ZIMBABWE

A FRAMEWORK FOR ECONOMIC REFORM
(1991-95)

Prepared by the

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PREFACE

The Government of Zimbabwe is committed to a programme of economic policy reform aimed at sustaining higher medium and long-term growth and reducing poverty. This requires a recovery of investment and improved efficiency. To achieve such recovery, a trade liberalization programme aimed at moving away from the present system of foreign exchange allocation and a relaxation of domestic controls will be implemented over a period of five years. Imports will be placed progressively under Open General Import License (OGIL) and import taxes will be made more uniform. Labor regulations and price controls will be relaxed to improve the business environment and stimulate employment. This liberalization programme will be supported by appropriate monetary, exchange rate and fiscal policies. A programme to reduce the budget deficit (net of foreign grants) from over 10% of GDP in FY90/91 to 5% in FY94/95 is being implemented. Over this period, losses on public enterprises will be almost eliminated, the civil service (excluding education) will be reduced in size by 25% and its productivity increased through reform measures, and the current high tax burden will be marginally reduced.

The programme has been designed to protect poor people and it will concurrently assist those temporarily disadvantaged by the structural adjustment process. Measures will be taken to ensure that poor and vulnerable groups have access to basic foodstuffs at affordable prices, and that they do not suffer from increased cost recovery for social services. Provision has also been made to assist workers that lose their jobs in the Government, public enterprises and private companies.

To minimize the levels of external financing required and to keep it within manageable limits, every effort will be made to maximize export growth and to encourage new foreign direct investment. Nevertheless, for the reform programme to be successful, substantial financial assistance from the international community (external grants and loans) will be needed in order that this combined programme of trade liberalization, domestic deregulation and budget deficit reduction can be implemented.

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I. INTRODUCTION AND BACKGROUND

Introduction

1. After a decade of considerable social progress but limited per capita income growth, the Government of Zimbabwe has embarked on a programme of economic policy reform aimed at stimulating investment and removing impediments to growth. This programme of economic policy reform includes trade liberalization and domestic deregulation, and it will be underpinned by appropriate fiscal and monetary policies. This document outlines the programme, documenting changes already introduced and detailing intended future changes. It briefly reviews the economic performance during the 1980s to provide a context to the reform programme. This is followed by the government's development objectives and strategy for achieving these objectives. In addition, this document presents a plan for financing Zimbabwe's investment and foreign exchange needs during the transition to a more competitive and open economy. Finally, the document concludes with a summary of the implementation strategy.

Economic Background

2. Since independence in 1980, Zimbabwe has made substantial achievements in the areas of education, health, population and small holder agriculture. In education, primary enrollments rose from 1.2 million children in 1980 to 2.2 million in 1989, and secondary enrollments rose from 74,000 to 671,000. The achievements in health and population during the 1980s have also been impressive: i) the percentage of children fully immunized has more than tripled from 25% to 86%; ii) infant mortality has declined from 86 to 61 per 1000 births; iii) life expectancy has increased from 55 to 59 years; and iv) fertility has declined rapidly and, consequently, the population growth rate has fallen to an estimated 2.8% per annum in 1989 and is still declining. Moreover, the redirection of credit, extension and marketing services, combined with the maintenance of appropriate producer prices, has led to a dramatic upsurge in the marketed output of small farmers. The small farmers' share of marketed maize rose from zero in 1980 to more than 70% in 1989.

3. These successes, however, have not been matched by economic growth and rising per capita income. Growth in Gross Domestic Product (GDP) during the 1980-89 period (2.7% per year) lagged behind population growth. Also a disproportionate share of this modest growth was in the provision of social services and public administration. Fortunately, GDP growth in 1988 and 1989 has been much higher, thanks to favorable weather conditions in 1988, a considerable expansion of the manufacturing sector related to enhanced availability of imports in 1989, and the early effects of policy change.

4. Export growth overall, however, has been disappointing, increasing by only 3.4% per annum in real terms between 1980 and 1989. This slow export performance, coupled with debt service payments rising to a peak of 34% of export earnings in 1987, severely constrained the growth of imports. Imports actually declined by 0.4% per annum in real

terms between 1980 and 1988. This contraction of imports, particularly during the mid 1980s, severely constrained utilization of existing capacity as well as investment in new production capability.

5. The increase in employment opportunities has been far from adequate to absorb the large numbers entering the work force annually, with the result that unemployment reached 26% in 1989. There are now about 200,000 school leavers each year, but only about 20,000 to 30,000 new jobs are being created in the formal sector. The bulk of the additional formal sector employment during the 1980s was in the governmental sector, especially in education, health and public administration. This was a deliberate effort to redress historical inequities. Unfortunately, it was not matched by employment growth in other sectors of the economy, particularly in small scale sector enterprises which remained highly constrained. Attention must now move to investment in other sectors of the economy and hence employment creation, especially in small scale sector activities. Consideration should also be given to a framework within which the informal sector can operate. Only then can the nation's need for growth and employment opportunities be effectively and sustainably met.

6. The central government's fiscal deficit was in excess of 10% of GDP during much of the 1980s and this led to central government debt reaching 71% of GDP by 1989, 36% of which was external debt. Total public sector debt was even larger at 90% of GDP. In FY89/90 central government interest payments comprised 6.7% of GDP. Though the overall central government deficit (including grants) was then 8.6% of GDP, the primary deficit (i.e., net of interest payments) was only 1.9% of GDP. Real interest rates will become positive during the course of the adjustment process and this will increase the need for a reduction in other recurrent expenditures in order to meet the overall fiscal targets.

7. Inflation averaged around 15% per annum during the 1980s. Nominal interest rates averaged 12% and hence the real interest rate was negative. Nevertheless, limited consumer options and developed savings institutions helped to maintain a healthy savings rate of about 20% per annum. These savings, coupled with negative real interest rates and low private investment demand, allowed the central government to finance its fiscal deficits of over 10% of GDP without appearing directly to crowd out private investment and without foreign debt exceeding 57% of GDP.

8. The principal cause of low growth has been the low level of investment in the productive sectors of the economy. Investment has been barely adequate to maintain the capital stock, let alone to increase it and raise productivity. The capital stock has aged, as gross fixed capital formation declined to 15% of GDP in the mid 1980s. Private investment has fallen even more rapidly, as the share of public investment in total investment has risen. Private investment was less than 8% of GDP in 1987 compared with 12 percent in 1985. This decline in investment can be attributed to three basic factors: i) the risks associated with unsustainable fiscal deficits; ii) uncertainties and high costs associated with the foreign exchange allocation system affecting access to investment, intermediate goods and spares; and iii) the relatively high cost of doing business in Zimbabwe's highly regulated business environment, as a result of price controls, labor market restrictions and investment control procedures.

9. Zimbabwe has already begun a programme of policy reform to rectify these problems. The initial steps in policy reform have been relatively aggressive exchange rate management, a modest reduction in the fiscal deficit, new investment guidelines, more flexibility in price and wage setting, a foreign exchange retention system and the modest expansion of OGIL provisions. There was a 12% real depreciation of the Zimbabwe dollar during 1990 following an 8% real depreciation during 1989. The government has not only announced its intention to reduce the fiscal deficit to 5% of GDP by FY94/95, but has already reduced the deficit (excluding grants) from 13.1% of GDP in FY86/87 to 10.6% in FY90/91. This latter figure also includes 1.1% of GDP as a partial write-off of past public sector enterprise losses. Moreover, the government has decided that further reduction in the deficit will be achieved mainly through expenditure restraint rather than any increase in revenue as a share of GDP.

10. To facilitate an increase in investment, Zimbabwe has over the past two years:

- established an Investment Center (ZIC) to streamline the investment approval process;

- narrowed the definition of a foreign company, thus reducing the number of firms subject to the additional controls applied to foreign firms;

- allowed selected new investments to repatriate up to 100 percent of profits (50 percent previously), subject to a case by case administrative decision. New guidelines introduced in October 1990 provide for 100 percent repatriation of profits, in the case of defined export oriented projects; and

- signed MIGA and OPIC protocols.

11. To further encourage exports, the government introduced an export retention scheme effective from July 1990. This allows exporters to retain 5 or 7.5% of their export earnings, depending on the type of goods exported, and use them to import any items (e.g. capital goods or materials) needed for their business. In October 1990, the government expanded the number of goods which can be imported under OGIL. This expansion enables selected material inputs to be imported by registered users under OGIL. The liberalized inputs are for use in the packaging, textile and cement industries.

12. The recent easing of its external debt service obligations now places Zimbabwe in a better position to move ahead with economic policy reforms and to liberalize trade without incurring an unsustainable level of external debt. The increased share of export earnings available for the import of goods is allowing capacity utilization rates to rise and investment to increase. However, investment in Zimbabwe generally requires a large share of imported goods and an ongoing supply of imported materials. This raises the need for additional imports and consequently for external financing, particularly in the initial stages of the liberalization programme.

II. OBJECTIVES

13. The fundamental objective of economic reform in Zimbabwe is to improve living conditions, especially for the poorest groups. This means increasing real incomes and lowering unemployment, by generating sustained higher economic growth. In order to achieve this primary objective, the economy needs to be transformed to make it more competitive and productive. This transformation entails moving away from a highly regulated economy to one where market forces are allowed to play a more decisive role, while concurrently taking steps to alleviate any transitional social hardships which may arise from this transition.

14. The government has adopted an economic growth target of 5% per year by 1995. To achieve this overall growth target in a sustainable way, industrial growth will have to be about 5.8% per year, agricultural growth about 3.2% per year, and service sector growth about 5% per annum. Investment will need to rise to 25% of GDP, and exports and imports will both need to also increase as a share of GDP.

15. By 1995, GDP per capita and consumption per capita are projected to be rising by about 2% per annum. Consumption per capita need not fall even in the early years of the programme, as the initial rise in investment can be financed through new foreign borrowing and/or other forms of capital inflows. Economic growth will also make it possible to sustain social programmes while overall government expenditure as a share of GDP falls. Major benefits will come through an expansion of non-traditional exports, efficient import competing activities and small-scale enterprises. All producers of traded goods will benefit from higher relative prices, and smaller local producers will benefit from the relaxation of domestic controls and the associated increase in their ability to compete. Poorer groups will gain from continued support of their human capital and skill development (principally through education, health and training activities) together with improved employment and entrepreneurial opportunities.

III. STRATEGY

A. KEY AREAS OF ADJUSTMENT

16. The recovery of investment and improvement in its efficiency, which are needed to generate sustained growth and employment, require the implementation of appropriate fiscal and monetary policies, gradual liberalization of the trade sector and the progressive deregulation of domestic controls. These measures will need to be supported by active sectoral policies, by initiatives to ameliorate the impact of the adjustment on the poor and by careful monitoring of programme implementation. This strategy is a continuation and hastening of the reform programme already begun (see para 9-11).

17. Reduction in the budget deficit will be a crucial element of the government's programme for the achievement of the growth objectives. Public expenditures are planned to be reduced mainly by a combination of reduction of public enterprise deficits and rationalization of public sector employment. The central government deficit, which represents about 10% of GDP, will be reduced to 5% (excluding grants) by FY94/95. Monetary instruments will be used to help contain inflation and

aggregate demand, and to mobilize savings and encourage an efficient allocation of investable funds.

