STATUS REPORT

ZIMBABWE'S ECONOMIC STRUCTURAL ADJUSTMENT PROGRAM

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LIST OF ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
FY	Fiscal Year
CG	Consultative Group
CMB	Cotton Marketing Board
CSO	Central Statistical Office
DPT	Deregulation Project Team
EPZ	Export Processing Zone
ERS	Export Retention Scheme
ESAF	Enhanced Structural Adjustment Facility
ESAP	Economic Structural Adjustment Program
ETP	Employment and Training Program
FCA	Foreign Currency Account
FCDA	Foreign Currency Denominated Account
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
GDP	Gross Domestic Product
GMB	Grain Marketing Board
GOZ	Government of Zimbabwe
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
LOGAC	Loans and Grants Allocation Committee
NCD	Negotiable Certificate of Deposit
NRZ	National Railways of Zimbabwe
ODA	Overseas Development Assistance
OGIL	Open General Import License
PBC	Private Business Companies
PEs	Public Enterprises
POSB	Post Office Savings Bank
RBZ	Reserve Bank of Zimbabwe
SAC	Structural Adjustment Credit
SDA	Social Dimensions of Adjustment
SDF	Social Development Fund
SI	Statutory Instrument
SWP	Social Welfare Program
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
ZIC	Zimbabwe Investment Center
ZIMACE	Zimbabwe Agricultural Commodity Exchange
ZISCO	Zimbabwe Iron and Steel Company
ZSE	Zimbabwe Stock Exchange
ZUPCO	Zimbabwe United Passenger Company

I. Introduction

Zimbabwe has completed the first three years of a five year program of stabilization and structural adjustment. During this period, the Government has demonstrated its resolve by making decisive progress in implementing the program (even strengthening it in some areas), despite the enormous difficulties associated with the 1991/92 drought in Southern Africa, and considerable pressures to scale back the reforms.

The difficulties associated with the drought were compounded by: (i) an adverse external environment, caused by global and regional recession, and evidenced by a large deterioration in the terms of trade; and (ii) an increase in protectionist trade policies in South Africa, a key regional export market. Furthermore, there was a very large shortfall in the disbursement of external financing during the second half of 1992. These factors effectively muted the expected supply response of the economy by inducing a sharp decline in domestic production and income, intensifying inflationary pressures and straining the balance of payments position.

Despite the adversities, the Government managed to supply nearly half of the population with emergency drought relief, deal with water shortages, and supply significant amounts of fertilizer and seeds to small-scale farmers. At the same time, bold measures were taken to implement the stabilization program and contain the macroeconomic imbalances. On the external front, the authorities kept the current account deficit below the program target and continued to fully service Zimbabwe's external debt commitments. In addition, the GOZ continued to implement most of the structural reforms -- including trade liberalization, price and labor decontrol, and to a lesser extent, civil service retrenchment.

The GOZ has successfully overcome the immediate challenges presented by these factors, and the aftershocks of the drought are now working their way out of the economy. However, in the longer term, by adding substantially to the country's foreign debt, the drought could adversely affect Zimbabwe's import capacity. The country remains vulnerable to further exogenous shocks of this nature.

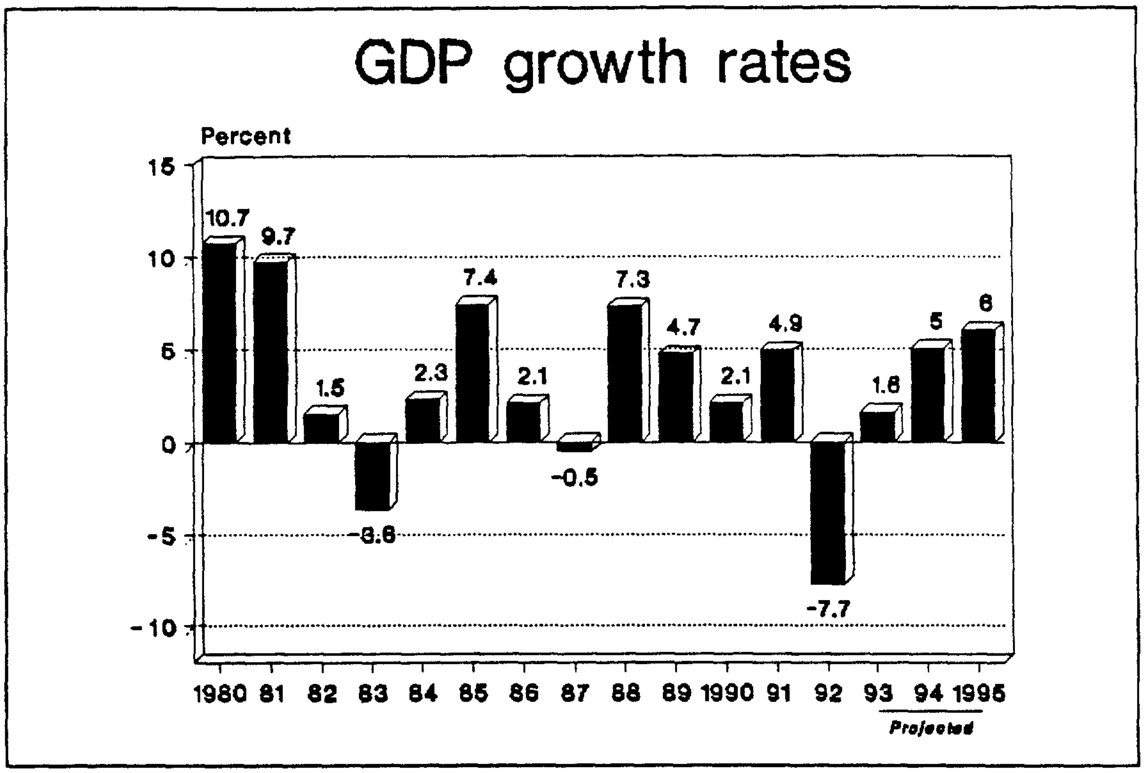
On the positive side, the basic resilience of the economy has once again been tested and reaffirmed, as has the capacity of the Government to respond adequately and take the necessary corrective measures when confronted with unexpected changes in the economic environment. The key to the success achieved in maintaining the stabilization effort was the authorities' response to the emerging large shortfall in external assistance in the second half of 1992. Credit to the private sector was reduced markedly to contain domestic and external resource imbalances. Responding to the events of the past few years has proved an enormous challenge, and the GOZ deserves to be commended for its efforts.

The most important achievements in the implementation of ESAP during 1993 are: (i) the implementation of appropriately restrictive monetary policies which have resulted in a substantial decline in the rate of inflation, a greater than expected reduction in the current account deficit and a substantial increase in foreign reserves; (ii) the expansion, beyond the original schedule, of the Export Retention Scheme, thus raising the share of imports free of licensing restrictions; (iii) the introduction of individual foreign currency accounts, effectively eliminating exchange controls for individuals; (iv) investment promotion measures including the liberalization of restrictions on capital and dividend remittances for new foreign investors and the introduction of portfolio investment on the Zimbabwe Stock Exchange; and (v) wide ranging reforms in agricultural pricing and marketing.

The most notable failures in 1993 are: (i) the absence of measures to redefine the role of the public enterprise sector and thus limit the losses which continue to thwart efforts to contain the domestic resource imbalance; (ii) continued slippage in the area of domestic deregulation, particularly that related to the failure to repeal laws and regulations which inhibit the operation of the small-scale and informal business sectors; and (iii) GOZ's continued suspicion of the private sector and its reluctance to fully embrace the merits and principles of privatization.

Although the Central Government budget deficit is expected to be reduced from 11.2 to about 6.5 percent of GDP this year, the larger than expected operating losses of the major public enterprises will add significantly to the deficit in future years. By diverting resources from the private to the public sector, this could limit the required supply response of the economy during the next phase of the structural adjustment program. Public enterprise reform requires the urgent attention of the GOZ.

II. Economic Performance Review



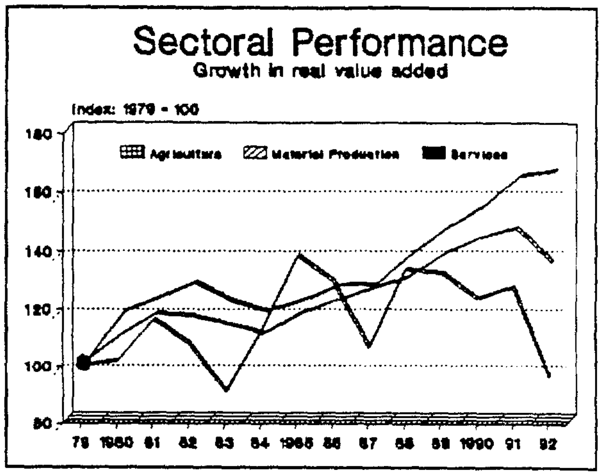
The economic performance during the past year has been dominated by the aftereffects of the worst drought this century (1991/92 season) as well as an adverse external trading environment. In addition, a considerable shortfall in disbursements of foreign loans and grants during the three quarters to March 1993 led to an increase in the Government domestic borrowing requirement. To constrain demand, private sector credit was tightened markedly, and this exacerbated the drought-induced fall in investment and production.

Real GDP is estimated to have declined by 7.7 percent in 1992 -- the steepest one year fall in output since 1933 -- as agricultural output fell by 24 percent and industrial and mining production by 8 percent. The fall in agricultural output last year would have been even more pronounced had there not been an 18 percent increase in the size of the tobacco crop[1]. Maize, cotton and sugar output all fell by 70-75 percent in 1992.

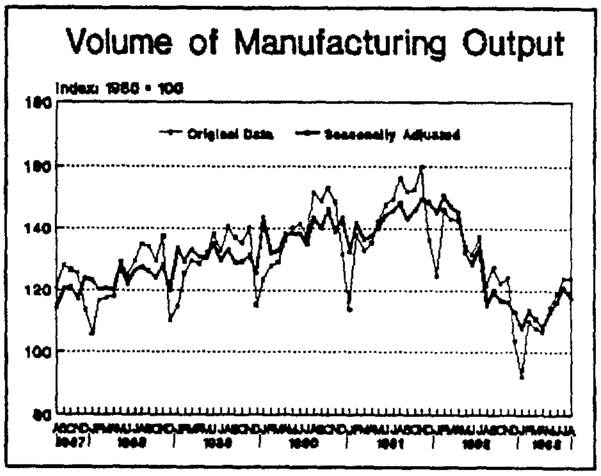
Significantly, the non-government services sector (which accounts for 33 percent of GDP) registered positive growth in 1992 -- in spite of the drastically eroded incomes in the rest of the economy. Growth in the non-government services sector last year, is explained in part by a 15.4 percent increase in transport activity associated with the drought. However, this was offset by a decline of 9.1 percent in distribution and hotels, and there was no change in the financial services sector. "Other services" -- which

[1] The agriculture component of GDP is based on the volume of marketed output.

includes advertising, legal services, accounting, consulting, and data processing -- shook off the recession to register growth of 9.8 percent. This is by far the fastest growing sub-sector, pointing to the growing maturity of the economy.



The good rains this year have led to a strong recovery in the agricultural sector, which is expected to fully regain the decline in output experienced last year. There has been an above average harvest of maize, a 300 percent increase in the volume of cotton output and the largest ever tobacco crop. The 25 percent growth in the volume of agricultural output this year will, on its own, add 3 percentage points to the GDP growth rate this year. The services sector is expected to add an additional 1.3 percent to growth this year. Together, agriculture and services account for 65 percent of the economy.



The manufacturing sector accounts for a quarter of Zimbabwe's GDP and the performance of this sector thus has a powerful impact on the GDP growth rate. For the eight months through August 1993 (the latest month for which data is available), the index was 17 percent below that of the comparable period of last year. In spite of the growth currently being experienced, the manufacturing sector is expected to record negative growth of about 9 percent for the year as a whole. This will reduce the GDP growth rate by about 2.2 percent. Similarly, mining output is also expected to fall by about 7 percent, reducing GDP growth by 0.5 percent.

For 1993 as a whole therefore, growth in agriculture and services (4.3%) is likely to be offset by a contraction in manufacturing and mining (2.7%), resulting in a GDP growth forecast of 1.6 percent.

There are strong signs that the drought induced recession has ended and that the economy turned around after mid-1993. The main factors behind this are: (i) an increase in national expenditure associated primarily with the agricultural recovery; (ii) lower nominal and real interest rates and improved private sector credit availability; (iii) an increase in business confidence; and (iv) accelerated reforms in the trade and payments system and in agricultural pricing and marketing. Assuming the absence of drought this year, it is expected that the economy will grow by 4-5 percent during the year to June 1994.

III. Macroeconomic Stabilization

1.Domestic Economy

Public Finance

After a decade in which large fiscal deficits have restrained economic performance, in 1992 the Government introduced a budget which was aimed at halving the budget deficit from 11.2 percent of GDP to 5.4 percent of GDP in one year. This was to be achieved by cutting Government spending from 44 percent of GDP last year to 38 percent in FY 1993/94, while holding revenue at a third of GDP - barely changed from last year (chart on following page). As these projections appeared ambitious -- on both the revenue and the expenditure side -- they were the focus of extensive consultations with the IMF and the World Bank, which commenced in September and were only concluded in mid-November. The consultations have concluded that the budget deficit will be reduced to about 6 percent of GDP (versus a target of 5.4 percent), although the relative components of expenditure and revenue have changed from the original assumptions.

On the expenditure side, the Government expects to save Z$ 700 million from the removal of subsidies on maize and wheat. When combined with the fall in drought related expenditures, this should result in a reduction of government subsidies and transfer payments amounting to 3.5 percent of GDP. In addition, it is anticipated that real (albeit more modest) cuts will be achieved in other areas of the recurrent budget, including some reduction in the civil service wage bill and cuts in other operating expenses.

Revenue collections for FY 1993/94 are reportedly on track, with the first quarter realizations (July - September) being significantly higher than projected. This is explained mainly by the recent increase in interest charges (up from 10% to 30%) levied on taxation arrears. This revenue trend should continue through the second half of the year, when 60 percent of revenues are traditionally generated.

It appears the scope for achieving real cuts in the recurrent budget (beyond those associated with food subsidies and drought relief) is limited by the difficulties being encountered in trimming the civil service wage bill and the continuing high level of military expenditures. A more realistic Central Government budget deficit would be 6.5 percent of GDP for FY 1993/94. It should be noted, however, that this deficit figure reflects only the operations of the Central Government. While it includes the subsidies paid by the Central Government to the public enterprise sector, it does not reflect the actual operating losses of public enterprises.

After allowing for substantial public enterprise operating losses (about Z$ 815 million), the Limited Public Sector deficit -- as distinct from the Central Government deficit -- will be larger than 6.5 percent of GDP this fiscal year. The Limited Public Sector deficit, an alternative measurement used routinely by the IMF, allows the current operations of the public enterprise sector to be reflected by deducting transfers to parastatals from the central government deficit before adding back the total current operating losses of public enterprises. In FY 1993/94, the Limited Public Sector deficit is

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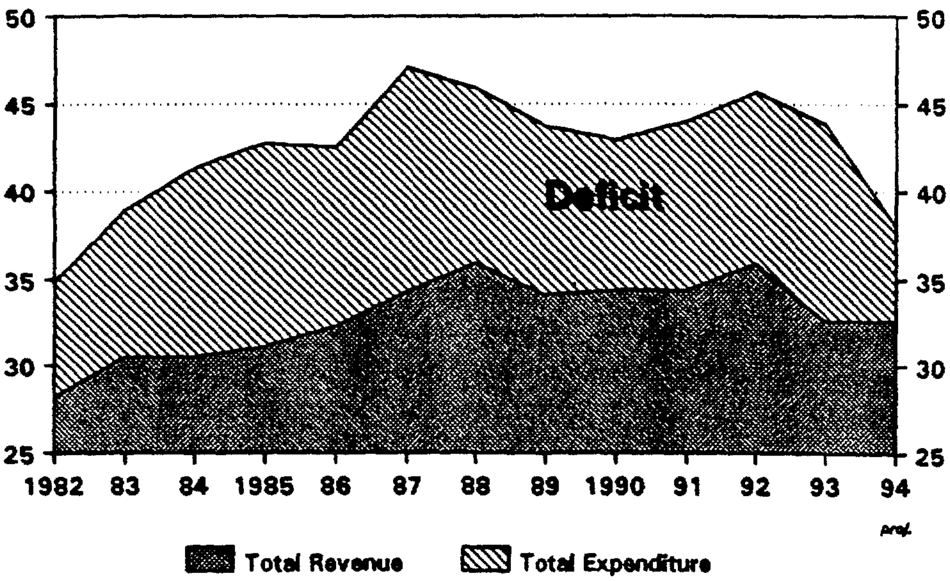
Central Government Operations

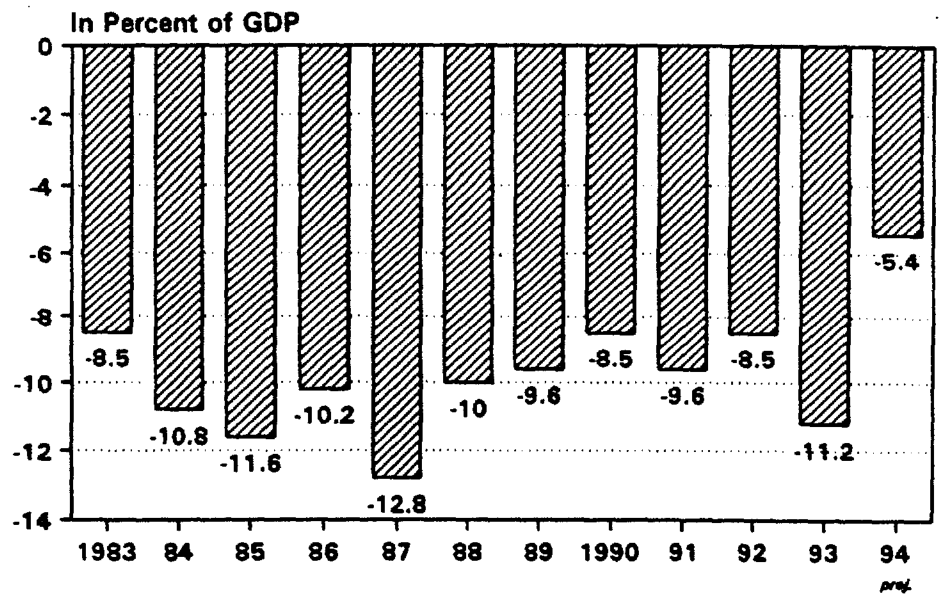
(Percent of GDP)



Fiscal years ended 1982-94

Overall Budget Deficit

(Excluding foreign aid grants)



Fiscal years ended 1983-94

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expected to be approximately 8.5 percent of GDP -- or some 2 percentage points of GDP higher than the Central Government deficit.

