meal equivalent to the demand for maize grain (based on a haulage distance of 100 km at a cost of 40 c/km.t and a grain/meal extraction ratio of 85%).

Offsetting the stream of benefits over 5 years against the total program cost, an internal rate of return (IRR) of 12% is projected. Employing a discount factor of 10.5% (the cost of Government funds to Ministries and parastatals), a net present value (NPV) of Z\$875 000 is anticipated. On the assumptions employed regarding growth of the rural market, the payback period of the program investment is less than 4 years.

If only half the benefits are achieved, the IRR of the program becomes negative (-12%) with a negative NPV of Z\$15.275 million.

172

## 6. URBAN DEMAND FOR STRAIGHT-RUN MAIZE MEAL

### 6.1 Market Size and Consumer Preferences

Extrapolation of the 1982 Population Census data puts the current, estimated urban population at 3.060 million. Recent household surveys (Jayne, 1991) revealed that 28% of this market had a preference for straight-run maize meal; notwithstanding that this product is not readily available. There was a strong bias towards this product by low income consumers (47% of respondents in this income category expressed a preference for straight-run maize meal).

### 6.2 Demand for Straight-Run Maize Meal

The same household survey revealed that average per capital consumption of maize meal was 0.25 kg per day over all income groups. Applying the average preference ratings to the total urban population, the grain equivalent of the alternative meals is derived as follows:

Straight-run (95% extraction)	28%	0.07 kg grain equiv.
Roller meal (85% extraction)	19%	0.06 kg grain equiv.
Super-refined (60% extraction)	53%	0.22 kg grain equiv.
	—	—
	100%	0.35 kg grain equiv.
	—	—

Total annual consumption in the urban areas of straight-run maize meal would then be 78 185 tonnes maize (3.060 million x 0.07 kg/day x 365 days).

### 6.3 Potential Consumer Savings

Employing the same cost factors as for a rural grinding mill and again assuming a conservative operating period of 1 000 hours per annum, the cost benefit of straight-run meal over roller meal is about Z\$130/tonne for grain (Table 4). Over the total estimated potential market for straight-run meal (78 185 tonnes per annum), this equates to a consumer benefit of Z\$8 million. The urban poor would be the principal beneficiaries of such cost savings.

TABLE 4  
Comparative Cost of Straight-Run Maize Meal and Roller Meal (Urban Market)

	<u>Z\$ per tonne</u>
Purchase of grain from the GMB	360
Transport (provision @ 35 c/km.t)	5
Cost of milling (break-even cost)	25
	<hr/>
	390
Production cost of straight-run meal (95% extraction)*	410
Provision for packaging in 5kg and 10kg paper bags	85
	<hr/>
Break-even cost of straight-run meal	495
Legislated retail price of commercial roller meal (20 kg bags)	626
	<hr/>
Cost benefit to the urban community per tonne of maize grain processed	131
	say 130
	<hr/>

\* Extraction rate altered from 97% to 95% to allow for a greater degree of sophistication in the urban market, compared to the rural market.

#### 6.4 Cost-Benefit Analysis (Urban Market)

The costs and benefits of encouraging informal milling in the urban areas and/or improved availability of straight-run maize meal in this market is summarised in Table 5. Offsetting the flow of benefits against the total USAID/Z program cost (US\$ 5 million or Z\$ 15 million) a negative internal rate of return (IRR) of -22% results. Using the GOZ interest rate of 10.5% to discount the 5-year benefit flow, a negative new present value (NPV) of Z\$ 21.686 million is projected.

#### 6.5 Discussion of the Availability of Straight-Run Maize Meal in the Urban Market

Urban surveys have shown that there is a strong demand for straight-run meal in the urban areas, particularly by those in the lower income groupings.

174

However, the former as a result of restrictions on small-scale milling operations in urban areas. The latter as a result of the application of subsidies which favour the production and sale of roller meal and super-refined meal (Jayne, 1991).

The desirability or otherwise of removing restrictions in informal milling in urban areas is beyond the scope of this study. However, in the case of commercial milling operations, it is suggested that the subsidies on maize meal should be more appropriately applied to straight-run meal. As lower income consumers have a greater preference for this product than higher income consumers, the subsidy will effectively become more targeted to the less advantaged. Confining the subsidy element to the small packaging units (5kg, 10kg and possibly 20kg units) abuse of the subsidy by stockfeeders will be largely avoided.

#### 7. SUMMARY OF GAINERS AND LOSERS ARISING FROM IMPLEMENTING PROGRAM REFORMS

As noted, the costs and benefits of the combined rural and urban benefit streams offset against the total program costs resulted in an IRR of 32 percent and an NPV of Z\$ 23.834 million. These are unambiguously positive and suggest strong financial incentives to implement the reforms. The lack of an established private grain market and historical existence of price controls make it impossible to determine the allocation of these benefits to producers, marketing agents, and consumers. In all likelihood, a portion of benefits will accrue to each.

Having recognized the difficulty of allocating benefits to any one set of producers, marketing agents, or consumers, the economic analysis identifies some obvious gains and losses arising from proposed program implementation:

- a. Food self-sufficiency in the Communal Lands of National Region III, IV and V improved. Marketable surpluses of maize will be retained in the rural areas to satisfy demand from grain deficit householders. (Estimated 56 870 tonnes per annum - Appendix 3b).
- b. Although there will remain a requirement to move grain into the semi-arid areas (Appendix 3c), this will be reduced considerably and targeted to specific vulnerable areas.
- c. Income will be retained and circulated within the rural economy. Based on a net benefit of Z\$ 200 per tonne of grain retained in these areas, total benefit to the rural economy will be about Z\$ 11.370 million per annum.

175

- d. Cost savings to the GMB and, therefore, to the Exchequer and the tax payer resulting from reduced movement of maize will be about Z\$1.525 million per annum (net of the GMB cost of transporting additional maize into acute, deficit areas).
- e. Commercial millers will lose market share (56 870 tonnes maize grain equivalent), which will be partly offset by transport savings arising from reduced haulage of maize meal into remote areas (Z\$2.670 million per annum).
- f. In the urban market, there is a significant demand for straight-run meal; particularly from those in the lower income groups. This demand is not being supplied, largely due to the application of consumer subsidies to the more refined roller meal and super-refined meal. Review of subsidy policy and straight-run maize meal sold in small units will direct assistance more directly to vulnerable groups and, probably, significantly reduce the demands on the Exchequer and tax payer.
- g. Straight-run maize meal is more nutritional than both roller meal or super-refined meal. Increased production and consumption of this product will improve the nutritional status and health of the rural and urban population.

It is important to emphasize the fact that the estimated total net benefits in the economic analysis represents only the direct return to the policy reforms themselves. Based on a five year stream of benefits only, and assuming constant population, the estimate is highly conservative. Moreover, the benefit stream does not represent all of the benefits accruing from the program since it does not take into account the stream of net benefits that will also accrue from allocating the US\$5 million grant resources to the OGIL, nor does it calculate the returns from the GOZ counterpart investment supporting the national budget.

It is difficult to estimate the magnitude of the benefits from supporting the OGIL without knowing how the foreign exchange will specifically be allocated. However, historically, severe foreign exchange constraints and exchange rationing have created a demand for exchange which could be allocated to investments yielding very high returns. Industry faces widespread shortages of imported manufacturing inputs. Foreign exchange appears likely to remain constrained in the near future and associated investment returns should remain favorable. As a rough order of magnitude, a 25-30 percent average annual return to foreign exchange investments is possible. As mentioned, a further stream of benefits will likely accrue to the GOZ counterpart commitment of Z\$16.7 million. Since it is not known how this will be invested, it is impossible to estimate the magnitude of this return.

176

Finally, it should be noted that the policy reform benefit stream was estimated for only the five years of the expected liberalization effort; thus, the benefit stream does not reflect the continuing benefits after that time. Moreover, the policy reforms are clearly a first step forward toward a wider range of market reforms which are expected to yield additional positive returns. In a sense, the program is an investment toward a range of liberalization opportunities which extend well beyond the bounds of this initial adjustment. Without this commitment, the entire process of market reform could be postponed.

## Appendix 4

### COST OF INFORMAL MAIZE MILLING AND THE MARGINS AVAILABLE FOR DISTRIBUTION

Different mills are available locally and the costs used in this study are based on the popular "Hippo" mill powered by a 25 hp diesel engine and costing Z\$29 000. Allowing 10% for installation costs and other sundry expenses total outlay is taken to be Z\$32 000. The most favourable source of finance to fund new investment of this nature is provided by the Small Enterprises Development Corporations (SEDCO) :

minimum deposit	15%
repayment period (max)	4 years
interest (July 1991)	16%

According to the mill suppliers, a realistic output would be 8 x 90 kg bags of meal per hour (750 kg maize grain). Diesel consumption would be 5 litres per hour. Rural mills rarely operate at full capacity for extended periods. For purpose of this exercise, costs are based on an average 4 hours per day, 5 days per week i.e. 1000 hours per annum. Allowing for repairs and maintenance and the cost of a labourer to operate the mill, total annual cost will be:

	Z\$
Capital investment	32 000
15% deposit	4 800
	<hr/>
Sum to be financed (SEDCO)	27 200
4 years at 16% per annum	
repayment - per month	770
per annum	9 240
	<hr/>
Operating costs (1000 hours per annum)	
Diesel (5 l/hr at Z\$1.30/l)	6 500
Oils and lubricants (provision)	200
Repairs and maintenance (20% fuel costs)	1 300
Labour (Z\$150 per month)	1 800
	<hr/>
	9 800
	<hr/>
Total Annual Cost Recovery Required	19 040
	<hr/>
Breakeven milling charge per tonne of maize grain	Z\$ 25/t

Socio-Cultural Analysis

1. Introduction

Zimbabwe's economy has performed well by sub-Saharan Africa standards. For years, Zimbabwe has boasted of huge food surpluses, particularly white maize, the country's main staple cereal crop. However these food surpluses exist concomitantly with periodic and chronic hunger. Reports reveal that 30 percent of Zimbabwean children under 5 are still chronically malnourished. An important contributor to the this paradox is the one-channel grain marketing structure.

The goal of USAID's proposed grain marketing system reform program is to improve the welfare of rural consumers and producers by assisting the Government of Zimbabwe (GOZ) in moving grain marketing towards a competitive, lower cost private sector system resulting in lower consumer price and higher producer prices. The one year revised proposed reforms are:

1. GOZ formally establishes an autonomous Board of Directors at the Grain Marketing Board.
2. GOZ formally allows sale of grain from its depots to any buyer at whatever quantity is demanded greater than one bag and ensures that this information is disseminated to the public and GMB managers.
3. Cabinet formally approves the policy that any buyer is allowed to resell grain through any channel in Natural Regions IV and V.
4. Government formally allows grain to be sold at GMB collection points to any buyer and ensures this information is disseminated to the public and GMB managers.
5. Government formally establishes the terms of reference for a medium range strategy for liberalizing national grain markets and promoting the development of a strong, competitive private sector marketing system.

This report identifies the major socio-cultural constraints to achieving program goals, and considers the feasibility of moving towards a liberalized economy and prospects for private sector activity. Potential short- and long-term impacts of the reforms on beneficiary groups are presented. Recommendations for further action and potential for additional reforms are

discussed. Relevant features of Zimbabwe's culture and society which may affect the impact of the proposed reforms are contained in Attachment 1 to Annex C.

This analysis was conducted in July 1991 under the auspices of the Agricultural Marketing Improvement Strategies Project for USAID/Harare. Information was gleaned from documents and research reports, interviews with Government of Zimbabwe (GOZ) officials, parastatal representatives, private sector traders and millers as well as farmers and farmer's unions. Significant work has been conducted on this topic by T. S. Jayne in conjunction with the University of Zimbabwe/Michigan State University Food Security Project.

## 2. Beneficiaries of the Current Grain Marketing System

There are a number of groups benefiting from the current grain marketing system or who would be affected by proposed reforms in the system. The following summarizes how each group perceives the current system, and highlights their constraints and opportunities. A more detailed description of these groups is found in Attachment 1 to Annex C.

### a. Large Scale Commercial Farmers (LSCF)

Large Scale Commercial Farmers have long enjoyed a guaranteed market for their maize. Located close to GMB depots and railway lines, they have been able to sell grain to the parastatal with little cost or risk. The LSCF sector is not satisfied with the system claiming that producer prices, set by the GOZ, are too low to cover their input costs. They also feel that marketing regulations which force commercial farmers to sell to the GMB are too restrictive. Large scale maize growers are threatening to move to more profitable cash crops such as tobacco, an uncontrolled crop. The major issue for LSCF is producer prices.

### b. Indigenous Commercial Farmers

Indigenous commercial farmers have been allowed to enter the commercial sector only since Independence. Many of these farms were bought by black farmers who had either worked on the farm under a European owner or had adequate resources to purchase the farm. There are approximately 350 indigenous owned and operated commercial farms. These farmers operate along commercial lines but find it difficult to compete directly with the large scale commercial farmers due to resource constraints. While some are producing maize, they are shifting to more lucrative crops such as tobacco and livestock. The low producer price for maize is a disincentive for these farmers. They claim that they require financing to modernize and expand their operations.

c. Small Scale Commercial Farmers

Small scale commercial farmers, some of who have title to their land, enjoy little of the infrastructure supports that are in close proximity to the LSCF. Small scale commercial farmers are looking for better transport and credit facilities, so that they can compete with the larger commercial farms. Small scale farmers would choose to keep the GMB as the major actor in the marketing of maize, because it guarantees them a market.

d. Communal and Resettlement Farmers

Depending on the quality of land and rainfall levels, communal farms may sell to the GMB, produce enough maize for domestic consumption, or may need to purchase maize or processed maize meal.

e. Grain Surplus Areas:

In surplus areas of Mashonaland, Midlands and Manicaland, it is estimated that 40 - 80 percent of smallholders are maize sellers. Available evidence indicates that almost all of the marketed maize in these areas is sold to GMB, and that 20 - 35 percent of average household incomes comes from sales to the GMB. This situation however is not representative of the majority of communal farmers. Only 1 percent of the smallholder households (predominantly in the Mashonaland provinces) accounted for 42 percent of total GMB maize intake from the communal sector. The top 10 percent of smallholders selling grain accounted for about 90 percent of the total income accruing to the communal sector from GMB maize sales. The 15 communal lands consistently selling the most maize to GMB over time have all been in the Mashonaland provinces (Jayne). In these areas, the GMB producer price has a substantial effect on these households - more so than in any other region.

Many households in these regions trade grain locally among themselves; neighbor to neighbor transactions are the most common form by which deficit households in these areas buy grain. A change in the government controlled maize meal price would not affect them much because they do not buy maize meal - except during periods of major drought.

f. Grain Deficit Areas:

The majority of communal farmers however are not in grain surplus areas. Sixty percent of Zimbabwe's communal sector is located in NR IV and V, or 30 of the total population. Between 5 and 40 percent of these farm households are maize sellers (depending on location and quality of rainfall), but a proportionally larger share of the surplus in these areas is sold to deficit

neighbors. Production and supplies are very unstable, and are prone to severe drought.

Movement restrictions and resale restrictions limit the amount of grain in these areas during the months of Jan - May before maize is harvested. Restrictions on informal maize trade make households in these areas dependent on purchases of commercial maize meal, which is more expensive than locally milled (straight-run) maize meal. Household surveys indicate that commercial meal may comprise up to 90 percent of grain purchased in the drier smallholder areas. The loss of real cash income due to dependence on commercial maize meal rather than locally traded grain may be as high as 30 percent (Jayne).