18. Trade liberalization will be completed by 1995. By then there will be free access to foreign exchange for virtually all imports. This trade liberalization process will be accompanied by appropriate exchange rate management and by the introduction of tariff rates in the order of 10-30%. Surtax will be gradually eliminated. Prices will be progressively decontrolled as items are subject to international competition, and regulations on domestic trade, investment and production will be relaxed to facilitate the emergence of new businesses.

(i) Fiscal and Monetary Policies

19. The deregulation and reform of the economy will be underpinned by appropriate fiscal and monetary policies. Adjustments in fiscal policy will allow an increase in resources for the productive sector. A more active use of monetary policy combined with the increased use of indirect policy instruments will mobilize and channel savings into the most productive uses while reducing the rate of inflation. These reforms, supported by an active exchange rate policy, will be implemented flexibly to ensure that the progressive deregulation of the economy is consistent with a sustainable external position. Specifically, the external current account deficit is projected to peak at 6.4% of GDP in 1992 and to decline to 4.0% of GDP in 1995, and the debt service ratio is projected to decline from about 24% to less than 20% by 1995.

20. Fiscal Policies. The deficit of the central government will be reduced to 5% of GDP (excluding official grants) by FY94/95. This compares to an estimated deficit of 10.4% of GDP in FY90/91. Given Zimbabwe's relatively high tax ratio, this target will be achieved mainly through a containment of recurrent expenditure. Indeed, a reform of the tax system to improve equity and resource allocation will result in a decline in the tax ratio from its present level of about 35% of GDP to about 33% at the end of the programme. Part of the adjustment will also be achieved through improved cost recovery which will increase non-tax revenues. The deficit of the public sector (central government and public enterprises) will decline by more than the central government deficit, since some public enterprises that currently run large operating losses will generate profits by FY94/95, while others will be expected to break even.

21. In light of the reemergence of external imbalances since 1988 and the recent acceleration of inflation, the fiscal adjustment will be front loaded. Specifically, the central government budget for FY91/92 will include policy measures to reduce the budget deficit by 2% of GDP ie. to 8.2% of GDP (excluding grants). The front loading of the fiscal adjustment is also intended to release resources early in the programme, to support the restructuring of production in the private sector.

22. The cut in net recurrent expenditure (i.e. including increased cost recovery) over the programme period is to be achieved by the virtual elimination of subsidies to public enterprises (3.7% of GDP in FY90/91), a reduction in the civil service wage bill (from 16.5% of GDP in FY90/91 to 12.9% of GDP in FY94/95, which was the level prevailing in FY86/87), increased cost recovery and general expenditure restraints.

The reduction will be partly offset by compensatory expenditures required to alleviate the burden of adjustment on the poor and unemployed, and to compensate civil servants made redundant. In the event that the proposed provision for social and compensatory payments is inadequate to protect the most vulnerable segments of the population and to achieve the desired reduction in the civil service, additional allocations will be made along with further adjustments elsewhere in the budget. In the case of education and health, a restructuring of expenditures will also protect the services used by the poorer segments of the population.

23. The programme of action necessary to phase out subsidies to public enterprises is described in the section below. The reduction in the civil service wage bill will be achieved through a reduction of 25% of the number of civil servants (excluding education) over the next 4 years and a restrictive wage policy. A task force at Ministerial level has already been appointed by the President to identify areas of duplication among government ministries. The task force is expected to complete its work in early 1991. Efficiency units will be established by the end of January 1991. The units will work with the Ministries of the Public Service, and Finance, Economic Planning and Development, and will assist Ministries in streamlining their structures by identifying areas of redundancy and duplication, thus increasing efficiency in the government sector. Average salaries in the public sector will be allowed to fall in real terms. However, existing provisions allowing for differential wage adjustments by sector or function will be employed to ensure that this policy does not result in shortages of specific skills in the civil service. In addition, Government will examine regulations governing civil service wages with a view to making provision by the end of 1991 for retaining a highly qualified civil service via differential wage increases for individuals based on merit.

24. The cut in recurrent expenditures will be accompanied by a public sector investment programme that is consistent with the targeted reduction in the public sector deficit. A transparent project evaluation mechanism will be developed and put in place by July 1991. The public sector investment programme will be monitored by the National Planning Agency and a review will be carried out annually to ensure that it is consistent with sectoral priorities and investments necessary to support the restructuring of the economy.

25. Public Enterprises. The programme will include a series of measures aimed at eliminating the large budgetary burden of the public enterprise (PE) sector and making the PEs more efficient. The programme will take a sector-wide approach to the problem and will include the progressive reduction of direct and indirect transfers from the government to the PEs. Direct subsidies and transfers will be reduced over the period from their FY90/91 level of around Z$629 million, (including Z$300 million as a write-off of past operating losses) to a maximum of Z$40 million by FY94/95. Much of this reduction will come in the first two years, with the subsidy falling to about Z$360 million in FY91/92 and Z$130 million in FY92/93. All indirect subsidies, representing foregone fiscal revenues in the form of customs duty and other tax exemptions, subsidized loans, and non-payment for government services etc., will be eliminated.

26. All PEs have been classified according to the type of action required to achieve the aims of the programme. The classification includes:

- public service monopolies--to remain in government hands, but to be rehabilitated as commercially viable enterprises;

- viable commercial entities operating in a competitive environment--to be operated on a commercial basis;

- non-viable commercial or industrial entities--to be liquidated;

- entities with a social role which duplicates that of another entity--to be closed or merged;

- entities with a valid social role--to be maintained in government hands and rehabilitated, with any remaining subsidy to be small and transparent.

27. Measures will also be taken to improve the adverse policy environment within which PEs have operated. Administered prices will be replaced by market-determined prices for PEs operating in a competitive environment and by tariff setting mechanisms for the public utilities. PE boards and management will be subject to more flexible regulations and compensation provisions in the hiring and firing of labor, in setting pay scales and in procurement policy. Measures will be taken to commercialize the activities of some of the agricultural marketing boards and to introduce competition with the boards which are at present monopolies.

28. The legal framework, which at present allows excessive government intervention in PE operations, will be overhauled to ensure that boards of directors are concurrently given autonomy and responsibility to operate in line with their mandates. The respective roles of ministries, boards of directors and management will be clearly defined in a study to be completed by April 1991. These new rules of business are to be introduced once the necessary legal changes have been enacted. At the same time, accountability will be improved, with the designation of a central unit for monitoring PE performance, the creation of a computerized performance monitoring system and improved audit requirements. The monitoring system to be implemented by August 1991 will be used as the basis for an incentive programme for PE managers. Independent mechanisms for the regulation of the monopolies will be created.

29. Comprehensive programmes for improving efficiency and commercialization and to ensure efficient management of all PEs will be prepared and implemented as a matter of urgency. These programmes will be like that being implemented for NRZ and will begin with priority action programmes for ZISCO, Air Zimbabwe, PTC, ZESA, ADA and AMA which will be prepared during the first half of 1991. The NRZ, ZISCO, Air Zimbabwe and AMA alone constituted about three-quarters of the total PE losses in FY90/91. Moreover, these have strategic links with and important effects on the rest of the economy, through either the provision of infrastructure or the supply of key inputs. Such programmes will subsequently be prepared and implemented for all PEs remaining in the government portfolio by FY93/94.

30. The major aims of PE reform will be efficiency improvements and economic development through the attraction of foreign investment, technology and know-how, and the harnessing and encouragement of local entrepreneurial skills. Another important aim will be the generation of revenues from sales and leases. The programme will include the full range of options available including outright sale of shares and assets, leasing and management contracts and the contracting out of services. Mechanisms such as employee stock option plans, management and employee buy-outs, debt-equity swaps and the creation of portfolio investment funds will be used as appropriate, and the Zimbabwe Stock Exchange will be utilized to mobilize investment and savings from Zimbabwean entrepreneurs and small investors.

31. Monetary Policy and Financial Sector Reform. The recent acceleration in inflation and the deterioration in the balance of payments have been associated with rapid expansion of domestic credit and monetary aggregates. During the programme, monetary and credit policy will aim at reducing the rate of inflation to 10% by 1995, consistent with the fiscal and balance of payment targets. Given that the relationships between key economic variables are likely to change during the adjustment period, particularly as the economy is progressively decontrolled, the Reserve Bank will need to exercise considerable judgement in the formulation of monetary policy.

32. Recognizing that the existing direct methods used to control credit and money supply need to be changed in a more market-oriented economic environment, the government will move to indirect methods of control. The process has already begun. In October 1989 the government introduced a Base Lending Rate (BLR), administered on criteria more indicative of market conditions. Minimum interest rates on demand deposits and saving accounts were prescribed, instead of maximum rates. This was done in order to enable the rates on deposits to move upwards in response to market forces, while at the same time assuring a minimum return on savings for small depositors. The rates on fixed deposits of commercial and merchant banks, except for fixed deposits of the Post Office Saving Bank and building societies, were left to be determined by the market. At the same time, the discount rate was raised to 9% to encourage banks to trade discountable paper in the secondary market, rather than with the Reserve Bank.

33. As the fiscal deficit is brought under control, the government is determined to eliminate, in stages, the present system of administered interest rates by 1995. During FY91/92 the BLR will be determined by reference to the relevant adjusted foreign interest rate in addition to existing criteria, such as adequacy of rate of return and monetary stance. This will become the actual minimum lending interest rate without any add-on upper limit. The gradual interest rate liberalization will be completed with a switch to indirect methods of operating monetary policy and by abandoning the announcement of the BLR by the end of 1993. Open market operations will become the primary instrument for money market intervention to regulate monetary aggregates and interest rates. By then, the government will refrain from the present policy of setting interest rates on government stock of all maturities, allowing rates to be determined by market forces.

34. During the transition to a fully market-determined interest rate policy, the authorities will enforce monetary restraint through

greater recourse to reserve requirements and to some extent through operations in Treasury Bills and other eligible paper, at the same time as phasing out the use of Reserve Bank Bills. To strengthen reserve requirements as a monetary policy instrument, these will be segregated from the liquid assets ratio and unified into one ratio to be applicable to all types of deposits. The liquid assets ratio will be used only for prudential purposes and not as a monetary policy tool. Effective 1991, liquid assets will be redefined to exclude private bills and acceptance paper and the ratio will be reduced to an appropriate level.

35. Active steps will be taken to make the financial sector an efficient instrument of development in a competitive economy. To this end, new legislation will be put into place during 1991, which will lay the legal foundation for the emergence of new money market instruments and financial services, and will set effective prudential norms for banks and other financial institutions. The legislation will also aim to eliminate credit market segmentation and strengthen supervisory mechanisms.

36. While the efficiency of the financial sector will be considerably enhanced by the entry of new banks and other financial institutions, both domestic and foreign, a gradual approach will be adopted. The focus up to 1993 will be on increasing domestic competition between financial institutions and the introduction of a limited number of new entrants. As experience is gained and as a supervisory mechanism is put firmly in place, Government will move towards an open entry policy.

37. The government will develop further the Stock Exchange Market. To undertake appropriate and close monitoring of trading on the Stock Exchange, a Security Exchange Commission will be set up, in 1991, as a regulatory body.