Although the structural budget deficit is falling, as reflected in the near halving of the budget deficit in one year (from 11.2 to 6.5 % of GDP), large internal imbalances persist and it is not yet clear what measures, if any, the GOZ will take to contain these. The increase in the financial leakage from the public enterprise sector is alarming and urgently needs to be addressed. Furthermore, understandings reached with the IMF and the World Bank early in 1993, which called for nominal expenditure cuts of at least Z$ 65 million in defense outlays during 1992/93, did not materialize. Defense expenditures increased in nominal terms by Z$ 149 million during FY 1992/93 and are budgeted to rise further, by Z$ 189 million in FY 1993/94. Although these do not represent increases in real terms, more could be done to take advantage of the recent improvements in the regional security situation.

Civil Service Reform

The GOZ has repeatedly argued that a major restructuring of the civil service is underway, in accordance with the objectives of the economic reform program. While the GOZ maintains that retrenchments are on schedule, there has been some slippage in this area.

According to IMF structural performance criteria[2], by the end of June 1993, a cumulative 13,000 civil service positions were to be eliminated[3]. This provision appears not to have been complied with, as only 10,044 posts were eliminated during the two years through June 1993. Normally, if any of the structural performance criteria are not observed, there can be no automatic purchase of IMF resources.

In its Memorandum of Economic and Financial Policies addressed to the IMF in April 1993, the GOZ stated that the retrenchments through December 1992 had largely effected lower-level civil servants and that this would be broadened in the second half of FY 1992/93 to include all levels of civil servants. There has, however, been no indication of any action on the part of the GOZ to support this statement.

During the two years ending June 1993, a total of 4,896 civil service employees were actually retrenched (versus 10,044 posts abolished). By the end of September 1993, an additional 186 employees had been retrenched, bringing the cumulative total of persons retrenched to 5,082. In excess of 90 percent of these (4,629) were lower level clerks. Only 453 higher level "officers" have so far been retrenched under the civil service reform program.

[It may be noted that the above information does not square with data released recently by the Central Statistics Office (CSO), which points to an overall loss of only 1,500 jobs in the public administration sector during calendar year 1992. The

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[2] The first review of arrangements under the Enhanced Structural Adjustment Facility (ESAF), dated April 28, 1993.

[3] See Paragraph 35 of the World Bank report for the CG.

discrepancy is explained by the fact that the CSO data includes local authority and rural council employees. Total employment in the public administration sector, including local authorities and rural councils, fell from 94,900 in 1991 to 93,400 in 1992.]

The GOZ's Framework for Economic Reform document of January 1991, which originally defined the structural adjustment program, stated that the civil service, excluding education and health sector employees, would be reduced by about 25 percent (or some 26,000 employees) during the five years through 1995. After allowing for a natural attrition rate of about 3,000 - 4,000 civil servants annually, a total of about 10,000 employees would actually need to be retrenched during the course of the five year program. This schedule suggests that another 5,000 civil service employees will need to be actually retrenched during the two remaining years of the program.

Annex 1 gives further details of the reduction in the authorized civil service establishment for the past two fiscal years. It can be seen that the largest number of posts deleted were in the: Ministries of Education (9,788); Transport (6,797); National Affairs (1,781); Local Government (895); and Health (563). Given that Education and Health are technically exempt from the civil service reduction exercise, it is surprising that some of the largest cuts have come in these two areas.

Public Enterprise Reform

After working for more than a year, a team of consultants supervised by the Irish Trade and Development Institute has completed studies of 17 public enterprises. An extensive report (thirteen volumes, providing detailed recommendations for improving the operating efficiencies of the public enterprises) was submitted to the Government in September. This was more than two years behind schedule. The draft reports have been reviewed by the GOZ and returned to the consultants with final issues. The final reports are expected to be submitted within the next few weeks and, according to the Government, any policy decisions to be taken will be based on the recommendations of this study. According to GOZ officials, faster policy movement can now be expected and private participation will be considered for every public enterprise.

Following the announcement of the FY 1993/94 budget in July, the World Bank issued its endorsement. The Bank pointed out that the projected fall in recurrent expenditures would reflect (i) the phasing out of drought related expenditures and (ii) the reduced level of Central Government subsidy transfers to loss making public enterprises. However, the planned reduction in public enterprise losses has not materialized -- mainly because the savings associated with the elimination of the food subsidies have been offset by the cost of holding large grain stocks. The table below shows the combined operating losses of the ten major public enterprises for FY 1992/93 and FY 1993/94.

Under the Framework for Economic Reform document of January 1991, which originally defined the structural adjustment program, the combined operating losses of the ten major public enterprises were scheduled to fall from Z$ 650 million in FY 1990/91 to Z$ 133 million in FY 1992/93 and further to Z$ 88 million in FY 1993/94. Under a revised schedule agreed with the IMF last April, these combined losses were targeted to be reduced from Z$ 582 million in FY 1991/92 to Z$ 338 million in FY 1992/93 and this latter figure was adopted as a performance criteria under the ESAF arrangement. As the table shows, the combined losses of the major PEs in FY 1992/93 (Z$ 772 million), exceeded the estimate made only six months ago (Z$ 338.1 million) by a very wide margin. The projected losses of Z$ 815 million for FY 1993/94 are ten times larger than that (Z$ 88 million) projected by the original Framework for Economic Reform.

Table 1: **Operating losses for Major Public Enterprises; (Surplus = -)**

	1992/93		1993/94	
	Original	Revised	Original	Revised
National Railways of Zimbabwe	65.4	127.0	50.0	..
Zimbabwe Electricity Supply	-141.0	-262.0	-620.0	..
Grain Marketing Board	292.3	625.7	823.8	..
Cold Storage Commission	59.6	125.0	..	..
Dairy Marketing Board	-8.3	-0.1	..	..
Cotton Marketing Board	125.8	100.9	..	..
Air Zimbabwe Corporation	9.7	41.0	..	..
Zimbabwe Iron and Steel Company	125.1	180.4	650.2	..
Agricultural Finance Corporation	-7.9	-2.7	..	..
National Oil Company of Zimbabwe	-163.2	-163.2	-89.0	..
Total	338.1	772.0	815.0	..

Source: Government of Zimbabwe.

The major areas of concern are in the following three public enterprises: the Grain Marketing Board (GMB); the Zimbabwe Iron and Steel Company (ZISCO) and the National Railways of Zimbabwe (NRZ).

Grain Marketing Board: There are three primary reasons for the increased losses being incurred by the GMB: (i) the low level of maize sales; (ii) the losses which have been incurred on the export of yellow maize; and (iii) the carrying costs associated with the high stocks of white maize. In addition to these, the GMB was financing its stocks at the high interest rate of 32 percent -- an interest rate created by the previously restrictive monetary policies.

The removal of subsidies to commercial millers on maize has led to a sharp increase in the retail price of commercially marketed maize-meal (roller meal). This has caused an increase in on-farm maize retentions and a switch in urban consumption from roller meal to cheaper, less refined, straight run meal which is being imported into urban

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areas directly from the farms. The reduced demand for roller meal has led to falling sales for the large scale milling companies, and lower offtake from GMB stocks.

The maize marketing year in Zimbabwe runs from April to March. By mid-November the GMB had purchased 1,164,816 tons of white maize from local farmers and had unsold stocks of 1,097,654 tons. During eight months of trading, the GMB had thus sold only 67,162 tons of white maize, compared to about 650,000 tons which normally have been sold at the same stage of previous non-drought marketing years. This problem is compounded by the fact that the GMB is not allowed to export white maize without prior Government authorization -- which has not been forthcoming. Out of its current stock of nearly 1,100,000 tons, the GMB requires about 250,000 tons to service the requirements of domestic millers through to the end of the marketing season. The Government considers the balance of 850,000 tons to be part of the national reserve stock which the Government has determined will be 936,000 tons. Therefore, the Government will not permit the GMB to export white maize until the national reserve stock has been achieved. It is widely thought that the national reserve stock level has been set at too high a level and that a reserve maize stock of around 400,000 tons would be more prudent. By having to carry more than one million tons of white maize, the GMB is incurring sizable financing costs, amounting to more than Z$ 25 million per month. The Government has stated that it will separate the commercial and social/developmental functions of the agricultural marketing boards before the beginning of the 1994/95 marketing season (April 1994). However, it remains to be seen whether the GMB will be relieved of the large financing costs associated with the national maize reserve.

The extraordinary GMB losses in FY 1992/93 and in FY 1993/94 are also explained by the substantial losses which are being made on the export of yellow maize. By mid-November the GMB had purchased 164,337 tons of yellow maize from domestic producers, of which more than 100,000 tons were exported at an average loss of Z$ 400 per ton (the GMB paid Z$ 900 per ton and is realizing an average of only Z$ 500 per ton). Total losses on this account, therefore, amount to more than Z$ 40 million.[4] Compounding this year's stock problem are the losses being incurred on the sale of the imported carry-over stock of 450,000 tons of yellow maize from last year; at even greater losses than that being made on the export of domestically produced maize. The imported maize was bought at Z$ 1,200 per ton and exported at Z$ 500 per ton, implying average losses of Z$ 700 per ton. The total losses on this account therefore amount to Z$ 300 million. In all, losses of about Z$ 340 million have been made on the export of yellow maize.

Finally, as long as farmers are paid an agreed price which is above the export parity price, maize will in effect continue to be subsidized -- with the subsidy having been shifted from the miller to the producer. The unexpected problems in maize pricing (the GMB price has turned out to be a ceiling price and not a floor price) point to a need to change the maize pricing system. A seasonal pricing system, with lower prices at the beginning of the marketing season and higher prices latet in the season, is being considered. Price changes would be announced on a quarterly basis as the season

[4] Z$ 620 per ton is the highest price realized for any export shipment of yellow maize.

progresses. Another alternative being considered is a two-tier pricing system, where the GMB purchases a set amount at a guaranteed price. Discussions are in progress between the GMB and farmers, aimed at formulating a new pricing system.

The financial position of **ZISCO**, Sub-Saharan Africa's only integrated steelworks outside of South Africa, has deteriorated markedly. Although there is considerable confusion as to the steelworks' exact financial situation, there is no doubt that the company is in extreme financial stress. A recent press article quoted the Irish consultants (referred to above) as having reported that the company is insolvent, with a negative net worth of Z$ 253 million and total debt of over Z$ 1 billion. The only way to rescue the company, according to the consultant's report is to: (i) downsize it to cope with domestic demand only; (ii) invest at least Z$ 1.8 billion in new capital equipment (the Government estimates the required investment at more than Z$ 3 billion); (iii) write off Government loans of Z$ 810 million; and (iv) spend Z$ 120 million annually on maintenance. The main causes of the problems were identified as: (i) Government controls on prices, which were below world market prices, until June 1991; (ii) inadequate investment; and (iii) low domestic demand in relation to plant capacity.

ZISCO has been operating at 20 percent capacity since the main blast furnace No 4, which produces 70 percent of ZISCO's output, was taken out of commission earlier this year for relining, estimated to cost Z$ 100 million. There is a need to quickly complete work on No 4 furnace before the old No 3 furnace, which is nearing the end of its life, breaks down. It is unlikely that the rehabilitation contract for the relining of the No 3 furnace, estimated at Z$ 60 million, will be awarded until the financial future of the company is settled. Other high priority investment projects are: a new iron ore mine (Z$ 460 million); a new sinter plant to treat iron ore (Z$ 600 million); and a plant to provide emergency power (Z$ 470 million).

The failure of ZISCO to pay its bills resulted in at least three companies, including NRZ and Wankie Colliery, threatening the suspension of supplies. In a move which helped to crowd out the availability of credit to the private sector of the economy, ZISCO issued Z$ 250 million worth of Government guaranteed bonds in order to pay these debts. The GOZ has stated[5] that it will write off ZISCO's debt and seek private investors to buy shares in the company. There was no provision for writing off the Z$ 810 million in debt in this year's budget, a move which on its own would have added two percentage points to the budget deficit. The Government is apparently committed to selling off parts of ZISCO, although it hopes to retain majority ownership. Although a number of foreign companies are understood to have been approached by the Government, so far no commitments to invest in ZISCO have been secured.

Clearly, there is an urgent need for tough decisions to be taken with regard to ZISCO. The solution lies in a combination of mobilizing private equity participation, even if initially fairly limited, and restructuring the organization by spinning off or sub-contracting non-core operations. The Government's immediate concern is to keep at least one blast furnace operational, and thus avoid the need to import steel products should

[5] In a Memorandum of Economic and Financial Policies addressed to the IMF on April 6, 1993.

there be a breakdown. According to the Government, the import costs would be close to Z$ 1 billion per month, a figure which seems implausible given that total merchandise imports are about Z$ 0.9 billion per month. Clearly, any major disruption of the supply of steel to the economy would have a considerable impact. The metals sub-sector has the greatest number of linkages within the industrial sector and accounts for nearly a third of all manufacturing output. The Government has not fully accepted the need to downsize ZISCO and instead would prefer to see the steelworks progress from producing steel ingots to producing "flat products" where the returns on investment are assumed to be higher.

In an effort to reduce costs, and in accordance with commitments given to the IMF earlier this year,[6] ZISCO recently laid off more than 1,000 employees, bringing the cumulative layoffs to 1,200 posts or 20 percent of the workforce.

The higher than expected losses of the **NRZ** (as shown in the table 1) are attributed to a decline in rail traffic. NRZ tariffs have been raised and are now comparable to those of road haulage companies, contributing to the diversion of traditional business, including Zambian copper, to truck haulage. In addition, the NRZ was owed a total of Z$ 220 million by Wankie Colliery, ZISCO and the GMB and this amount remained outstanding for a full year. Although the amount was expected to have been paid in full by the end of October, the non-payment by these debtors contributed to NRZ's operating losses, forcing it to increase borrowings for working capital and thus adding to large debt service commitments.

NRZ has not undertaken a comprehensive manpower survey stipulated by the World Bank, but 2,000 positions (one eighth of the workforce) have been identified for retrenchment. A number of additional measures aimed at reducing the deficit have been taken, including: (i) certain Security Branch stations have been closed down and the work contracted out to private firms; (ii) most of the catering services have been leased out to private operators, with the remaining ones to be privatized and operated by former employees; and (iii) due to falling traffic, selective goods sheds have been closed. The NRZ Board earlier this year approved the sale of an ancillary operation, the Road Motor Services. However, later, under pressure from the union, this decision was reversed.

Employment and Wages

A total of 17,839 persons were retrenched from the private sector, parastatals, and local authorities during the period January 1991 to October 1993. Of these, parastatal retrenchments accounted for 2,368 persons, while 1,547 persons were retrenched from local authorities. During the second half of 1993, most of the labor shedding in the private sector has taken place in the engineering, iron and steel industries, where 1,121 employees were retrenched in the third quarter alone.

The turnaround in the economy in the latter half of 1993, and the increase in purchasing power, is reflected in the significant decline in the number of retrenchees in the commercial sector. The commercial sector retrenchment figures for the first three

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[6] Memorandum of Economic and Financial Policies, April 1993.

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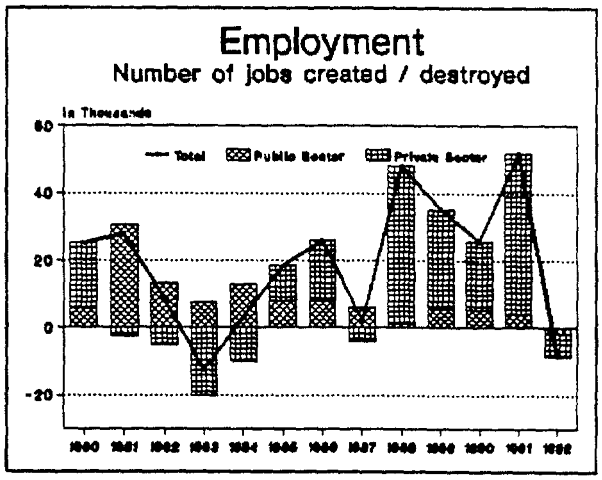
quarters of 1993 are 518, 58 and 42, respectively. In the mining sector, retrenchments have fallen from 3,171 in the first quarter, to 235 and 119 in the second and third quarters, respectively.

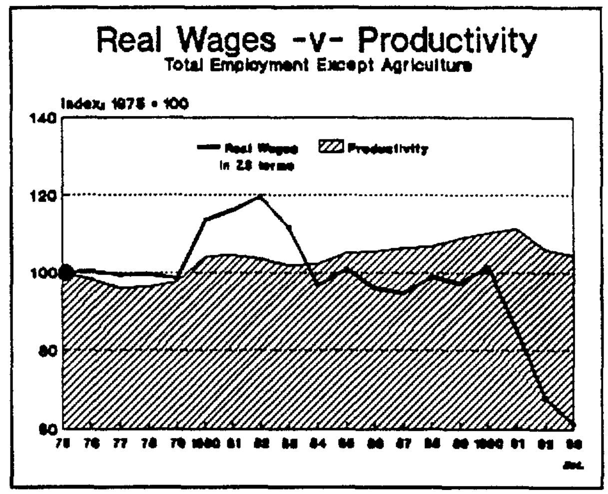
Ministry of Labor statistics indicate that parastatals have retrenched only 466 employees during 1993, with the largest number of retrenchments (166) coming from the Grain Marketing Board. Of the local authorities, the only significant labor shedding program has come from the Harare Municipality which has retrenched 277 employees this year.