Farmers in communal and resettlement areas are highly dependent on the current activities of the GMB. The communal farmer is satisfied with the GMB because this is often the only buyer available for significant quantities of grain. If a farmer has small quantities of grain available, he will commonly sell this to neighboring households or through the under-developed local market. Farmers would like to see an expansion of the number of GMB depots to ensure the opportunity to dispose of larger quantities of grain. The GMB also ensures a minimum price level in the event of a regional grain surplus. Since most farmers are far from the few GMB buying points located in semi-arid regions, transport costs are a major concern.

While realizing a profit in the surplus communal areas, the GMB consistently operates at a loss in the deficit communal areas. This cross-subsidy is a recognized social function of the GMB, but there is pressure to better target this subsidy.

g. Urban Consumers

In many countries, the political impact of structural adjustment is critically tied to its effect on the urban population. While there may be some political concern that the highly publicized food riots in Zambia would be duplicated in Zimbabwe, it is highly unlikely. The structural adjustment program in Zimbabwe has broad support and the price of maize meal has already been increased by 30 percent in the past year without incidence. With a daily diet of sadza, most low-income urban consumers are dependent on commercially milled maize, whatever the price.

Upper and middle class consumers prefer highly refined commercially milled maize meal. However, over 35 percent of the low-income groups interviewed stated that they would switch if straight-run meal were 18 percent cheaper than the more refined roller meal (Jayne). To the extent that the cheaper, more nutritious straight run and hammer milled maize are acceptable to lower income urban dwellers, a targetted benefit is achieved with increased availability of these commodities.

182

**h. Rural Low-Income Consumers**

Most rural low-income consumers are in grain deficit areas. Grain is often available for small scale milling for up to 3 - 4 months after the end of the harvest. After that time, many low-income rural consumers regularly purchase maize meal from the local stores. Due to the single-channel nature of the GMB system, rural consumers often purchase maize meal which has been milled in Harare, and then sent back out to the rural area. The major problem with the current system for the rural consumer is the high cost of processed maize meal, and the unavailability of maize.

Laborers on commercial farms are particularly vulnerable to the high cost of commercially milled maize meal. Usually landless, illiterate, low-skilled workers, farm laborers receive poor wages and are often dependent on the limited infrastructure provided by the commercial farmer.

**i. Approved Buyers (AB)**

The GMB Approved Buyer is authorized to purchase controlled crops from farmers at approved prices and to transport them for sale to a GMB depot. Many farmers deliver to ABs rather than the GMB depot because of the advantage of receiving an immediate cash payment. Despite the advantages of dealing with the AB, there is an ambivalence towards the ABs in official circles. While their usefulness is almost universally recognized, there is a belief that they do not always apply official prices and may under-grade farmer's crops (Food Study Group, 1990).

Prices offered by these traders are reported to be well below the official prices offered by the GMB, as would be expected given severe transport difficulties in isolated areas and the lack of alternative outlets. Unregistered buyers, despite offering the only service accessible to many farmers, are officially discouraged and given to support to improve their operations (Food Study Group, 1990).

Approved Buyers would benefit from the relaxation of movement controls on maize crops. They already have the capacity to trade grain and are often the owners of transportation and local shops. If buyers are allowed to buy from any seller and sell to anyone, then transportation costs of moving grain would be less and the incentives for the private trading would increase. AB's frequently sell at a price higher than the official margin allowed by GMB. One explanation is that Approved Buyers face transportation constraints that are not completely factored into the official selling price; their higher prices are needed to cover their operating costs. In addition, Approved Buyers tend to pay for produce in kind with lines of credit for purchases from their shops. This reflects their severe capital constraints -- constraints which inhibit grain trade and storage.

**j. Private Traders**

In comparison to most African countries, there is relatively little private grain trading. However, there are cases where traders have purchased surplus grain from households and transported it short distances. Evidence suggests that there are also traders who are not GMB Approved Buyers. Under existing conditions, their trading is not illegal provided they buy at officially-stipulated prices, and that they do not sell controlled crops to the GMB, or move outside of a zoned area. There is considerable confusion over the regulations governing grain trade (Jayne).

It has been reported that during peak buying periods (June- August) some rural stores have grain stacked on the premises, although they usually claim it is from their own production rather than a result of trading. There may also be mobile traders who travel from village to village (Food Study Group, 1990).

Reforms to introduce more competition into the system of private grain trading would challenge the ABs current monopsony.

**k. Commercial Millers**

The urban millers have been the major beneficiary of the grain marketing system for several decades. Comfortable margins and a strong urban and rural demand have allowed them to operate with few constraints. Milling company representatives have stated that they would prefer contracting directly with the commercial farmers rather than being forced to buy from the GMB. A full description of the commercial milling sector is in the Institutional Analysis.

**1. Informal Sector Millers**

The bulk of maize consumed in rural areas is milled by the informal sector. The cost of milling grain informally is well below the cost of industrially milled maize. Some households cannot afford even the local milling and are forced pound the maize manually. In most areas, the local mill is utilized whenever funds permit.

Often owned by local businessmen, informal mills (hammer mills or diesel mills) usually operate in villages or small towns. Usually open daily, the miller produces straight-run maize meal for local residents who bring their own maize for processing. The miller charges a fee for the service (usually Z\$1 per 15-17 kg tin). Regional variations exist regarding the viability of the miller processing maize and selling it in bags, similar to the highly refined commercial maize meal. In small towns or growth points, there may be

residents who even with a price differential will prefer to consume the roller meal rather than straight-run. However, millers in more rural areas expressed an interest in processing straight-run maize meal. In a drought year, rural millers may experience a sharp drop in throughput, due to a shortage of available maize.

The local milling sector benefits from the availability of maize in the rural areas. The major constraint faced by small scale millers is the initial capital investment and a steady supply of maize in the rural areas. Most hammermill operators felt the milling enterprise was a profitable venture.

#### m. Transporters

There is a full spectrum of transporters involved in the marketing system. Commercial transport companies work either under contract with GMB or commercial farmers to transport grain in bulk from collection points, depots and to millers. Independent transporters will also carry grain from farms to GMB depots, charging a fee to the producers. In some districts, rates have been negotiated in conjunction with the GMB depot, local police, transport associations and producer associations. At the lower end of the transportation scale, ox-driven scotch carts are either used for private transport of grain to grain collection sites or they are rented out to neighbors for transport of grain. The major complaints of the transport sector is the limited number of vehicles, spare parts and poor roads.

### 3. Development of a Liberalized Marketing System: Constraints and Opportunities for Change

While no cultural practices or traditions preclude the development of a liberalized economy, historical events, government welfare programs and traditional gender distinctions shape attitudes and perceptions which may inhibit the expansion of the private sector.

#### 3.1 Negative Perception of the Private Sector

In response to the unbalanced development of the agricultural sector under colonial rule, the advent of Independence stressed equity and social welfare. The government's role was to "level the playing field" for the smallholder farmer, providing access to markets and at the same time protecting the low income consumer. Government regulation was seen as the protecting hand - large scale commercial businessmen would not be allowed to exploit the poor rural peasant who was at the mercy of the trader for goods and services. This government protectionism and regulation dominated the system even before Independence and people have overtime come to accept the notion of the "exploitative trader".

Similarly, village milling has traditionally been viewed as a service to the community. It is believed that a local miller is there to provide a service and should not be profiting from the community's need for milled maize.

It could be interpreted that it has been in the government's interest to be seen as "protecting" the poor from the "exploitative private trader". By reinforcing the negative aspects of private traders, public servants could enhance their position vis-a-vis their constituents.

#### Feasibility for Change:

While negative sentiments of the "private trader" have been ingrained in the rural psyche, it is reasonable to assume that views within the government and the public sector at large regarding the exploitative nature of traders will change sufficiently to accommodate the reform steps proposed. While people often express discontent with "exploitative" traders, they also see that the government cannot provide all goods and services to the public in a timely fashion. In most cases, the rural poor will pay the price requested by the private trader because they feel they have no choice.

There is already substantial discussion within the government on the subject of increased private sector participation, and the majority political party ZANU, supports the structural adjustment program overall. The opposition party, ZUM, has not presented an agenda to counter the SAP agenda. The only organized political opposition could come from trade unions which fear retrenchment.

In addition to the official outlook on private sector trade, Zimbabwe has the basic infrastructure for changing these perceptions. High education levels and good information systems (newspapers, radio, and television) give people access to new ideas and concepts. Interviews with farmers (both men and women) indicated that they understand the nature and value of entrepreneurs and competition. While there is a conceptual understanding, there still be concerns that there will not be enough competition to actually lower prices. As Tom Jayne points out, the magnitude of response by the private sector to these policy changes is unknown.

#### 3.2 Drought Relief versus Private Grain Trade

Since its initiation in 1982, the Drought Relief Program has been one of the largest buyers of maize from the GMB. The criteria for Drought Relief is sufficiently broad so that a number of rural people are eligible for the food aid. In relation to the proposed grain marketing reforms, informal trade may be discouraged from developing when grain is available through relief

programs. Thus, drought relief may well prove a disincentive for a rural private trader to move grain from surplus to deficit areas. On the other hand, drought relief distribution has been difficult to maintain on a timely and consistent basis to areas of need. Food relief often arrives late and in smaller quantities than are required. The development of local markets encouraging grain movements from surplus to deficit areas may offset these constraints.

Feasibility for Change:

There are moves in the Government to reduce drought relief programs. Realizing that subsidies and welfare programs must be targeted to the most needy, the Government is assessing the impacts of the Drought Relief Program. Another year of drought however could severely restrict the government's ability to pull away from direct food aid programs.

While most feel that drought relief is essential, there are critics of the program. Some feel it is creating dependency and that farmers are not producing as much because of the promise of free grain. The drought relief program has become highly politicized evidenced by the fact that a number of non-deficit provincial areas receive aid. Every year the program has exceeded its initial budget allocation and additional resources have been extended. The main criticism is that drought relief is not improving the agricultural capacity in the communal areas. While there have been proposals to support public works programs instead of drought relief, budgetary constraints have hampered those efforts.

In general it is felt that people would prefer to receive cash than maize. Especially as more rural cost-recovery programs are instituted in rural areas (for health and education), rural households will need money to cover additional costs. While the current program is a food-for-work program, the shift to a public works-cash payment program is seen as a way of encouraging people to be productive and to improve the marketing infrastructure for communal areas.

Government will continue its role as the guardian of social welfare. These policy reforms will not take the place of targeted assistance programs like the drought relief or food for work programs. Single parent families and people beyond working age would still require direct assistance. However if there is a critical mass of private traders and the private informal grain trade becomes truly competitive, there may be less need for such programs.

### 3.3 Women's Roles and Responsibilities Versus Access to Resources

When addressing issues of small producers, it is actually women who should be dealt with, as 75 percent of the farmers in the communal areas are women. Along with being housewives, mothers, and agricultural laborers, women are also farm managers. At GMB depots visited, women brought their grain to be sold along side men. Women waited on the side of the road and negotiated with truckers to have their grain delivered to the depot. Some women are also farm managers - if resources permit, some women hire farm laborers to work their fields.

Yet, research shows that it is typically men who take the main decisions on the "cash crop" fields, while women take main responsibility for the smaller fields. At the same time it is the women who perform the bulk of the labor intensive tasks on all the fields.

#### Feasibility for Change:

In traditional Zimbabwean cultures, it is unwise and awkward for a woman to work closely with a man other than her husband or relative. In many cases, this situation is perceived to be disrespectful. She needs her husband's approval to attend a meeting which is dominated by men. In an interview with the NFAZ, it was mentioned that while women make up the majority of the members at the village level, they rarely take leadership positions at the district or provincial level. While the union was promoting leadership training for women, this perception of women as followers and not leaders is a major social constraint. Men and women must change their attitudes about participation in these activities.

Women in rural areas are in one way or another organized in groups. However, most of these groups tend to revolve around traditional women's activities (crocheting, sewing, baking, etc.) and not around farming. Women who do form farm groups use them to access technical farm information.

Recognizing that women farmers have special extension and credit needs, it is strongly discouraged that a special women's department be established. Extension services should be "female focussed" because the majority of the farmers in communal and resettlement areas are women, not because they are a "special case". It is essential for women to be involved in the planning, design and implementation of any project which deals with rural people.

Legally, substantial progress has been made in women's rights. However, socio-cultural constraints still dominate the realm of women's activities. It is safe to assume that women will continue to function in their farming roles and that changes in this area will evolve gradually.

188

### 3.4 Urban versus Rural

The government is currently establishing a social fund which is mandated to mitigate the negative effects of the structural adjustment program on vulnerable. This fund will provide assistance to targeted groups by 1) offsetting costs (e.g. school and health care fees), 2) encouragement of employment creation through special projects, and 3) training efforts (retraining for retrenched workers). Some people have expressed concern that the bulk of the benefits from this fund will go to urban populations, leaving the rural populations still at significant risk.

Several targeted subsidy schemes are currently being discussed: food stamps, public works programs and direct subsidies on straight-run maize meal. Some programs in effect benefit one group more than another. Given that the historic power base rests in the rural areas, ultimate distribution of benefits could be a critical factor in determining the effectiveness of the Social Fund and the overall viability of the structural adjustment program.

#### Feasibility for Change:

While the Social Fund Committee constitution is currently being finalized, it is apparent that they will have primary responsibility for assisting vulnerable groups during this reform process. One issue still being resolved is how the Fund will be administered; some members of the Fund are arguing that each Ministry should be able to access the Fund's resources when it is applicable to their Ministry. Questions of influence and control could affect which kinds of projects and subsidies are administered.

Preliminary discussions focused on two types of subsidy programs: food stamps for urban poor and food for work or public works programs for rural poor. This two pronged approach is being reconsidered however, because it is considered to provide free food for urban people while the rural poor would have to work for it. By virtue of their reconsideration of this approach, it is likely that a concerted effort will be made to relieve any urban/rural biases.

Furthermore, the Fund is committed to moving away from direct food aid programs and to institute public works programs which would provide incentive for private traders to make food more available. The Fund is concerned with being consistent with overall GOZ economic growth objectives. While the Fund will draw its resource base from GOZ budget and anticipated savings, it will also depend heavily on donor (World Bank and ADB) support.

#### 4. Social Impact Analysis

By allowing grain to move more freely within NR IV and V, there will be advantages to several groups. In the short-term (1-2 years) there are no anticipated negative impacts. However, there may be a time lag in the gazetting of the policy changes and the entrance of new private sector participants into the system, which could lead to economic hardship to vulnerable groups if the government were to severely curtail their aid programs before the private sector response is more apparent.

##### 4.1 Short-Term Impacts

Table 1 summarizes the short run impacts of the five policy reforms. To highlight the winners in the short term will be:

- a. Low-income urban consumers - increased availability of straight-run maize meal should result because of the increased number of small millers operating. In addition, targeted subsidy programs are being considered to mitigate the impact of structural adjustment on the urban poor. Consumption of straight-run meal should improve nutrition levels.
- b. Rural and semi-rural consumers in deficit areas - both economic and nutritional benefits should accrue to the rural poor as more maize becomes available for locally milling. Impact may be limited if there is not sufficient surplus grain in the decontrolled (NR IV and V) areas, due to the fact that very little grain will be allowed to enter deficit areas.
- c. Laborers on commercial farms - The lower cost of locally milled maize meal should be passed on to commercial farm labor. If cheaper, locally milled maize meal becomes available and sold close to their homes, the commercial farm worker may be able to increase their real income by consuming less expensive maize meal.
- d. Small industrial and informal millers - Removing the monopsony power of the five major urban millers will allow the smaller scale mills to process more locally milled maize meal. The lower cost of straight-run maize meal in the rural areas will increase demand for local milling.
- e. Private traders and transporters - Economic estimates show that in the short run that transport costs will be reduced due to the increased availability of maize in rural areas. By allowing private traders to operate officially, traders will have more incentives to move grain locally.