(ii) Trade Liberalization

38. The government is committed to a phased process of trade liberalization to move from the present foreign exchange allocation system to a market based system by 1995. The programme, which started in October 1990, is being phased over five years to allow stronger sectors to benefit from the removal of constraints on their export performance while permitting weaker sectors to adapt and new investment to take place as opportunities arise. This programme includes expanding the OGIL system, tariff reform, supportive exchange rate policy and improved export provisions.

39. With the exception of a few goods, to be excluded only on the grounds of defense, safety or overwhelming public interest, all items will be importable through the OGIL system by 1995. The progressive expansion of an unrestricted OGIL is planned to facilitate the development of export-oriented activities and the gradual introduction of a competitive environment for local industries. However, the entire business community will have to face import competition within five years and hence should plan their activities accordingly. The government's clear time-bound commitment, coupled with rapid early expansion of OGIL and the concurrent relaxation of price and investment controls, is designed to increase investment and improve overall economic efficiency.

40. Again, the programme of trade liberalization is already underway. To allow local industries time to adjust and modernize, two basic categories of OGIL have been introduced--one is unrestricted, the other has end use (user specific) restrictions. Maintaining the user specific category in the early years of the programme will facilitate the strengthening of export performance and prepare industry to face external competition. The first goods placed on OGIL will be largely raw materials, irrespective of whether or not they are domestically produced, to allow existing industry to increase its capacity utilization. This will be followed by intermediates. Capital equipment will initially be made available from special lines of credit under the supervision of the ZIC. In the middle years of the programme, capital goods will be added to the list of unrestricted OGIL. Final consumer goods will be placed on OGIL only in years four and five of the programme, to minimize the dislocation to existing industry and employment, while still ensuring that these industries restructure and become competitive within five years. The share of imports to be under OGIL in each of the five years of the programme is summarized in Table 1. This summary has been derived from a more detailed sequence based on 6-digit SITC categories. These targets will be achieved by progressively placing SITC categories on OGIL over the first four years. In year five, this list will be abolished and all goods will automatically be on unrestricted OGIL unless included in a small negative list. The schedule provided in Table 1 will be closely related to the timely realization of the funding required by this programme. Thirty percent of goods will be on unrestricted OGIL by the end of 1991.

Table 1. SCHEDULE OF IMPORT LIBERALIZATION
(cumulative % of total)

	1989	1990	1991	1992	1993	1994	1995
	Minimum Share of Imports on OGIL						
OGIL							
- unrestricted	6	6	30	45	60	75	85
- end use specific	14	18	20	25	15	10	0
- total	20	24	50	70	75	85	85
	Minimum Share of Six digit SITC categories on OGIL at end of the period						
on OGIL							
- unrestricted			30	45	60	75	85
- end use specific			20	25	15	10	0
- total			50	70	75	85	85

41. As the foreign exchange allocation system is phased out, tariffs will be the only principle source of modest protection for local producers. Almost all tariff rates will be in the range of 0 to 30% from 1991 onwards. The surtax, which is currently a flat 20% across the board, will be reduced to 10% by 1993. By 1993 the overall structure of taxes on imports will be reviewed, with a view to eliminating the surtax and concurrently raising the minimum customs duty to 10% by 1995. This would provide more uniform nominal import protection and hence a more productive allocation of scarce domestic and foreign exchange resources (see Table 2). The import tax, which is equivalent to sales taxes on domestically produced goods, will change only as sales taxes are changed.

Table 2. SCHEDULE OF TARIFF REFORM

	1991	1992	1993	1994	1995
Customs duties					
- consumer goods	30	30	30	30	30
- raw materials	0	0	0	5	10
- intermediates	10	10	10	10	10
investment goods	5	5	5	10	10
Surtax	20	15	10	5	0
Sales tax					
- general	15	15	15	15	15
- capital goods	10	10	10	10	10
Average total					
- tax on imports	29.0	27.5	26.0	24.5	23.0

42. The average customs duty will increase from about 9% to 13%, while the average nominal protection (i.e. customs duty plus surtax) will fall from 19% to 14% over the 5 years of the programme. 1/ Final consumer goods will have customs duties in the range of 20% to 30%, with only 100 of the roughly 5,000 6-digit SITC codes having rates in excess of 30%. Intermediates, raw materials and capital goods will be subject to customs duties of about 15%, 10% and 10% respectively. The envisaged structure of customs duties by 6-digit SITC category is summarized in Table 3.

Table 3. Structure of Proposed Customs Duty

Range (%)	Percentage of 6 digit SITC categories	Number of 6 digit SITC categories
10	59.7	2,990
11-20	16.5	825
21-30	21.1	1,058
31-40	2.0	98
41-50	0.3	13
51 and above	0.6	27
Total	100.0	5,011

43. Over the course of the programme, government and public enterprises imports will become subject to taxation. This, together with an increase in the minimum customs duty from 0 to 10% and the abolition of the industrial drawback, will allow the surtax to be phased down without a commensurate reduction in the average rate of total tax on imports. Meanwhile, the effective rates of protection will fall because of the phased removal of foreign exchange controls and the reduction in surtax.

1/ The average effective surtax is now only about 13%, not the nominal 20%, because government and parastatal imports are tax free.

44. The Government recognizes that import liberalization needs to be underpinned by an appropriate exchange rate policy. The average real exchange rate against Zimbabwe's major trading partners has already fallen by 20% over the past two years (including 12% over the past 12 months). This has already increased market incentives for exporters and made local producers more competitive vis-a-vis imports. Government policy is to maintain an exchange rate regime which will continue the existing resource shift in favor of export sectors and sustain export competitiveness. This will support exports and promote efficient import competition.

45. The growth in exports during the latter part of the 1980s was mainly due to the export provisions which were established. These export incentives include: the Export Revolving Fund, Export Promotion Programme, Export Retention Scheme, Incremental Export Bonus Scheme, Export Incentive Schemes, and Import Duty Drawbacks and Rebates. The Export Incentive Scheme which provides a 9% tax free subsidy to selected exports (primarily manufacturing) will be phased out by FY94/95. With the exception of Import Duty Drawbacks, all the others will become irrelevant by 1995 because access to foreign exchange will be provided under the OGIL. In the meantime, however, they will all contribute to the early expansion of exports. Together they provide exporters with relatively free access to imported inputs and a financial subsidy. Rapid growth of the Export Revolving Fund and the Incremental Export Bonus Scheme indicate their importance to exporters.

(iii) Deregulation

46. The government recognizes that the full benefits of foreign trade liberalization cannot be reaped in an environment constrained by extensive domestic controls over economic activity. It has thus embarked on a programme of reform of the regulatory system to increase domestic competition and provide entrepreneurs with the freedom necessary to respond to emerging market opportunities and pressures. This domestic deregulation will be further implemented in line with the progressive liberalization of foreign trade. The programme encompasses the areas of investment approvals, price and distribution controls, labor and wage regulation, and other rules and guidelines which tend to impede growth, particularly of small-scale and informal sector activities.

47. Investment Approvals. The procedures sanctioning new projects and expansion of existing projects have already been greatly simplified during 1990. Investment approval is not required if foreign exchange is not needed for the project. But in most cases, some import of equipment and/or materials is needed. To expedite approvals, a single-window clearance agency--the (ZIC)--has been established. An act of parliament will be promulgated during the first half of 1991 to delegate to ZIC certain powers to give approvals which have in the past required consideration by several committees in the government. In particular, the ZIC will have final authority to sanction projects below Z$10 million (the figure has been raised from Z$5 million fixed in 1989) and substantive recommendatory authority for projects in excess of Z$10 million. Moreover, ZIC's decisions will be issued within the statutory 90-day period after initial application.

48. Along with the streamlining of procedures, the criteria for project approvals are now also being reviewed. Investment approvals

will be based progressively on project evaluation and feasibility studies, rather than merely on criteria such as foreign exchange earned or saved over a specified period. Such evaluation will, through the use of appropriate shadow prices, promote the establishment of projects which generate employment. The ZIC will acquire the necessary expertise for the purpose and will involve financing agencies, e.g. the Zimbabwe Development Bank, in the detailed evaluation of projects. The ZIC has also been given responsibility for an extensive promotional role, e.g. recommending the development of industrial sites, overseeing the establishment of free trade zones (FTZ), export processing zones (EPZ) and Bonded Warehouse Operations (BWO), and reviewing and recommending the granting of incentives for approved projects etc. As investment sanctioning and capital goods imports are progressively liberalized, the ZIC will devote itself more to these promotional tasks. Furthermore, by 1995, only large projects will require investment approval.

49. As part of the ongoing efforts to promote investment, the government has now introduced more liberal provisions governing approval of export-oriented projects, repatriation of capital and remittance of profits in respect of new projects or expansions undertaken by foreign-owned companies or joint ventures. For instance, a 100% foreign-owned company which finances an export-oriented project through an injection of foreign funds is now allowed to repatriate its entire net after tax profits.. When funding is through a combination of inflow of foreign funds and blocked or surplus funds, repatriation of profits is now proportionate to the ratio of foreign inflow, but after five years remittance of dividends will rise to 100%. Similar liberal provisions will be extended to import substitution projects after a review in the course of the next twelve months. By end-1995 all exchange control restrictions on dividends and profit remittances will be removed.

50. Price and distribution controls. Until recently the government has maintained an extensive system of price controls in order (i) to ensure the supply of basic and essential commodities of consumption at reasonable prices, (ii) to ameliorate restrictive trade practices, and (iii) to secure remunerative prices for farmers. However, the price freeze was lifted in 1988 and recently all price controls have been removed on five products (cigarettes and pipe tobacco, wines and spirits, safety glass, motor vehicle springs and batteries) and a number of products have been moved from the category of strict control to that for which the government announces fixed maximum or specified prices. These include agricultural produce, including food or cash crops, livestock and fish--for most of which the relevant parastatal will be free to determine prices--building materials other than cement, beverages including alcoholic beverages, food additives, mineral raw materials other than steel products of the government-owned ZISCO, motor vehicles, tobacco and tobacco products and stock feeds. Strict controls now remain only on ten products/services (bread, maize meal, beef, matches, cooking oil and fats--all regarded as basic consumption items--cement, ZISCO steel and fertilizers--the rationale being duopoly in cement, government monopoly in steel and farmer protection in the case of fertilizers--petroleum fuels, and bus and railway fares). Domestic air fares have recently been removed from this list.

51. This process of price decontrol will be extended further. As constraints are relaxed and with freer entry into industry following relaxation of industrial sanctioning procedures, the first two reasons for controls will entirely disappear, perhaps with the exception of some

basic foodstuffs. Agricultural support prices will remain, but it is intended to rationalize the pricing policies with a view to reducing the burden of budgetary subsidies (see below on Agricultural Prices and Marketing). Controls on prices of products will be removed as and when they are put on OGIL, so that domestic costs and prices move flexibly in line with border prices plus import and/or sales taxes. By 1995, price controls will apply to very few commodities.