According to the official employment figures released recently by the Central Statistical Office (CSO), a total of 8,500 formal sector jobs were destroyed during 1992. The manufacturing sector shed the largest number of jobs (8,300), followed by agriculture (4,400), and transport and communications (3,900). These job losses were partially offset by unexpected increases in employment in a number of other sectors last year, notably construction (8,400) and services (2,000). The performance of these two sectors resulted in the overall employment outturn in 1992 being significantly better than had generally been anticipated. For example, in its recent report prepared for the upcoming CG meeting, the World Bank incorrectly estimated that 22,000 jobs had been lost during 1992. Of the total 8,500 jobs destroyed last year, 6,800 (or 80%) were accounted for by the private sector, with a net total of only 4,100 jobs being destroyed in the non-farm, formal sector of the economy.

Official CSO employment figures for calendar year 1992, indicate that only 1,500 positions in public administration were eliminated. These figures are at odds with the information provided to the IMF and World Bank, which indicate around 5,000 civil servants having been retrenched since 1991. The discrepancy is explained, however, by the fact that the CSO data includes local governments and rural councils.

Zimbabwe's total labor force is about 4.5 million. Of this, 1.236 million (27%) are employed in the formal sector of the economy and about 1.6 million (35%) are employed in the informal sector. The balance of about 1.7 million (37%) are accounted for by the communal and small scale farming sector. The fastest rate of formal sector job creation since independence occurred during the four year period immediately prior to the drought (1988-91), when an average of 40,000 new jobs were created annually. An additional 40,000 openings were being created annually by natural attrition, implying a total of about 80,000 job opportunities in the formal sector each year. Even during this period, when the economy was growing at an average annual rate of 4.8 percent, the growth in formal sector employment was not enough to keep pace with the more than 200,000 school leavers entering the labor force each year. It is anticipated that with an increased supply response from 1994 onwards, there will again be formal sector openings for about 100,000 new entrants per annum, with about 60,000 of these openings arising from employment expansion. Once again, this will not be enough to keep up with the continued entry of about 200,000 job seekers each year. The balance of about 100,000 will be absorbed by the informal sector and the communal and small-scale agriculture sector or be unemployed. The Government recently estimated formal sector unemployment (excluding communal agriculture) at 45 percent -- up from 40 percent two years ago. With the labor force growing at 4.1 percent, in excess of 50,000 new formal sector jobs need to be generated annually. Alternatively, greater opportunities for the growth of the informal sector must be created.



Real wages in local currency terms fell by 33 percent in the two year period 1991-1992 (see chart), driven downward by the combination of inflation and recession. Average non-farm wages have fallen to half of the level of ten years ago and are now at the lowest level in twenty years. Although not shown in the chart, the trend would be even more severe if recent exchange rate movements were to be taken into account -- i.e., from the viewpoint of the potential foreign investor. Despite the high and rising rate of unemployment, this sharp decline in real wages is likely to result in significant upward pressure on wages -- and on underlying inflation -- during the next few years as the economy recovers.

Monetary Policy and Inflation

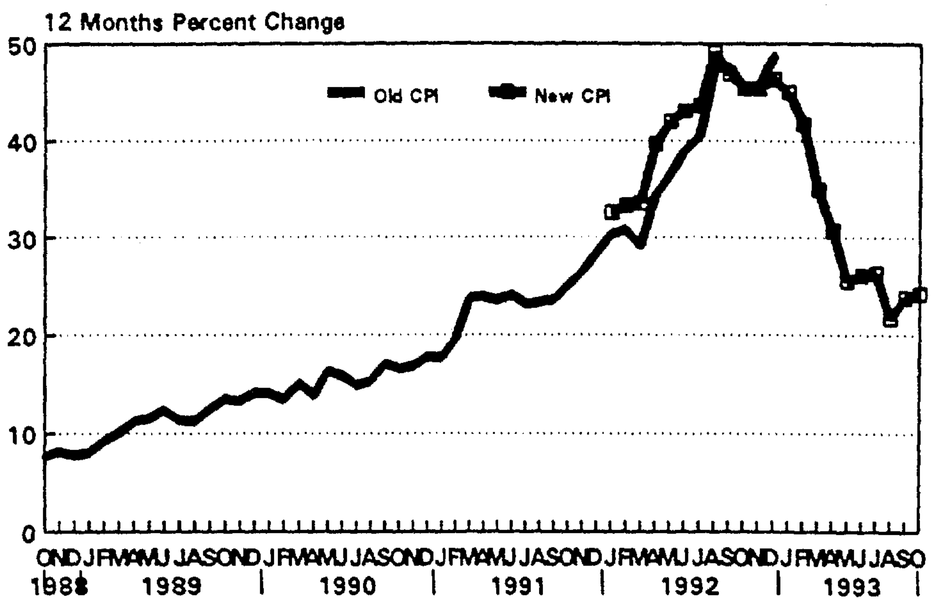
The sharp acceleration in the rate of **inflation**, from below 20 percent in early 1991 to nearly 50 percent by mid-1992, was caused by a combination of: (i) the loose fiscal policies of the 1980's; (ii) inappropriately loose monetary policies during the second and third quarters of 1991; (iii) policy induced measures under ESAP, including the liberalization of price controls; and (iv) the impact of the drought on food and electricity prices during 1992.

Due to high interest rates and restrictive credit conditions during the past two years, substantial progress has been made in containing the rate of inflation. After peaking at 49.1 percent in August 1992, the 12-month (year on year) rate of inflation has fallen faster than expected. As the chart on the following page shows, 12-month inflation remained below 25 percent since August 1993, and is expected to fall further, to 20 percent in December 1993. [The consumer price index has been updated to reflect the results of the 1991 household income, consumption and expenditure survey. The new "national" consumer price index includes coverage of the rural areas.]

The fall in the underlying rate of inflation is reflected in the monthly annualized figures (as shown in a separate chart on the following page). After peaking at 142 percent in March 1992, monthly annualized inflation has subsided markedly. A negative

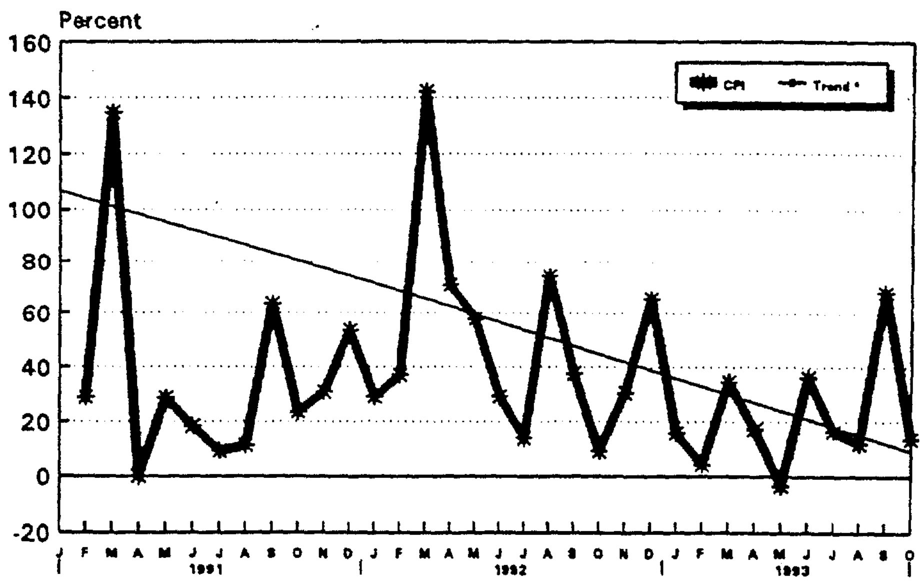
Consumer Price Inflation

The past five years



Annualised Inflation

Monthly inflation at an annual rate



* Trend line for past 18 months

monthly inflation figure was registered in May 1993, for the first time in five years and the second time since independence. In October 1993, the latest month for which data is available, monthly annualized inflation was 13.5 percent.

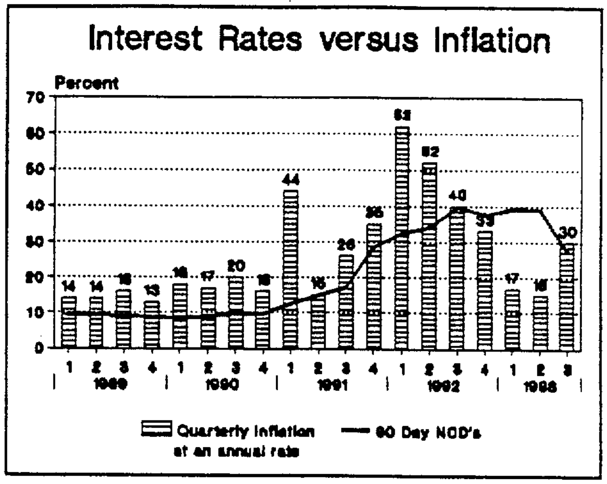
Zimbabwe's economic stabilization effort has been led by **monetary policy** since the second half of 1991. The policy has proved very effective in reducing the rate of inflation and in reducing the deficit on the current account of the balance of payments (as discussed later in the section on external financing). However, the decline in the availability of credit to the private sector associated with this monetary policy stance, has contributed to the drought induced recession and has delayed the post-drought recovery.

The reduction in credit to the private sector during the 12 months to June 1993 was much more severe than had originally been anticipated. This was due primarily to a major shortfall -- Z$ 1.1 billion -- in the disbursement of external loans and grants to the Government. As a result of the shortfall in external financing, the Government's domestic borrowing requirement was much larger than originally anticipated. The Government overdraft at the Reserve Bank thus increased from Z$ 0.5 billion in mid-1992 to Z$ 2.0 billion at the end of 1992. In order to keep the overall monetary expansion in check, the Reserve Bank compensated for the unexpected surge in the Government overdraft by markedly tightening its discount policies. Credit to the private sector contracted sharply, and by the end of December 1992, Reserve Bank credit to the private sector was Z$ 1.3 billion lower than intended under the IMF supported program.

[Three main factors accounted for the shortfall in external financing: (i) administrative delays and the Government's failure to comply with documentation requirements; (ii) limitations by some creditors on acceptable types of imports to be financed; and (iii) exclusion by some creditors of imports from South Africa. In order to speed up disbursements in the future, a Disbursements Committee has been established and is co-chaired by the Reserve Bank and the Ministry of Finance. Special units, reporting to the Disbursement Committee, have been established in the Accountant General's office and at the Reserve Bank, to facilitate and monitor the processing of documentation related to the disbursement of foreign loans and grants.]

Monetary policy was at its most restrictive during the 12 month period ending June 1993, when nominal GDP grew by about 27 percent. During this period, the broad money supply expanded by only about 15 percent in nominal terms, implying a considerable reduction in the real money supply. Credit to the private sector grew by only 7 percent in nominal terms during this period.

Since mid-1993 there has been a significant easing of private sector credit availability. There are two main reasons for this. First, after the delays encountered last year, there were substantial disbursements (more than Z$ 1 billion) of foreign loans and grants during the first half of this year. This enabled the Government to reduce its overdraft at the Reserve Bank from Z$ 2 billion to Z$ 0.75 billion by the end of June 1993. In turn, this meant that the Reserve Bank was able to increase the amount of credit to the private sector, while still remaining inside the overall domestic credit limits agreed with the IMF.



Second, the considerable reduction in inflation during the first six months of 1993 cleared the way for a fall in interest rates. As can be seen from the chart, the annualized inflation figures for the first two quarters of 1993 turned out at 17 percent and 15 percent respectively. In July, immediately after the second quarter inflation data became known, the Reserve Bank took steps to reduce interest rates and ease monetary policy. The overnight accommodation rate was reduced from 39 percent to 34 percent and then further to 31 percent, while at the same time the banks were afforded unlimited accommodation at these rates. As a result of these moves, short term interest rates (for 90 day NCDs) fell by more than 10 percentage points, from around 40 percent to below 30 percent.

The IMF benchmarks for maintaining real interest rates have been observed since the fourth quarter of 1992[7]. In fact, real interest rates in Zimbabwe have been extraordinarily high. Calculated on the basis explained in the footnote below, real interest rates were in the 15-20 percent range during the first two quarters of 1993, and about 10 percent in the third quarter of 1993. In fact these numbers represent an underestimate of the level of real interest rates, given that average lending rates are now higher than the 90-day NCD rate.

In recent months there has been a surge in the money supply, with the 12-month change in broad money (M2) rising from 15 percent in June to 42 percent in October, the latest month for which data is available. Although greater than anticipated, this increase is in line with the seasonal increase in incomes associated with the agricultural marketing cycle and also reflects the considerable inflow of external financing referred to earlier. Nevertheless, the recent surge in the money supply does limit the scope for any further relaxation of monetary policy during the next few months.

During 1993, monetary policy has been aimed at further dampening inflation and containing the balance of payments, while at the same time providing adequate support for the economic recovery. Finding the appropriate balance between these two competing objectives is proving to be a difficult challenge. In a move designed to lower lending rates, the Reserve Bank recently introduced a formula which effectively penalizes banks whose average lending rates exceed the Reserve Bank overnight accommodation by more

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[7] Under the IMF supported program, real interest rates are based on the 90-day NCD rate and are calculated as follows: The average 90-day NCD rate in the last month of the previous quarter is compared with the annualized inflation rate for the current quarter. By using the 90-day NCD rate rather than the average lending rate the need for esimation is avoided.

than 4.5 percent. (The Reserve Bank overnight accommodation rate is currently 28.5 percent., but higher rates are charged to banks whose average lending rates exceed 33 percent.)

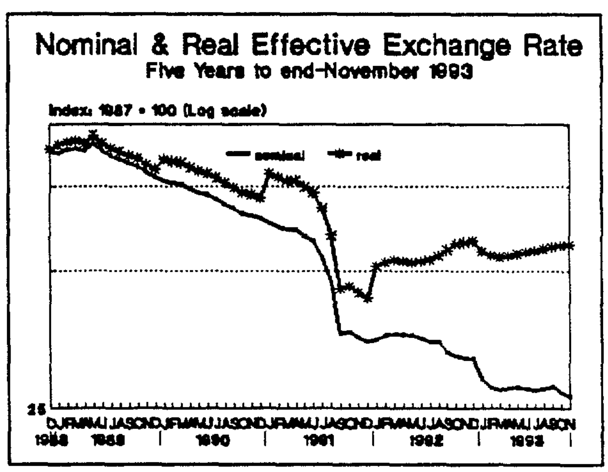
Restrictions on building societies' mortgage rates and, therefore, deposit rates have remained in force. Consequently, these institutions faced great difficulty in attracting new funds and provision of new mortgage loans was curtailed. While the demand for funds was still intense among deposit institutions, the Government raised deposit rates at its Post Office Savings Bank[8] and the funding problem of building societies was exacerbated by this move. It has only been during the last 3-4 months when rates on the money market eased, that building society deposit rates have been competitive and the flow of funds has improved. Building society deposits rose by 18 percent in the two quarters to September and it is anticipated that mortgage lending will resume shortly.

2. External Economy

Exchange Rate Policy

Zimbabwe's external competitiveness has improved in recent years. In the third quarter of 1991 the authorities staged a sharp step depreciation of the exchange rate of 38 percent. The graph shows the improved export competitiveness arising from the 1991 devaluation, as denoted by the movement of the real exchange rate index. Following the depreciation of 1991, the authorities maintained the nominal exchange rate as an anchor against inflation for fifteen months. During the first six weeks of 1993 the GOZ intervened again and a further step depreciation of 15 percent was effected.

Since February 1993, the authorities have not actively intervened and any movement in the exchange rate has been caused entirely by fluctuations in the major international currencies. From mid-October to mid-November the trade weighted exchange rate index fell by 5.5 percent. This is explained by the strengthening of the US dollar, which gained 7.5 percent against the Deutschemark during the same period.



[Zimbabwe is one of 34 countries in the world whose currencies are pegged to a basket of currencies of the countries' own choice. Although the exact composition of the Zimbabwe basket is held secret, it is estimated that the composition is as follows: European currencies 40 percent; US Dollar 30 percent; South African Rand 15 percent; regional

[8] In February 1993, POSB rates were raised by 39 percent in the case of savings accounts (to 19.75%) and by 50 percent in the case of fixed deposit accounts (to 21.75%).

currencies 10 percent; and other currencies including the Yen and Pacific Basin currencies 5 percent.]

It is an open question as to whether the GOZ will further adjust the official exchange rate in order to narrow the gap between the official and the market determined exchange rates, following the expected introduction of corporate Foreign Currency Accounts (FCAs) early next year. The introduction of the corportate FCAs is discussed in a section below and is intended to set the stage for a flexible exchange rate regime. Although the Reserve Bank has stated that there will be no further devaluation of the official rate, a further adjustment of about 15 percent is widely anticipated. Zimbabwe is unlikely to operate a two-tier exchange rate regime for very long as this is discouraged by multilateral donors such as the IMF. The gap between the official and the market determined rate is currently about 25 percent.

IV. Structural Adjustment

1. Trade Liberalization

The original objective of the trade liberalization program was to have 85 percent of the value of imports free of import licensing or any other form of quantitative restriction by the end of 1995. It was envisaged that the mechanism for achieving this would be through the progressive expansion of the list of tariff items that were eligible for importation under the Open General Import License (OGIL). Following the initial moves to expand the OGIL system in 1991, there was an unanticipated surge in imports which led to a rapid deterioration in the current account of the balance of payments (from 4.5 percent of GDP in 1990 to 12 percent of GDP in 1991). The authorities responded to this situation by: (i) allowing the exchange rate to depreciate by 40 percent; (ii) implementing a restrictive monetary policy; and (iii) modifying and expanding the Export Retention Scheme (ERS) which allowed exporters an automatic entitlement to foreign exchange equivalent to a specified proportion of their export earnings.

The strategy for import liberalization was thus revised to include an expansion of the OGIL simultaneously with an expansion of the ERS. The table 2 below shows the revised timetable for the trade liberalization process as it existed at the time of last year's CG. The proposed stategy was to increase the ERS ratio to 30 percent of exports in July 1992 - June 1993, and 35 percent in July - December 1993. The unrestricted OGIL was to have increase to 20 percent of exports by December 1992 and further to 35 percent by June 1993. As a result, it was anticipated that 50 percent of imports would be free of licensing restrictions during the first half of 1993.