It must be noted that these groups will only be able to take advantage of the policy environment if credit, training and transportation issues are addressed at the same time.

#### 4.2 Longer-Term Impacts

Table II summarizes the anticipated impacts over a 2 - 5 year time frame. In the long-term benefits will continue to accrue to those identified in the short-term. Additional winners will be to the communal and small scale commercial farmers who may be receiving a higher producer price from traders than the GMB. The GMB will continue to be a residual buyer, so the negative impacts will be mitigated. The only negative impact may be on the established commercial millers who may lose market share over the long run, as more informal millers come into operation and compete with the established commercial millers. However, it is not clear if there may be even this negative impact. Commercial millers are currently cross-subsidizing sales in outlying areas with the profits from sales in urban areas. They are probably also cross-subsidizing roller meal returns with high returns from super-refined meal. If they sell less in outlying areas, less cross-subsidy will be necessary and urban meal prices could even decline.

#### 5. Considerations for Further Policy Reform

With the proposed reforms, significant progress has been made in the area of relaxing controls and encouraging the private sector in grain marketing, the next steps to moving towards a competitive, liberalized economy may be more difficult. While the progress to date gives a sound basis for optimism, it is important to recognize that future reforms are likely to face more social opposition than those proposed to date.

##### 5.1 Decontrol of Marketing Zones

Future reforms may point to the removal of movement restrictions from Zones A and B. In the Herald, July 28, 1991, a discussion of agricultural policy reforms, communal farmers expressed discontent with the commercial farm sector's desire to shift to a free market and making all areas one zone. The article said ". . . small scale farmers say that a free market might mean going back to the exploitative era when Africans were forced to sell their produce to commercial farms. Orderly marketing must remain in place". A significant socio-cultural obstacle would need to be overcome to make a change in this direction.

Intricately linked with movement decontrols is the need for regional price differentials. Reforms in this area would likely strike a bad note with many of the rural population, as their transportation and infrastructure

constraints would then reduce the producer price. Politicians and GOZ officials would most likely move very slowly in this area due to the social and political implications.

### 5.2 Land Redistribution Issues

While it appears that any major land redistribution legislation may be debated and held in Parliament for quite awhile, the land distribution issue will remain important. Women's ability to increase their agricultural potential is directly related to land ownership. While the Government has accepted women's applications for resettlement land, it is unclear whether or not they will be allocated land when the time comes.

In the GOZ Framework for Economic Policy Reform, it states that the GOZ intends to resettle an additional 110,000 indigenous families on as much as 5 million ha LSCF land. It states that the GOZ will "distribute land to landless rural people, without a decline in agricultural productivity". This will be done by giving land to properly trained small scale farmers and by instituting a land tax system to discourage underutilization of land. While it may be true that some of the large scale farms are not cost effective relative to their size, and there may be some land held for speculation, it may be incorrect to assume that farms can be resettled without a loss to agricultural productivity. Further analysis must be done to assess the most viable size and operation for the farm sector.

### 5.3 Increased Income - Increased Welfare

The extent to which cash incomes actually go toward daily food requirements is a legitimate question. Non-essential commodities such as beer and cigarettes may constitute a significant portion of a household's expenditures. Food stamp programs are considered positive in the sense that they encourage people to purchase a "food basket". It should be recognized, however, that increased income or resources may not necessarily result in improved nutrition. For example, when people were surveyed regarding their preferred type of maize meal, there was a correlation between income and a preference for super refined maize meal. This product is less nutritious than the straight-run meal. While other nutritious foods may be consumed in the higher income groups, the increase in income may not necessarily mean improved diet.

## 6. Recommended Actions

### 6.1 Process Approach Should be Taken.

The social dimensions of these reforms require that the government is viewed at the "owner" of these reforms. If the private sector is not able to respond to the improved policy environment as quickly as hoped, there could be social and political reaction against further reforms. If the government reiterates its commitment to the program, there will be more chance of success.

To build local confidence and acceptance of private trade, the GOZ should be supported in developing a public relations policy. While a successful private sector response to the relaxing of restriction will be the ultimate confidence builder, a clear, consistent message from the government could only serve to support the program.

### 6.2 Assertive Actions to Support Infrastructure Requirements

Most importantly, Government should make a concerted effort to support the development of and expansion of a competitive system of rural grain trading and processing institutions. In addition to development of an attractive policy and regulatory enabling environment, key areas for government intervention are: rural infrastructure, foreign exchange allocation for vehicles and spare parts, and targetted credit through small enterprise development organizations that are within the Government's control.

### 6.3 Women's Participation in Farming

Women are integrally involved in household to household trading and in the rural trade of vegetables. Opportunities for expanding these functions need further investigation.

## Relevant Societal Features Affecting the Current Grain Marketing System

### 1. Introduction

Zimbabwe has a highly efficient agricultural sector. In normal rainfall years, it is self-sufficient in food production as well as producing substantial amounts of tobacco, cotton, sugar, maize and meat for export. In the past, stock reserves of grain could make up for any deficits caused by a drought year. In addition, Zimbabwe is viewed as the major source of food stuffs for the Southern Africa region. The growing importance of Zimbabwe as a regional food supplier is apparent from the fact that in recent years considerable quantities of maize have been transferred to neighboring countries as part of "triangular transactions". (Eurostat, 1990). Zimbabwe's agricultural sector is highly diversified, producing for both domestic and export markets.

To understand the nature of the current grain marketing system and the constraints to reforming the system, it is important to consider how the system was developed. Pre colonial economy in Zimbabwe was largely agrarian based and characterized by shifting cultivation. There was limited commercialization of the economy, although there was internal and external trade largely conducted through a barter system. (de Valk).

#### 1.1 Historical Development of the Grain Marketing System

The colonial economy reflected the dichotomy between planning for European settlers and of the other African people. In agriculture, the state supported European commercial agriculture, promoting the development of a settler-dominated, capitalist economy. It was "free enterprise" to the settler and the state ensured their success in all sectors of the economy, by providing the necessary infrastructure and subsidies. Under this setting, urban centers featured predominantly while poor allocations of resources to rural areas accelerated their rapid economic decline.

In response to international sanctions in 1965, the Unilateral Declaration of Independence (UDI) was declared which stressed a strategy of import-substitution by the government and reinforced the states' central role in running the economy (determining the use of foreign exchange, procurement of essential raw materials and giving incentives to the local private sector to develop).

During this period, there were more than 6,000 commercial farms, which produced 90 percent of the marketed maize, as well as cotton, tobacco and other exports. They employed a labor force of 336,000 in 1974 - most of them

permanent. Only 3 percent of the total land was ever cultivated, although a higher percentage of the arable land was used (between 20 and 40 percent of arable land). In the late 20s and 30s the survival of commercial farms in Zimbabwe were in jeopardy. The passing of the Maize Control Act and the establishment of the Maize Control Board (later to become the Grain Marketing Board in 1950) initiated the high degree of regulation which has been characteristic of the maize industry ever since.

Even more than urban protests of poor living conditions and segregation, political protest and ultimately the guerrilla warfare was a result of rural discontent. Largely an issue of limited access to land and thus prospects for agricultural production, the rural population's reaction proved to be the foundation for the Independence.

After Independence, GOZ commitment to planning was geared to removing the imbalances, particularly as reflected in the underdeveloped rural areas. The overall Government development goal was to move towards a socialist and egalitarian society based on democratic principles. In regards to grain marketing at this stage, the objectives of government policies were to: a) increase income growth among rural smallholders; b) ensure food security, with particular attention to the urban and rural poor; and c) minimize budgetary losses arising from government marketing and pricing operations. (Jayne, May 1991). The number of producers registered with the GMB rose from 28,160 in 1979 to 490,000 in 1989; the increase mainly owing to the increase in communal farmers access to GMB depots (FSG, 1990).

Facing increasing economic pressures, the GOZ has embarked on a structural adjustment program. The fundamental objective of the plan is to improve the living conditions, especially for the poorest groups, increasing incomes, and reducing unemployment through economic growth. It calls for a more competitive and productive society; regulations will be removed and market forces will be allowed to play a more decisive role. At the same time, steps will be taken to alleviate the transitional hardships experience by the most vulnerable groups.

In relation to grain marketing reform, the GOZ has stated that the GMB will follow commercial business principles, promote private marketing channels, and review the implications of further reforms such as relaxing movement and price controls.

Severe droughts since 1982 have led the government to intervene in rural areas with the Drought Relief Program to supply food for food deficit households. Grassroots in organization, the requests for relief are made at the village level and passed upward through District, Provincial and then the National Council for allocations. The Drought Relief Aid Program purchases maize from the GMB; it is the largest buyer from the GMB in many of the communal area GMB depots.

## 2. The Environment: Geography and Population

Zimbabwe's agricultural sector is heavily influenced by its differing agro-ecological zones and land distribution patterns. Historical events led to the development of a dual system of agriculture, one commercial and the other communal or subsistence. This has contributed significantly to the current socio-cultural attitudes and beliefs.

### 2.1 Geographical Distinctions

Zimbabwe has been divided into five agro-ecological zones called "natural regions" (NR) which are distinguished primarily by quantity and variability of average rainfall.

Natural Region I - This includes the administrative regions of Manicaland and the eastern section of Mashonaland. Average rainfall in NR I is greater than 900 mm per year, with some areas in NR I receiving over 1,500 mm per year. With its high elevations, low temperatures and good rainfall, this region is well suited to tea, coffee, fruit and forest crops, and to intensive livestock production. Only 2 percent of the total land in Zimbabwe is classified in NR I.

Natural Region II - Administrative regions included in NR II are Mashonaland (East Central and West) and part of the Midlands. The primary intensive farming area in the country, NR II accounts for 15 percent of the total land area. This region averages rainfall of 750 - 1,000 mm annually. Primary crops in NR II are maize, tobacco, cotton and other grains. NR II produces 80 - 90 percent of marketed maize. In addition, NR II is well suited to intensive livestock production. On irrigated lands, winter wheat is also grown. The capital city, Harare is located in NR II.

Natural Region III - The majority of Midlands and part of the Masvingo and Manicaland. NR III accounts for 19 percent of the total land area. It is best suited for semi-intensive crop and livestock production. Average rainfall is 650 - 800 mm annually.

Natural Region IV - Matabeleland North and the northern tips of Mashonaland West, Central and East. These areas receive 450 - 600 mm of rainfall annually, but the variability of rain is quite high. Best suited for drought resistant crops, such as millet and sorghum, NR IV can also support semi-extensive livestock production.

Natural Region V - Matabeleland South and Northern tip of Matabeleland North and Mashonaland West. This region is made up of the hot and dry regions of the Zambezi and Sabi-Limpopo river basins. With erratic rainfall if any at all, this region is suited only for extensive livestock production. Combined NR IV and V make up 65 percent of the total national land area.

## 2.2 Urban/Rural Settlement Patterns

There are two main urban centers in Zimbabwe, Harare and Bulawayo. The capital city, Harare, is the largest city with 681,000 inhabitants (1983). The metropolitan area as a whole contains an official urban population of around 900,000. Bulawayo is located in the southwestern part of the country with 429,000 inhabitants. Bulawayo is an industrial center and the headquarters for the national railroad. In 1989, only 27 percent of the population were living in urban areas and more than half of the urban population is found in the two major cities, Harare and Bulawayo.

## 2.3 Population and Ethnic Diversity

Although national and international population estimates vary, national estimates as of 1987 were 8.6 million inhabitants and a density of 23 persons per square km. This figure was revised by the Central Statistics Office in 1989, estimating the total population to be 9.122 million. The United Nations Population division estimates are significantly higher, with a 1989 estimate total population estimate of 10.137 million. The annual growth rate, 3.5 percent, is among the highest in Africa. Projections for 2000 estimate a total population of 14,730 million (Stoneman).

Populations trends are particularly disturbing when compared to food production trends. Due to unpredictable rains and a higher incidence of drought over the past 20 years, current food production increases cannot keep pace with population growth trends.

### 2.3.1 Shona -

The Shona make up approximately 77 percent of the indigenous population. They are dominant in all areas except the south-western section of Zimbabwe. The area now known as Zimbabwe was originally settled by Bantu iron-working agriculturalists. There are a number of different dialects, however, most Shona understand all of them since they differ mainly in accent and selected words.

### 2.3.2 Ndebele

Ndebele are the second largest indigenous population with 17 percent of the African population. They live mostly in the south-western areas of Zimbabwe. Ndebele were primarily pastoralist. At the time of independence and struggles between the ZANU and ZAPU political parties, there was some ethnic strife; ZAPU support came mainly from the Ndebele, and the linguistically related Kalanga. Though not formed along ethnic lines, the Ndebele came to predominate the ZAPU party while the Shona predominated ZANU.

### 2.3.3 Europeans, Colored and Asians

Prior to Independence, the European settlers in Zimbabwe represented roughly 4.5 percent of the population. Since Independence in 1980, the European population has reduced to 2 percent. In addition to the main indigenous and European populations, .3 percent of the population are "colored" and .1 percent are Asian, primarily from India.

### 2.3.4 Immigrants

Due to the civil war in Mozambique and economic hardship in neighboring countries such as Malawi and Zambia, there has been a steady flow of immigrants and refugees entering Zimbabwe. In 1988, it was estimated that there were 135,000 Mozambiquan refugees in Zimbabwe (UN High Commissioner for Refugees). In general, refugees are unskilled workers and have become seasonal farm laborers on large scale commercial farms. Living in makeshift settlements on the edge of the commercial farms, immigrants and refugees are among the poorest people currently in Zimbabwe.

## 2.4 Land Distribution Patterns

There are four distinct types of land holdings in Zimbabwe: large scale commercial farms, small scale commercial farms, communal and resettlement areas.

### 2.4.1 Commercial Farming Areas

Agriculturally productive areas were formally divided into large scale, primarily European owned, commercial farm areas through the Land Tenure Act. These farms were predominantly situated in the eastern and north-eastern areas of the country, i.e. in those regions with good rainfall and favorable agro-ecological conditions. The Act reserved about half of the country for Europeans. While the Act was repealed in 1979, to this day, some 34 percent of the total area outside parks and forestry are zoned as commercial farms.

### 2.4.2 Communal Areas

Before Independence, the traditional authority, in the form of local chiefs and headmen, prevailed as the central process of resource allocation. "Tribal Trust Lands" or "reserves" were distributed according to the traditional authority. The major tribes in Zimbabwe are highly patriarchal and thus land rights rested with men. When a man would marry, chiefs would allocate land for cultivation purposes to the newly formed "household". The woman became a part of the husband's family and she had access to land only if her husband gave her usufruct rights over a specific piece of land. After Independence,

the Tribal Trust Lands were called Communal Areas (CA). Rather than the traditional authority, post-Independence authority shifted to local committees for land allocation. The chief and headmen in some rural areas still play a significant role in land allocation. Most of the land in the communal areas is divided into small pieces. The size of household plots vary: sizes range from slightly less than 1.2 hectares to around 4 hectares. Only 13 percent of the population in communal lands have more than 3.6 hectares. Sixty percent of Zimbabwe's communal sector population, about 30 percent of the total population, lives in regions IV and V.