52. Agricultural Prices and Marketing. In order to eliminate progressively price controls and subsidies to parastatals, the government is undertaking a review of the working of the agricultural marketing agencies. By June 1991, their boards of directors will be given greater independence and they will be responsible for making their operations more commercially oriented, thus gradually dispensing with the need for subsidies. To create conditions for a more active role for private marketing channels, the marketing of crops such as yellow maize, red sorghum and millet was partially decontrolled in April 1990. The Grain Marketing Board (GMB) remains a 'residual buyer' of these crops, but producers are free to sell directly, e.g. to livestock producers (yellow maize) and industrial brewers (red sorghum). The government is studying the modification of pricing and marketing arrangements for cotton, dairy products, meat, coffee and small grains to eliminate subsidies and allow progressive development of private marketing channels. Currently, movement of maize within a communal area is permitted and consideration is being given to permitting movement between non-continuous communal areas, so deficit areas can receive grains from surplus areas without having to go through the GMB. The possibility of allowing movement from commercial areas to other areas will also be reviewed. This will obviate the present wasteful transport of maize to the industrial millers and back again to the same rural areas. Regional variations in prices and greater participation by private traders in marketing are goals which will be considered as part of the medium-term strategy of deregulation and rationalizing the operation of GMB.

53. Labor Market Regulations. Trade liberalization and progressive withdrawal of controls on private investment will create a favorable environment for restructuring of economic activities which will involve entry of firms into activities in which Zimbabwe has a comparative advantage and exit of firms from those activities which are no longer profitable. This will be possible, however, only if the existing strict regulations governing the labor market are simultaneously relaxed. Amendments in the Labor Relations Act have been proposed which would streamline the procedures for hiring and firing of individual employees thereby reducing delays. A national code of conduct has been established on the basis of which companies will prepare their own codes through the process of collective bargaining. A mechanism for quick retrenchment of labor, has been introduced. Appropriate compensation mechanisms for persons retrenched will be introduced by June 1991. Special emphasis is being placed on training of workers to facilitate their movement from existing activities to newer ones during the period of adjustment.

54. Direct intervention in wage setting has already been replaced by collective bargaining for all but farm workers and domestic employees. These two groups do not have the worker organizations necessary for collective bargaining. Wage agreements are now being reached in employment councils and boards without any parameters set by

the government, other than the statutory minimum wages which are way below the prevailing rates. Employment councils will be progressively established for all industries and activities, and they will be responsible for resolving all disputes regarding labor issues--wages, conditions of service, removal of individual employee for misconduct or lack of suitability in the job, and retrenchment for the purpose of 'downsizing' or when a unit has to be closed down for lack of viability.

55. <u>Local Government Regulations</u>. There is now recognition that the zoning regulations and the licensing of small business, shops, hawkers and vendors, which have been in force since pre-Independence, inhibit the growth of informal employment. A Commission will be established by April 1991 to review, over the following two years, the objectives and effectiveness of the local council bye-laws and other regulations on economic activity, balancing growth objectives with enforcing acceptable public health standards and orderly development of towns and cities.

56. Some relaxation of rules has already occurred--e.g. the Harare City Council has relaxed the very strict conditions regarding provision of sanitary facilities before a market can be established. However, the licensing requirements still cause delays and harassment to ordinary people wanting to earn a livelihood through informal economic activities. Therefore, the licensing restrictions on hawking and street vending will be relaxed to promote employment. Establishments which employ "mechanical power" presently require a license under the Factories and Works Act irrespective of the number of persons employed. Such a wide coverage inhibits small business activity. A review will be undertaken of the possibility of amending the Factories and Works Act, for example, by exempting establishments which employ less than 10 persons even if mechanical power is used. Consideration will be given to simplifying local council bye-laws and other regulations for areas declared as growth points, as a first step towards general simplification for all areas.

57. <u>Transport regulations</u>. There is recognition that the requirement of permits for the operation of road transport has discouraged single owner-operated trucking, which can be an effective means of improving rural transport. Certain relaxations in the permit system have already taken place. For example, trucks with a capacity of 15 tonnes or less do not require a permit during the crop season and those with a capacity of 10 tonnes or less are proposed to be deregulated soon. A pilot project of deregulation is now being carried out in two provinces--Victoria (Masvingo) and Buhera (Manicaland)--and it will be completed in the next six months. There is no clear rationale for trucking permits which have hindered the growth of small-scale rural transport, the permit system will, therefore, be abolished, except for an operating license to ensure road worthiness of vehicles.

58. Urban transport is currently the preserve of the Zimbabwe Urban Passenger Company (ZUPCO), a joint venture with an exclusive franchise to operate in four cities. In the absence of competition, there is no assurance of quality service at reasonable prices even though bus fares are currently controlled by the government. Before the current franchise agreement lapses in June 1994, the government will review future options to allow more than one operator, with demarcated routes, to provide urban services.

B. SUPPORTING SECTORAL INITIATIVES

(i) Population and Health.

59. The extension of health and family planning has been important in raising the quality of life of the people of Zimbabwe since Independence. Infant mortality has been considerably reduced, life expectancy is significantly higher than the regional average, and the fertility level has started to fall (as a result of relatively favorable socio-economic conditions as well as a strong family planning programme). For the future, the challenge facing the country is to expand and strengthen further these services in ways consistent with the objective of reducing the budget deficit. The strategy will, therefore, be to continue to extend basic health and family planning services into those areas of the country which are still underserved; develop further key programmes such as maternal and child health care, nutrition and AIDS control; ensure that service provision is matched by accompanying information and education activities; improve efficiency through better management and planning; and mobilize additional resources for the sectors. While additional manpower will need to be trained, particular care will be taken to ensure that the financial implications can be afforded. Additional efforts will also be made to improve the coordination of government and non-government services. Following the implementation of the first family health project, a second phase will be undertaken which will focus particularly on 16 selected districts of the country.

(ii) Education and Training

60. In its first decade of Independence, Zimbabwe achieved a dramatic expansion of primary and secondary education. At the secondary level, in particular, the rate of expansion was faster than ever experienced anywhere else in the world. The issue now facing the government is how to maintain and build upon past successes, while at the same time reducing the proportion of the budget devoted to education. The main challenge, within this perspective, is how to improve the learning achievements of the children in school. The strategy will be to improve the utilization of resources within the education sector (by providing additional support to rural, poorly endowed schools, while reducing subsidies to the better endowed schools), strengthening management and particularly decentralizing responsibilities more to the regional and district levels, emphasizing teacher upgrading programmes and improved school supervision, improving the production and distribution of learning materials, continuously reviewing the curriculum, expanding training activities (particularly post-school) and encouraging non-formal approaches to education and training. While seeking even greater financial contributions from communities and parents, great care will be taken to protect the poor and avoid exacerbating the existing drop-out problem and gender differentials. A particular effort will also be made to resolve the constraints presently facing the technical and vocational training colleges, and especially the problems of poor salaries impeding lecturer recruitment and inadequate equipment provision. The government will involve the private sector and external community in reviewing and implementing its new, proposed strategy for human resource development, as soon as its masterplan has been prepared. At the tertiary level, there is commitment to the establishment of a second university in

Bulawayo, the financial implications of which will be handled within the context of the programme budgetary targets.

(iii) Agriculture

61. Land resettlement and food security are two key agriculture-related issues being addressed by the government. Even after a decade of resettlement efforts, land distribution in Zimbabwe remains highly skewed. More than 1,000,000 families remain in overcrowded communal areas of poor agricultural potential. Pressure exists for land redistribution because of low productivity due to poor quality land in most communal areas and the natural resource degradation due to overcrowding. At the same time, however, the government also recognizes that the large-scale commercial sector is of critical economic importance and will continue to be one of the pillars of economic growth. The need for improving performance in the small-scale sector remains crucial and the government's efforts will be concerned mainly with the provision of better agricultural support services as well as more appropriate technology packages.

62. Since the beginning of the resettlement effort, 52,000 families have been resettled on approximately 3.2 million hectares [2/]. Current proposals call for resettlement of an additional 110,000 families on as much as 5.0 million hectares currently in the large-scale commercial sector (LSCS). In order to ensure availability of land to augment present resettlement efforts, Government is considering amendments to the Land Acquisition Act. The amendments will enable Government to acquire more land to distribute to the landless rural people, without a decline in agricultural productivity. The actual price of land purchase and resettlement will be determined by financial availability as prescribed by fiscal targets as well as the pace at which properly trained small-scale farmers can be identified. A central element in the agricultural strategy is finding satisfactory mechanisms for transferring land out of the LSCS. In order to bring more LSCS land onto the market--either for use in resettlement schemes or other uses--the cost to farmers of holding underutilized land is being increased via modifications of the present land tax.

63. Shortage of food at the household level is a major issue in some parts of the country. As a result, malnutrition is still one of the leading causes of death among Zimbabwean children between the ages of 2 and 5 in these areas. This shortage of food at the household level is accompanied by abundant food supplies at the national level, as demonstrated by abundant maize reserves. Some households cannot afford to meet their food needs due to a combination of low incomes and high food prices. Part of the explanation for high food prices, especially in food deficit areas of the country, is the weakness of the marketing network. Consequently, for reasons of food security as well as efficiency, the government plans to eliminate existing restrictions on crop movements (see also the section on Deregulation, para 52).

2/ This includes land for roads, schools, etc. Actual land for agriculture averages about 15 ha per family, including grazing land.

(iv) Environment

64. "The National Conservation Strategy--Zimbabwe's Road to Survival" was presented in June 1987, and endorsed by the government. The goal of the strategy is to integrate sustainable resource use with every aspect of the nation's social and economic development and to rehabilitate those resources which already are degraded. To review existing legislation and implement the NCS, the Government has established a committee, under the chairmanship of the Ministry of Natural Resources and Tourism. The Scientific Division of the Department of Natural Resources has been strengthened by the addition of an Environmental Monitoring Unit.

65. Some action has already been taken to promote conservation and management of wildlife, grazing, forestry and water. The rural afforestation project, for example, was designed to test a number of approaches to rural afforestation and peri-urban plantation, to involve the rural population in tree planting, and promote self-sufficiency in fuelwood and construction materials. Natural resource cooperatives are being established on a voluntary basis, in cooperation with the government's rural development institution. An NGO (ENDA) is also pioneering an innovative community-based approach to afforestation in rural areas that emphasizes traditional species. The government supports such initiatives. The current high population growth rate remains a dominant concern in communal areas, and is being addressed by the Zimbabwe National Family Programme, together with the Ministry of Health.

66. National standards of effluent and emission control as being established for existing and future investments. All major investments will also be subjected to an environment impact assessment.

(v) Energy

67. In the energy sector, the government will continue to follow a least-cost supply strategy and promote efficient energy use through long run marginal cost pricing. Efforts to encourage environmentally-sound exploitation of wood energy resources and increased private tree planting will be intensified. In electric power, a least-cost generation expansion strategy will be followed and it will take full advantage of low-cost import options whenever such supplies can be considered reliable. The current import contract with Zambia will be extended through to at least 1995, the old thermal power stations will be rehabilitated by 1993 and, subject to final agreement with the Government of Mozambique, arrangements will be concluded to import up to 500 MW of power from the Cahora Bassa Power Station via a new high-voltage transmission line, to be in service by 1995. Electricity tariffs will be adjusted in a timely manner to cover the power utility's operating costs and debt service, and to make a reasonable contribution to investment. By the end of 1992, a study of the economic cost of power supply will be completed and a programme put in place to introduce and maintain full economic pricing of power, based on long run marginal cost. Petroleum prices will be adjusted to reflect the import cost of products and domestic transport, storage and distribution costs, and to avoid cross-subsidization between different products. Coal prices will be adjusted regularly to the current financial and future economic cost of production and transport.