Table 2: **Previous Schedule of Import Liberalization**

(Cumulative minimum percent of imports for OGIL and exports 1/ for ERS).

	Dec 91	Jun 92	Dec 93	Jun 93	Dec 93
OGIL	15	15	20	35	35
ERS	15	25	30	30	35
Imports free of licensing restrictions	30	40	50	65	70

1/ In the previous six-month period.

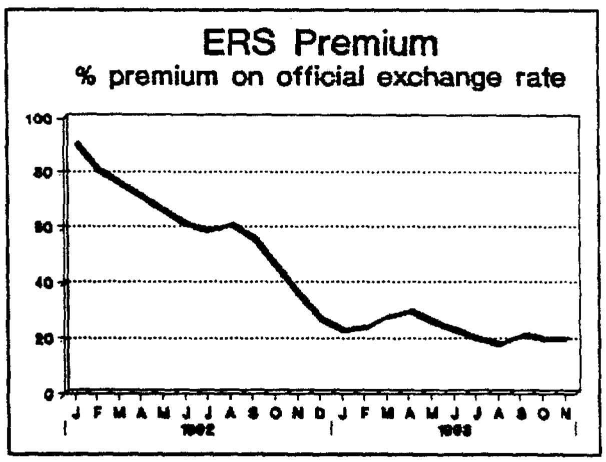
The above schedule has in fact been exceeded by a substantial margin, and the trade and payments liberalization process has been decisively advanced. The turning point came at the end of 1992 when the GOZ decided to advance the trade liberalization program by expanding the export retention scheme (ERS) only, rather than via a combination of both the ERS and the open general import license (OGIL) as had earlier been intended. As a result, the planned increase in the OGIL from 20 percent to 35 percent of tariff items in 1993 was cancelled and the level of ERS was raised immediately to 35 percent. This move came six months ahead of the schedule agreed to with the IMF/IBRD during 1992 and shown in the table above. The further expansion of the ERS to 50 percent of exports on April 1 1993 had the effect of accelerating the process even further ahead of schedule. The actual proportion of total imports freed of licensing restriction rose to 55 percent from January 1, and to 70 percent from April 1, 1993. This, together with the further streamlining of the import system (including the free trading of import entitlements and the introduction of foreign currency denominated accounts for individuals), has greatly strengthened the overall incentives to exporters and has created an overall business environment which is substantially more competitive.

Export Retention Scheme

The export retention scheme (ERS) was first introduced in early 1991. Under this, an exporter of either goods or services earns an entitlement to convert (at any time in the future) a certain amount of local currency into foreign exchange to import a broad range of eligible goods. The ERS entitlement is a specified percentage of the value of export earnings, denoted in Zimbabwe dollars and recorded in special "passbooks" held by the banks.

During 1993, the ERS was extended to cover the importation of certain invisibles, notably, business travel, commissions, professional, technical, training and marketing fees. Certain goods, however, remain excluded from importation using ERS entitlements (the negative list is attached as annex 2). The major product items in this category are: fully assembled consumer electric and electronic equipment, except computers; prepared foodstuffs; and clothing. Changes to the negative list have been minor, principally identifying consumer electronic equipment rather than all electronic equipment and excluding buses.

Trade in ERS entitlements can now effectively occur through ERS trading desks that have been established by the commercial and merchant banks to facilitate the matching of buyers and sellers of entitlements. As the chart shows, the value of ERS premiums has declined steadily since the introduction of the scheme. The decline in premium value reflects the increasing size of the ERS pool as well as the decline in demand for imports resulting from the restrictive monetary policies and the drought induced recession. The rise in the premium in March 1993 is attributable to the increase in demand as a result of requiring certain invisibles to be funded through the ERS. Subsequent declines are attributed to the increase in the level of entitlement to 50 percent in April 1993, and hence the greater supply of ERS entitlements on the market.



Individual FCDAs

In June 1993, the Government introduced Foreign Currency Denominated Accounts (FCDAs) for individuals. The move allows individuals to transact freely in foreign exchange at a market determined rate, thus effectively removing exchange controls for individuals for both current and capital account transactions.

The main features are: (i) the FCDA funds are fully tradable at a market determined rate; (ii) interest earned on funds held in FCDAs will not be taxed for three years and no proof of source is required; (ii) the funds are fully transferable and there is no restriction on the amount of foreign currency that can be repatriated from an FCDA; (iv) FCDA holders can purchase shares on the Zimbabwe Stock Exchange, invest in money and capital market instruments, purchase equity in local companies, and are allowed to repatriate income and capital in hard currency; (v) funds held in FCDAs can be used for foreign travel or to import goods and services. The exact regulations governing the operation of the individual FCDA's are attached as annex 3.

The operation of the individual FCDAs has been more successful than initially anticipated. Following several decades of stringent exchange controls on individuals, there was widespread skepticism of the Government's intentions. Therefore, it was thought that a period of at least a year would be required before any significant inward investment or repatriation of capital would take place. Despite skepticism, more than US$ 7 million has already been deposited into individual FCDA accounts, although a deeply ingrained suspicion of the Government continues to prevent the system from operating to its full potential.

The inflow of FCDAs is further restrained by uncertainty related to the possibility that the tax authorities could conduct investigations into the sources of FCDA funds. Although the GOZ (i.e., the Reserve Bank) has clearly stated that the accounts will operate on a "no questions asked" basis, the Reserve Bank circular which governs the operation of the FCDAs does not constitute sufficient authority to preclude the Commissioner of Taxes from investigating the FCDAs. This would require an amendment to the Finance Act, or at a minimum, a public directive from the Ministry of Finance. Until this issue is satisfactorily addressed, it will continue to severely limit the potential for increased investment and repatriation of foreign exchange via the individual FCDAs.

Premiums above the official exchange rate have ranged from 25 to 40 percent, with FCDA funds currently trading at a premium of about 30 percent.

Corporate FCAs

The time is now ripe for further advancement in trade liberalization and the GOZ has indicated that it will soon introduce far reaching reforms. January 1, 1994 has been targeted as the launch date for the introduction of corporate foreign currency accounts for exporters ("corporate FCAs"). The ultimate objective of the FCAs is to provide a mechanism for launching the economy toward full currency convertibility under a unified, market-based exchange rate by mid-1995 at the latest. This is therefore intended as a transitional two year mechanism only, aimed at clearing the way for the complete removal of exchange controls.

As the Government had already agreed[9] to expand the existing Export Retention scheme to 60 percent of exports by January 1994, the corporate FCAs may be introduced at this higher rate. The initial rate will not be less than 50 percent and consideration is being given to raising this to 75 percent by mid-1994.

Under the new system, exporters will be able to directly deposit a proportion (a minimum of 50 percent initially) of their foreign exchange earnings from the export of goods and services into a foreign currency account held with local commercial and merchant banks. The remaining export earnings must be surrendered to the Reserve Bank, with the equivalent in local currency retained at the official exchange rate. In general, only direct exporters (i.e., holders of forex cheques) will be able to retain a proportion of the export proceeds in a FCA account. Any distribution of forex to indirect exporters will be by private agreement. The proceeds of any exports handled by Government controlled marketing monopolies will be liquidated through the FCA markets and the proceeds, including any premium, will be distributed to producers. This direct retention of export earnings under the FCAs will replace the granting of any new entitlements under the Export Retention Scheme, although residual balances of ERS entitlements will continue to be honored by the Reserve Bank.[10]

As the level of foreign exchange retention by exporters in FCAs is increased over time, the provision of funds by the Reserve Bank at the official exchange rate will accordingly be reduced. This reduction will begin with the private sector and end with public debt servicing and repayments. As the level of export retentions is increased, parastatal and other Government imports will progressively be shifted to the FCA market. From the outset, all private sector imports of both goods and services will be through the purchase of FCA funds or from remaining ERS entitlements.

Consistent with the objective of treating all imports on a uniform basis, imports through the Open General Import License (OGIL) scheme will be merged with the parallel FCA market. This means that importers included on the OGIL list will be required to access their forex requirements from the FCA market, or by purchase of the remaining ERS entitlements. The Reserve Bank will no longer provide the private sector with foreign exchange for imports at the exchange rate for official transactions. To compensate for the higher import costs associated with accessing market-based foreign exchange, consideration is being given to abolishing the 10 percent temporary duty on OGIL imports.

There are two tracks toward achieving the objective of a convertible currency by mid-1995, as targeted under the structural adjustment program. The first is by gradually closing the gap between the parallel and official exchange rates via adjustments to the exchange rate for official transactions. The second is by expanding the amount retained

[9] Included in the conditions of effectiveness for the second tranche release of the World Bank's SAC II.

[10] A cumulative total of Z$ 1 billion worth of ERS has been used so far and Z$ 1.5 billion worth of ERS remains unused at this time. This figure is expected to reach about Z$ 3 billion in the first quarter of 1994. It is expected to take about a year before all of these unused ERS entitlements are used up.

by exporters to 100 percent of their export earnings, thereby eventually phasing out all transactions -- including Government transactions -- at the official exchange rate.

It is intended that non-export inflows of foreign currency, such as external borrowings by companies or authorized dealers, and capital inflows for investment purposes, will be deposited in full into FCAs. Repayments of such debts, dividends etc will be by the purchase of funds from the FCA market (or from any remaining ERS entitlements).

In order to minimize any potential liquidity problems, transitional restrictions on the uses of corporate FCA funds are being considered. FCAs can be sold to non-exporters (and other exporters) at a market determined rate of exchange, or used for current account transactions and certain capital payments. Proof of foreign currency requirement will thus be required to purchase FCA funds. The ERS negative list will continue to apply to the importation of goods using funds from FCAs, but the list is being reviewed and is likely to be significantly reduced. Outright restrictions on imports will primarily be on the grounds of health and safety.

As the Reserve Bank of Zimbabwe will act as the lender of last resort for FCA funds, authorized dealers will likely be required to hold secure and liquid foreign currency assets against FCA deposits. Relevant prudential guidelines are being drawn up by the Reserve Bank.

In order to facilitate trade and smoothly set a market rate of exchange, an interbank market will be established between Authorized Dealers (commercial and merchant banks). The Reserve Bank will be entitled to participate in the interbank market. This might be required: (i) to maintain liquidity (particularly in the early stages) by the sale of foreign exchange resources, including external borrowings and donor funds; and (ii) to meet any shortfall in exchange requirements for official use. In the early stages the RBZ will probably not need to purchase forex from the FCA market as it will still have access to up to 50 percent of forex earnings from exports, which should be sufficient to service the external public debt and meet the Government's official import needs.

Tariffs

The GOZ's original Framework for Economic Reform document of January 1991 established the timing for the phased removal of the import surtax. The import surtax was scheduled to be reduced from 20 percent to 15 percent in 1992, 10 percent in 1993 and eliminated in 1995. This change has not occurred due to severe revenue constraints; hence, the import surtax remains at 20 percent for all items except capital goods, which have recently been exempted (discussed below).

Another change which has not taken place relates to the removal of the "temporary" additional tariff of 10 percent, which was placed on all goods included on the OGIL during 1991. However, the GOZ intends to abolish this temporary duty on OGIL imports once corporate Foreign Currency Accounts are introduced early next year. Abolishing the additional import duty on these import items would help to offset the increased cost to importers of having to access foreign exchange at a premium via the

FCAs at a market determined rate. In order to further limit the additional costs associated with the introduction of the FCAs to current OGIL importers, the Government is considering a reduction of the 20 percent import surtax during 1994. Although this would be in accordance with the original Framework for Economic Reform, no decision has yet been taken. With these two measures, a 30 percent reduction in costs would be made available, equivalent to the current premium on FCDAs.

In an effort to encourage investment and exports, two Statutory Instruments (SI 301A and SI 301B) providing for the suspension of two types of import tariffs (surtax and import tax) for goods of a capital nature were issued in early September 1993.

As provided in Statutory Instrument 301A, the 20 percent surtax has effectively been suspended for goods of a capital nature, including about 150 customs tariff categories. The suspension of surtax also applies to any goods which the Commissioner of Taxes considers to be of a capital nature. According to Statutory Instrument 301B, import taxes (which equate to sales taxes for goods sold on the domestic market) have also been suspended across a wide range of capital goods items.

One obvious problem relating to the new exemptions on import tax for capital goods is that the regulations attempt to exclude merchants or "middlemen" from the import and marketing chain. Specifically, the regulations state that "any person who imports any of the goods specified shall not sell or in any way dispose of such goods to any person within four years of the date of entry of the goods without prior permission." The regulation is intended to limit the cost of capital goods to the final user. However this limitation is inappropriate and points to a lack of recognition of the valid economic role which import merchants perform in the sourcing and importation of merchandise imports, including capital goods. The clause reflects an attempt to micro-manage the outcome of this new policy and over time, it is likely to be reversed or disregarded.

Based on a consultant's report submitted to the GOZ in March 1993, Government intends to establish a Tariff Commission to replace the existing Tariff Committee of the Ministry of Industry and Commerce. This Commission will probably be modeled along similar lines to that of the Zimbabwe Investment Center. The aim is to introduce a more coherent and transparent way of managing tariffs as they progressively become the primary instruments of protection for local industry. In addition, this will provide the institutional structure required to support the phased removal of the surtax, which once implemented, will leave an effective top rate of tariff protection of 30 percent. The primary function of the Tariff Commission will be to consider and approve tax exemptions and to provide enhanced tariff protection in selected cases.

The Government is also planning to conduct a study on the "Structure of Assistance to Industry" within the first half of next year. This comes as a result of the apparent explosion of import duty exemptions emanating from the Tariff Committee chaired by the Ministry of Industry and Commerce. Although this committee has rarely approved any application for an increase in tariffs, it is constantly receiving and approving requests for duty and surtax exemptions. These exemptions have, and continue to severely impact the budget deficit. During discussions with the GOZ this year, the IMF has repeatedly pointed to the need to limit the amount of duty exemptions and rationalize their issuance. The need to devise and implement a fundamental "structure of assistance" (and thus limit the number of ad hoc exemptions being awarded), is even more pressing now that capital goods have been exempted from both surtax and import taxes.

Overall, Zimbabwe's tariff structure is low by international standards. Almost all tariffs have been in the range 10-30 percent since 1991. Furthermore, effective rates of import protection have fallen since 1991, in concert with the phased removal of import controls associated with the trade liberalization program. The growth of import duty exemptions has also served to reduce effective rates of protection.

Export Promotion

Export promotion measures during 1993 have entailed: (i) a downward adjustment of the nominal effective exchange rate by 13 percent on a trade weighted basis (15 percent against the US$) during the six week period from January 4 to February 11, 1993; (ii) maintaining the 9 percent export subsidy; (iii) the exemption of surtax and import taxes for capital goods imports, including an increase of ad hoc exemptions for intermediate and raw material goods imports; (iv) expansion of the ERS to 50 percent of exports; and (v) some moderate improvement in the operation of the Inward Processing Scheme.

Under the existing Import Duty Drawback system, tariffs must be paid on imports when they enter the country and exporters are then reimbursed at a later date, on the basis of the proportion of the imported goods used in the production of exports. The process is extremely time consuming and claims considerable resources on the part of both Government and the private sector. Unfortunately, despite expectations[11], the GOZ has made no progress in improving the operations of the Import Duty Drawback system during 1993.

The objective is to improve the environment for exporters by enabling a more rapid reimbursement of duties for eligible importers. To streamline the system the authorities decided, during 1992, to replace the upfront payment of import duties with bank guarantees of tax payments and this had been expected to be implemented during 1993. The reason given for non-implementation of this policy this year, is a lack of staffing resources required to undertake the necessary groundwork. The Monitoring and Implementation Unit of the Ministry of Finance, which is scheduled to perform this work, has apparently been absorbed with the policy details of implementing the proposed corporate FCAs, a high priority for the GOZ. The Government envisages changing the system so that it operates automatically, on the basis of a "deemed level" of duty drawback. Deemed levels of duty drawbacks would be determined, based on past experience for the various sectors and these would be applied automatically at the time the goods are imported. Any additional claims would then be processed in the normal way.

[11] In a Memorandum of Economic and Financial Policies forwarded to the IMF in April 1993, the GOZ undertook to "improve the operation of the Duty Drawback Scheme through measures to speed up reimbursements" by the end of June 1993.

A key export promotion measure introduced last year is the Inward Processing Scheme. In theory, any firm which registers under the Inward Processing system would be exempt from paying import duties on imported goods or goods taken out of bond, which are subsequently used for exports. However, the Government established undisclosed "internal working criteria" which specified a minimum level of exports, in terms of dollar amounts and in terms of percent of total production. As a result, only a few firms met the requirements. This led to the recent abandonment of these undisclosed internal working criteria. No statement was necessary as there was never any public disclosure of the requirements. It is too early to tell if the lowering of the qualification criteria have led to improved usage of the scheme.

The question of Export Processing Zones has received much attention over the past several years. In his budget speech, the Senior Minister of Finance stated that "significant steps were taken in the implementation of the decision by Government to establish an Export Processing Zone regime in Zimbabwe. Government is now working on the legal and institutional framework within which EPZs will operate, commencing this financial year". In contradiction to this statement, it appears that progress in implementing EPZs has been limited, even though a Bill has apparently been drafted to establish a Zimbabwe Export Processing Authority. This is explained partially by the fact that the relevance of EPZs has been overshadowed by the rapid implementation of the trade liberalization program. Furthermore, the Inward Processing Scheme, in effect achieves the same objectives as the Export Processing Zone (EPZ) concept, but without the need for geographical exclusion which is embodied in the EPZ concept. The avoidance of the creation of geographical economic enclaves was an important factor in the GOZ's adoption of the Inward Processing Scheme in preference to the EPZ.

2. Domestic Deregulation

Labor Regulations

The ESAP has evidenced significant relaxation of the rules governing retrenchment and collective bargaining procedures. Prior to 1991, highly restrictive regulations regarding the retrenchment of employees were applied in Zimbabwe. Central Government approval was required before any employee could be discharged for any reason, including misconduct, breach of discipline, inefficiency, or the financial health of the firm. Statutory Instrument 404 of December 1990 provided for a quick and transparent mechanism for retrenching labor. Companies can now retrench for economic reasons with retrenchment cases dealt with through employment councils that can negotiate retrenchment packages. The Statutory Instrument prescribed that employers and employees can agree on codes of conduct governing the procedures for discharge of an individual employee on the grounds of misconduct or inefficiency.