#### 2.4.3 Resettlement Area

The GOZ embarked on a land reallocation program after Independence to reduce land pressures and resources in the communal areas. In compliance with the Lancaster House Constitution, the GOZ could only resettle areas which were voluntarily offered for sale to the government. Since 1980, around 3 million hectares of former white farmlands have been acquired for the resettlement program for African farmers. The goal of the resettlement program was to resettle approximately 162,000 families from the communal areas by mid-1985. This has not been achieved however; GOZ estimates that approximately 52,000 black families (over 250,000 people) had been resettled on former commercial farmland by mid-1989. The costs of resettlement are high (estimates for resettling one family currently are Zimbabwe \$10,000) due to the requisite provision of infrastructure in these areas. There are four models for resettlement patterns (Models A-D), which range from small plots of private land going to one family, and cooperative farms to combined cooperative and private farms. People in the 25 to 50 age group are preferred for resettlement. Wage earners are not eligible for the resettlement program. Although women can obtain land rights through the resettlement program, there are few cases of women being granted sole rights to the land. It is the norm for permit forms to be made out in the name of the husband. Married women are seldom found to be permit holders, and only 7 percent of the permits have been given to divorced, widowed or single parents. (Zwart, June 1990).

### 3. Characteristics of the major farming sectors and the grain marketing system

Zimbabwe's agricultural system can still be characterized as dualistic. On the one hand, the sector is made up of large-scale farms, and on the other hand, smallholdings worked by rural indigenous peasant population. The maize marketing system consists of the producers, traders, transporters, and millers. For regulating marketing, two production zones (A and B) have been established. Zone A encompasses all commercial farming areas and urban areas, and includes resettlement areas of former commercial farms. Zone B includes all communal farms.

### 3.1 Large Scale Commercial Farms (LSCF)

The average farm size in the large scale farm sector is approximately 3,000 ha. The largest farms are extensive large-scale cattle ranches farms, some of them occupying more than 100,000 ha. Prior to Independence, there were some 6,700 large commercial farms. Whites, representing only 5 percent of the population, possessed around 50 percent of the better farm land, and produced 90 percent of the marketed maize. During and after the Independence struggle, the number of white commercial farms dropped to 4,700 farms, but white commercial farmers still own over 12 million hectares, or 32 percent of the total land area. Some of these farms use sophisticated techniques and equipment - overhead irrigation, combine harvesters for wheat, flue-curing barns for tobacco, specialist market gardening and vineyards, tea and sugar plantations, factories, and truck fleets. These sophisticated techniques require high cost imported inputs.

Until 1980, the commercial farms enjoyed a virtual monopoly in the use of improved types of seeds, artificial fertilizers and chemicals, and access to agricultural extension services and credit. In 1979, about 98 percent of short term credit provided by the Agricultural Finance Corporation (AFC) went to white large-scale farmers. Starting in the early 80s, the proportion of AFC credit shifted to the majority of credit going to small communal farmers. Represented by The Commercial Farmers Union (CFU), the large scale farmers participation in white maize production is viewed as important to national and regional food security goals, export earnings and employment. The CFU is a powerful lobby which has enjoyed significant influence in the determination of grain pricing and production policies. The LSCF sector has a strong market orientation and they shift their production based on marketed output.

Over the past decade some black farmers have bought white commercial farms. The Indigenous Commercial Farmers Association, which was formally constituted in 1990 now has 350 farm members. The size of their farms range from 100 to 2,000 ha. Their operations are less capital intensive than the large white farms, but they too run sophisticated operations, producing tobacco, maize, horticultural products, livestock, and fisheries.

### 3.2 Small Scale Commercial Farms

Former purchase areas were sold or leased to small scale, primarily black, commercial farmers after Independence. Now numbering approximately 10,000 farmers in number, the farms range in size from between 100 ha and 200 ha., and are engaged in intensive agriculture. These farms occupy a total area of 1,420 million ha. with an average size holding of 125 ha. (about 4 percent of total area outside of parks and forests). The small scale commercial farmers have received government assistance with credit and extension services, but their farms are still largely undercapitalized. Represented by the Zimbabwe

National Farmers Union (ZNFU), this group has had difficulties in management of their farms and their group has recently merged with the National Farmers Association of Zimbabwe. (NFAZ). Seventy-five percent of these farms are in NR II and III (19 percent are in NRs I and II).

### 3.3 Communal Areas

The communal lands (formerly called Tribal Trust Lands) are inhabited by more than 60 percent of the national population. Communal farmers do not have private ownership of the land. The land worked by them is "tribal" property and is made available to the farmers while it is being cultivated. The expansion of GMB infrastructure into the communal lands was a major pillar of post-Independence policy to promote income growth among smallholders.

Women comprise 75 percent of total farm labor in communal areas. While some regional variation exists, a typical farm system in Zimbabwe's rural area consists of one or two fields (1-2 hectares) set aside for a cash crop (maize, cotton or sunflower) which receives the benefit of ox-ploughing, hybrid seed, fertilizer application, as well as more intensive management (i.e. weeding etc.). Women's plots tend to be smaller fields and provide sufficient production to meet subsistence needs. A garden may be situated in a marshy area where vegetables for home consumption and informal trading are grown. Apart from cotton and sunflower, most crops farmed by women serve as both food and cash crops. (Zwart, 1990).

Survey results have shown that negligible proportion of farmers planting crops did so with the sole aim of selling the output. A substantial proportion planted on Communal Area land is intended for domestic consumption and most is planted with the combined aims of retention for domestic use and of sale to market (Food Study Group, 1990).

High population density and the semi-arid quality of the communal areas cause problems of over-cultivation and many pasture areas are over grazed. Historically, the communal area populace was considered to be either food surplus or self-sufficient, producing enough grain for subsistence. However, a large proportion of smallholders in the drier communal lands sell no grain, and rely on the market to purchase grains. Jayne reports that in any given year, up to X percent of households are net purchasers of grain (Jayne, July 1990).

The National Farmers Association of Zimbabwe (NFAZ) represents the communal farmers interests. While a considerable political force, communal farmers in general have not been able to compete with the commercial farmers because of the lack of infrastructure and access to credit in communal areas.

### 3.4 Resettlement Areas

The typical farm family in resettlement areas has 5 ha for farming, a residential property in the village and common land with grazing rights. GOZ estimates that 50,000 black families were resettled on former commercial farmland by mid-1989. Legislation is currently being considered for further resettlement plans, however, it seems unlikely any major shift will take place given current budgetary and investment constraints.

### 3.5 Approved Buyers

An Approved Buyer is a private individual or company authorized by the GMB to purchase controlled crops from farmers at approved prices and to transport them for sale to a GMB depot. Buyers vary from single individuals, often established traders, to large companies with more than one buying location. ABs perform a number of functions for the GMB:

- They pay cash to farmers for their grain (rather than waiting for checks to come from the GMB)
- They do not require farmers to present crops in high-quality bags, a constraint for farmers unable to finance bag purchase during the post-harvest period.
- They undertake bulking and grading for small individual consignments of crops.
- They in effect the density of buying points, through extending the outreach of GMB depots.

The number of registered ABs has remained fairly constant, between 270 and 242, over the past 10 years. However, not all ABs are active. ABs are selected by the GMB on the basis of applications made, using the following criteria:

- ownership of storage facilities
- \$10,000 credit at a commercial bank
- a record of integrity
- ownership of means of transport
- ownership of an assized scale
- competence in crop grading.

ABs are allowed a margin of 4 percent of the value of the crop, plus \$0.02 per bag per km for transport to the GMB depot. It has been documented that the operating costs of ABs are higher than the official margin allowed by GMB.

202

### 3.6 Transporters

There is a full spectrum of transporters involved in the grain marketing system. Commercial transport companies work either under contract with GMB or commercial farmers to transport grain in bulk from collection points, depots and to millers. Independent transporters will also carry grain from farms to GMB depots, charging a fee to the producers. In some districts, rates have been negotiated in conjunction with the GMB depot, local police, transport associations and producer associations. In all interviews, transporters complained that the established rates for transporting grain to the GMB were insufficient. Availability of vehicles, spare parts and the poor road conditions in rural areas make their costs much higher than what the communal area producer was willing to pay.

At the lower end of the transportation scale, ox-drive scotch carts are either used for private transport of grain to grain collection sites or they are rented out to neighbors for transport of grain. This is by far the least preferred means of transport due to the difficult conditions under which the drought power must operate. In one instance, an ox drive cart was hit by a car on the road and the animal killed. The producer had lost his ability to farm as well as transport his produce.

### 3.7 Milling Industry

Five major urban millers dominate the maize meal manufacturing industry. National Foods controls around 60 percent of the market, Blue Ribbon has close to 30 percent, and Midlands Milling Company supplies around 10 percent. Triangle Milling Company and Premier Milling also manufacture maize meal but on a much smaller scale than the other three millers. The commercial millers account for 80 percent of the grain purchases from the GMB. Milling operations are typically located next to GMB depots. GMB usually covers the costs of storage and since most GMB depot managers will not sell to private sector traders, the urban millers are guaranteed unlimited maize stocks from GMB. The GOZ places significant controls on the commercial millers by forcing them to procure white maize from the GMB only, and by determining the price of processed maize meal. However, even within these restrictions, their margins are currently twice as high as the margins charged by small-scale hammer mills for manufacturing straight run meal. The current situation provides the urban commercial milling sector with an assured market share in urban and rural areas due to policy restriction on informal maize movement (Jayne 1991).

The maize meal is sold through the network of wholesale and retail outlets in urban and rural areas. In a normal year, 130,000 tons of urban-milled maize meal is shipped back to rural areas for consumption. In a drought year, the future may rise to 275,000 tones. This paradox is repeated each season; maize is unavailable in rural areas, yet the more expensive milled maize meal can be found in excess.

203

#### 4. Gender Distinctions

Eighty-six percent of Zimbabwe's rural population (communal and resettlement areas) is women. Over 46 percent of rural households are female headed households. When addressing issues of the smallholder farmer, it is actually women who must be dealt with. Even when men live in the rural areas, women do 50 percent of the agricultural tasks, taking the major responsibility for food and cash crops (Zwart, 1990).

Major constraints for women in agricultural are related to:

- access to land
- capacity to work the land (technology)
- access to income of crop output
- decision making power
- underprovisioning of agencies servicing women's land related interests
- cultural attitudes

Traditionally, land was passed on through patrilineal lines and was reinforced under the dual system generated by the European settlers, so rural women still have little access to land, credit facilities, and extension services. Women in agriculture in Zimbabwe are viewed primarily as laborers. Under Customary Law, once a woman was married, she didn't have much claim over her family property. Through marriage a woman had access to use of land based on the husband granting her the right to use the land. Sons have more rights than their widowed mothers. In spite of significant contributions to households and the national economy, women often are seen as dependant helpers. With the advent of wage earning, men were encouraged to earn money by going to urban areas to work. Now in communal areas, almost all households have males absent for some periods of time, so women have increased burdens on their time. In households where outside remittances are substantial, women can hire farm labor to overcome labor constraints. Women headed households face even greater difficulties. Functional literacy among women is lower than men and women are not well represented in farmer organizations or other civic bodies. The NFAZ, which has its roots at the village level, claims the majority of its members are women, however, they rarely are elevated to positions of leadership at the district or provincial levels.

While laws have been changed and women can now obtain producer cards from the GMB, land title, credit, and control over their children, the implementation of these laws is poorly enforced. Men still traditionally make the decisions regarding the purchase and use of inputs and cash expenditures.

Extension services have been targeted to male farmers even though the clear majority of communal farmers are women. Cultural traditions frown upon women working with male extension agents or traveling outside of their immediate

area for training or purchasing farm inputs. While the GOZ has made strides in training female extension agents, there is still room for progress in this critical area.

Women's access to credit was nonexistent prior to Independence. Now the Agricultural Finance Corporation (AFC) will make loans to women. However, when a group of women farmers were asked about taking credit from AFC, they strongly rejected the idea, responding that the short repayment period and the stop order system was too risky. In a drought year, a woman would not be able to repay the loan.

## 5. Extension and Social Services

Two programs currently provide the majority of special assistance to vulnerable groups in Zimbabwe. The Drought Relief Program and the newly formed Social Fund are designed to assist those individuals who face severe hardships due to drought and structural adjustment programs. While the Ministry of Labor and Social Welfare has programs addressing the problems of refugees, the disabled, the elderly and so on, the Drought Relief Program and Social Fund have the greatest impact on grain marketing. The agricultural extension service should also be considered as a service which is designed to support poor farmers.

### 5.1 Drought Relief Aid Program

The Drought Relief Program was first initiated in 1982 in response to a severe drought which threatened insufficient food supplies for rural households. The Program has been one of the largest buyers of maize from the GMB (over the past 5 years, they requisitioned \$82,000,000 worth of maize from the GMB or an average of \$16,400,000 annually). With transportation bottlenecks, grain is not always delivered when it is needed. Small village groups are often encouraged to organize transport on their own.

The criteria for Drought Relief is broad enough such that a number of rural people are eligible for food. Basic requirements are such that the family head should not be employed (in polygamous marriages each wife and her children are regarded as a family); the family cannot have harvested more than 15 bags of consumable grain and cannot have more than 4 bags of grain in stock; the family cannot have sold crops amounting to total of \$300.00 or more; the family cannot own more than 10 head of cattle, or 20 goats or 20 sheep or a combination of 15 of any; all able bodied people must work for their food with the exception of the elderly and the disabled. Each person, adult or child is entitled to 10 kg of maize per month. Any individuals or families who receive public assistance or are in the public works program are not eligible for drought relief.

225

While most feel that drought relief is essential, there are critics of the program. Some feel it is creating dependency and that farmers are not producing as much because of the promise of free food. In some areas munga and rapoko is the prefer diet and drought relief sends maize; the grain is often used as livestock feed in those areas. The drought relief program has become highly politicize with a number of provincial areas receiving aid which are not deficit grain areas. Every year the program has exceeded in initial budget allocation and every year additional resources have been extended.

The main criticism is that drought relief is not improving the agricultural capacity from year to year. While there have been proposals to support public works programs instead of drought relief, budgetary constraints have hampered those efforts. In general it is felt that people would prefer to receive cash than maize. Especially as more cost-recovery programs are instituted in rural areas (for health and education), rural households will need money to cover these costs. While the current program is a food- for-work program, the shift to a public works program is seen as a way of encouraging people to be productive and to improve the marketing infrastructure for communal areas.

The issue remains for the proposed policy reforms, that if drought relief continues to be disbursed at the rate it currently is, it may well prove a disincentive for a rural private trader to move grain from surplus to deficit areas. If a public works program, where households receive cash, is initiated, the trader would be providing a service for which the rural worker could pay. On the other hand, if the private sector does not respond as quickly as hoped, the government must be able to provide a "safety net" for the most vulnerable groups. Any phasing out of food aid programs will be gradual in order to minimize the negative effects on vulnerable groups.

## 5.2 Social Development Fund

In light of the structural adjustment program, the government has established a committee to monitor and provide assistance in areas to mitigate the effects of policy reform on vulnerable groups. Committee representatives (drawn from government as well as NGOs and trade unions) meet once a month and are charged with setting policy regarding operations of the Fund and monitoring account disbursements. The Fund will be financed through donor assistance. Activities of the Fund will include:

- schooling and health grants to vulnerable groups
- targeted food subsidies to vulnerable groups
- training grants to offset the impact of retrenchment

206

- investment funds for appropriate small-scale enterprise development and public works programs which create employment for vulnerable groups
- grants and/or interest bearing loans to individual and community groups as start-up capital
- financial, technical and managerial assistance for income generating projects.

The Fund will be moving quickly to identify the best type of targeted subsidies. They define vulnerable groups as the urban and rural poor, retrenched workers, laborers on commercial farms. The goal of the fund is to provide assistance where it has been removed due to the government's "tightening of the belt". Continuing its commitment to education and health care, the Fund will consider requests to cover associated fees. Start-up capital will be made available for small-scale businesses. Local mills would be considered for financing under the Fund since it would result in employment generation.

While there is substantial scope of activity for the Fund, it must be cautioned that the Fund is still developing its mode of operation and responsibility sharing arrangement. There is no full time staff assigned to the Fund.