(vi) Urban Infrastructure

68. To support increased growth in the economy, infrastructure will be required to support urban-based economic development and accommodate urban programmes. The government anticipates a substantial expansion of urban population growth; and to manage this successfully, the government intends to strengthen institutional capacities to make the most efficient use of scarce resources. Institutional arrangements are being established to support: (i) improvements in the selection and scheduling of urban investments, and in the identification of the most cost-effective capital development proposals; (ii) maximum use of existing system capacities, allowing for postponement of bulkier investments by better balancing existing facilities; (iii) planning of major capital works to avoid lumpy funding demands; (iv) establishment of a suitable balance between maintenance and capital expansion; and (v) greater opportunities for the smaller cities to compete for scarce capital resources.

69. To contribute to the public sector deficit reduction, government expects to achieve significant savings in the urban sector through two keys strategies: first through the involvement of private sector intermediation (the building societies) in financing low-income housing; and second, through ensuring the financial independence and viability of the urban local authorities as suppliers of urban services. Government policy is to avoid any shift towards dependence on central government transfers to the urban sector for recurrent expenditures, and to minimize the reliance on central financing of capital works. As part of its strategy for maintaining the financial viability of the towns, government has introduced a new management tool, the Financial Performance Plan, which would : (i) enable continuous monitoring of the financial circumstances of each local authority; (ii) bring into operation a capability for future financial planning and programming by each town; and (iii) set out actions, development standards, and revenue generation performance requirements for urban councils to qualify for access to investment loans from government and other sources.

(vii) Small-Scale Enterprises

70. The growth of the small scale sector has been inhibited by the availability and cost of finance, land and basic utilities, as well as numerous licensing and other regulations. Government policies have so far concentrated on promotional measures which include the establishment of a special financing agency--the Small Enterprise Development Corporation (SEDCO), and the small enterprise scheme of Zimbank. Private banks have been encouraged to set up similar schemes. The small to medium enterprises are also benefitting from: the Zimbabwe Development Bank (ZDB) Z$30 million external facility for the procurement of capital equipment; ZDB soft loan window for financing small scale projects including setting up factory shells; and ZDB surplus funds facility. Some small scale enterprises also benefit from the Africa Project Development Fund and the Africa Enterprise facilities. The Venture Capital Company of Zimbabwe, which will be operational by June 1991, will promote small to medium scale enterprises development. Moreover, trade liberalization and domestic deregulation will further improve the environment for new investment by small enterprises as well as large and medium. More specifically, regulations which come in the way of setting up of businesses will be relaxed. As

large and medium scale enterprises become more specialized, they will subcontract work that they can not do competitively to smaller scale enterprises.

(viii) Women in Development

71. As farmers, women have significantly benefitted from the strengthening of the agricultural extension services. Females have also taken advantage of the rapid expansion of schooling, and mothers and children have received considerably more health care as a result of the expansion of health and family planning service delivery. But major challenges remain, and the government is committed to addressing these issues while the process of structural adjustment proceeds. In education, a gender gap exists in both school enrollments (especially at the secondary level) and also in learning achievements, while at the higher levels women are heavily under-represented in the university and technical training colleges. This gap will be addressed by the Government. The literacy rate for women is also lower than for men. Within the health sector, increased priority will also be given to issues of maternal mortality and other problems facing women in particular. In the rural sector, more attention will be given to identifying and introducing labor-saving technologies for women, and to finding solutions to the problem of environmental degradation and woodfuel shortages (which lead to heavy work burdens for women). As part of the government's review of the land distribution issue, particular consideration will be given to ways of improving women's access to land. The on-going efforts to improve extension services to women will also be strengthened, while ways will be found to design additional activities and to monitor progress.

C. SOCIAL DIMENSIONS OF ADJUSTMENT

72. As the overall structural adjustment programme will increase economic growth and has been designed to avoid unnecessary adverse social consequences, the poor will as a whole benefit substantially. However, some individuals or groups are likely to be adversely affected for a time, as structural adjustment programmes can lead to short-term negative effects. The aim of the government is to shield disadvantaged or vulnerable groups from declines in welfare arising from restructuring or stabilization measures.

73. The majority of the poor and vulnerable in Zimbabwe are found in rural areas. Workers on large-scale commercial farms and their families, as well as subsistence farmers in the communal areas, tend to earn much less than people in urban areas, have less access to social services, and face greater problems of food security. In addition to the rural poor, however, a significant proportion of the urban population lives in poverty. In the urban areas, the most vulnerable are the unemployed and unskilled workers. Women are over-represented in these disadvantaged groups, as they comprise the bulk of the population in the communal areas and outnumber men among the urban unemployed and unskilled.

74. The potential negative effects of structural adjustment on the poor and vulnerable fall into three general categories: (i) increased frictional unemployment; (ii) inflation and relative price increases; and (iii) social service cut-backs and increased cost recovery.

75. As far as the first of these effects is concerned, some transitional unemployment is expected to occur in the formal sector (to the extent that some industries are inefficient and cannot respond to increased competition), in the public sector (to the extent that there is a reduction in the size of the civil service as a result of the need to reduce the fiscal deficit), and in the parastatal sector (to the extent that rationalization of public enterprises and elimination of subsidies induce worker lay-offs). Present estimates of worker retrenchment amount to perhaps 10,000 civil servants over and above those who would have left the public sector anyway, maybe 2,000 parastatal workers (although this figure will need to be revised in the light of individual restructuring programmes for particular parastatals), and roughly 20,000 members of the formal sector (on the assumption that 10% of the existing manufacturing industry will find it difficult to adjust to the new economic opportunities). For the civil servants the government will pay compensation to civil servants who are made redundant compulsorily, in line with existing regulations and provisions. This compensation will be in the form of commuted pensions. In addition, the government will set aside an amount equivalent to 35% of the wages and salaries saved to be used to cover any additional retraining costs. Specifically, any retrenched civil servant will be able to apply for financial support to cover his or her cost of retraining (whether in the public or private sector). Provision for assistance for any parastatal workers laid off will be made by the respective parastatals. Commuted pensions will be paid in line with existing regulations, and there will also be support for retraining expenses. Compensatory payments will be made by private sector employers to employees made redundant, and guidelines for this are being developed by the Ministry of Labour, Manpower Planning and Social Welfare. The guidelines will balance the need for retrenched workers to be compensated adequately, with the need to ensure that such guidelines do not increase reluctance by employers to hire additional workers in other sectors of the economy. In addition, there will be a major effort by the Government to strengthen the capacity of the existing technical and vocational training colleges to cope with retraining needs. However, rather than try to anticipate the precise profile of training required for retrenched workers, the emphasis will be on developing a responsive capacity in training facilities. The Government will also review existing fiscal incentives to encourage more training to be financed by the private sector, in order to benefit existing workers, new labour force entrants, and any workers retrenched as a result of the adjustment programme.

76. Although the structural adjustment programme is designed to address and mitigate the existing problem of inflation, the general level of prices is projected to continue to increase before being reduced to more acceptable levels. The effect of an increase in the general price level will be felt most strongly by those groups with fixed incomes, or with relatively little collective bargaining strength. However, from a social point of view, the most critical issue concerns the relative price of the most essential items of consumption, and particularly the accessibility and affordability of maize by the poor and vulnerable groups. As the government plans to cut the subsidy to the Grain Marketing Board (GMB), there is a risk that the price of maize may increase. However, to minimize upward pressure on the price of maize and to increase the efficiency of the distribution system, the government will liberalize grain marketing and also provide 30% of the fiscal savings (resulting from the GMB subsidy reduction) to be set

aside as a further "safety-net" and used to cover the costs of any necessary continuing or new programmes designed to ensure food supplies to poor and vulnerable groups. The details of this scheme are now being worked out by the Government.

77. The final way in which the poor and vulnerable could be negatively affected by adjustment is via changes in the provision of social services, and particularly, the implementation of cost recovery measures in the health and education sectors. It is the intention of the government to protect the gains obtained after independence, and to ensure that the most disadvantaged among the population of Zimbabwe continue to have improved access to social services. In the health sector, the budget for the Ministry of Health is projected to remain constant (at 2.77%) as a proportion of GDP, despite the overall reduction in public expenditure. This means that the budget will grow as a proportion of central government expenditure from 5.6% in FY90/91 to 6.5% in FY94/95, which was the level achieved in FY89/90. This increase in the proportion of the central budget going to the Ministry of Health is due to the reductions in other sectors. The budget will therefore grow in real terms at about 5.3% annually, or approximately the rate achieved in the first decade of independence. This rate of growth of the budget will allow the Government to implement and cover the recurrent costs of a second family health project, which will be targeted particularly on 16 mostly remote and relatively under-privileged districts of the country. Concessional external support, however, is needed for the investment costs of the project. In order to contribute to the budget deficit reduction target, though, the Ministry of Health will raise its cost recovery efforts to reach Z$60 million (equivalent to 0.2% of GDP) by FY94/95. However, the government will also protect the poor and vulnerable by ensuring that increased cost recovery is designed in an equitable way. Specifically, the Z$150 income threshold will be maintained so that poor people will have access to health services. In the education sector, the Government will also continue with its efforts to maintain and improve the quality of schooling throughout the country; and although the budgets of the Ministry of Education and Culture and the Ministry of Higher Education will be reduced as a proportion of GDP from 9.2% to 8.7% in order to contribute to the fiscal deficit reduction, they are projected to continue to rise in real terms at an annual rate of about 3.8%. As a proportion of central government expenditure the total education budget would also rise slightly from 18.5% in FY90/91 to 20.7% in FY94/95. The present pattern of inequitable subsidization of better endowed schools will be changed so that the burden of adjustment falls more on those who are better able to afford it. Cost recovery will be increased by about Z$160 million (0.5% GDP) by FY94/95. To ensure protection for the vulnerable groups, the Government intends, along with increases in cost recovery, to set aside some funds from the Budget to establish a scholarship fund specifically for this purpose.

78. Careful monitoring of the structural adjustment programme will play an integral role in its successful implementation, as well as in the protection of the welfare of the most vulnerable groups. This will be done through building upon the existing system of household surveys and through the use of the national nutritional surveillance system which will also be strengthened in order to provide up-to-date information on changes in the nutritional status of children throughout the country. In order to increase and harness public support for the

economic adjustment measures, information concerning the programme will be widely disseminated.

IV. FINANCING REQUIREMENTS

79. Following the severe import compression of the mid 1980s and a current account surplus in 1988, there has been a widening current account deficit in 1989 and 1990. As the debt servicing demand on foreign exchange eased after the peak of 1987, foreign exchange allocations and hence imports have increased. The current account deficit was US$89 million or 1.5% of GDP in 1989 and is estimated to have been about US$177 million in 1990, or 2.8% of GDP. This increase in 1990 is largely accounted for by the increase in petroleum products prices resulting from the Gulf crisis. Unless these prices fall, the effect will be even larger in 1991, because the higher prices will apply to the whole of the year. It is now possible to expound imports rapidly for a couple of years without creating an excessive current account deficit and generating unsustainable external debt, provided there is adequate foreign financing to support the needed increase in investment. However, given balance of payments constraints, trade liberalization in Zimbabwe needs to generate an improvement in the composition of imports, not simply a general expansion of imports.