Retrenchment can be agreed at the enterprise level or at the employment council level. The Ministry of Labor is informed for record purposes only. Cases are referred to the Retrenchment Committee of the Ministry of Public Service, Labor and Social Welfare only when there is a need to settle disputes relating to retrenchment packages.

With regard to collective bargaining, significant decentralization has been achieved. The Government does not intervene in the collective bargaining process as it had in the past, although it does attempt to influence the process via "moral suasion", by issuing a range of policy statements, usually urging wage restraint.

In 1993, the collective bargaining cycle (which starts in about May) resulted in recommendation from 32 employment boards for wage increases ranging from 0 percent in the case of the sugar milling industry to 30 percent for welfare organizations. The average wage increase across these 32 industries which have completed this year's negotiations, is 12.9 percent. As mentioned earlier, real wages have fallen by about 33 percent in Zimbabwe dollar terms during the past two years.

Local Government Regulations

Under the terms of the original policy matrix contained in the 1991 Framework for Economic Reform document, the GOZ committed itself to the relaxation of regulations and procedures which tended to inhibit informal sector entrepreneurship and small business development. The matrix called for a relaxation of licensing restrictions on hawking and street vending before the end of 1991. Also, a commission was to be established during 1991, to review local council by-laws and regulations with a view to relaxing them by the end of 1993.

There has been only limited progress in the area of local government deregulation and this stands out as an area which has fallen well behind schedule. At the 1992 CG meeting, the GOZ was urged to proceed rapidly with reforms in order to reduce the cost of doing business for the small-scale and informal sectors and thus allow these sectors to contribute to the supply response of the economy. In its recently released documentation for the upcoming 1993 CG meeting, the World Bank again urged the Government to "push ahead with the remainder of the deregulation agenda, especially in the small and informal sector, e.g., by overhauling local community regulations and by-laws that restrict new entrants. Deregulation is listed by the Bank as one of three areas which needs to be addressed to secure a sustained supply response. [The other two are: (i) a further reduction and rationalization of Government expenditure; and (ii) further efforts to promote and diversify exports.]

On April 1, 1993, a Deregulation Task Force was established, comprising members from the Ministries of Local Government, Finance, Justice, and the Reserve Bank. The work of this task force resulted in 29 Acts being identified as suitable for deregulation. Having identified these Acts, the Task Force is now working towards establishing a Deregulation Project Team (DPT). An agreement has been signed with the British ODA to jointly fund the DPT. The team will consist of four local experts from within Government, four local consultants and one senior external consultant, provided by the ODA. Membership of the team has been finalized and offices have been identified (in the same building as the intelligence agency, the CIO). The team was to have been in place by November 1st, but this has now been pushed back to December 1st.

According to the Government, the function of the DPT will be to actually "carry out deregulation", in contrast to the Deregulation Task Force whose intended function was to "facilitate" deregulation. The intention is that the DPT will encourage informal and small scale sector participants to form their own interest groups and associations. Once mobilized, these groups would then exert pressure on local authorities to effect the regulatory changes which they require. In short, the DPT will adopt a "bottom-up" versus "top-down" approach to effecting the necessary changes. This is in contrast to the Deregulation Task Force which initially set out to facilitate deregulation by directly pressuring local authority officials to repeal or amend specific regulations which impinge on the operations of the small-scale and informal sectors. The argument is that the top-down approach could result in regulatory changes which are not necessarily helpful to the groups which they effect. The DPT director will be appointed for two years, with the DPT submitting a report on its findings after one year.

Although very little has been done officially to disassemble the local government regulations which inhibit informal sector entrepreneurship, the Government has in practice established internal working criteria which afford tacit approval to a number of these activities. The policy has been criticized on the grounds that its results are unpredictable and could eventually lead to enlarged non-compliance in areas where controls and regulations are publicly desirable. Furthermore, the lack of uniformity in the application of these regulations, raises the cost of doing business, discourages investment and expands the scope for corruption.

One encouraging note is the submission to Parliament in October of the Private Business Corporations Bill, aimed at enabling formal sector participation by small businesses. The new legislation would simplify the requirements and reduce the costs of opening new companies. The minimum number of directors will be reduced from two to one and the completion of a single form will be sufficient to effect registration as a private business company (PBC).

Zoning Regulations: Government has made some progress in simplifying the planning process by moving from the rigid Town Planning Schemes to the more flexible Master and Local Plan Schemes. Until recently, Town Planning Schemes prepared in the 1970's were still being used for development control purposes and any amendments to these schemes required the approval of the President. Under the new system, Master Plans can be approved by the Minister of Public Construction and National Housing, while amendments to Local Plan Schemes can be carried out by local governments themselves. To date five master plans have been approved and twelve others are in preparation. According to the GOZ, these should be completed before the middle of 1994.

The following changes have been enabled by the new Master and Local Plan system: (i) establishment of special employment zones which allow developers to carry out a range of pre-specified improvements without the need to seek separate permission; (ii) the location of service industrial stands and sites within medium and low cost housing areas for use by small business; and (iii) the establishment of industrial parks or advanced factory units on individual industrial stands. According to the GOZ, special employment zones will be on the ground early in 1994.

Land Survey Act: The Land Survey Act of 1985 stipulated 270 days as the minimum required period for a locally qualified surveyor to undergo internship and acquire articles before being recognized as a qualified surveyor by the Surveyor General's Office. This legislation was amended in 1987 and the internship period was reduced to 200 days. The Surveyor General was given discretion to access and recognize qualifications for externally recruited surveyors. Still, foreign surveyors had to undergo a two year period of orientation.

In March 1993, the Land Survey Act was amended again and the required period of orientation for foreign surveyors was reduced significantly from two years to two months. A number of other regulations were amended, thus reducing the time and cost required for the recruitment of surveyors. The fees which can be charged by Chartered Land Surveyors were also deregulated. Other changes effected by the new legislation include a lowering of degrees of accuracies in developed high density areas and the acceptance of aerial survey methods for title surveys. The effective operation of the Surveyor Generals Office, however, continues to be inhibited by a lack of funding.

There has been no progress in the expansion of title deeds to growth points and rural trading centers. The Government is still resisting this concept, even though there has been debate and support for this in Parliament. The question of extending title deeds to the communal areas has also, for the first time been the subject of debate in Parliament. Even if it were approved, this policy would likely face serious constraints in implementation due to the ongoing shortage of surveyors within Zimbabwe.

During 1993 there has been a revision of the standards applied to new houses and infrastructure in urban areas. It is estimated that as a result of these changes, urban housing is now affordable to 70 percent of the urban population. Before these changes were made, only 23% of the urban population could afford new housing. The main changes are: (i) minimum stand sizes in high density urban areas have been reduced from 300 square meters to 150 square meters; (ii) the minimum structure is reduced from four rooms to a wet block and a one room slab; (iii) access roads need only be graveled versus tarred; and (iv) minimum school site sizes have been reduced by 15 percent.

Transport Regulations

The GOZ committed itself, under the ESAP policy matrix to relax transport regulations in order to increase competition and efficiency. Some progress has been made in this area. By the end of 1992, the Government had revoked tonnage restrictions on transport of agricultural goods and removed licensing requirements for trucks under 10 tons. The Government has drafted proposed amendments to the Road Motor Transportation Act, which seek to reduce the regulatory burden and enhance flexibility by removing route and commodity specific licensing for goods transport, and focusing regulations on vehicle road worthiness, traffic safety and insurance coverage.

In a press statement on May 7, 1993, the Government publicly announced its intention to proceed with reforms in this area and at the same time, donors were informed that a draft bill containing these reforms would be submitted to Parliament not later than October 1, 1993. The Bill has not yet been finalized, due to ongoing consultations with interested parties (i.e., bus and truck operators). It is now expected that the Bill will be submitted to Parliament in early 1994. The World Bank reviewed the draft in early September and was satisfied with its contents. Under the Road Motor Transportation

Act, the existing road permit system would be replaced with a licensing system. This means that trucking companies, once licensed, would no longer require permits for specific transport routes.

The question of abolishing timetables governing rural passenger transport operators was considered and rejected by the Government on the basis that rural customers require set schedules. Bus operators are, however, allowed to disregard timetables during public holidays when peak demand for rural bus services occurs.

A franchise agreement between the Government and the Zimbabwe United Passenger Company (ZUPCO) provided a monopoly for this group by excluding any other urban carriers from being allowed to operate. Although the ZUPCO franchise agreement expires in February 1994, on August 17, 1993, Presidential Powers were used to cover the six month period until the ZUPCO franchise agreement expires to allow the registration and legal operation of minibuses known as "Commuter Omnibuses". This action was taken in response to the acute shortage of serviceable urban transport. Small-scale operators known as "emergency taxis" have legally been allowed to compete in the urban passenger transport market since the mid-1980s. Both commuter omnibuses and emergency taxis must follow designated routes, although this is not strictly enforced. It is intended that both of these classes of small-scale transport operators will be brought into the licensing system under the proposed Road Motor Transportation Act.

Long distance taxi operators are still barred from operating legally as the Government considers minibuses to be unsafe and unsuitable for long distance operations. These regulations are no longer being vigorously enforced, but there is a considerable lack of uniformity in their application. As a three month "trial measure" to extend over the forthcoming holiday season, the Government has agreed to allow 50 minibuses from South Africa and 50 from Zimbabwe to conduct long distance operations.

With regard to air transportation, some progress has been made in increasing competition. The Government pursues a "semi open" sky policy and twelve airlines are currently operating in Zimbabwe in competition with the national airline. Among these are: British Airways; Lufthansa; KLM; Quantas; Air France; Bulgarian Airlines; TAP and Swiss Air.

Investment Promotion

In the July 1992 Policy Framework Paper agreed with the IMF, the GOZ made a commitment to allowing full external remittability of profits and dividends covering all new foreign investment beginning December 1992.

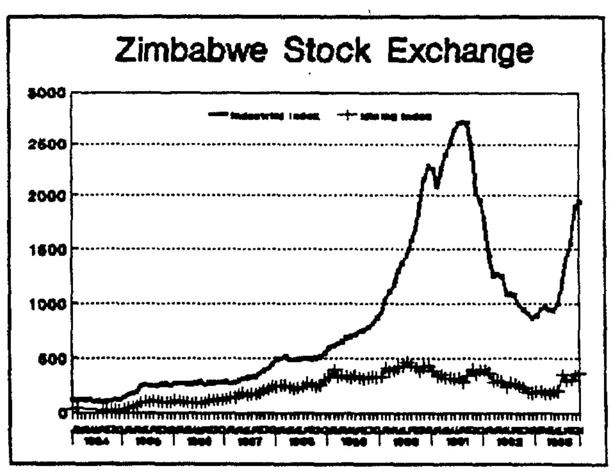
Implementation of this measure was, however, postponed while the Government waited for the results of a study by the World Bank's Foreign Investment Advisory Service (FIAS). In February 1993, FIAS submitted a list of 20 recommended policy actions aimed at improving the environment for foreign investment (attached as Annex 4). This resulted in the Government unveiling, at the end of April, a package of investment promotion measures which included a majority of the policy recommendations submitted by FIAS only two months earlier.

The policy statement provided for the automatic and unrestricted remittance of both capital invested and after-tax dividends accruing to any foreign investments made in Zimbabwe after May 1, 1993. However, remittance restrictions remain in force for existing investors; at 25 percent of distributable profits for original investment in Zimbabwe before September 1979 and 50 percent for post-1979 investment. Foreign investments made after September 1979, became eligible for unrestricted repatriation of the capital invested. The rules, although complicated and prejudiced against pre-1979 investors, do increase the scope for remittances for all foreign investors. A more detailed account of the reforms are provided in annex 5.

The Government intends to phase out the remaining restrictions on capital and dividend repatriation for investments made prior to May 1993. The most important restrictions, which relate to pre-1979 foreign investment, are expected to be dealt with during the first half of 1994, when it is anticipated that further steps will be taken to liberalize and simplify the remaining restrictions on capital and profit remittances. According to the World Bank, these reforms, together with the freedom from investment sanctioning (discussed below), have put new foreign investment in Zimbabwe in a regulatory environment similar to that of competing countries.

Portfolio Investment has been introduced into Zimbabwe and foreign investors cumulatively can purchase up to 25 percent of the issued share capital of any quoted company, while an individual foreign investor can purchase a maximum of 5 percent. All dividend income, capital gains and disinvestments are freely remittable. Capital gains tax has been reduced from 30 to 10 percent with effect from January 1, 1994 and withholding tax on dividends reduced from 20 to 15 percent with effect from the same date.

On June 23, 1993, foreign investors were allowed to trade on the Zimbabwe Stock Exchange (ZSE) and by the end of July, had bought more than 3 million shares worth nearly US$ 1 million. By mid-November, foreign investors had purchased nearly 60 million shares for a total consideration of US$ 12.5 million. In the five month period since foreign investment in the stock exchange has begun, the industrials index has risen by about 110 percent, making the ZSE one of the fastest growing "investible" emerging markets in the world. The fundamentals of the local exchange (particularly the low price-earnings ratios) have proved attractive to foreign-based fund managers; however, the primary constraint to continued foreign investment in the ZSE is a shortage of scrip.



After South Africa's Johannesburg Stock Exchange (JSE), which rivals stock markets in the developed world in size and turnover, the ZSE is the largest in the region, with 60 industrial counters and 7 mining counters. After the ZSE comes the Botswana Share Market (BSM), with six listed companies, followed by Namibia's Stock Market established this year with five companies and Swaziland with three listed companies.

Investment Sanctioning

In addition to the significant liberalization of rules governing remittance of dividends and capital, the April 1993 Policy Statement provided for a relaxation of investment sanctioning requirements. The Zimbabwe Investment Center (ZIC), established in November 1992, was designated as the lead organization within Government for investment approval. [The Zimbabwe Investment Center (ZIC) achieved legal status in November 1992 when the ZIC Bill was tabled and passed by Parliament. The Bill has now been promulgated and the commencement date was November 19, 1993.] Its mission has been recently transformed from investment sanctioning to investment facilitation.

According to the April 1993 Policy Statement, ZIC approval is now only required in the case of projects requesting an allocation of foreign exchange and for large projects (US$ 10 million and above). The responsibilities of ZIC in terms of evaluation of applications were defined to: (i) verify compliance with environmental, health and safety standards; and; (ii) check for compliance relating to those sectors of the economy which are reserved for domestic investment only.

For large projects or those requesting an allocation of foreign exchange, normal evaluations will be conducted. Registration of all new and expansion investment projects is still required, for monitoring purposes; however, the ZIC plans to eliminate this requirement and rely instead on surveys and other methods to monitor the magnitude of investment projects.

Except for large investments, the sanctioning of investments financed with their "own funds" is effectively limited to clearance for environmental, health and safety standards and proscribed sectors, as referred to above. At last year's CG meeting, concern was expressed at the low threshold (US$ 2 million) of ZIC's authority to approve projects without having to refer to the Senior Minister. This threshold has subsequently been raised to US$ 10 million, following approval by the ZIC Board in June. The threshold will be reviewed by the Board again in early 1994, with a further upward adjustment expected.

With the reduction in its project evaluation role, ZIC is now turning its attention to investment promotion and facilitation and investor servicing. As part of its investor servicing role, the Center is responsible for facilitating the acquisition of relevant licenses from line ministries as well as assisting investors in other administrative matters.

A Board of Directors was appointed by the Senior Minister of Finance during 1993, in accordance with the ZIC Act. The Act stipulated that a minimum of two members of the Board be drawn from the private sector. As currently comprised, the ZIC Board consists of 9 members, of which 7 -- including the chairman and vice-chairman -- are drawn from the private sector.

The ZIC Act states that any investment proposal received by ZIC must, within 15 days, be referred to an Investment Committee for a decision and within 45 days, notify the applicant of the decision. According to ZIC management, the Center is now approving projects in less than three weeks, and in many cases, in less than a week. Sixty percent of projects are now being processed within ten working days. The Investment Committee is chaired by the Director and includes representatives from various arms of the Government. Project promoters have on occasion been invited to attend meetings in order to expedite the approval process.

Since its formation in August 1989, a total of about 700 projects have been approved by the ZIC -- up from about 500 projects a year ago. Of the 700 projects, 45 percent are new and 55 percent are expansion projects. The majority of projects (80 percent) are local and the rest are foreign and joint ventures. ZIC's average response time for large projects of above US$ 10 million is understood to be 1.7 months, compared with 2 months a year ago and an average of more than 6 months during the ZIC's overall life span. Before ZIC was established, it was common for investment applications to languish with the Central Government for anything up to two years.

According to ZIC, it is currently receiving between three and nine project applications per week -- up from about one per fortnight a year ago. Although no figures are available, it is understood that the value of projects passing through the ZIC during the past six months has greatly exceeded expectations. This reflects the upturn in economic activity during the second half of 1993, and points to an improvement in investment and in the overall supply response of the economy during this period.

There is no backlog of projects awaiting approval below the US$ 10 million level (at one point in ZIC's history this backlog exceeded 400). Of the twenty large projects (over US$ 10 million) currently in process, only four have issues outstanding. The staffing program at ZIC is now almost complete. After two final appointments are finalized this month, the full staff complement will total 27 -- up from 10 a year ago. In addition to the Director, the core senior staffing structure consists of an Investment Facilitation executive, an Investment Proposals executive and a Policy Analysis executive. The Center plans to run hospitality and other training programs for all of the core and support staff.

The negative list for foreign investment is being reviewed and a Statutory Instrument outlining the areas of the economy to be reserved for local participation is expected to be issued early in 1994. The policy recommendations relating to foreign investment which were made by the World Bank's Foreign Investment Advisory Service (FIAS), referred to earlier, favored a reduction in the negative list for foreign investment and the clarification of the local equity requirement for foreign investors.

New Foreign Investment: The substantial increase in repatriation allowances has encouraged new investors, although most of this has taken place in mining. Some recent highlights are:

- Delta Gold has increased its platinum interests on the Great Dyke by acquiring a 24 percent share in the Mhondoro Joint Venture.

- BHP Minerals has invested Z$ 60 million (US$ 10 million) in a final feasibility study of the Hartley Platinum Project on the Great Dyke.