### 5.3 Agritex

Agritex is the unit within the Ministry of Land, Agricultural and Rural Resettlement charged with providing extension and training to both commercial and communal sectors. There are about 2,000 extension workers, including about 1250 village level Extension Workers, who provide field and technical services to farmers. The extension worker:farmer ratio is approximately 1:800. At present women make up approximately 8 percent of total extension workers. The aim for 1995 is 30 percent. (Zwart, 1990) Extension workers provide services in the areas of crop production, planning, irrigation, engineering (including farm machinery and equipment), agricultural management, training and animal production.

Agritex training efforts have been considered among the most effective in Sub-Saharan Africa. Following in line with the structural adjustment program, Agritex is developing new training in the areas of improved on farm grain storage and the development of a more market orientation. Agritex will be looking at the full marketing chain, from production, processing, marketing and storage. They see the importance of providing these new technologies and knowledge ahead of the policy reforms, so that farmers can take advantage of the liberalized policy environment.

207

## Institutional Analysis

### Introduction

The purpose of this institutional analysis is to:

- (1) Identify the major organizations that will necessarily be involved in the program in terms of major decision-making and resource flows
- (2) Identify any organizational incentives/disincentives for undertaking the program activities
- (3) Assess the capability and willingness of all organizations that will be involved in the program to carry out required activities in accordance with the planned time-table
- (4) Recommend measures to ameliorate organizational weaknesses or to overcome problems identified based on the overall findings of the institutional analysis

There are two issues of primary importance in this analysis: the evolving role of the Grain Marketing Board (GMB), and the capacity of the private sector to respond to new opportunities to participate in grain marketing (note: the capacity of the private sector ties directly into the economic analysis).

The major organizations which will be involved or influenced significantly in some way by the first year program reforms include the following:

#### 1. Public Sector

- o Ministry of Lands, Agriculture and Rural Resettlement (MLARR)
- o Grain Marketing Board (GMB)
- o Cabinet
- o Agriculture Marketing Authority (AMA)
- o Ministry of Industry and Commerce (MIC)
- o Social Fund Committee and Ministry of Labor, Manpower, and Social Welfare Planning
- o Ministry of Finance, Economic Planning and Development

#### 2. Private Sector

- o Millers
  - Large-scale (5 Companies)
  - Small-scale: hammer (diesel) mills and electric mills
- o Approved Buyers
- o Transporters
- o Potential informal/small-scale traders and private transporters

208

### 3. Interest Groups

- o Commercial Farmers Union (CFU)
- o National Farmers Association of Zimbabwe (NFAZ)
- o Zimbabwe National Farmers Union (ZNFU)
- o Indigenous Commercial Producers Association

The mandates, functions, and capacities of the institutions listed above are analyzed in the following sections. This information was gathered through review of existing studies and literature supplied by these institutions, and interviews with key members of each of the institutions.

#### 1. Government/Public Institutions

##### (i) Ministry of Lands, Agriculture and Rural Resettlement (MLARR)

The Ministry's active involvement in agricultural marketing includes: establishing policy for the parastatal; and overseeing its implementation; analyzing price proposals on an annual basis and advising the Ministerial Economic Coordinating Committee (MECC)\*\*1. The MECC is a committee of the economic ministries at the ministerial level which plays a key role in the agricultural pricing process, making its recommendations to the Cabinet on the basis of MLARR's proposals.\* and Cabinet on prices to be gazetted. With respect to inputs, the MLARR has established an Agricultural Imports Priority Committee (AIPC) which considers applications for import licenses from the sector, and forwards these to the Ministry of Industry and Commerce (MIC).

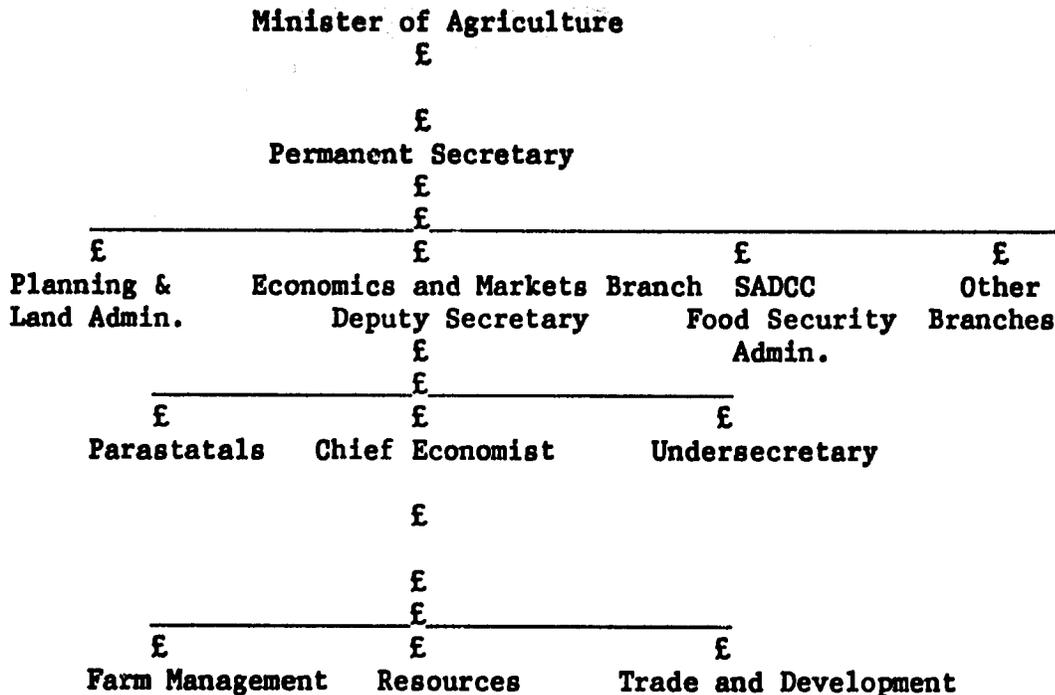
The Economics and Markets Branch is the marketing policy analysis branch of MLARR. Key players are: Mr. T. Takavarasha, the deputy secretary for Economics, Andrew Rukhovo, who is soon to be named undersecretary, and Mr. G. Sithole, who is the chief economist and very involved in day-to-day analysis and policy recommendations. The position of the Economics and Markets Branch in the organization of MLARR is depicted in Figure 1.

##### MLARR Position on Proposed One Year Program Reforms

All indications are that MLARR has no problems with proposed one-year reforms. They have presented a proposal to Cabinet making similar recommendations to those outlined in the Jayne et al. paper (May 1991) which include:

- o Authorize the GMB to sell grain in any quantity over 1bag to all buyers including informal traders, and widely disseminate and implement this rule

Figure 1. Simplified Organization Chart of MLARR



- o Deregulate white maize produced in the drier smallholder areas of Natural Regions III, IV, and V. The MLARR expanded this recommendation to include all grains, and changed the area to include only Natural Regions IV and V.
- o Expand the function of GMB collection points and licensed agents to include the sale of grain to rural consumers and traders.
- o Authorize urban millers to manufacture straight-run meal in convenient bag sizes similar to the more refined meals.
- o Consider a targetted subsidy on straight-run meal.
- o Consider the option of mandating commercial milling firms to fortify their refined meals with nutrients such as iron and B-vitamins, which are lost to some extent in the refinement process. In addition, all types of meal could be fortified with calcium, Vitamin A and Vitamin C.

2/12

- o Accompany these policy changes with government support of new entry and increased investment in private sector trading -- including expanding the supply of small and medium-sized vehicles, road infrastructure between surplus and deficit areas, spare parts, foreign exchange, availability of commercial credit, and the removal of selected import barriers.

The MLARR is fully supporting an analysis-driven process of policy reform. While some important analyses have been completed, further work is needed to better inform policy makers of the implications of changes in the areas of:

- regional pricing
- strategic reserve (who is responsible, how much, and who pays?)
- producer price stability
- level and stability of consumer price of maize
- pace and sequencing of reforms

#### Institutional Capacity and Analytical Capabilities

The MLARR has sound economic analytical capabilities, but could probably be strengthened in the analytical areas of agricultural marketing reform, design, and implementation. At the moment the presence of Ted Attwood, an Irish TCE (economist), greatly strengthens the analytical capabilities of the Branch. The capacity of Economics and Markets division has recently been adversely affected by high staff turnovers. Resources at the MLARR are scarce due to budget cutbacks and hamper the efficiency of technical people. The level of communication and understanding between policy advisors and the Minister of Agriculture is good and does not pose a problem.

#### Other Sections of MLARR:

##### (1) Planning and Land Administration Branch

This is another key Branch in the Ministry complementing the Economics and Markets Branch with its emphasis on strategic long-term planning. Its main functions include general agricultural policy formulation and analysis, preparation of agricultural sector plans, appraisal of Ministry, Parastatal, and department projects.

The Planning Branch will support the reforms proposed by the Economics and Markets Branch. There do not appear to be any major conflicting objectives among the various branches of MLARR with respect to the proposed reforms.

##### (ii) Grain Marketing Board (GMB)

The GMB is one of the four agricultural marketing boards responsible for the physical implementation of Government interventions in the marketing of

211

controlled commodities: white maize, yellow maize, wheat, soybeans, groundnuts, sunflower, edible beans, rice, and coffee. White sorghum, red sorghum, pearl millet, and finger millet have recently been decontrolled.

The GMB is a relatively efficiently managed organization with long-established high standards of both physical grain management and financial controls. It is important to realize that it differs markedly from other grain marketing boards in Eastern and Central Africa in this respect. There have been substantial trading losses in the last decade, however, which recent studies have attributed to the policy mandate within which the GMB operates. The specific problem areas are: reserve stock holding, pricing, depot network expansion, the tendency of the government to allow losses to be carried over from one financial year to another, and the devaluation loss on external borrowings by the AMA (FSG, 1990, Coopers and Lybrand, 1988).

The real issue facing the Government and the GMB is what level of withdrawal from activities is consistent with reaching the overall goals of reducing deficits, stabilizing producer and consumer incomes, and achieving national food security objectives. These are technical questions, and the Government is logically following a cautious path on reforms, choosing to base policy decisions on solid technical analysis of the impacts of the proposed reforms.

#### Structural Adjustment and the Changing Role of the GMB

This section draws heavily from a recent comprehensive report on agricultural marketing and pricing in Zimbabwe (FSG, Dec. 1990). For a breakdown of GMB activities and costs, the reader is referred to this report.

A major objective of policy during the 1980s was to improve the level of marketing service to the smallholder, especially in the Communal Areas. For this purpose the government and the GMB undertook a major program of expansion of the network of depots which form the points of intake of the grain crop. The regulatory framework of a single channel grain marketing system was not changed significantly. Maize remained a controlled crop and the movement of maize between Zones A and B remained prohibited.

Between 1980 and 1990 the number of depots managed by the GMB rose from 39 to 70 with all the new depots located in or adjacent to Communal farming areas. In 1985, the GMB also opened seasonal Collection Points. The number of Collection Points was initially very high, at 121, but has been maintained at around 50-60 in recent years. This year the number was considerably lower due to drought.

The extension of the GMB network has resulted in a dramatic increase in the volume of intake, especially from producers in Communal Areas. This volume increased from very low levels to a peak of 820,000 tons in 1985/86. The number of producers registered with the GMB has risen from 30,000 in 1980/81 to 490,000 in 1989/90.

2/2

The expansion of the GMB has been achieved at a cost and the GMB financial deficit has become a major area of concern to government in recent years. A 1988 efficiency study of the GMB (Coopers and Lybrand, July 1988) concluded that the structures and systems, which date prior to Independence, had not developed to reflect either the major changes in objectives which government was setting for the GMB or the change in scale and diversity of operations of the GMB in the 1980s. There was accordingly a mismatch between the organization and management of the GMB and its objectives which affected almost every aspect of its operation. The major recommendation of the study was to redefine the objectives of the GMB, in line with government policies, making a distinction between commercial and non-commercial activities.

#### Commercial versus Non-Commercial Activities

The Governments "Framework for Economic Reform" proposes a broad strategy for parastatal management which is based on drawing a distinction between parastatals which provide commercial (or marketable) services which are actually or potentially profitable, and those which are deemed to provide developmental (or non-commercial) services and can be expected to incur financial deficits\*\*2. In this regard, the Framework follows the recommendations of the report of the Justice Smith Committee of Inquiry into the Administration of Parastatals.\*. Under the proposed strategy, Government will ensure parastatals in the commercial category are adequately capitalized with equity capital and given a mandate to manage for profitability. Those in the non-commercial category will be treated as an extension of Government and be given financial performance targets in terms of deficits or subsidies. Capital requirements will be provided through loan finance rather than equity.

Since some of the activities of the GMB are commercial, and some non-commercial (especially the management of the maize market), how this approach will be implemented for the GMB is still not clear. The GMB has just completed a process of distinguishing its activities in these terms and of separating its accounts, and has submitted a Business Plan for the consideration of its Board.

The major non-commercial objectives which GOZ is pursuing through GMB maize operations are:

- o Food security reserve stocking
- o Price and market stabilization (i.e. guaranteeing GMB will buy and sell at fixed prices)
- o Extending the depot and collection point network beyond commercial requirements of the GMB

### Establishing an Autonomous Board of Directors

The Grain Marketing Act provides the regulations governing the Grain Marketing Board. In 1991, it was amended to provide for an independent Board of Directors, to be appointed by the President according to recommendations made by the MLARR.

In terms of power to make policy decisions affecting the operation of the GMB, the Act states that the Minister of Agriculture may give directions on matters of policy. The Minister determines which agricultural products are "controlled products" and the Act outlines restrictions on movement of controlled products into or out of prescribed areas. The Minister, by notice in the Gazette, fixes the price payable by the Board each year for all controlled products sold to the Board.

The issue of exactly what degree of decision-making authority the Board of Directors will have (i.e. what decisions can be made without permission from MLARR) is currently being debated, and will probably be an ongoing resolution process between MLARR and the GMB for some time. Realistically, it appears the Board will have the autonomy to make functional management decisions, such as salaries, hiring, and firing at non-executive personnel level (i.e. below Assistant General Manager level); distribution and procurement, subject to allocations of foreign exchange (Minister of Finance?) and the Government tender board process; and export activities -- all subject to a clause that the Minister can direct the Board to undertake particular activities deemed to be in the National interest. These decision-making powers will not extend to pricing decisions, where the Board will only play an advisory role.

### GMB Position on Proposed Policy Reforms

The GMB does not include a discussion of the USAID reforms in its initial "Response" document. The only mention GMB makes of opening up depots, or collection points to selling is that "the Board will carry out a review of its zone centres policy and local sales rules, with a view to recovering transport costs for customers. The marketing of commodities on location will also be reviewed with respect to storage costs and undrawn balances." The July 25 edition of the Financial Gazette states that the GMB will be undertaking a detailed review of the policy of allowing the use of GMB collection points as local distribution points. The same article states that "small scale rural distributors and millers would be encouraged through the relaxation of the current transport regulations and the admission of small-scale buyers to the maize market."

No Amendment to the Grain Marketing Act would be required to make the proposed policy changes of opening up depots and collection points to selling. All that is required is a change in GMB policy, and dissemination of the information that anyone is allowed to buy and resell from the GMB (e.g.

214

announcements posted at depots, in newspapers, and over the radio). Changing the role of the collections points to be able to not only buy from farmers, but re-sell to consumers or traders, will require some infrastructural support. Currently, all transactions are made on a stop-order system which means no cash transactions are made between the collection point agent and the producers. Security is the main problem which could be addressed by the provision of security guards and safes. Scales and agents trained in grading would also have to be supplied. These operational constraints can be overcome fairly easily.