80. Balance of payments projections for 1991 to 1995 estimate that the real export growth rate will rise as the reform programme takes effect. Following a large increase in imports in 1989 and then little change in 1990, imports are projected to increase rapidly in 1991 and 1992. Imports are projected to grow by 8.5%, in real terms, in 1991 and 7.1% in 1992, before falling back to 3.7% per annum in 1993, 1994 and 1995. This rapid early expansion of imports reflects the relaxation of import controls and provides materials and capital goods necessary for the recovery of investment. Moreover, the composition of imports is assumed to change, as investment and intermediates expand rapidly in the first three years. Non-factor service payments are estimated to rise because of the anticipated expansion in trade. Foreign reserves will be gradually increased to reach three months of imports by 1995.

81. Detailed balance of payments estimates are given in table 4. The current account deficit increases from 2.8% of GDP in 1990 to 6.4% in 1992 before falling to 4% by 1995. New borrowing will be needed to help fund increased investment by supporting a temporary increase in the current account deficit. Without a temporary worsening of the current account deficit and the implied increase in foreign borrowing, the required increase in investment would imply an unacceptable temporary decline in consumption and living standards. The temporary increase in foreign borrowing underpins the recovery of investment, while the comprehensive programme of policy reform, outlined as Zimbabwe's strategy in Section III, ensures that the funds will be productively used to increase competitiveness and efficiency and expand economic capacity. The structural adjustment programme is sustainable and debt service payments kept below 20%, because the policy reform and increased competition improve economic efficiency and export capability. The total debt outstanding and disbursed rises to a peak of 64% of GDP in 1994.

82. Total foreign financing required for the five years, 1991-1995, is estimated to be about US$3.44 billion, about US$690 million per annum (see table 5). This implies an increase of about US$1.75 billion, or a doubling as compared to recent trends. Raising this amount of additional financing, while maintaining the share of the grants and concessional loans in the overall portfolio, will be a major challenge. However, any worsening of the terms of financing would make it more difficult for Zimbabwe to implement this programme of structural adjustment without reductions in living conditions for Zimbabwe, in particular the poorest and most vulnerable groups.

83. Zimbabwe needs at this time a major increase in both grants and a blend of concessional and other long-term lending. Short-term lending is not very helpful when the problems are structural and investment related as is the case in Zimbabwe. The effective provision of this support necessitates widespread finance from the international community. Multilateral agencies, bilateral sources and commercial banks are all needed to support this programme with adequate funding. The government is committed to the concerted and comprehensive programme of action outlined above to keep the need for external funding within sustainable limits and to ensure the increased competitiveness of the economy. The lack of external support and structural changes would perpetuate low investment levels, a worsening of unemployment, and low growth. Under that scenario, Zimbabwe's progress in extending health and education to the poor could not be sustained.

TABLE 4 Balance of Payments in US Dollars
(US$ millions at current prices)

	Historical					Estimate	Projected				
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Trade Balance	202	312	382	512	361	355	218	236	299	378	478
Merchandise Imports	922	1013	1073	1157	1319	1333	1606	1746	1860	1986	2115
Consumption	125	120	114	120	150	128	145	160	178	194	211
Investment	274	394	395	450	505	475	552	665	712	764	819
Intermediate Goods	326	378	434	481	522	508	600	664	703	745	790
Petroleum	197	121	130	106	142	222	310	257	267	283	295
Merchandise Exports	1124	1325	1455	1669	1680	1688	1825	1982	2159	2363	2593
Agriculture	337	398	405	436	419	436	458	482	510	541	576
Mining	257	386	409	487	416	395	417	443	475	515	559
Manufacturing	298	290	333	401	463	468	518	576	641	713	795
Other	232	251	308	345	382	390	432	480	534	594	663
Net Nonfactor Services	185	152	159	199	216	265	287	303	319	337	357
Payments	289	291	309	380	421	450	491	528	569	614	664
Receipts	105	139	151	181	205	185	204	225	250	277	307
Net Factor Payments	126	183	213	229	214	253	259	281	307	330	352
Payments	189	252	259	267	271	298	307	341	376	410	441
Interest	161	149	158	162	156	165	166	191	217	241	262
Profits & other	28	103	101	105	115	133	141	150	159	169	179
Receipts	63	69	46	38	57	45	48	60	69	79	88
Current Transfers	-45	-26	-11	-6	-20	-15	-20	-25	-31	-35	-37
Current Account Balance	-153	-49	0	78	-89	-177	-348	-373	-358	-325	-269
Overall Balance	107	8	63	36	-51	12	136	114	123	108	114
Grants	55	58	80	66	78	94	98	102	108	114	120
Foreign Investment	3	7	-24	4	-10	5	19	26	28	32	33
LT Portfolio Inflows	79	8	-11	-42	15	90	367	359	346	287	230
Short-term Capital	123	-17	18	-70	-45	0	0	0	0	0	0
Financing											
Change in Total NFA(-)	-107	-8	-63	-36	51	-12	-136	-114	-123	-108	-114
Long Term External Debt	..	..	..	..	2381	2477	2834	3175	3504	3774	3987
Exchange Rate [Zim$/US$]	1.612	1.665	1.661	1.802	2.113	2.470	..	..	..	..	..

Table 5. EXTERNAL FINANCING REQUIREMENTS
(Millions US$)

	1991	1992	1993	1994	1995	1991-95
REQUIREMENTS:						
Imports (GNFS)	2097	2274	2429	2600	2779	12179
Factor Payments	307	341	376	410	441	1875
(Interest)	167	191	217	241	262	1078
Amortization	235	259	242	265	313	1314
Change in Reserves	136	114	123	108	114	595
Total	2775	2987	3170	3383	3647	15963
SOURCES:						
Exports (GNFS)	2028	2207	2409	2640	2900	12184
Factor receipts	48	60	69	79	88	344
Current Transfers	-20	-25	-31	-35	-37	-148
Foreign investment	19	26	28	32	33	138
Total Primary Sources	2076	2267	2475	2717	2984	12518
TOTAL FINANCING REQUIRED	700	720	696	666	663	3444
Disbursment on Existing Commitments	360	380	167	79	77	1063
IBRD	29	31	35	36	36	168
Other Multilateral	95	86	66	40	39	326
Bilateral	83	90	66	2	2	244
Commercial Banks (incl. IFC)	152	173	0	0	0	325
ADDITIONAL FINANCING REQUIRED	340	340	528	587	586	2382 ÷ 5 = 476/yr.

V. IMPLEMENTATION

84. The government fully acknowledges the implementation problems associated with a comprehensive programme of this nature. To tackle them several measures are envisaged. First, an Inter-ministerial Coordination Committee will follow up implementation, will make periodic reports to the government on the progress of implementation and will propose to the government the necessary policy response and "fine-tuning" measures that are usually necessary during the execution of an adjustment programme. For example, the Committee will recommend speeding-up or slowing-down the implementation of part of the programme or the programme as a whole, if international market conditions on external financing differ considerably from those assumed at the beginning of the programme. By the same token, the speed of implementation may be accelerated should external financing be forthcoming as envisaged and disruption appear minimized.

85. The Committee will monitor, very closely the supply response of the programme. The government gives special importance to such monitoring during the first two years of the programme, 1991 and 1992, when investments will still be subject to official controls following profit criteria, and based on promoting competitive export-oriented activities.

86. The government also intends to carry out a comprehensive review of the programme before the end of 1993 (the third year of the programme). The review will assess the overall progress in the implementation of the programme and, also will revisit its main components so as to recommend possible modifications in measures and/or speed for the final years of the adjustment programme. Special emphasis will be given in the review to trade liberalization and budget deficit reduction efforts with a view to accelerate them, should conditions be appropriate for such a step.

ZIMBABWE 1991-95 POLICY MATRIX

The attached Policy Matrix outlines the main longer-term objectives, short-term measures and sequencing that comprise the Government of Zimbabwe's structural adjustment programme. It embraces a tripartite core strategy of fiscal and monetary reform, trade liberalization and domestic deregulation, supported by sectoral initiatives and selective actions to reflect the social concerns for the poor.

The programme outlined in the matrix is an integrated one which will be implemented in an equally integrated fashion. The government recognizes that stabilization problems need to be tackled concomitantly with structural adjustment measures. Therefore, the matrix includes several targets and policies, particularly related to public sector fiscal and monetary policies, aimed at containing emerging external and domestic imbalances.

The inclusion of specific dates throughout this matrix, indicating when certain actions will be taken, provides a timetable for implementation of structural adjustment. The early publication of this timetable is especially important given the gradualist pace of the programme and the need for implementation to maintain momentum. Outlining the entire programme in this time-bound manner will provide everyone involved in, or contemplating, business in Zimbabwe with a clear indication of the policy environment within which they will need to be able to compete within five years.

TABLE 1: POLICY MATRIX

Issue	Past actions	Adjustment Programme: General Plan	Adjustment Programme: Specific Action By end 1991	Adjustment Programme: Specific Action By end 1993	Adjustment Programme: Specific Action By end 1995
A. MACROECONOMIC ISSUES AND FINANCIAL REFORM					
A1. Fiscal Policy					
Relative high levels of private savings and a substantial channelling of these savings to finance large public sector deficits.	Reduction in central government deficit from around 13 percent of GDP in FY87/88 to about 10.5 percent of GDP in FY90/91.	Reduction of central government deficit (excluding grants) to 5 percent of GDP by FY94/95. A larger improvement will be achieved in the overall public sector deficit.	Reduce central government budget deficit by 2 percentage points of GDP during FY91/92 through specific action on parastatals reform, reduction in size of civil service and curtailment of other recurrent expenditures.[1]	Central government budget deficit reduced (by 1 point of GDP in each of FY92/93 and FY93/94).	Reduce central government deficit (excluding grants) to 5% of GDP. Make remaining subsidies transparent.
A1.1 Central Government					
(a) Revenue Policies. Tax ratio, estimated at some 39-40 percent of GDP in FY90/91 are relatively high.	Various steps taken in FY88/89 and FY89/90 and FY90/91 to reduce individual tax levels. In FY90/91, the company tax rate was reduced slightly with offsetting reductions in exemptions.	Continue efforts to reduce tax levels and rationalize the tax structure in order to strengthen the equity and efficiency aspects of the tax system.	(See B2 for tariffs)	Reduce the company basic tax rate while reducing existing tax deductions and allowances and removing double deductions on investment.	Reduce the top marginal tax rate for individuals by about 20 percent. Further reduce company tax to approximate effective rate of taxation.

1. Including the provision in the budget to cover accumulated losses of parastatals, the central government deficit (excluding grants) will be reduced from 10.4 percent of GDP in FY90/91 to 7 and 4.7 percent respectively in FY91/92 and FY94/95.