- Following completion of feasibility studies and trial mining, BHP Minerals and its partner in the Hartley platinum project, Delta Gold, are about to take a final decision on a US$ 300 million investment. If approved, this will be the largest foreign investment in the Zimbabwe economy since independence, with major implications for the mining sector and the overall economy.

- Union Carbide, a U.S. owned company, has also completed feasibility studies at its Mimosa mine. It is thought to be planning to raise about US$ 300 million to revive the mine.

- Reunion Mining plans to invest US$ 20 - 30 million in developing a copper-zinc mine jointly with the Zimbabwe Mining Development Corporation in the Sanyati area.

- Anglo American Corporation has earmarked more than US$ 50 million for investment in capital projects in its mining and industrial subsidiary operations.

- Mobil is carrying out extensive oil exploration in the Zambesi Valley.

- Auridiam's River Ranch diamond project is operating and several other companies are actively exploring for diamonds.

- Cluff Resources Zimbabwe has planned a scoping study on an underground facility (mine construction estimated at US$ 12 million) at Freda Rebecca, the largest gold producer in Zimbabwe.

3. Agricultural Policies

During the past two years the GOZ has introduced important reforms in this area, which have decisively improved the incentives for agricultural production. Ironically, the drought, which cut deeply into the productive capital of agriculture, has helped to accelerate the pace of reforms, which the GOZ recognized were required to strengthen the supply response of the agricultural sector.

During 1992, agricultural producer prices were raised sharply to provide additional incentives for farmers in the 1992/93 growing year. For example, during 1992, the producer price for white maize was raised by 235 percent, wheat by 130 percent, cotton by 119 percent and soyabeans by 90 percent. For most commodities, these new producer prices were set as floor prices, with marketing agencies having flexibility to negotiate higher prices with producers when appropriate. There was substantial liberalization also in the area of agricultural marketing during 1992, with a number of agricultural products being opened to private traders. The GOZ was commended for these achievements at last year's CG meeting.

In July 1993, the Government took further major steps toward deregulating the agricultural pricing and marketing system. The measures (which formed the main component of the conditions for effectiveness for the release of the second tranche of the World Bank's US$ 125 million SAC II) were aimed at improving the efficiency of the marketing boards and further increasing the role of the private sector. As explained earlier in the section dealing with parastatal losses, the measures have had a number of significant unintended consequences.

The Agricultural Policy Statement of July 28, 1993 which unveiled the reforms, contained most of the measures which the GOZ had committed itself to in terms of the understanding with the World Bank [12]. Only two components of the conditions for effectiveness were omitted from the GOZ's final policy statement of July 28th. These were: (i) the review of export regulations with the objective of permitting private individuals and firms to participate in the export of a range of agricultural products; and (ii) the deregulation of pricing and marketing arrangements relating to the wheat industry.

Export regulations: While the Government accepts that farmers should have the freedom to find their own export markets, it remains highly sensitive, as the country recovers from the drought, to ensuring the continued availability of domestically produced agricultural commodities. Although the liberalization of export regulations was excluded from the July 1993 Agricultural Sector Policy Statement, the Government stated that export regulations would be reviewed before the 1994/95 marketing year, with the objective of allowing private individuals and firms to export. It also pointed to the need for the further development of a centralized agricultural marketing information system to monitor stocks and prices. The World Bank anticipates that policy changes in this area will be introduced before April 1994, as announced.

Wheat: Following consultations with the wheat industry, the Government agreed to allow wheat to remain a "regulated" crop, even though the subsidy was removed from flour in March and the price of bread rose by 120 percent. Citing the oligopolistic nature of the industry and the potential monopoly of the millers, wheat producers successfuly argued that the industry was not ready for deregulation. [A regulated crop is one where a producer price is negotiated between farmers and the GMB, with the GMB being the exclusive buyer. The GMB can then sell at a price of its choice. In the case of a controlled price, the GMB selling price is fixed by the Government.]

With a view to reviving the steady growth in wheat output that was interrupted by the drought, and thus enable national demand to be met from domestic production, the Government agreed to allow wheat to remain a regulated crop for the time being. The intention is to eventually allow direct transactions between producers and millers in competition with the GMB. The Government hopes that the wheat industry will soon be able to satisfy the total domestic requirement at a price that is less than the import parity price.

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[12] Letter of Development Policy to the World Bank, June 3, 1993.

Maize: The Letter of Development Policy called for a package of reforms that would: (a) remove the requirement on farmers to sell white maize offtake to the Grain Marketing Board and allow anyone, except designated large millers, to buy white maize from any domestic source; (b) redefine zones A and B so that zone A is limited to the operating premises of specific large-scale commercial millers in natural regions I, II, and III, and zone B as the rest of the country; (c) allow free and unrestricted movement and sale of white maize in Zone B; (d) allow the GMB to defend a floor price for white maize at selected depots in the country; and (e) require the GMB to sell at the wholesale price to all individuals and firms. All of these steps were introduced, as expected, at the time of the Minister's July Policy Statement, thus removing most of the pricing and marketing controls relating to maize.

The remaining controls are scheduled to be lifted at the beginning of the 1995/96 marketing season. At this time (April 1995), the Government plans to: (a) allow prices of all white maize and milled products to be market determined, with the GMB continuing to defend a floor price at selected depots; and (b) permit free and unrestricted movement and sale of white maize in all areas of the country, i.e., the distinction between zone A and zone B will be eliminated. There are currently no restrictions on the pricing or marketing of yellow maize within the domestic economy, except that the GMB cannot buy yellow maize at a price higher than white maize. This policy is designed to prevent an expansion of the production of yellow maize at the expense of white maize, the traditional staple diet. The GMB is free to export yellow maize as it sees fit.

Cotton: Producer prices for cotton have been market determined for the past two seasons, with the Cotton Marketing Board (CMB) negotiating prices with producers. However, the CMB's purchasing and selling monopoly has been abolished and private firms are free to purchase, process and market cotton on the domestic market. There are no restrictions on cotton imports.

Other crops: Significant movement toward a market-based pricing and distribution system have been achieved in the oilseeds, beef and dairy sectors. All **oilseeds** (i.e., soyabeans, groundnuts and sunflowers) will no longer be controlled from the 1994/95 marketing season, with the GMB and private traders being allowed to purchase, process and market these products.

Beginning from the 1994/95 marketing year, the pricing and marketing of **beef** products will be liberalized. The Cold Storage Commission will be free to negotiate prices with producers without any restrictions. Also, slaughter quotas for private abattoirs are to be eliminated, as are all restrictions on private traders, subject to these conforming with public health standards.

New entrants and private participation in processing and marketing of **dairy** products are now permitted. The GOZ also made a commitment to allowing private individuals and firms to export dairy products from April 1994, subject to a review of export regulations. According to the World Bank, the GOZ has plans for the privatization of the Dairy Marketing Board (DMB), which would be converted into a private company, owned 100% by the GOZ, and would eventually sell shares to producers. A similar proposal is being considered for the Cotton Marketing Board.

A privately owned Zimbabwe Agricultural Commodity Exchange (ZIMACE) has been established to provide transparency in the marketing of agricultural commodities outside of traditional channels. A senior GOZ official is on its board of directors.

4. Social Dimensions of Adjustment (SDA)

The Social Dimensions of Adjustment refer to Government's initiatives to shield vulnerable groups from the negative transitional effects of the economic reform program through short to medium term transfer payment schemes. Structural poverty is being addressed through the overall growth policies associated with the implementation of ESAP.

At last year's CG conference, the World Bank and other donors pointed to the need to strengthen social programs to shield poor and vulnerable groups from the harsh transitional effects of adjustment. During 1992, the Social Dimensions of Adjustment program fell behind schedule, becoming blurred with the drought relief effort, with social programs being focused almost exclusively on efforts to maintain nutritional standards. Although there were shortcomings in the screening and targeting of the food relief program last year, the program did reach a large number of the rural poor, including children. Maize was provided to about half of Zimbabwe's total population and crop packs were distributed to small-scale farmers.

In the post-drought period, the challenge for the Government is to re-focus its social assistance program on those affected by the transitional hardships of structural adjustment. This entails a better targeted food subsidy program and continuation of the already existing public works program, in combination with improvements in administering the already existing programs providing exemption for school and health fees for low income families. Efforts are also underway to assist those retrenched by the public and private sectors since the advent of ESAP through retraining and credit programs.

Social Development Fund

A Social Development Fund (SDF) has been established to support the two main program areas under the SDA -- namely the Employment and Training Program (ETP) and the Social Welfare Program (SWP). The ETP involves the provision of training and retraining of retrenchees, aimed either at assisting affected persons to re-enter formal employment or to establish their own businesses. The SWP involves targeted subsidies for the provision of education and health services and food for the most vulnerable groups.

Of the Z$ 23 million committed to the Social Development Fund, the Government has so far disbursed about Z$ 15 million. As the table below shows, more than half of the money disbursed has funded school and examination fees for children from low income households. Another third of the total disbursed to date (Z$ 5 million) has been advanced in loans to retrenchees who are starting their own businesses.

Table 3: **Social Development Fund -- Summary of Financial Status.**
Z$ Thousands

Item	Commitment	Disbursement	Balance
School Fees	4, 003.0	2, 756.0	1, 247.0
Exam Fees	6, 220.0	6, 223.1	-3.1
Health Fees	1, 390.0	--	1,390.0
Food Money	1, 130.0	311.4	818.6
Training Fees	1, 645.0	853.1	791.9
Trainees Food	235.0	71.5	163.5
Project Appraisals	140.0	123.9	16.1
Loans	7, 711.2	4, 920.0	2,791.2
After Care Service	95.0	--	95.0
Total	**22 ,569.2**	**15 259.2**	**7,310.0**

As part of its overall commitment to the structural adjustment program, the African Development Bank (ADB) made a separate loan of US$ 6.75 million for the Employment and Training component of SDF. The first tranche of the African Development Bank loan of US$ 1 million was finally released in May 1993 -- a year after the targeted release date. The reason for the delay in declaring the loan effective was the failure to appoint a program Co-Ordinator. A full-time Co-Ordinator at the deputy secretary level was appointed in March and a senior analyst at the level of under-secretary has been identified and is awaiting the approval of the Public Service Commission. In addition, there are two analysts working full time in the unit. Once the senior analyst is appointed, the unit will consist of four professional staff.

Employment and Training Program

The Employment and Training Program is targeted at persons retrenched after January 1991, the publication date of the Framework for Economic Reform. The GOZ hopes to expand the coverage to include school leavers, college graduates and other unemployed persons, but this is dependent on the ability to secure additional donor support for the program.

After delays associated with the drought and the non-disbursement of donor support (referred to above), training under the ETP finally began in February 1993. To date, a total of 3,300 retrenchees have completed 5-day training courses. The courses, which are run in all of the provinces, are aimed at the re-orientation of retrenchees -- either towards self-employment or towards further training for re-entry into formal employment. Most of the training is performed by indigenous owned "Business Consulting Organizations", a third of which are owned by women. There are 27 of these firms currently in operation, with the owner of one of these firms recently winning the Businesswoman of the Year Award.

After providing re-orientation training courses to retrenchees, the Business Consulting Organizations then offer assistance to those persons wishing to start their own businesses. This includes assistance with the preparation of project proposals, including market surveys. The completed proposals are then submitted to the Co-Ordination Unit of the Social Development Fund in the Ministry of Public Service, Labor and Social Welfare for processing. A total of 563 projects have been submitted to the Co-Ordination unit for assessment. Of these, 156 have been approved, 39 have been rejected and the rest are still pending (additional detail is provided in annex 6). The 156 projects so far approved have resulted in the creation of 700 new jobs.

The Social Development Fund has so far disbursed Z$ 925,000 for training programs, while a further Z$ 4.9 million in loans has been advanced for approved projects. To date the average amount of an individual loan has been Z$ 31,540 although a maximum of Z$ 80,000 per project can be advanced. The final loan approval is given by the inter-ministerial Loans and Grants Allocation Committee (LOGAC), which is chaired by the Ministry of Public Service, Labor and Social Welfare and includes representatives from the Ministry of Finance. Projects are only submitted to LOGAC for final approval once they have been screened by the Co-Ordination Unit. The first tranche of the ADB loan, referred to earlier, has not yet been fully utilized because the ADB funds can only be used for the purchase of capital goods for employment generating projects.

Projects which have been funded by the ETP vary from traditional service businesses to manufacturing. Typical projects are grinding mills, small scale mining, general dealers, oil processing, cattle fattening, piggery, poultry, horticulture and furniture manufacturing. Of the 156 projects approved, only 7 are owned by women. A major concern of both the Government and donors is the regional imbalance in the number of projects funded, as shown in annex 7.

Considerably less progress has been made in providing training courses for retrenchees who prefer not to start their own businesses, but are instead seeking training for eventual re-entry into formal employment. This is mainly because the Business Consulting Organizations, which have worked well in assisting persons to prepare project proposals, are not well equipped to provide the more sophisticated training required for formal sector employment. To address this, the Co-Ordination Unit has invited the larger training institutions in the public and private sectors (e.g., Harare Polytechnical College, Speciss College) to participate in the Employment and Training Program. Tenders and proposals from a number of large institutions are currently being considered and if these are accepted, they would cover training programs in fields such as refrigeration, motor mechanics, fitting and turning, carpentry, etc.

About half of the nearly 18,000 persons retrenched from the non-government, formal sector of the economy since January 1991 have received pre-retrenchment guidance and counselling. Information about the Employment and Training Program is being passed onto those persons receiving pre-retrenchment counselling. The Co-Ordination Unit has embarked on a publicity campaign, which has included the electronic media as well as a nation-wide distribution of posters and other written material, to enhanced public awareness of the program.

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The Social Welfare Program

This was established to protect vulnerable groups from the adverse price and income effects associated with the implementation of the structural adjustment program. The program has three components: education, health and nutrition. As noted earlier, the social welfare program became blurred with the drought relief effort during 1992, as the GOZ's attention was focused on providing drought relief to nearly half of the country's population.

The **school and examination fees** assistance program, initiated in January 1992, is designed to assist families with incomes of less than Z$ 400 per month. The program is distinct from the traditional assistance provided by Government from the annual budgetary vote appropriations to the Ministry of Education to client groups such as the disabled and single parent families. The need to focus resources on the drought in 1992, however, meant that only 30,000 students were assisted with school and examination fees under the Social Welfare Program. This year, the program has been accelerated and the number of beneficiaries has risen to 130,000 during the first three quarters and will rise further to at least 150,000 for the year as a whole. As table 3 shows, educational assistance has received the largest share of disbursements from the Social Development Fund. About Z$ 9 million (or 60%) of the total of Z$ 15 million disbursed under the SDF has been in this area.

Although the operation of the school and examination fees assistance program has improved considerably during 1993, the program's coverage still falls well short of reaching the targeted population. The main reasons for this are: (i) headmasters at the school level are depended on to select applicants and initiate applications; (ii) there are long delays at the Central Government level in processing applications; and (iii) the final decisions are made centrally. A survey conducted in March 1993 revealed that applications had been made on behalf of 9 percent of school pupils. Of these, 37 percent had been accepted, 22 percent had been rejected and 39 percent were pending. The survey found that pupils in urban areas were more likely to have their applications approved while those in communal and resettlement areas were more likely to be awaiting a response.

The **food money program** is the nutritional component of the SDA and is intended to benefit families earning less than Z$ 200 per month. The assistance is predicated on the increase in the cost of a 10 kg bag of roller meal (the monthly average consumed per person) resulting from the implementation of the first stage of the removal of the subsidy in mid-1992. As the difference between the pre and post August 1992 price of a 10 kg bag of roller meal was Z$ 4, a low income family of five members is entitled to Z$ 20 per month. To reduce administration costs, these payments are made on a quarterly basis so that a five member low income family is entitled to a cash payment of Z$ 60 every three months. Following the removal of the remaining maize subsidies in 1993, the overall increase in the price of a 10 kg bag of roller meal is now Z$ 11 and not Z$ 4 as assumed in the food money program. This suggests that the three monthly cash payment for five member families now needs to be increased from Z$ 60 to Z$ 165. The SDF Co-ordination Unit is awaiting clearance from the Ministry of Finance before this increase can be effected.

A total of 77,903 persons (about 11,000 families) have so far benefitted from the food money program which started in March this year. As shown in table 3 a total of Z$ 0.3 million has been disbursed under the program, compared with an original commitment of Z$ 1.3 million. Although a significant amount has been accomplished in this area, the delivery rate has been slower than expected.

The **health** safety net (which aims to provide free health care to households earning less than Z$ 400 per month) has not operated through the SDF, even though this was the original intention. As can be seen from table 3, an amount of Z$ 1.1 million was originally included in the SDF for health fee exemptions, but none of this has been disbursed. The administrative logistics of the program are complicated and the Ministry of Health wants to administer this program itself. So far the program has not operated uniformly, with the clinics themselves determining who gets free care. The Government wants to introduce exemption certificates as a way of effectively reaching the target group. The GOZ is considering proposals to reimburse clinics on a flat rate basis of 20 percent of the patients they treat, on the assumption that 20 percent of any urban population constitutes the urban poor.

While in 1993 there has been a substantial improvement in the delivery of the components of the safety net covered by the SDF, both GOZ officials and donors are concerned that about the program's lack of penetration and its urban bias. The school fees program has reached about 20 percent of its target population, while the food money program has only reached about 3 percent. Given resource constraints, there are no obvious solutions to these problems. However, a number of points are worth making. First, the food money, school fees and health fees programs do not have common eligibility criteria or a common application form. This raises the costs of access and administration and causes considerable confusion and implementation delays.

The control and administration of SDF programs has been criticized as being too centralized, with insufficient delegation of authority to line ministries. This raises the cost of delivery and contributes to urban bias. In the case of exemptions for school and examination fees, for example, all applications must be channeled through three ministries (in this case, the Ministries of Education, Public Service, Labor and Social Welfare and Finance), with the Ministry of Finance having the final say. To speed up the disbursement process, it may be preferable for the responsible line ministries to be given responsibility for the screening of applications and have the relevant program funds included in their annual vote appropriations.

A final criticism is that there are no obvious links between the size of the SDF budget and the size of the target populations. The GOZ is well aware of this, however, and is looking for donors to support program components such as the expansion of the Employment and Training Program.