One issue that has arisen with respect to selling at collection points is that demand for and supply of grain may be at different times - i.e. during July, August and September, communal farmers want to sell to the collection points, whereas households may run out of grain and have to purchase it during December, January and February. Thus if the collection points remain temporary points, they will have to announce that anyone can buy grain up until they close it down, say in October. Otherwise, these points will also have to have storage capacity and will essentially become permanent depots. GMB argues that if they must be kept opened and grain stored, it could potentially raise, not lower, GMB's costs and therefore runs contrary to their mandate. However, the operating costs of collections points for a few months will be less than a depot (e.g. GMB announces anyone can buy grain at these points up until Oct. 31), so if GMB pays the official producer price and sells at the selling price, they should actually be making higher profits at collection points (coupled with their lower transportation costs since they will be moving less grain to their depots).

The GMB has been given the mandate to reduce costs, and since the reforms proposed in the one year program will help them achieve this objective, they should not have any major objections to them. In fact, every indication so far has been that GMB is already considering these changes and is in favor of them. A draft summary of GMB's Business Plan was received as this section was completed, and is included as an attachment.

#### Institutional Capacity

The GMB has a new Planning Unit which is staffed by economists. This unit has been involved in putting together a Business Plan (with the aid of several economists from the Food Services Group in Cambridge), and will be involved in ongoing policy analysis.

The level of training and capacity of the GMB Board of Directors to understand ongoing analyses is also quite strong. One of the economists at the GMB expressed concern that the Board of Directors was already getting too involved in day-to-day management of the GMB, and should be stepping back and worrying about the "bigger picture". These issues will be a part of the ongoing resolution of the powers of the Board.

215

(iii) Agriculture Marketing Authority (AMA)

The AMA was established in 1967 to advise Government on the policy and management of the Boards. One of the AMA's principal functions has been to mobilize crop finance on a seasonal basis for the Boards' crop purchases. The AMA also makes an annual submission to MLARR as part of the price-setting process.

Structural Adjustment and the Changing Role of the AMA

With the recent decision to establish independent Boards of Directors to oversee individual marketing boards, the functions of the AMA, as described in the AMA Amendment Act (1991), will continue to be advising the Minister of Agriculture on pricing of various agricultural commodities, marketing guarantees and subsidies, and borrowing for the Marketing Boards. The Economics Department will continue to be responsible for research, data processing and analysis on the agricultural situation at international and national levels for all agricultural products. The AMA produces and disseminates several publications including the Annual Economic Review of the Agricultural Industry of Zimbabwe, and Situation and Outlook reports on dairy, beef, grains, oilseeds, and cotton.

The AMA emphasizes its coordination role, since it looks at pricing and other issues for all the controlled commodities, not just grain. They also feel they provide a necessary policy analysis function which will help the Government define the path of policy reform to be pursued.

A key function of the AMA has been, and continues to be, borrowing overseas for all of the parastatals. Theoretically, if all of the parastatals wipe out their deficits, this function will no longer be needed. However, since the AMA is borrowing considerable amounts of money and uses the export earnings of the Boards as collateral, they are able to benefit from competitive international interest rates. The AMA has commented that the overseas lenders are not interested in dealing with individual Boards. The GMB has argued that they would like to be able to borrow for their needs domestically, and not be subject to foreign exchange losses incurred by the AMA.

One of the issues that arises with the creation of separate Boards of Directors for each of the Marketing Boards is to what extent the policy analysis activities of the AMA will be replicated by each Board. The other issue is that in most countries, the research and information role of the AMA is the responsibility of the Ministry of Agriculture. It is not clear to what extent the activities of the MLARR overlap with AMA.

AMA Position on Proposed Reforms

The AMA supports the proposed reforms outlined in the one year program, and in the longer run supports a cautious, analysis-driven reform agenda. Like the MLARR, the AMA emphasizes the interrelationships between agricultural industries and the need for a good understanding of the linkages and probable impacts before going ahead with reforms.

(iv) Cabinet

The Cabinet is made up of various Members of Parliament from different areas of the country - representing the diverse interests of communal farmers, commercial farmers, and urban consumers.

Likely degree of support for proposed reforms:

- o MP's from communal areas are likely to voice concern about possible exploitation of peasant farmers by middlemen. GMB assured them of a market, and now risks may be increased for small scale communal farmers.
- o Urban MP's will be concerned that consumer prices will increase.

Since reactions are going to be mixed, it is likely that Cabinet will prefer to proceed cautiously with reforms. A long-term strategy may be supported if year one results are positive (i.e. lower grain prices in deficit areas, higher producer prices, improved availability of grain, and different types of meal available to consumers).

A proposal outlining several policy changes including movement decontrol in Natural Regions IV and V (Condition 3) is currently waiting to be passed by Cabinet. If these policy changes are passed through Cabinet, significant progress will be made towards opening up at least certain regions to private marketing participants.

One issue with respect to the GMB is if the Cabinet will allow the GMB Board of Directors to have autonomy in setting prices (Cabinet would still have veto power, but under normal circumstances would not be involved in the price setting process, making it more flexible). Various parties have indicated that this is not likely, at least in the short-run.

(v) Ministry of Industry and Commerce (MIC)

The MIC plays a central role in administering wholesale and retail price controls for a wide range of commodities including key agricultural products and inputs. One of the issues raised with respect to the role played by MIC is the need for better synchronization of announcement of producer and consumer prices.

217

(vi) Social Fund Committee and Ministry of Labor, Manpower, Planning and Social Welfare

See Socio-Cultural Analysis, Annex C, attachment 1 for a description of these institutions and their function.

(vii) Ministry of Finance, Economic Planning and Development

The Ministry of Finance is putting strong pressure on the GMB (and the other parastatals) to reduce its deficit to zero over a five year period. They are coming from a purely fiscal point of view; on the other hand the GMB is still responsible for meeting the country's food security objectives. One of the questions that arises with respect to this is whether there is enough communication between MLARR, Ministry of Finance and GMB with respect to these conflicting objectives.

Plan for Monitoring the Structural Adjustment Program

The Under Secretary of the Ministry of Finance, Mr. Fudzai Pamacheche, and the Economic Planning and Development (MFEPD) division, are responsible for GOZ plans for monitoring and evaluation of the Structural Adjustment Program. The GOZ has established a Monitoring and Implementation Committee (MIC) to oversee the Structural Adjustment Program. This interministerial committee is chaired by the Senior Secretary, MFEPD, and has members at the Permanent Secretary level from the Ministries of:

- Lands, Agriculture, and Rural Settlement
- Industry and Commerce
- Mines
- Labour, Manpower Planning, and Social Welfare
- Information
- Director, National Planning Agency

Forming the Secretariat for the MIC is the Implementation and Monitoring Unit, chaired by Mrs. Guti, Deputy Permanent Secretary, MFEPD. This unit will be making policy recommendations to the MIC. The unit will be composed of seven chief economists covering the following areas along with their support staff:

- Macroeconomic analysis
- Investment
- GOZ Budget
- Monetary Policy and Foreign Exchange Control
- Revenue
- Social Dimensions of Adjustment, and
- Customs and Tariffs—OGIL

2/8

Currently the Implementation and Monitoring Unit has a staff of 12 but is expected to expand to 20. The Chief Economists will be expected to track implementation, monitor impact in their respective areas and formulate policy recommendations to the MIC.

### Social Dimensions of Adjustment

Mr. Pamacheche is currently the head of the Social Dimensions group. The plans are to draw on the household data of the Central Statistics Office (CSO), and the National Planning Agency (NPA), who are already collecting additional data to monitor the social impacts of the program. Mr. Pamacheche indicated he thought the Social Dimensions group would need additional analytical assistance since there may be a need for further analysis of data received from CSO and NPA.

#### 2. Private Sector

##### (i) Commercial Millers

Five major urban millers dominate the maize meal manufacturing industry. National Foods controls over 50 percent of the market, Blue Ribbon has close to 30 percent, and Midlands Milling Company supplies around 10 percent. Triangle Milling Company and Premier Milling also manufacture maize meal but have a very small percentage of the market. The commercial millers account for 80 percent of the grain purchases from the GMB. Milling operations are typically located next to GMB depots in the major urban areas.

All the millers' grain is bought from the GMB at the Government established purchase price, and the meal and flour produced is sold through a network of wholesale and retail outlets in urban and rural areas. The millers are subject to foreign exchange restrictions for imports of equipment; wage rates and labor practices are defined by Government; and the sales prices of flour and meal are controlled.

The GMB delivers the grain free of charge to "Zone Centers", the main urban locations which account for much of the industries milling capacity. Since the GMB is willing to pay transport and storage costs, the millers have had no incentive to locate its mills so as to minimize transport costs, or to invest in storage capacity.

##### Millers Response to Proposed Reforms

Although the millers face a tightly controlled regulatory environment, the margins between buying and selling price they are receiving are currently more than twice as high as the margins charged by small-scale hammer mills for manufacturing straight run meal\*3. Millers currently buy maize from the GMB

219

at \$360/tonne and sell super-refined meal (60% extraction rate) at \$770/tonne, and roller meal (85% extraction rate) at \$570/tonne. By contrast, small-scale hammer mill margins recorded from household surveys during 1990/91 were in the range of \$40-\$60/tonne (Jayne, 1991)\*. The current situation also provides the urban commercial milling sector with an assured market share in both urban and rural areas due to policy restriction on informal maize movement (Jayne 1991).

Restrictions on movement of maize in rural areas and the GMB depot system has resulted in maize being transported to urban centers to be milled, then shipped back out to rural areas in the form of refined maize meal. In a normal year, 130,000 tons of urban-milled maize meal is shipped back to rural areas for consumption. In a drought year, the figure may rise to 275,000 tons. This paradox is repeated each season; maize is unavailable in rural areas, yet the more expensive milled maize meal can be found in excess. For an estimation of the potential savings in transport costs if the maize remained to be milled in rural food deficit areas, see the economic analysis.

Because of their assured markets and high fixed margins, the millers potentially have the most to lose from the introduction of competition to the milling industry. One miller estimated that around 80% of their maize meal revenues came from sales in urban centers. This means that the successful introduction of rural, small-scale mills will not make a substantial difference to the large urban-based millers. They perceive the risks of opening larger-scale mills in rural areas as being high at the moment.

It will be much more difficult for small millers to compete successfully in urban areas, however, and the large millers feel that they will not because consumers prefer refined and roller meal to straight run. The only way small millers will be able to compete successfully next to such a large established industry is if they are able to produce and market a differentiated product at a reasonable price. This issue is discussed in the context of rural mills in the economic analysis.

#### (ii) Small-Scale/Informal Rural Milling Sector

Most maize consumed in rural areas is milled by hammer mills producing straight-run meal on a batch basis. The grain is brought in by the owner in small amounts and the mill owner charges around Z\$1/tin (approximately 15 kg.) for providing the service.

These mills operate using either diesel or electricity, and have a capacity of producing around 750 kg of maize meal per 8 hour day depending on the size of the mill\*\*4. A diesel hammer mill with a capacity of around 750 kgs per 8 hour day was reported to have cost Z\$ 21,000\*. The maize grain- to-meal extraction rate of hammer mills ranges from 95 to 99% percent. The milling margins of these informal mills are from one-third to one-half of that of the government-set margin for commercial roller meal (Jayne et al., 1991).

220

Small-scale Millers Response to Proposed Reforms

The proposed reforms will make it easier for traders and small-scale millers to operate in rural areas. They will be allowed to buy from surplus households (by offering a higher price than the GMB), and then sell locally-milled meal to deficit households. They will have the option of buying from GMB depots or collection points, and transporting it to deficit areas. Traders, millers, and shopkeepers will be able to store locally-milled maize meal and sell it to rural consumers instead of urban-milled maize meal. There appears to be both demand for this enterprise and profits to be made, if these policy changes are made and the information disseminated extensively.

(iii) Approved Buyers (AB's)

Approved Buyers are licensed agents that buy grain on behalf of the GMB. They are required to forward all purchased grain to the nearest GMB depot. Since the GMB's prices are pan-seasonal, approved buyers have no incentive to store grain (although they are required to have some storage facilities in order to get a licence from the GMB). The organization of the market thus effectively blocks an established group of grain traders from engaging in a socially useful function (Jayne et. al, 1991). Allowing any buyer to resell grain through any channel in NR's IV and V will allow AB's to act like private traders, and indeed they will have to compete with new traders. In this respect, the Approved buyer will be losing his monopsony buying position.

On the other hand, since the AB has access to credit and transportation, he will be in a better competitive position than new traders. The GMB Business Plan apparently proposes liberalizing the granting of AB licenses -- i.e. allowing more AB's to operate, which will encourage competition between traders. They are also proposing increasing the maximum margin which the AB's can charge, which the AB's have argued were not large enough to cover their costs, particularly the high cost of collection and transportation in communal areas.

(iv) Transporters

See Socio-Cultural Analysis

(v) Potential Informal/Small-Scale Traders

The absence of public markets throughout the rural areas where grain and other products are bought and sold distinguishes Zimbabwe's rural marketing system from many other African countries. With households geographically dispersed and bad roads between communal areas, the absence of local marketplaces where buyers and sellers interact suppresses the articulation of supply and demand conditions, makes trading very risky, and raises the transactions costs of identifying potential buyers and/or sellers (Jayne et. al, 1991). Movement restrictions have exacerbated the problems facing potential traders.

221

### 3. Interest Groups

(i) Commercial Farmers Union/CFU - represents 4,500 large-scale commercial farmers. The CFU has formed a number of producers' associations which play an influential and active role in marketing policy analysis.\*\*5. The producer associations are: the Commercial Cotton Grower's Assoc., Commercial Grain Producers' Assoc., Commercial Oilseeds Producers' Assoc., Coffee Growers' Association, and the Zimbabwe Cereal Producers' Association.\*

Commercial farmers are calling for the elimination of the marketing boards and a free market system. They argue that they are capable of competing successfully in a free market system, and that the Government has not paid them high enough prices in the last few years, particularly for maize, so that they would be better off without the GMB. They are calling for complete liberalization of prices as well.

Many feel that this is a bargaining stance on the part of the commercial farmers in order to pressure the government into announcing a pre-planting price for maize. Although maize production by communal farmers has increased in recent years, it has become evident this year that Zimbabwe is still heavily reliant on the commercial farming sector if it wishes to be self-sufficient in maize production. If commercial farmers are given a pre-planting price at a level they deem sufficient (i.e. they are making money producing maize), it is hard to believe that they would prefer the instability of free markets to an assured and stable market coupled with the other services supplied by the GMB (i.e. storage and transport).

(ii) National Farmers Association of Zimbabwe (NFAZ) - represents some 75,000 smallholder farmers in the communal areas.

(iii) Zimbabwe National Farmers Union (ZNFU) - represents some 10,000 small-scale commercial and resettled farmers (in former African Purchase Areas)

These unions have recently merged due to common interests, and are supporting the development of an informal rural grain trading sector. They envision the gradual reduction of the role of the GMB in grain wholesaling activities in dry rural areas, but emphasize the need for investment in infrastructure (vehicles and roads) and support for small farmers in the areas of credit and market information. They feel that the historical imbalance in Government investment in the agricultural sector has to be addressed at this time, and are calling for government investment in the communal and small-scale commercial and resettlement regions in the areas of: communication, irrigation, input subsidies (which the GOZ recently announced they would implement), credit, and transport. They are also asking that priority be given to the resettlement program.

222

(iv) Indigenous Commercial Producers Association - a new group representing around 350 medium to large scale (100-2000 ha.) indigenous commercial farmers. This association represents producers of all types of crops, with the largest farms focusing on livestock production. They are currently interested in forming a cooperative (one suggestion being considered was joining an existing one) with the goal of supplying members access to cheaper inputs.