Issue	Past actions	Adjustment Programme			
		General Plan	Specific Action By end 1991	Specific Action By end 1993	Specific Action By end 1995
Growth of non-tax revenue has fallen behind the provision of services.		Increase cost recovery in education, training, health and other areas.	Increase cost recovery in education by Z$40 million from Z$35 million in FY90/91 to Z$75 million in FY91/92, and improve fee collections in health to collect an additional Z$15 million (ie. increase collections to Z$30 million) in FY91/92.	Cost recovery in education to reach Z$120 million, and in health to reach Z$45 million.	Cost recovery in education of 0.5% of GDP. Improve collection in health to yield .2% of GDP.
(b) Expenditure policies. A large public sector wage bill due to past rapid growth in employment and wages; inadequate incentive structure within the public sector and between public and private sectors.	In FY90/91 a freeze imposed on the size of the civil service. Task Force established to identify areas of duplication and non-essential positions in the civil service; and incentive schemes and "safety net" programmes developed to facilitate retrenchment.	Eliminate redundant and non-essential employment so as to reduce the size of the civil service (excluding education) by 25 percent during FY91/92 - FY94/95.	In FY91/92 reduce the civil service by 6 percent; Set up efficiency units within departments to identify duplication and redundant positions. Limit public sector wage increases (including wage drift) to less than the rise in the CPI.	In FY92/93 reduce the civil service by a further 8 percent; limit the increase in the wage bill (including drift) to the increase in CPI, with differential increases based on merit and skill shortages.	In FY93/94 and FY94/95 reduce the civil service by a further 8 and 3 percent of the civil service respectively; increase wages to ensure that the public sector is competitive with the private sector.
Unsustainable growth of non-wage budgetary outlays.		Improve procurement procedures and other steps to contain expenditure growth.		Design and implement a comprehensive data collection system for monitoring government expenditure on a commitment and cash basis.	

Issue	Past actions	Adjustment Programme			
		General Plan	Specific Action By end 1991	Specific Action By end 1993	Specific Action By end 1995
A1.2 Public Sector Enterprises					
(a) Excessive burden of PE sector on Central Government Budget (of more than 3 percent of GDP).	Some actions at individual PE level, e.g. NRZ, to reduce direct transfers and subsidies.	Phased action programme to reduce direct subsidies and transfers and eliminate indirect subsidies to the sector.	Reduction of explicit subsidies and transfers to PEs from Z$649m in FY90/91 to Z$361m in FY91/92.	Subsidies to PE reduced to Z$360 million in FY91/92 and Z$228 million by FY92/93.	Reduction of subsidies and transfers (other than subsidies for social purposes) to PEs to zero in FY94/95. Elimination of all implicit subsidies to PEs, including customs duty and tax exemptions, and concessionary interest rates on loans.
(b) Lack of comprehensive policy for PE reform.	General policy statement in August 1990 and initial preparation of detailed policy statement.	Develop and implement a comprehensive action programme.	Classification of PEs according to type of action required. Completion of studies on budgetary burden of PEs, legal and institutional framework by April 1991. Creation of information system and action plans for the most important PEs by June 1991.	Inclusion of all PEs in the reform programme.	
(c) Adverse general policy environment and excessive intervention by Government in PE operations and decision-making.	Major improvements in autonomy of NRZ and price adjustments for NOCZIM (to enable it to break-even in 1991) and	Improved autonomy for all PEs and continued price adjustments to coordinate changes in consumer and producer prices. Change operating	Market-based pricing for all commercial parastatals (excluding ZISCO). PE Boards and managers to have flexible provisions	Commercial parastatals (excluding ZISCO) to make profits. Increased competition for the agricultural	Commercialization and introduction of competition with agricultural marketing parastatals.

Issue	Past actions	Adjustment Programme			
		General Plan	Specific Action By end 1991	Specific Action By end 1993	Specific Action By end 1995
	agricultural parastatals.	rules to promote PE efficiency.	in hiring and firing labor, setting pay scales and in procurement. Implementation of tariff setting formulas for public service monopolies, based on LRMC or economic value.	marketing parastatals.	Market-based pricing for ZISCO; commercial parastatals to make profits.
(d) Over-extension of the State in commercial and industrial activity (i.e. tourism).		Implementation of a PE programme to define possible sale of interests (partial or total) in some enterprises.	Completion of study and definition of action programme.	Commercialize PEs in which other investors could be subsequently invited to participate. Sub-contracting of some services by public sector.	Implementation of strategy for joint ownership in some cases as defined by the programme, including sales of shares and assets of some PEs.
A.2 Monetary Policy and Financial Sector Reform					
(a) Monetary policy					
Growth in money supply accommodating cost-push inflationary pressures.	A more flexible use of interest rate policy. Lending rates increased. Rates on fixed deposits of banks not administratively fixed except those in respect of building societies and post office savings bank. Minimum rates for saving and demand	Manage monetary and credit aggregated to (along with fiscal policy) contain inflationary pressures and support balance of payments objectives. Phase out interest rate and credit controls, switch to indirect methods of monetary control.			

Issue	Past actions	Adjustment Programme			
		General Plan	Specific Action By end 1991	Specific Action By end 1993	Specific Action By end 1995
	deposits prescribed in August 1990.				
			Develop a basic monetary programming framework to ensure the consistency between monetary, fiscal, external, and other targets. Vary yields on treasury bills to achieve the monetary targets contained in this monetary programme.		
Interest rates and level and distribution of credit determined by direct controls and moral suasion.		Direct monetary policy controls to be replaced by indirect methods of monetary control, with the main emphasis on open market type operations.	Make the Base Lending Rate (BLR) dependent on the cost of foreign borrowing as well as local borrowing and intermediation costs. Make the BLR applicable to all financial institutions and have no maximum lending rate. Separate the reserve requirement from liquid assets ratio, unified into one ratio and make it applicable to all deposits. Use reserve requirements more to control monetary aggregates. Ensure that discount window operations do	Abandon the announcement of the BLR. Control through rates on government stock. Relax other government paper as the fiscal deficit shrinks. Switch from treasury bill auctions to regular open market operations in the secondary market for liquidity and interest rate control.	Use of Reserve Bank bills should be phased out as reserve requirements are more frequently used.

Issue	Past actions	Adjustment Programme			
		General Plan	Specific Action By end 1991	Specific Action By end 1993	Specific Action By end 1995
			not undermine monetary control.		
			Redefine the liquid asset ratio to exclude private bills and reduce it to a level considered essential for prudential purposes.		
(b) Financial Sector					
A lack of competition among financial institutions; financial system desegregated; and prudential controls inadequate.	Banking companies are regulated under Reserve Bank Act. Some prudential control is exercised.	Increase the competitiveness of the financial system and develop new money market instruments.	Modernize Banking Companies Act to lay legal foundation for emergence of new financial services and instruments. Strengthen supervisory control.	Make Banking Companies Act operational and open up domestic competition between financial institutions.	Complete freedom of bank entry.
			Set up a Security Exchange Commission to monitor Stock Exchange operation, set procedures for new issues and prevent malpractices.	Banks' supervisory machinery in place. Training of supervisory personnel completed.	Remove restrictive provisions relating to investment in insurance companies and pension fund Acts.
A3 Inflation					
High rate of domestic inflation.	Attempt to contain inflation through controls on prices and wages.	Reduce domestic inflation progressively to about 10 percent per annum by 1995 through appropriate demand management,	Monetary and fiscal policies to reduce the rate of inflation to less than 16 percent.	Monetary and fiscal policies consistent with a continued reduction in the rate of inflation to 12 percent.	Monetary and fiscal policies to reduce inflation to 10 percent or less.

Issue	Past actions	Adjustment Programme			
		General Plan	Specific Action By end 1991	Specific Action By end 1993	Specific Action By end 1995
		monetary policy and effort to bolster aggregate supply.			
A4. Balance of Payments and External Debt					
Maintenance of a sustainable external debt position while the current account deficit widens to provide transitional resources for structural adjustment.	Current account deficits were reduced through import compression during the second half of the 1980s, to service bunched debt service payments.	Demand management, (fiscal, monetary and exchange rate actions) to contain external current account at sustainable levels. Imports to underpin investment and growth, financed in part by official lending and associated commercial lending.	New borrowing of US$400 to US$500 being a blend of concessional and nonconcessional from multilateral, bilateral and commercial sources.	Substantial transitional commercial and non-commercial borrowing to support growth requirements but subject to a prudent debt policy. (Debt service below 20 percent)	Continued prudent debt policy and lowering net borrowing as amortization begins to rise and the current account deficit declines.
B. TRADE					
B1. Exchange rate					
Short-run rationing indicative of continuing over-valuation.	Managed float with steady real depreciation: real effective rate now 38% below 1984 level; and 20% below the 1988 level.	Commitment to manage the exchange rate to support trade liberalization and the resource shift in favor of export sectors.		Review of exchange rate to assess if it is approaching equilibrium.	Exchange rate consistent with complete removal of foreign exchange rationing mechanism.

Issue	Past actions	Adjustment Programme			
		General Plan	Specific Action By end 1991	Specific Action By end 1993	Specific Action By end 1995
B2. Foreign exchange allocation					
System biased toward established activities and against structural change leading to high protection and bias against exporting activities in all goods-producing sectors.	(i) Effective maintenance of export revolving fund for manufactures, extension to indirect exporters; (ii) Introduction of unrestrictive OGIL for some commodities, and end-use restrictive OGIL for others; (iii) Introduction of special funds to increase allocations to export activities in agriculture and manufacturing; (iv) Incremental Export Bonus Scheme; (v) Introduction of a foreign exchange retention scheme for mining and agriculture (5%) and manufacturing, construction and tourism, etc. (7½%).	A comprehensive programme of trade liberalization over 5 years with elimination of the foreign exchange allocation system through a steadily expanding OGIL category, a rationalization of customs duties to the range of 10 to 30% and a phasing out of the surtax. The Export Revolving Fund, Incremental Export Bonus Scheme and the foreign Exchange Retention Scheme will all become redundant as the foreign exchange allocation system is eliminated.	Move at least 30% of imports onto OGIL. An additional 15 percent will be on end-use restricted OGIL. Rationalize tariffs into the range of 0 to 30% (with a few higher tariffs as exceptions). Outline a programme to increase the minimum tariff to 10% to increase tariff uniformity and allow the phased removal of surtax by 1995. Announcement of full and detailed trade liberalization plan.	Move at least 60% of imports onto unrestricted OGIL. This will include the majority of capital goods. Import surtax reduced to 10 percent. Remove the industrial drawback available to domestic manufacturers.	Move all goods excluding a small reserved list subject to safety or defense considerations onto OGIL. Import surtax to be reduced to 0 percent. Replace import tariffs in excess of 30 percent with domestic sales taxes to avoid high effective rates of protection.
B3. Incentives					
Incentives required to offset anti export bias of present trade system.	Effective duty drawback scheme and export subsidy of 9% of export value, untaxed but limited to manufacturing sector. Introduced broad based foreign	Phase out export subsidy.			Export subsidy to be eliminated.