5. Indigenous Participation

The GOZ is understandably concerned about the continuing domination of the formal economy by investors who are not indigenous Zimbabweans -- local whites, Asians and foreign individuals and corporations. In order to address these concerns, while improving policy transparency in this area, the FIAS has urged the GOZ to differentiate between indigenous and non-indigenous investment when articulating policy related to domestic and foreign investment. So far, the Government has not been willing to do so.

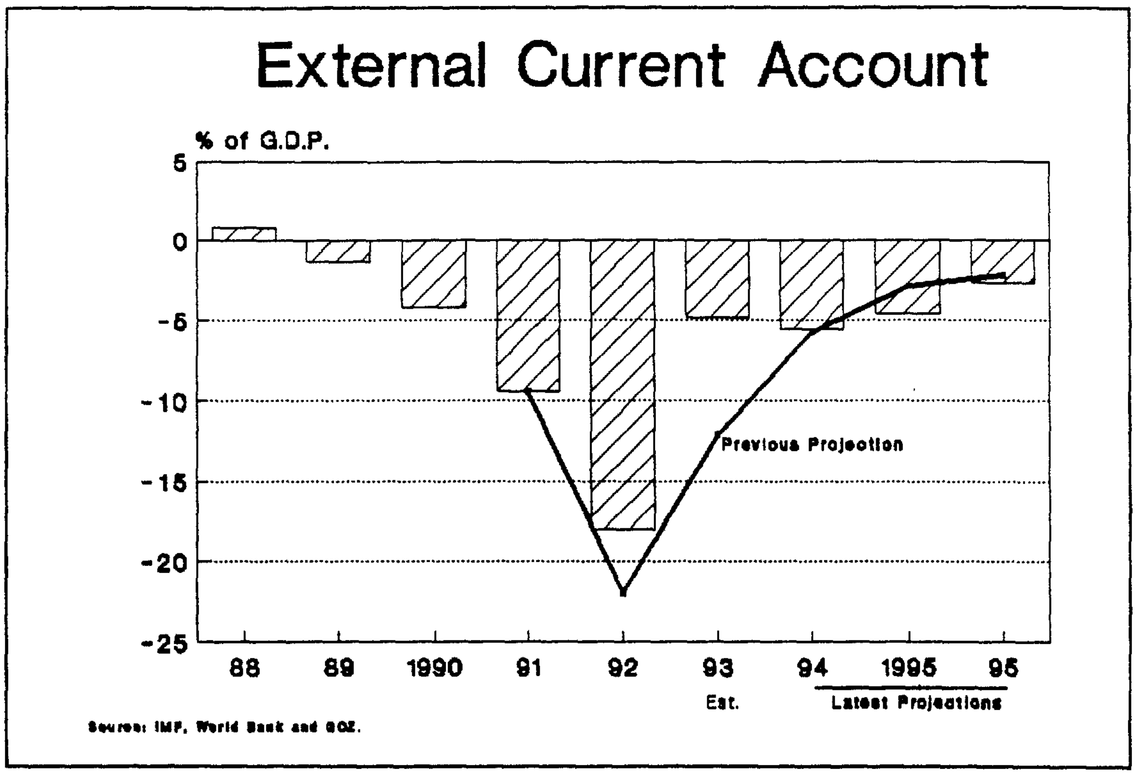
A number of measures aimed at enhancing indigenous participation in the economy have been taken. These are: (i) provision of Z$ 100 million at concessional interest rates to assist "small to medium-scale enterprises"; (ii) provision of finance for the free distribution of seed packs and fertilizer to communal areas; and (iii) the passing of the Land Acquisition Act and the beginnings of its implementation.

Measures targeted at assisting small-scale entrepreneurs include: (i) the Reserve Bank pre and post finance shipment finance facility for small-scale exporters at concessional rates; (ii) access to offshore finance (at lower prevailing interest rates) for small-scale exports through financial institutions up to a total of US$ 25 million. [In response to this, one finance company raised a US$ 5 million line of credit.] These measures, however, are directed more at export enhancement than at assisting indigenous business development.

In his April policy announcement, the Senior Minister stated that "it will be a major role of the Zimbabwe Investment Center to promote greater participation of indigenous entrepreneurs in the economy". So far, ZIC's activities in this area have been confined to the EMPRETEC program, a joint venture with the UNDP aimed at providing training for indigenous entrepreneurs.

The ZIC is currently revising the reserved list for local investors. The question of local equity participation needs to be addressed in a transparent manner when the Statutory Instrument is passed next year. Although the Government remains reluctant to include a clear distinction between indigenous and non-indigenous participation, in practice foreign investors are in many cases being required to accept substantial amounts of local indigenous equity participation. This lack of policy transparency detracts from Zimbabwe's investment promotion efforts.

V. External Financing and Debt.

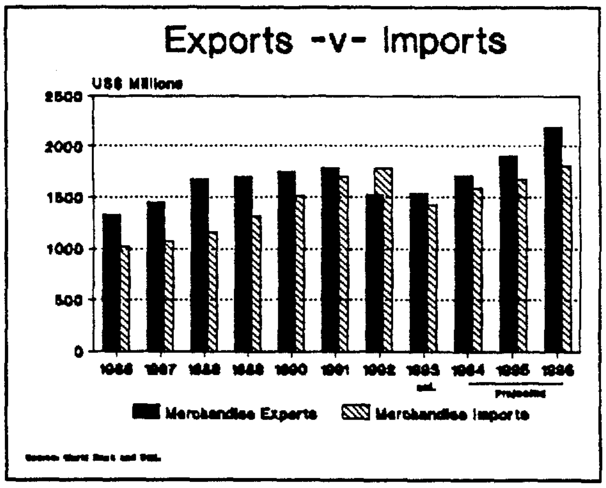


As the chart shows, the current account has turned out considerably better than expected during the past two years, in spite of the harsher than anticipated external trading environment. In 1992, weaker than expected exports were offset by lower imports. Total merchandise exports in 1992 were more than 10 percent lower than expected at US$ 1.539 million, compared with an earlier target US$ 1.741 million. This mainly reflected a shortfall in tobacco and ferrochrome receipts. Despite the considerable amount of drought-related imports last year (estimated at US$ 372 million), total imports were lower than projected. The key to the containment of the current account deficit was the reduction in non-drought related imports, which turned out to be 16 percent lower than projected. This was due to the restrictive domestic credit situation, particularly during the second half of the year.

Given the absence of any improvement in the external trading environment this year, the official target of reducing the current account deficit to 12 percent of GDP was widely considered to be too optimistic, with consensus forecasts pointing to a deficit of about 16 percent of GDP. According to the latest balance of payments estimates, which are based on ten months of data (shown in annex 8), the current account deficit has been sharply reduced in 1993. If the figures are correct, then the current account deficit has been cut within one year, from 18 percent of GDP to about 5 percent of GDP. [This is seven percentage points lower than the earlier official projection of 12 percent of GDP, and more than ten percentage points lower than the consensus forecast of 16 percent of GDP.]

The most important factor behind this rapid improvement in the external current account position in 1993, has been the effectiveness of the tight monetary policies in restraining import demand. The drought induced recession also helped to depress the demand for imports. As a result, merchandise imports fell by 20 percent from U$ 1.782 million to US$ 1.425 million.

Merchandise exports increased marginally, by 0.8 percent (US$ 13 million) in 1993.[13] Although modest, this performance was better than expected given the fall in the value of the tobacco crop. At US$ 270 million, the value of this year's tobacco crop is US$ 56 million lower than last year's crop and only slightly more than half of the value of the record 1991 crop. The decline in tobacco export realizations was more than offset by increased exports in other areas, including gold, chrome, nickel, beef and agro-based manufactured goods.



As can be seen from the balance of payments figures provided in annex 8, the current account deficit fell by US$ 560 million this year.[14] As in 1992, the most important contributory factor was the US$ 357 million fall in merchandise imports. Other factors which contributed to this were: (i) reduced imports of non-factor services such as freight, forwarding and insurance (US$ 66 million); (ii) increased exports of non-factor services (US$ 103 million); and (iii) reduced dividend remittances by foreign owned companies (US$ 33 million).

This sharp and unexpected reduction in the current account deficit has had two important consequences. First, there has been a doubling in the country's foreign reserves this year -- from two to four months of import cover or from US$ 300 million to US$ 600 million. Under the previous balance of payments projections made six months ago, this level of foreign reserves had only been expected to be reached by 1995. Second, this has led to a substantial reduction in Zimbabwe's external financing requirements.

The capital account surplus is projected to decline over the medium term, as medium and long term loans from official and multilateral sources decline after the exceptionally large drought-related inflows in 1992 and 1993. As can be seen from the chart shown as annex 11, foreign grants more than doubled in 1992, rising to US$ 242 million. Net inflows of Foreign Direct Investment (FDI) turned out lower than expected in 1993 (see annex 12) due to delays in the approval of some mining investment projects.

[13] From US$ 1,530 million in 1992 to US$ 1,543 in 1993.

[14] From US$ 842 million in 1992 to US$ 282 million in 1993.

However, the net inflow of FDI is expected to become a significant factor, increasing from US$ 5 million in 1993 to around US$ 30 million in the mid-1990's.

In preparation for the CG meeting scheduled to be held during December, the World Bank and the IMF have been working with the GOZ to determine the extent of the "financing gap" for 1994. The additional external financing required for 1994 has turned out much lower than had been expected -- i.e., US$ 226 million versus the US$ 625 million projected at the time of last year's CG. Again, this has been caused primarily by a reduction in imports associated with the restrictive monetary policies. The total external financing requirements for the three year period 1993-95 have therefore been reduced from US$ 3.2 billion projected a year ago to US$ 2.2 billion.

A new technique is being used to calculate the implied level of new commitments required. The residual financing gap of US$ 226 million -- which is derived in a manner consistent with previous years -- has been broken down into Project Aid (US$ 134 million) and Import Support (US$ 92 million). These components are then multiplied by factors representing the number of years for disbursement -- or 5 in the case of project aid or 1.5 in the case of import support. This results in a final figure for implied new commitments of US$ 808 million. This is nearly four times higher than the residual financing gap arrived at via the standard method used in the past.

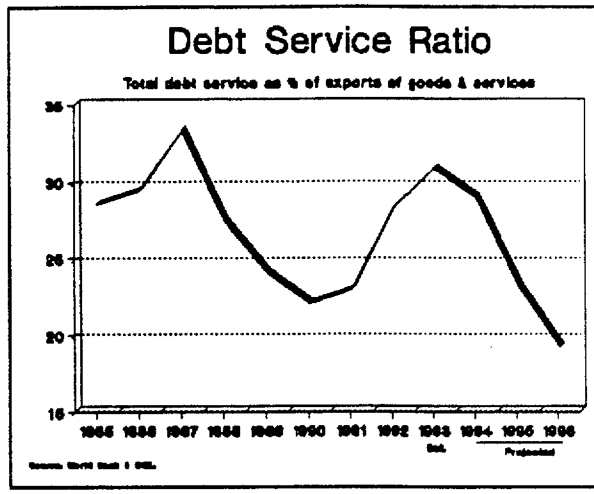
The reason for changing the technique is to arrive at a higher level of "required donor commitments". This may be viewed suspiciously by donors. However, there are compelling reasons for adopting this new method, which should be viewed against the 1992/93 experience when there was a large unexpected shortfall of Z$ 539 million in the disbursement of donor resources. This placed the overall stabilization effort under severe strain. As a result of the shortfall, the Government's domestic borrowing requirement was much larger than anticipated. In order to compensate and keep overall monetary expansion in check, it was necessary to effect a severe contraction of credit to the private sector, which intensified the decline in domestic production and incomes. Justifiably, the Bank and the GOZ want to minimize the possibility of this occurrence being repeated.

It is also important to recognize that the external financing projections allow for a reasonable growth in imports during the next few years.[15] This is necessary to achieve the required increase in investment levels and the projected GDP growth rates during the next phase of the economic reform program. Unlike many other countries implementing economic structural adjustment programs, Zimbabwe finances about 70 percent of its foreign exchange requirements from its own resources. According to the World Bank, this is expected to grow to about 85 percent by 1996.

Zimbabwe's external indebtedness has risen substantially in recent years due to the drought and the implementation of the trade liberalization policies under ESAP. However, it is still not considered to be a highly indebted country, with its debt to exports ratio (about 180%) being about half of the Sub-Saharan average. Total external debt outstanding at the end of 1992 amounted to about US$ 3.5 billion, up from US$ 2.9

[15] The projections assume import growth of 11% in 1994, 5.4% in 1995 and 8.2% in 1996.

billion at the end of 1991. Approximately 42 percent of Zimbabwe's debt is owed to private creditors, 33 percent to bilateral creditors and 25 percent to multilateral creditors.



As the chart shows, the debt service ratio has risen from about 21 percent in 1991 to 31 percent in 1993. The projected fall in the ratio is due to the fact that Zimbabwe's external financing requirements have in recent years been met increasingly with concessional loans and grants. [16] According to the World Bank, the average interest rate under which external debt has been contracted is 6 percent, with an average maturity period of 14 years and a average grace period of 3.6 years, implying an overall grant element of about 21 percent. Zimbabwe has an excellent debt repayment record and is expected to continue to service its debts on a timely basis.

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[16] The fall in the ratio also assumes real export growth of 10% in 1994, 12% in 1995 and 15% in 1996.

AUTHORIZED ESTABLISHMENT

Number of Posts	1992 - 93	1993 - 94	Change 1992 - 93	Change 1993 - 94
1 Office of the President and Cabinet	584	499	-138	-85
2 Parliament	194	182	-5	-12
3 Public Service, Labour & Social Welfare	2810	2863	-240	53
4 Defence	2843	2836	-6	-7
5 Finance	3664	3774	-36	110
6 Vote of Credit	"	"	0	0
7 Audit	253	246	2	-7
8 Industry and Commerce	801	673	248	-128
9 Lands, Agriculture and Water Development	16556	17127	1437	571
10 Mines	535	516	1	-19
11 Transport and Energy	6117	5912	-6592	-205
12 Foreign Affairs	887	870	-24	-17
13 Local Government, Rural and Urban Development	2266	2137	-766	-129
14 Health and Child Welfare	22389	22528	-702	139
15 Education and Culture	102208	92369	51	-9839
16 Higher Education	4997	4980	107	-17
17 National Affairs, Employment Creation & Co-ops	3930	2109	40	-1821
18 Home Affairs	3531	3542	-137	11
19 Justice, Legal and Parliamentary Affairs	1628	1639	37	11
20 Information, Posts and Telecommunications	343	339	-21	-4
21 Environment and Tourism	3072	3062	-240	-10
22 Public Construction and National Housing	4948	5269	43	321
TOTAL:	184556	173472	-6941	-11084
Memorandum Items:				
Education	107205	97349	158	-9856
Health	22389	22528	-702	139
Other Civil Servants	54962	53595	-6397	-1367

Annex 2

E.R.S. NEGATIVE LIST

1. **Radioactive and associated materials.** HS Heading 28.44 and 28.45

2. **Nuclear reactors and parts thereof, fuel elements (Cartridges). Non-Irradiated for nuclear reactors.** HS Subheadings 8401.1000, 8401.3000, 8401.4000.

3. **Pearls, precious and semi-precious stones, unworked or worked.** HS Heading 71.01, 71.02, 71.03, 71.04.

4. **Jewellery of gold, silver or platinum group metals** (except watches and watch cases), and goldsmiths' or silversmiths' wares (including set gems). HS Headings 71.13 and 71.14.

5. **Gold, non-monetary** (excluding gold ores and concentrates).
HS Subheading 71.08, excluding subheading 7108.2000.

6. **Alcoholic beverages except for the tourist industry.**
HS Headings 22.03, 22.04, 22.05, 22.06, 22.07, and 22.08.

7. **Tobacco, Manufactured (except for the tourist industry).**
(Whether or not containing tobacco substitutes)
The whole of Chapter 24.

8. **Toys.** HS Headings 95.01, 95.02, and 95.03.

9. **Motor vehicles other than commercial vehicles including kits exceeding US$ 20 000 per unit.**
HS Headings ex 87.03, ex.87.11, and ex 100.01

10. **Fully assembled household electric and electronic equipment except computers, but including certain ranges of electric motors.** HS Headings: 85.18, 85.19, 85.20, 85.21, 85.22, 85.23, 85.24, 85.27, 85.28, 85.01.4010, 8501.5210.

11. **Arms and ammunition, and parts thereof.** The whole of chapter 93.

12. **Invisibles** Not covered by HS Tariff.

13. **Works of Art, Collector's pieces and antiques.** The whole of chapter 97.

14. **Prepared foodstuffs:** Selected tariff headings of Chapter 17 HS Headings 1701.9100, 1701.9900, 17.04 The whole of Chapter 20 except the tariffs below: HS Headings: 20.05, 2008.1100, 2008.1110

15. **Cosmetics and beauty preparations and all toiletries.** HS Headings 33.03, 33.04, 33.05, 33.06, 33.07, 34.01.

16. **Dish-washing machines** of the house-hold type: HS Heading 8422.110
(These are electric and would be covered by the general description of 10 above.)

17. **Articles of apparel and clothing accessories.** The whole of chapters 61, 62 and 63.

18. **Yachts and other vessels for pleasure or sports, rowing boats and canoes.**
HS Heading 89.03

19. **Woven fabrics of cotton.** HS Headings: 5208, 5212.1100, 5212.1200, 5212.1300, 5212.1400, 5212.1500

INDIVIDUAL FOREIGN CURRENCY DENOMINATED ACCOUNTS

Following upon the recent announcement by the Senior Minister of Finance regarding the introduction of Foreign Currency Denominated Accounts (FCDAs), the following will govern the operations of these accounts for individuals.

1. All sources of foreign currency held by resident and non-resident individuals, are considered as genuine sources of FCDA funds. These funds may be deposited with Authorized Dealers in denominated currencies.

2. Capital brought into the FCDAs will not be subject to tax and proof of source will not be required. As an incentive to attract FCDA funds, no withholding tax will be levied on the interest earned by these accounts.