#### Producers Influence on Pricing

The three unions (NFAZ, ZNFU, CFU) combine through their Joint Presidents' Agricultural Committee (chaired in rotation) to make an annual price submission to MLARR as part of the price setting process. Their detailed analyses, together with their political weight, ensures that in Zimbabwe, more than in any other African country, the price-setting process is affected by strong and well organized producer interest (World Bank, 1991).

## Financial Analysis

### 1. Introduction

#### 1.1. Agriculture in the Macro-Economy

Agriculture's importance to the national economy is due to its role in providing employment, generating foreign exchange earnings, and meeting national food security needs. Agriculture's share of GDP has averaged between 10 and 13.5 percent between 1985 and 1989, while that of agriculture and forestry has varied from 13 to 16 percent over the past five years (see Table I which shows Total GDP and agriculture and forestry's share from 1980 to 1990).

Over the last five years, agriculture has accounted for about 40% of total merchandise exports. In analyzing the share of each individual agricultural commodity in total agricultural exports, tobacco is the most important, followed by cotton lint, sugar, and maize. In 1990, tobacco earned nearly Z\$1 billion. Maize exports vary by year. With the exception of 1984, Zimbabwe has exported large quantities of maize, mostly to the Southern Africa region (Table III shows the volume and value of selected agricultural exports for the 1980 - 1990 period).

Agriculture's share of formal employment has not changed very much over the last decade, being around 25 percent (see Table IV); but including informal employment, agriculture accounts for nearly 70% of all employment (World Bank). In addition, the manufacturing sector is dependent (nearly 50%) on agriculture for inputs.

Due to the dualistic nature of agriculture, estimates on the value of agricultural output from the communal sector are not very accurate due to the high level of retentions. Overall there has been significant increases in sales of agricultural output to the marketing boards since 1980, reflecting the increased access of the Boards to communal farmers. Between 1985 and 1990, value of agricultural commodities sold to marketing boards increased from Z\$1.3 billion to Z\$ 2.37 billion (Table V ). Concerning the meeting of national food security, Zimbabwe is able to produce its domestic food requirements, except for wheat. Crucial to meeting both urban and rural food needs is maize production and in the drier regions, sorghum and millet (commonly referred to as small grains).

224  
HCE

TABLE I

I. GDKP AT CURRENT PRICES

\$ Million

	TOTAL	AGRIC. & FORESTY OF	% SHARE OF AGRIC
1980	3224	451	13.9
1981	4049	640	15.8
1982	4657	669	14.4
1983	5432	544	10
1984	5649	748	13.2
1985	6505	1316	20.2
1986	7431	1202	16.1
1987	8256	1061	12.8
1988	9642	1263	13.1
1989	11272	1390	12.3
1990	13029	1686	12.9

Source: C.S.O.

II. AGRICULTURAL EXPORTS IN RELATIONS TO TOTAL

Z\$ Million

	TOTAL	AGRICUL- TURAL	% SHARE OF AGRIC.
1980	778	278	35
1981	888	413	46
1982	807	385	47
1983	1026	460	44
1984	1271	578	45
1985	1545	783	49
1986	1757	707	40
1987	1932	923	48
1988	2585	1087	42

Source: C.S.O.

225

**TABLE III: SELECTED AGRICULTURAL COMMODITY EXPORTS (1)**

\$2 MILLION

	TOBACCO		COTTON NT		SUGAR		COFFEE/ TEA		MAIZE TEA		BEEF		HIDES	
1980	94	123	54	57	166	47	9	13	68	7	12	12	7	4
1981	131	224	54	60	177	55	11	16	238	35	2	4	4	2
1982	87	195	47	52	220	52	14	21	348	40	2	4	5	4
1983	84	230	48	74	202	52	15	29	498	41	8	11	20	9
1984	82	282	54	115	211	56	19	55	-	-	18	27	8	12
1985	84	366	63	149	235	68	22	71	139	33	16	31	6	10
1986	84	424	77	131	242	63	23	87	432	87	5	25	4	7
1987	84	431	61	121	236	79	22	64	389	66	11	55	2	4
1988	101	500	57	148	158	80	21	63	384	118	9	52	3	11
1989 (2)	104	653	61	183	146	103	-	-	313	103	2	14	-	5
1990	120	966	73	236	205	208	-	-	174	63	60	24	-	7

Source: C.S.O.

- (1) 1st column refers to tonnes '000, 2nd column to Z\$m  
 (2) 1989 and 1990 sourced from Board's annual reports.

226

**TABLE IV: EMPLOYMENT IN ECONOMY AND AGRICULTURE**

	TOTAL	AGRICULTURE	% SHARE
	THOUSANDS		
1980	1009.9	327	32.3
1981	1037.8	294.3	28.3
1982	1046	274.3	26.2
1983	1033.4	263.5	25.5
1984	1036.4	271.2	26.1
1985	1055	276.4	26.2
1986	1081.1	275.5	25.4
1987	1083.2	265.6	23.9
1988	1131.2	276.9	24.5
1989	1166.3	284.6	24.4

Source C.S.O.

23

**TABLE V: SALES OF AGRICULTURAL PRODUCTS TO MARKETING BOARDS**

	\$2 MILLION									
	TOBACCO	CATTLE SLAUGH- TERING 1	COTTON	SUGAR	MAIZE	DAIRY	WHEAT	COFFEE	OTHER 2	TOTAL
1980	99.6	81.5	71.5	73.9	71.7	27.1	22.1	11.8	28.7	487.9
1981	127	83	76.3	78.4	239.3	32.6	33.4	7.9	29.7	707.6
1982	155.5	139.4	77.5	75.7	166.9	46.2	41.2	11.6	36.7	750.7
1983	184.5	143.6	83.6	89.1	74.1	56.7	27	14.4	25.4	698.8
1984	254.5	156.2	138.1	87.1	130.4	65.2	24.5	19.3	49.1	924.4
1985	293	140.5	191.3	120.1	327.4	78	59.1	25.3	78.1	1312.8
1986	362.9	114.8	180.3	136.1	283.5	86.9	73.8	79.8	115.5	1433.6
1987	297.7	187.7	206	173.7	75	94.6	70.8	45.6	70.6	1219.6
1988	287	188.4	174.6	157.1	60.2	96.2	75.4	34.5	91.2	1164.7
1989	486.2	191.5	258.4	186.9	231.1	104.2	93	38.5	112.3	1702.1
1990	893.4	345.3	211.1	308.0	155.7	160.9	149.	52.0	261.7	2374.3

Source: Reserve Bank Quarterly

1. Excludes slaughterings at butcheries

2. Includes soyabeans, groundnuts, sorghum, slaughterings of pig, sheep and goats.

228

**TABLE VI: VALUE OF AGRICULTURAL OUTPUT BY SECTOR**

	\$ MILLION			
	TOTAL	CFA	VALUE RETAINED	LSC
1980	711.5	28.9	117.1	146.0
1981	1021.5	79.5	185.1	864.6
1982	1080.0	84.6	186.7	271.3
1983	969.1	68.7	97.8	166.5
1984	1257.8	128.2	139.6	267.8
1985	1980.1	240.5	366.5	607.0
1986	2187.7	251.1	344.3	595.4
1987	1708.0	135.1	271.5	406.6
1988	2378.5	344.4	375.1	719.5
1989	2685.8	355.8	340.0	695.0

Source: CSO

229

## 1.2. Role of Maize in the Agricultural Sector and The Economy

Maize is by far the most important crop grown in Zimbabwe. In fact, maize is probably the only crop that could be called "the national crop" due to its importance in production and consumption all over the country. It is an important crop for both large scale commercial farmers and communal farmers. As such the production, marketing and sale of maize is of political, economic and social importance.

Maize is a staple food for both urban and rural areas, is used for livestock feed, and is an industrial input, especially for starch and cooking oil. Serious consideration is presently being given to starting a maize based ethanol industry and a pilot plant will soon be built in the country. Maize is also an important source of foreign exchange earnings for the country (see Table I which shows export earnings of agricultural parastatals, by commodity).

Maize is grown by both large scale commercial and small scale communal farmers in the country. The increasing share of maize deliveries from the communal areas to the Grain Marketing Board is seen in Table II. At independence, in 1980 slightly over 10 percent of all maize was delivered from the communal sector. Ten years later, the communal sector's share has increased to over 55% of all deliveries to the GMB. The reasons for this increase in maize deliveries by the communal sector has been analyzed elsewhere (Rohrbach, 1989; Masanzu and D'Silva, 1990). The main reasons cited have been: (a) an increase in the actual number of communal farmers growing maize; (b) the increase in infrastructural facilities such as feeder roads, grain depots; (c) an increased use of fertilizer; (d) improved seed; and (e) increased credit availability.

This increase in participation of communal farmers in maize production has brought larger numbers of formerly subsistence oriented farmers into the formal marketing system, it has provided a source of cash income, and it has provided the basis for the development of a market economy in the communal sector.

In Zimbabwe, two types of maize are grown, yellow and white. Yellow maize is primarily used for livestock feed while white is preferred for human consumption, both in the country and in the region (hence the country's capacity to earn foreign exchange from maize). Yellow maize is grown primarily by the commercial farmers who also raise livestock. Also, within the commercial sector, farmers have been shifting to non-controlled crops such as tobacco and horticultural crops.

TABLE I: EXPORT EARNINGS AND AGRICULTURAL PARASTATALS (1980 - 1990)

Year	<u>Grain Marketing Board</u>										<u>Cotton Marketing Board</u>		<u>Cold Storage Commission</u>		<u>Dairy Marketing Board</u>			
	Maize	Coffee		Groundnuts		Wheat		Soyabeans		Sorghum	Link	Beef	Hides	Cheese, Butter Skim Milk Powder Yoghurt				
	Value	% (1)	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%		
	22981	35,4	11177	89,6	3558	20,6	1078	4,7	2075	19,3	-	72764	86,0	8421	14,9	2888	50,7	-
1980/81	11266	14,9	10128	89,5	5528	41,1	482	1,6	114	0,79	-	70339	79,6	5160	8,6	1587	33,6	-
1981/82	39928	30,3	11469	89,8	5179	32,8	34	0,29	17	12,9	-	73123	82,8	6889	7,1	3367	43,4	-
1982/83	47099	24,2	14350	95,0	5566	38,1	-	-	-	295	8,6	74173	83,9	13749	11,9	3844	40,1	-
1983/84	26627	12,0	21374	95,3	3608	36,9	-	-	-	-	93867	86,7	22807	18,0	4043	27,9	-	
1984/85	-	-	35324	97,6	1861	7,9	-	-	-	-	144057	80,0	31269	22,4	5292	30,2	940	1,1
1985/86	59179	32,2	50242	98,1	23377	-	-	-	-	-	165383	80,4	31852	23,7	3883	36,1	900	0,9
1986/87	77913	31,5	76662	97,9	9452	14,3	-	-	657	10,7	129946	74,7	65538	32,1	4759	23,3	4800	4,0
1987/88	77331	21,7	41141	96,9	14561	15,8	-	-	902	12,3	143872	75,0	66623	32,6	4725	26,1	5700	4,4
1988/89	103443	38,2	47821	96,8	15839	33,5	-	-	563	9,3	183433	78,4	14621	7,5	5447	26,7	3300	2,1
1989/90	63497	22,3	36514	94,9	15592	25,0	-	-	568	7,3	236543	77,6	24474	10,5	7501	25,6	7400	3,9

Note: (1) Percentage refers to proportion of total including local sales

**TABLE II: DELIVERIES OF SELECTED CROP BY SECTOR, (1980-1990)**

	CROP									
	MAIZE (IN '000 TONS)					COTTON (TONS)			SOYABEANS ('000 TONS)	
	TOTAL DELIV.	LSC SECTOR	SEC SECTOR	TOTAL NET EXP.	STOCKS	TOTAL DELIV.	LSC SECTOR	SSC SECTOR	TOTAL DELIV.	LSC SECTOR
1980/81	815	728.5	86.29	86	158	164899	110263	30575	93.6	88.5
1981/82	2014	1650.5	363.27	305	1201	173941	99254	74687	65.3	61.5
1982/83	1391	1021	369.4	492	1035	154482	105275	49822	84.3	83.7
1983/84	617	464.5	152.4	252	124	168459	107816	45364	74.4	73.7
1984/85	942	552	390	1	461	250268	138753	88543	89.8	89
1985/86	1850	1009	819	552	1426	295473	147000	123451	85.3	84.7
1986/87	1594	983.6	694	495	1806	248157	111512	113110	83.4	82.7
1987/88	403	247.73	155.8	393	755	240114	114891	97108	102.6	101.7
1988/89	1197	440.77	755.9	314	940	323268	128592	156249	122.5	120.8
1989/90	1166	510.7	654.84	174	1100	261420	100403	126627	115.8	113.6

Source: AMA

Notes: LSC refers to Large Scale Commercial Farmers  
SSC refers to Small Scale Communal Farmers

232

Yellow maize is now partially decontrolled because commercial farmers can now engage in farmer to farmer sales without going through the GMB. Presently, there is a 10% discount in the price being paid for the yellow maize by the GMB. In view of the reduced area planted last year to white maize and drought conditions, there is a worry that the country may need to import maize early next year (yellow maize) at an estimated cost c.i.f. Harare of Z\$700/ton. Hence, the commercial farmers are arguing for the discount in price for yellow maize to be removed, thereby leading to increased deliveries of yellow maize by commercial farmers to the GMB.

The total area planted in maize has varied considerably over the last ten years. From a level of 1.33 million hectares in 1980, it reached over 2 million hectares in 1987, and has recently dropped down to 1.1 million hectares. There is now concern that other crops, especially in the large scale commercial areas, are competing with maize due to their profitability.

An indicator of the economic viability of maize vis-a-vis other crops can be seen in the relative price ratios of maize and other commodities as seen in Table III. As prices are fixed by government, relative price ratios are used to determine the incentive provided to particular commodities. For instance, government policy in the late 1980s was to encourage production of oilseeds, as maize stocks were high. Hence, relative prices of soybeans and groundnuts were adjusted to maintain production of oilseeds.

Maize has been and will continue to be an important crop for Zimbabwe because of its vital role in the national livelihood and the economy. This will be more so with the changes taking place in the region. Zimbabwe and Zambia, from a physical perspective, have much better maize growing capability than South Africa. With movement in implementing the Economic Reform Program, including trade liberalization and reform in internal marketing, Zimbabwe's maize and agricultural economy stands to benefit from the 'opening up' that is taking place.