3. There is no restriction on the amount of foreign currency that can be repatriated from an individual's own FCDA in the form of either travellers' cheques or bank transfers (or other similar transactions recorded in the banking system).

4. Funds initially withdrawn from FCDAs and converted to Zimbabwe dollars at the official exchange rate for local use cannot be re-deposited into the accounts at the official exchange rate.

5. All importations by individuals will no longer require NCI clearance by the Reserve Bank of Zimbabwe but will still be subject to the general rules governing the importation of goods enforced by the Department of Customs and Excise.

6. The amount of foreign currency in cash that Zimbabwean travellers can carry on leaving the country has been increased to US$200 or its foreign currency equivalent. For non FCDA holders and corporate bodies, this will form part of their holiday travel allowance or business travel allowance respectively.

7. Individual FCDA holders are allowed to trade amongst themselves, sell to non FCDA holders at market rate or Authorized Dealers at the official exchange rate.

8. The Reserve Bank of Zimbabwe will offer competitive interest rates to attract the FCDA deposits, however, Authorized Dealers are free to invest offshore.

9. Zimbabwe residents with individual FCDAs are permitted to invest their money in the following instruments:-

   a. **Zimbabwe Stock Exchange**
   Individual FCDA holders may invest on the Zimbabwe Stock Exchange under the same rules as those applicable to non-resident investors. The investments will qualify for 100% dividend remittability rights and the income will be credited to the investors FCDAs.

   b. **Unlisted Companies**
   Individual FCDA holders may invest in unlisted local companies with at least 50% turnover from exports through rights and new issues and project finance. Specific applications must be submitted to Exchange Control. Dividend income will be dealt with as in (a) above.

   c. **Money Market**
   Individual FCDA holders may freely invest in the money market by initially converting their foreign currency into Zimbabwe dollars at the official exchange rate. The Reserve Bank of Zimbabwe will provide foreign currency at the official rate to meet interest payments, redemption and secondary trading of the instruments. Such income will be credited into the FCDAs. All these transactions should be conducted through the same Authorized Dealer that holds the FCDA account.

Consequently, the restriction on the holding of foreign currency by individuals has been abolished and the Exchange Control Act and Regulations will be amended accordingly. These arrangements will not be changed to the disadvantage of the FCDA holders. The Reserve Bank of Zimbabwe will not be lender of last resort.

Foreign Investment Promotion in Zimbabwe
Policy actions proposed in February 1993
by the World Bank's
Foreign Investment Advisory Service (FIAS):

1. Provide unrestricted remittance of after tax profits (limited to new profits).
2. Deregulation of domestic use of surplus funds.
3. Remove penalty interest provisions on blocked funds.
4. Remove mandatory bond purchase with blocked funds.
5. Liberalize capital repatriation provisions.
6. Announce timetable for the unrestricted repatriation of capital.
7. Clarify the local equity requirement for foreign investors.
8. Establish indigenous participation arrangements.
9. Review and reduce negative list for foreign investment.
10. Remove legislated and regulation-based monopolies.
11. Liberalize ERS credits and simplify trading.
12. Eliminate Schedule 1 restrictions on OGIL.
13. Abandon "approved importer" classification for OGIL.
14. Deregulate overseas borrowing provisions.
15. Allow dilution of government equity in commercial enterprises.
16. Deregulate portfolio investment.
17. Simplify approval of short term work permits.
18. Allow investment outside Zimbabwe.
19. Simplify export procedures.
20. Reform investment approval process.

Dividend and capital repatriation restrictions for foreign investors:

Investment promotion reforms introduced in April 1993.

1. From May 1, 1993, any new company established with foreign shareholding is automatically eligible for unrestricted remittance of after-tax dividends accruing to the foreign shareholders, provided these dividends are paid in foreign exchange through the Export Retention Scheme (ERS) market. This reform applies to all wholly owned private companies and joint ventures.

2. Foreign investments made prior to May 1, 1993 can now access remittances in excess of the 25% or 50% levels which they were previously allowed. The increase is based on the percentage which post April 1993 investment constitutes within the net asset value of the company. The increase is available up to the point where total dividends reach 100 percent of net after tax profits.

3. Foreign companies established prior to September 1,1979, which until May 1, 1993, were restricted to dividend remittability of 25% of net after tax profits, have had this entitlement raised to 50% if exports comprise more than 25% of net total sales and all remittances are made via the ERS.

4. For all companies established prior to May 1, 1993, additional entitlement to remit dividends can be earned on the basis of the increase in the value of export sales over the previous year. The additional entitlement is half of the percentage increase in exports, provided that the base value of exports is at least 10% of total sales. Again, this is up to a cumulative maximum of 100% of net after tax profits.

5. All new foreign investments made after September 1, 1979, are eligible for unrestricted repatriation of the foreign exchange injected as capital, without any deductions for previous dividend remittances. The amount eligible is designated in the currency initially brought into Zimbabwe, and the ERS must be used to acquire the foreign exchange required for remittance.

6. The government stated its intention to phase out, subject to Balance of Payments constraints, remaining restrictions on the repatriation of capital injected for investments made prior to September 1, 1979.

7. Restrictions on the level of interest which can be earned on corporate blocked funds within the local economy were removed from May 1, 1993, for blocked funds created by disinvestment after that date for investments made after September 1, 1979.

Employment and Training Program.

Projects Submitted as at October 30, 1993.

Name of Organization	No. Submitted	Returned	Pending	Ready for LOGAC	Approved	Rejected
Besa	59	16	10	0	28	5
ZESA	49	26	5	0	16	2
PHM Consultants	128	69	37	1	13	8
PPM Associates	102	21	33	2	37	9
Rainbow	40	27	3	1	8	2
Fountain Mngement	22	2	7	0	13	0
Imago	40	21	4	0	15	0
Mateng	2	1	0	0	0	1
Success Bus Consult	22	6	13	0	1	2
SEDCO	23	10	7	1	5	0
SSE Consultants	15	6	3	0	2	2
Jega	16	11	4	0	0	1
MDE	10	9	1	0	0	0
Ikea	5	0	3	0	2	0
Banmak	10	3	4	1	1	1
Masukume Assoc	0	0	0	0	0	0
CU	20	0	0	0	15	5
TOTALS	**563**	**223**	**134**	**6**	**156**	**39**

Employment and Training Program

Regional Distribution of Projects Approved.

Province	Projects	Jobs Created	People Trained
Matebeleland North	9	30	438
Matebeleland South	1	2	245
Mashonaland East	29	129	179
Mashonaland West	11	48	143
Mashonaland Central	14	56	110
Masvingo	6	15	246
Manicaland	14	47	104
Harare	30	162	955
Midlands	37	165	807
Total	151	654	3227

Zimbabwe: Balance of Payments

	In millions of US Dollars					
		prelm	*proj*	*proj*	*proj*	*proj*
	1991	1992	1993	1994	1995	1996
Imports of Goods and NFS	2315	2437	2014	2155	2301	2480
Exports of Goods and NFS	2055	1835	1938	2080	2302	2602
Resource Balance	-260	-602	-76	-75	-1	122
Factor Payments	-289	-280	-254	-312	-352	-362
of which Interest Payments	-221	-219	-226	-236	-223	-212
Private Transfers	2	40	48	40	42	43
Current Account Balance (Excluding Grants)	-547	-842	-282	-347	-309	-197
Capital Account:	533	689	527	184	240	253
Direct Foreign Investment	3	15	5	26	32	53
Grants	95	242	181	193	164	137
Net M&LT Capital	292	458	241	138	30	46
Disbursements	542	756	611	503	340	333
Repayments	250	298	370	365	310	287
Short Term Capital, Net	143	-26	100	-173	14	17
Errors and Omissions	-112	26	56	0	0	0
Overall Balance	-126	-127	301	-163	-69	56
Financing	126	127	-301	163	69	-56
Gross Reserves (- = increase)	-80	-3	-308	83	-37	-46
FCA Reserves (- = increase)	0	0	-2	-97	-9	-2
Use of fund resources, Net	-5	226	67	146	106	-8
Other Liabilities, Net	211	-96	-58	-55	-112	0
Finance Gap	0	0	0	86	121	0

Source: *World Bank and GOZ..*

Zimbabwe: External Financing Requirements, 1993-96

In millions of US Dollars

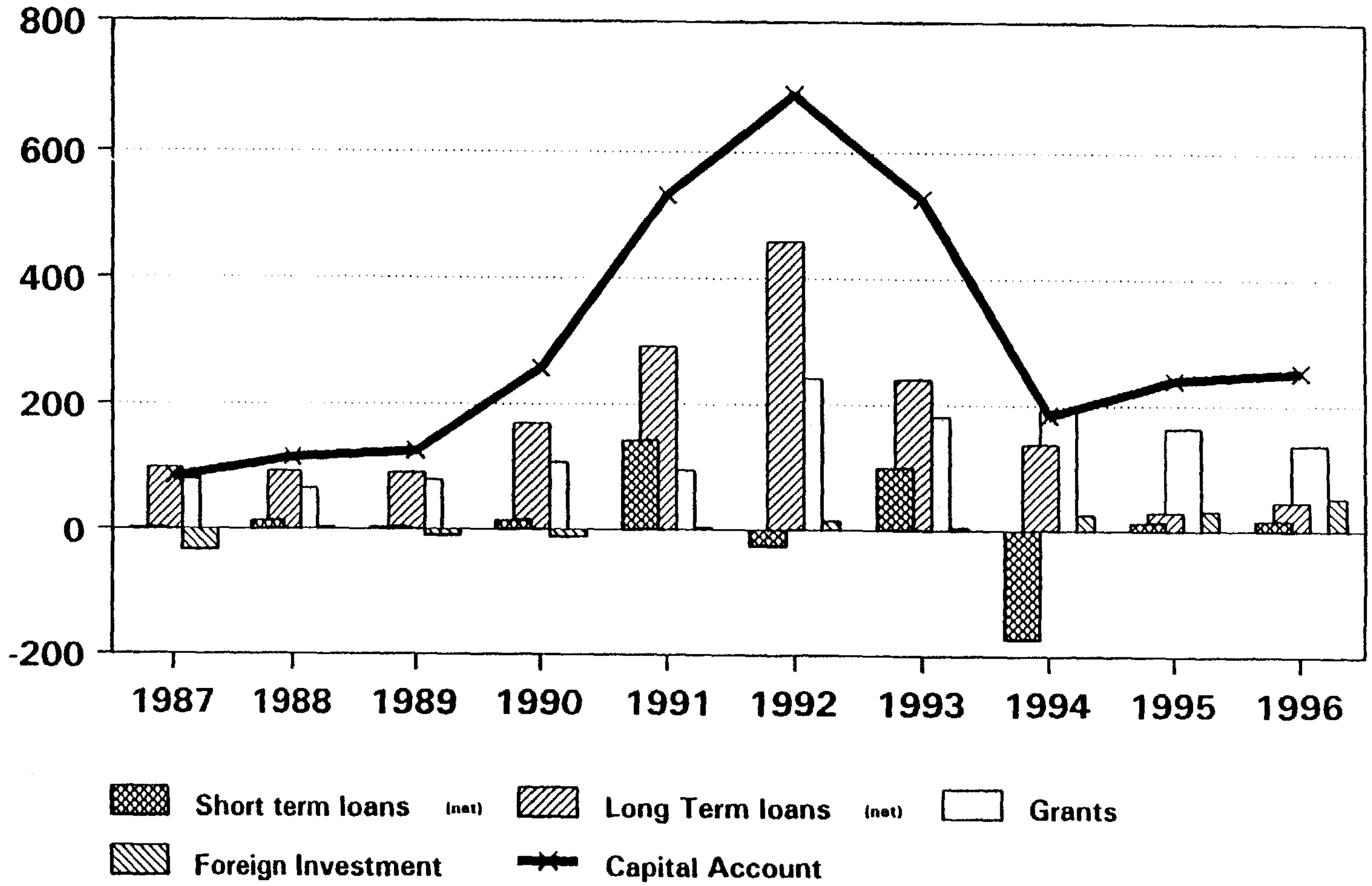
	1992	1993	proj 1994	proj 1995	proj 1996
Current Account Deficit	842	282	347	309	197
Amortization	298	370	365	310	287
IMF	-226	-67	-146	-106	8
Direct Investment, Net	-15	-5	-26	-32	-53
Change in Reserves	3	310	14	46	48
Other Items, Net	70	2	55	112	0
Short Term Capital	26	-100	173	-14	-17
Total Financing Req.	**998**	**792**	**782**	**625**	**470**
Less					
Disbursement ex Exist. Commitments			**556**		
Grants			106		
Project Aid			48		
Import Support			58		
Medium & Long Term Loans			450		
Project Aid			351		
Import Support			99		
Residual Finance Gap			**226**		
Proposed Financing			226		
Grants			103		
Project Aid			73		
Import Support			30		
Loans			123		
Project Aid			61		
Import Support			62		
Implied Level of New Commitments					**808**
Project Aid			671		
Import Support			138		

Source: World Bank and GOZ.

List of Persons Interviewed

- Mr Wilson, Monitoring & Implementation Unit, Ministry of Finance.
- Mr Holmes, Economics Officer, US Embassy.
- Mr Kapore, Economist, World Bank.
- Mr Chatiza, Employment and Training Division, Ministry of Labor.
- Mr Mishi, Co-ordinator, Social Development Fund, Ministry of Labor.
- Mr Minot and Mr Manyana, Monitoring and Implementation Unit, Social Dimensions of Adjustment, Ministry of Finance.
- Mr Jarik, Economist, Africa Development Bank.
- Mr Moyo, Economist, Friedrich Naumann Foundation.
- Mr Katito, Chairman Deregulation Committee, Ministry of Local Government, Rural and Urban Development.
- Mr Ncube, Director, Zimbabwe Investment Center.
- Mr Chidanyanika, Agricultural Economist, World Bank.
- Mr Msipa, Chairman, Grain Marketing Board.
- Mr Wilson, Trade Liberalization, Monitoring and Implementation Unit, Ministry of Finance.
- Mr Mlahla, Director, National Planning Agency.
- Mr Nziramatsanga, Former Permanent Secretary, Ministry of Trade and Industry.
- Mr Bvumbe, Balance of Payments section, Reserve Bank of Zimbabwe.
- Mr Warner, Monitoring and Implementation Unit, Ministry of Finance.
- Mr Moyo, Permanent Secretary, Ministry of Transport and Energy.

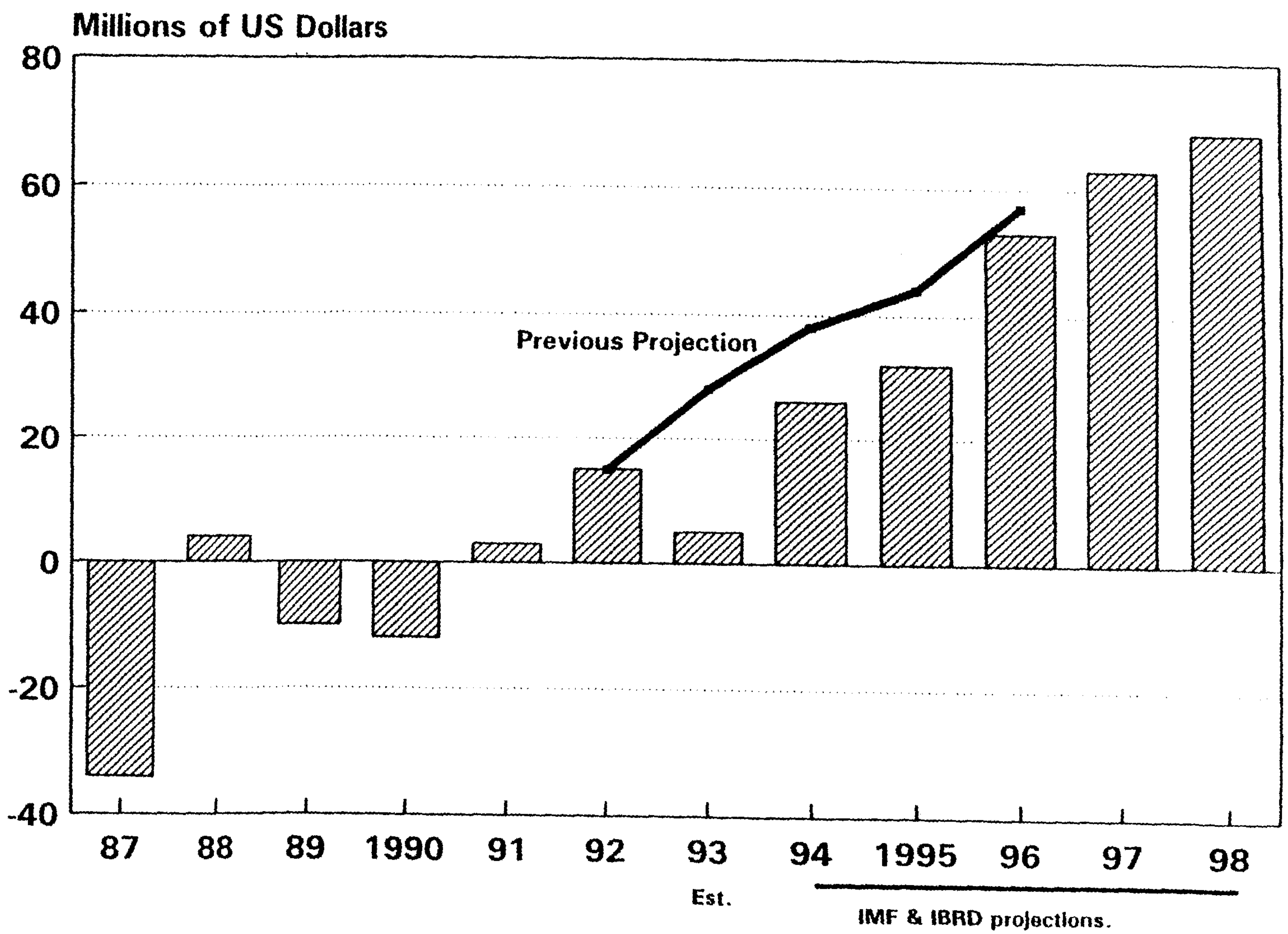
The Capital Account



IMF & IBRD projections for 1994-96.

Annex 11

Direct foreign investment (net)



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Annex 12