### 1.3. Role of the Grain Marketing Board (GMB) in the Maize Economy

Following the Depression, statutory control of the marketing of agricultural commodities was introduced in Zimbabwe in 1931. The Maize Control Act was promulgated in 1931 followed by the Maize Marketing Act of 1950, which resulted in the establishment of the Grain Marketing Board. While initially the focus of the GMB was maize, small grains (sorghums and millet) became controlled commodities in 1984/85. In 1990 as a result of build up of small grain stocks and losses incurred through the carrying of these stocks,

**TABLE III: PRODUCER PRICE RATIOS OF SELECTED PRODUCT COMBINATIONS (1980-1990)**

	PRODUCTION COMBINATION						
	MAIZE: SOYA	COTTON: GNUTS	MAIZE: SORGHUM	MAIZE: SUNFLOWER	MAIZE: GNUTS	MAIZE: COTTON	MAIZE: BEEF
1979/80	1:2.39	1:0.97	1:1.32	N/A	1:5.05	1:5.61	1:13.4
1980/81	1:1.88	1:1.04	1:1.23	N/A	1:4.58	1:4.41	1:12.0
1981/82	1:1.41	1:1.05	1:0.95	N/A	1:3.5	1:3.33	1:10.76
1982/83	1:1.66	1:0.87	1:0.95	N/A	1:3.75	1:4.29	1:10.86
1983/84	1:2.16	1:0.87	1:1	1:2.12	1:3.75	1:4.29	1:12.33
1984/85	1:2.05	1:0.87	1:1	1:2.03	1:3.57	1:4.07	1:10.95
1985/86	1:1.77	1:1.11	1:1	1:1.77	1:4.16	1:3.72	1:9.99
1986/87	1:1.88	1:0.97	1:1	1:1.88	1:4.05	1:4.16	1:13.13
1987/88	1:2.13	1:1.12	1:1	1:2.13	1:5.	1:4.44	1:13.96
1988/89	1:2.15	1:1.17	1:1	1:2.21	1:5.12	1:4.36	1:14.24
1989/90	1:2.02	1:1.08	1:1	1:2.12	1:4.65	1:4.64	1:14.62
1990/91	1:2.16	1:1.13	1:0.96	1:2.24	1:5.55	1:5.55	1:15.34

Source: (Computed by AMA)

marketing of small grains was decontrolled and the GMB became a residual buyer. Hence, the scope of GMB's operations goes beyond maize. Due to the legislated role of the GMB in the marketing of maize, it has to purchase at a specific price, sell at a specific price, maintain sales and purchase depots in specific places, as well as be responsible for transporting of maize from depots to its warehouses and silos. In addition, all exports of maize are handled by the GMB.

## 2. GMB Trading Accounts

As maize is a controlled commodity, the price at which the GMB purchases it from the producer and the price at which it sells the maize to consumers, stockfeeders, and millers is set by government.

The financing of the buying and selling of maize by the GMB as well as its level of stockholding is done by borrowing on world capital markets through the credit facilities of the AMA. (This is not only for maize but also for other commodities and other Boards). In addition, there are charges that accrue to internal transport, handling, and storage of all GMB commodities including maize. These accounts are known as commodity trading accounts. The GMB calculates a breakeven price and if the average local selling price is less than the breakeven price then the GMB incurs a deficit on its trading account. Sometimes, the Board may incur a profit on its maize exports, but as the volume of exports is much less than domestic sales, the overall trading account is a deficit. (Table IV shows features of the Maize trading account for the period 1980/81 to 1989/90)

The trading account is one component of the Boards's overall accounts. In calculating the overall deficit (surplus) of a commodity, the trading account is added to foreign exchange losses and other items which the board incurs which are beyond its trading role.

### 2.1. Deficits of Agricultural Marketing Boards

Considerable attention has been recently focussed on the issue of accumulated deficits of the agricultural marketing parastatals. As a key objective of the GOZ's Economic Reform Program is the reduction of the overall fiscal deficit, increased areas of concern are the deficits of the agricultural marketing parastatal's and causes of these deficits. Related to this deficit reduction objective has been the reconstituting of the Boards, especially in their organization and management.

**TABLE IV: MAIZE TRADING ACCOUNT FEATURES (\$/L)**

	Average Producer Price	Import Costs	Local Average Selling Price	Average Export Price	Breakeven Selling Price
1980/81	89.04	132.63	85.47	130.52	101.32
1981/82	119.07		135.26	131.08	156.76
1982/83	119.63		136.44	195.58	154.59
1983/84	119.59		146.34	102.35	155.66
1984/85	139.59	299.14	169.68		223.84
1985/86	178.91		205.80	207.77	271.33
1986/87	177.66		217.24	157.55	252.26
1987/88	179.35		217.24	181.37	261.63
1988/89	193.21		231.02	329.72	286.54
1989/90	212.75		275.67	364.62	326.07

236

The cumulative deficits of agricultural marketing boards as of June 1 1991 stood at Z\$1.056 billion. Of these, the largest accumulated deficit was for the GMB, followed by DMB and CSC (see Table V ). It is the accumulation of deficits that has focussed government attention on the agricultural marketing boards, because reduction of their deficits will lead to a reduction of the overall deficit. The GOZ goal is that by 1995, all of the agricultural parastatals will be operating with no subsidy from the Government.

An analysis of these deficits by the Agricultural Marketing Authority has highlighted the major causes of the deficits. The causes include: foreign exchange losses, lack of government synchronization between announcement of producer and consumer prices, continued interest payments on past deficits, reluctance on the part of Government to increase consumer prices, overhead costs, high carrying costs of large stocks, and increases in transport costs in the last three years.

(a) Foreign Exchange Losses

Foreign Exchange losses take place when devaluations take place and debt has to be repaid. The AMA borrows extensively on overseas capital markets to finance the operations of the agricultural Boards (GMB, CSC, DMB, CMB). This will also continue under the restructuring of the AMA and the Boards, because the amended legislation which restructured the AMA still allows AMA the power to borrow overseas to finance Board operations. While these losses have to be met by the Government, they are shown on the books of each Board, but are separated out in their accounts as a separate line item.

(b) Lack of Synchronization In Price Announcements

As both producer and consumer prices are set by government, it is important that changes in these prices be synchronized. For example if the producer price that GMB has to pay the farmers is increased on April 1 by 10% and the price that GMB can sell the maize is not announced until May 1, then for an entire month the differential between the GMB buying and sale prices becomes a loss to the GMB that it has no control over but carries forward on its books as a component of its annual deficit. If the announcement and effectiveness of these prices were the same day, then no deficit from this component would accrue to the Board. Similarly, there is a lack of synchronization between prices millers pay to the GMB and the consumer price. Hence, millers who at times have not been given a price increase refuse to pay the increased price to the GMB, letting GMB carry the loss.

**TABLE V: OVERALL ANNUAL DEFICIT (\$ million)**

Year Ending	C.S.C. (1)	D.M.B. (2)	G.M.B. (3)	C.M.B (4)
1980	30,2	4,1	11,6	(4,5)
1981	33,3	10,0	9,6	(4,1)
1982	46,4	18,3	32,7	(0,9)
1983	45,3	35,7	62,7	17,8
1984	48,1	38,7	32,8	(4,3)
1985	33,4	46,3	47,8	(56,)
1986	28,9	55,6	68,1	14,3
1987	37,4	49,3	83,7	53,9
1988	18,0	51,3	64,6	35,4
1989	32,5	57,2	62,4	26,1
1990	50,3	59,6	49,4	22,5
Total	<u>403,8</u>	<u>421,1</u>	<u>525,4</u>	<u>240,6</u>

- (1) December
- (2) June
- (3) March
- (4) February

238

(c) Continued Interest Payments on Past Debt

At the end of each financial year, the deficit that has accrued to each Board because of its operations is supposed to be assumed by the Government, and the Board is supposed to start operations for the new year without a carryover of a deficit. This has, however, not been happening and the Boards end up having to pay interest on the debt that they carry forward. Until 1991, the Government was usually two years behind in settling these deficits.

Carrying costs of large carryover stocks: Carryover stocks especially of maize by the GMB have been quite high since 1985 with an average level of over 1 million tons. While national and regional food security considerations have been the reasons behind maintaining such a high level of stocks, there has been a cost associated with it, and these costs are, once again, borne by the Boards .

(d) Transportation Costs

If a Board uses the National Railway or government transport facilities, then as these rates are controlled, the Board has to pay these costs. As Zimbabwe is a land locked country, its fuel costs have been increasing over the past three years, and these are reflected in the increase in transport costs that the Boards have to pay, especially in the movement of commodities which are off the line of rail.

(e) Lack of Control Over Price

Underlying these factors which affect the deficits of the agricultural parastatals is that they have no control on price. The determination of both producer and consumer prices is under the direct purview of the Cabinet. The AMA submits its views on producer prices to the Ministry of Agriculture, and the Ministry of Agriculture makes a submission to Cabinet on its views concerning price levels. While these are considered by Cabinet in its price determination process, other factors are also considered at this level which may include distributional questions. But the bottom line is that without the ability to set price, the Boards have to focus on their operational costs so as to reduce their deficits.

2.2. Trading Accounts for the Major Commodities

As stated earlier, the deficits of the Boards are caused by a variety of factors. An attempt is made to separate out the deficits which are attributable to the actual purchases, sales and stockholding of major

commodities. These are known as Trading Accounts and are shown for the major commodities in Table VI for the 1980 to 1990 period. With the exception of soybeans in recent years, all of the Trading Accounts show deficits. This breakdown is important because the GMB is responsible not only for maize, but also for wheat, soybeans, groundnuts and small grains. Hence, losses in one commodity could partially be offset by profits in another commodity. But for all the Boards, the overall picture is the same.

### 2.3. GMB's Plan to Address its Deficits Problem

Under the GMB's plan, it has done an operating cost analysis for each of its depots. As a result it has divided its depots into four categories. These are depots that it will retain. There is a fifth category which they plan on closing. The number of depots to be closed is 33. The closure of these depots is supposed to provide the major savings of Z\$3.57 million during this 1991/92 year. For the other classes of depots, they are a) permanent depots of which there will be 21, b) Seasonal depots of which there will be 17, c) intermediate depots, of which there will be 19 and Food security depots which will be 4.

### 3. Implications of the 1991/92 Budget for the Agricultural Parastatals

The 1991/92 Budget which was announced on July 25, 1991, is the first budget under the structural adjustment program. Two elements of the speech as they relate to the agricultural parastatals and GMB in particular are important.

First, the Budget Speech announced a reduction in the overall allocation for all subsidies from a level of \$650 million in 1990/91 to \$598 for 1991/92. (A major part of this, \$139 million is for ZISCO). While the exact allocations for each agricultural parastatal have not been announced, it is clear that over the next four years the level of subsidy will be reduced. This is further seen in the significant reduction of the Ministry of Lands, Agriculture and Rural Resettlement's Vote which is reduced from \$600.1 million in 1990/91 to \$498 million for 1991/92. (The agricultural parastatals' budgets come out of Ministry of Lands, Agriculture budget).

Second, a specific allocation \$598 million was made to clear accumulated parastatal losses up to the end of June 1991. This means that the accumulated debt over which the Boards have been incurring interest will now be paid off and, in effect, they will be starting with a clean slate, and a specific reduced level of a subsidy.

240

**TABLE VI: TRADING RESULTS - Deficits**

	<u>Beef</u>		<u>Milk</u>		<u>Maize</u>		<u>Wheat</u>	
	\$m	c/kg	\$m	c/l	\$m	\$/l	\$m	\$/l
1979/80	24.5	26.06	4.10	2.72	9.70	10.73	(0.7)	(3.58)
1980/81	30.2	39.61	10.00	6.80	6.00	7.48	0.20	0.73
1981/82	46.6	46.76	18.30	12.12	20.40	20.98	9.30	41.82
1982/83	37.6	37.59	35.70	20.64	43.60	28.33	12.10	51.85
1983/84	27.4	29.13	38.90	21.38	17.00	11.12	5.80	24.97
1984/85	10.8	12.51	43.30	23.03	42.70	49.69	4.40	20.16
1985/86	15.8	23.51	44.00	21.78	46.30	54.75	5.80	23.56
1986/87	19.7	23.02	37.40	16.70	57.30	47.47	14.30	56.87
1987/88	4.5	6.36	42.80	18.06	58.50	39.52	2.90	10.87
1988/89	14.1	21.11	39.20	16.27	12.90	13.02	27.50	95.52
1989/90	29.7	42.75	41.50	16.27	20.10	21.49	22.40	65.20

Excluding interests on past deficits and provision for AMA forex loss

Bracketed figures indicate surpluses

11/29

TABLE VI (cont)

	<u>Soya beans</u>		<u>Sunflower seed</u>		<u>Groundnuts</u>	
	\$m	\$t	\$m	\$/t	\$m	\$/t
1979/80	1.90	25.09			(0.3)	34.19
1980/81	1.10	12.95			(0.3)	29.15)
1981/82	2.10	27.67			0.50	42.80
1982/83	5.70	65.46			0.60	55.32
1983/84	3.60	48.20	0.05	11.36	(0.2)	28.66
1984/85	0.50	5.73	(0.03)	(2.83)	0.20	77.89
1985/86	1.40	15.93	0.20	17.13	0.40	12.04
1986/87	(0.2)	(2.08)	(0.6)	29.80	0.60	57.37
1987/88	(0.3)	(3.38)	0.01	0.65	0.80	55.95
1988/89	(1.8)	(14.57)	1.10	27.58	0.80	59.22
1989/90	(4.9)	(41.27)	0.60	11.06	1.90	160.69

242

#### 4. Financial Analysis

The PAIP document specified that the Financial Analysis in the PAAD will analyze the potential impacts of the proposed reforms on the financial status of the GMB.

This paper has discussed the current status of the GMB's deficit (current and accumulated), as well as factors affecting the deficit, those under the Board's control and those outside of the Board's control. In conducting the Financial Analysis, areas of Board operations that would be affected by the proposed reforms have been considered.

##### 4.1. Effects of Proposed Program on GMB Financial Status

The proposed program has five conditions related to the disbursement of the U.S. \$5 million. Of these conditions, number one and number five do not have a direct fiscal impact on the operations of the GMB. It is only the combination of conditions 2, 3, and 4 that will have an effect on GMB operations and hence its fiscal status.

The effect of these conditions being met is that movement decontrol of maize takes place in the communal areas of Natural Resource Regions IV and V. An underlying assumption behind this is that GMB will not transport the maize out of these areas as they are deficit areas and hence maize will be resold in these areas to local traders and individuals. Furthermore, implementation of these conditions could also mean that farmers may not necessarily sell their grain to the GMB. As the regions are net deficit areas, some grain will also come in from surplus areas and be sold either by GMB or through private traders.

Hence, the net effect on GMB operations will definitely be a reduction in its maize transportation costs, especially as some of its depots in these two regions are far off the line of rail. Depots in these regions are also some of the highest cost depots (in relationship to unit cost of throughput) due to the low volume of grain moving through the depots. It is unlikely that GMB will stop operating these depots because of the political significance of having depots operating in the communal areas and their use in drought relief activities. What might happen is that GMB may allocate the costs of the operation of the high cost depots toward the socially desirable activities account and not the commercial account. In this way the actual cost of the running of these depots is borne by Government and not by the GMB.

(a) Estimated Savings to GMB on Transport Costs

Ideally, if current transport costs for each of the GMB depots in Natural Resource Regions IV and V were available then we would get an accurate picture of the financial benefits for GMB of the proposed reforms. As these are not available, we make reasonable assumptions concerning transport costs and distance that grain moves (under the present setup). These assumptions are similar to those made in the economic analysis.

An analysis of the details of the calculations by depot in each of the two Natural Resource Regions shows that the aggregate financial savings in transportation amount to Z\$1.136 million, of which Z\$1.102 million is attributable to Region IV. This is an annual figure and we can assume that it will be of the same magnitude for the duration of the program.

(b) Estimated Additional Savings(costs) to GMB in Depot Operating Costs

Depot unit operating costs have been estimated for the 1988/89 season for each of the GMB depots in the country. These costs are related to handling and storage at the depot and do not include any transportation costs. Analyzing these costs for depots in Natural Regions IV and V, show that the some of the highest cost depots in the country are in these areas. Two depots, one in each of the regions, average Z\$10 handling costs per bag or nearly Z\$100 per ton. This is in contrast to the average of the low cost depots in other parts of the country of Z\$1 to Z\$5 per ton.

If as a result of the proposed reforms increased private sector trading takes place outside of the GMB, then it is quite possible that the throughput through these GMB depots will be reduced thereby increasing unit operating costs. But if increased activity takes place through the GMB i.e. both deliveries to GMB and sales from GMB, then the unit operating costs could decrease leading to a reduction in overall unit operating costs of the GMB.

244