Issue	Past actions	Adjustment Programme			
		General Plan	Specific Action By end 1991	Specific Action By end 1993	Specific Action By end 1995
	exchange retention scheme.				
C. DOMESTIC REGULATIONS					
C1. Investment					
Investment sanctioning resulting in delays in, and distortions of, investment.	Zimbabwe Investment Centre (ZIC) set up to streamline investment approvals.	Progressive removal of investment sanctions. Simplification and further liberalization of exchange controls on dividend and profit remittances.	Legal structure to authorize delegation of investment approval authority to ZIC to be in place by May 1991.		Investment approvals not to be required except for large investments.
	Substantial flexibility and liberalization of remittability of profits on export-oriented investment announced in October 1990. Joined MIGA and OPIC membership.		Appointment of Chairman and advisory board and secondment of senior ministry officials to ZIC to be completed by June 1991. ZIC to outline its promotional role for attracting foreign capital, assisting domestic investment, and promoting technology transfers.		ZIC to have established itself as an investment promotion agency in the country. Elimination of all exchange controls on dividend and profit remittances.
C2. Price Controls					
Price controls inhibit mobility of factors of production and economic production and investment.	Rigid price controls on all but 10 products removed. Declared intention to review price controls with a view	Prices to be determined by market forces.	Remove price controls, including mark-up controls, on all products placed on OGIL. Establish a Commission on Monopoly Practices.		Remove all price controls, except on a few basic foodstuffs.

Issue	Past actions	Adjustment Programme			
		General Plan	Specific Action <u>By end 1991</u>	Specific Action <u>By end 1993</u>	Specific Action <u>By end 1995</u>
	to progressively removing them.		Decontrol cement and fertilizers prices.		
C3. <u>Agricultural price policies</u>					
Agricultural price policies have contributed to losses for marketing boards. Uniform pricing for the entire country and movement restrictions on several crops result in wastage of scarce transport.	Producer prices have been generally in line with world prices.	Substantial reduction of marketing board losses. They are to operate alongside in a competitive environment, as residual buyers to stabilize producer prices.	Operations of the DMB, CMB and CSC will be made commercially oriented. The non-commercial operations of the Boards will be made transparent and subsidies will be targeted and limited in time.	Fully commercial operations of CMB and CSC.	GMB to operate as a commercial organization alongside other marketing channels. Grain Marketing Act to be amended to permit this.
	Relaxation in favor of private trading and movements have been made in respect of a few crops.		Movement of maize between communal areas to be allowed.	Greater flexibility in milk prices. Private dairying to be in operation, alongside DMB commercial operations.	
				Controls on agricultural consumer prices removed except basic foodstuff for the poor (i.e. maize, edible oil).	
C4. <u>Labor</u>					
Labor market regulations have adversely affected labor mobility and discourage employment generation while raising capital-	Statutory wage increments largely replaced by collective bargaining.	Replacement of government intervention by collective bargaining to provide greater flexibility in wage negotiations and	Introduce an administrative machinery and procedures to give employers autonomy to quickly retrench workers with compensation.	Government intervention in labor market to be confined to fixing statutory minimum wages and labor conditions.	

Issue	Past actions	Adjustment Programme			
		General Plan	Specific Action <u>By end 1991</u>	Specific Action <u>By end 1993</u>	Specific Action <u>By end 1995</u>
intensity in industry.		improve labor mobility.			
C5. <u>Other domestic regulations</u>					
Other domestic regulations on economic activity, including transport, have tended to inhibit entrepreneurship and small business development.	Selective relaxation of trucking permits. Trucks with a capacity of 15 tonnes or less, allowed to operate without permit during crop season and those with a capacity of 10 tonnes or less to require no permit.	To facilitate employment in small-scale and informal sector by relaxing regulations and procedures.	Relax licensing restrictions on hawking and street vending. Establish a Commission to review other local council bye-laws and regulations on economic activities with the objective of relaxing them. Total abolition of trucking permits (other than operating license to ensure road worthiness of vehicle).	Review urban transport arrangements. Implement Commission's recommendations.	
<u>**D. SUPPORTING SECTORAL INITIATIVES**</u>					
D1. <u>Agriculture</u>					
Unequal land distribution, low productivity in poor communal areas, and resource degradation due to overcrowding.	Resettlement of 52,000 families on land purchased from large-scale farmers.	To achieve more land redistribution without a decline in agricultural productivity.	Initiate resettlement of 110,000 families. Increase agricultural services to communal and resettlement areas to increase their productivity.	Continuation of the resettlement programme.	

Issue	Past actions	Adjustment Programme			
		General Plan	Specific Action By end 1991	Specific Action By end 1993	Specific Action By end 1995
			Modifications in the present land tax to increase the cost of holding underutilized land.		
D2. Environment					
Preservation of forestry, wildlife and land fertility.	National Conservation Strategy adopted in 1987. Wide set of regulations enacted.	Continue and broaden conservation policies.	Implementation of the Rural Afforestation Project.	Establishment of National Standards of effluent and emission control. Require environmental impact evaluation of all new large investments.	Implementation of emission controls.
D3. Energy					
To follow a least-cost supply strategy and to promote efficient use of energy.	Initial actions to follow the stated strategy.	Provision of energy as demanded by economic growth while maintaining appropriate pricing policies.	Electricity tariffs periodically adjusted. Agree on energy efficiency strategy.	Rehabilitation of Old Thermal Power Stations. Economic pricing policy based on long-run marginal cost.	
Charging the economic price in petroleum productions.	Some large price increases have been implemented.	Adjusted prices to reflect import costs plus transport, storage and distribution costs. Excessive cross-subsidization will be avoided.	All prices adjusted as stated in the general plan.		
D4. Education					
Progress achieved since 1980 but inequities inherited at independence among schools and areas remain.	Large growth in schools and enrollments financed by communities and Government. Cost recovery amounts to Z$35 million.	Reduce the rate of growth of education expenditures, and increase cost recovery. Reduce spending on education from 9.2 percent of GDP to	Government spending on education reduced from 9.2% of GDP to 9.0% of GDP, an increased cost recovery of an additional Z$40 million, while at	Government spending on education to be reduced to 8.8% of GDP, and cost recovery to be increased to Z$120 million.	Budget spending on education reduced to 8.7 percent of GDP, Increased cost recovery from fees and contributions from parents of students from non-

Issue	Past actions	Adjustment Programme			
		General Plan	Specific Action <u>By end 1991</u>	Specific Action <u>By end 1993</u>	Specific Action <u>By end 1995</u>
		8.7 percent of GDP by FY94/95. Raise cost recovery to 0.5% of GDP.	least maintaining expenditures on local authority schools and protecting the poor from increased fee levels.		Government schools, to reach Z$160 million p.a.
D5. <u>Health</u>					
Need to further rural and preventative health services.	Large gains made in the health status of the people since Independence. The MoH budget grew at 4.7 percent per annum and services were extended to most rural areas. Free care provided to those earning less than Z$150 per month. Fee revenue amounted to Z$15 million in FY89/90.	Strengthen further the rural and preventative services, tighten up management and efficiency of spending, and raise fees for private patients. Services will be maintained for the poor and vulnerable. Spending by Government on Ministry of Health to remain at 2.7% of GDP. Cost recovery to increase to 0.2% of GDP.	New second family health project under implementation. Improvements to existing billing and fee collection mechanisms, and increased fees for private patients. Revenue to equal 6 percent of MoH expenditures. Cost recovery to reach Z$30 million.	Fee revenue to Government to reach Z$45 million.	Fee revenue to Government to reach Z$60 million.
D6. <u>Small-scale and Informal Sector</u>					
SSE's and the informal sector have suffered as a result of an over-regulated environment and lack of supportive governmental policies.		SSE's and the informal sector generally benefit from the adjustment measures. However, some additional measures may be needed to provide a more supportive environment.	Implementation of new financial policies to assist SSE's and informal sector. See also deregulation section.	Review of growth of SSE and informal sector.	

Issue	Past actions	Adjustment Programme			
		General Plan	Specific Action By end 1991	Specific Action By end 1993	Specific Action By end 1995
E. SOCIAL DIMENSIONS OF ADJUSTMENT					
E1. Employment					
Compensatory Actions needed for retrenched civil servants.	Existing schemes (i.e. retirement plans, provisions for abolished posts).	Identify and implement new programmes for retrenched civil servants.	Civil service to be reduced by 6%. Estimated savings of Z$40m. Z$14m to be used for retraining of civil servants and other assistance.	Civil service to be reduced by further 8% in FY92/93 and 8% in FY93/94, with funds of Z$21 million and Z$24 million to be used for retraining etc.	Total reduction of civil service by 3% more (to 25%) with additional savings of Z$10 million to be used for retraining etc.
Compensatory Actions needed for retrenched parastatal employees.		Retrenched workers to be compensated in line with guidelines for private sector.			
Frictional unemployment in the formal sector.		Providing training for retrenched workers, possibly amounting to 10 percent of the existing workforce i.e. approximately 20,000 workers may face frictional unemployment, at some stage of the programme.	Detailed training strategy developed and initial improvements made to existing training facilities and programmes.	Strengthening of training facilities completed. Targeting for special groups.	
E2. Prices					
Increases in the price of maize would adversely affect the poor.	Price of maize is controlled, though actual consumer prices are higher in rural areas due to costs of transport/ distribution. Producers of maize in some remote areas benefit from	The basic subsidy to the GMB will decrease, but a proportion of the savings will be set aside to provide subsidies to the poor.	30% of the fiscal savings resulting from the subsidy reduction will be set aside as a "safety net" to cover the costs of payments for social welfare purposes.		

Issue	Past actions	Adjustment Programme			
		General Plan	Specific Action <u>By end 1991</u>	Specific Action <u>By end 1993</u>	Specific Action <u>By end 1995</u>
	artificially high producer prices.				
E3. <u>Cost Recovery</u>					
Protection of poor people from increased user charges in the social services.	Introduction of Z$150 threshold for health care and no tuition fees for primary school students.	Maintenance of Z$150 threshold for health and design of cost recovery in education which protects poor people.			
E4. <u>Monitoring and Evaluation</u>					
Income and Expenditure Surveys	A household income and expenditure survey was carried out in 1985.	A new survey is being carried out in FY90/91. This will provide baseline socio-economic information for the adjustment programme.	Report of the FY90/91 survey to be produced.	Detailed plans developed for follow-up survey.	Follow-up survey to have been carried out.
Continuous system of surveys	A national household survey capability has been established.	Strengthen and expand the existing system to provide rapid and comprehensive data for monitoring and adjusting to any unforeseen effects of policy changes.	Detailed design of Zimbabwe's participation in the Living Standards Measurement Survey programme.	LSMS survey rounds to be underway, with data being fed back to policy makers.	
Nutritional surveillance	The MoH has established a nutritional surveillance system as part of the national health information system.	Nutritional surveillance system to be used to assist in monitoring the social effects of the adjustment programme, especially in the rural and peri-urban areas.	Nutritional surveillance system strengthened, and data being used monthly to monitor the programme.		

Issue	Past actions	Adjustment Programme			
		General Plan	Specific Action By end 1991	Specific Action By end 1993	Specific Action By end 1995
F. IMPLEMENTATION					
To make possible a smooth execution of the structural adjustment programme.	Programme announced.	To make possible a smooth implementation of the programme, including periodic fine-tunings.	Establish, by March 1991, a high level coordination committee to supervise and coordinate implementation and needed refinement of the whole programme. Appoint a team of consultants to provide technical assistance on implementation.	Comprehensive review of the programme.	Final programme review.

ZIMBABWE: KEY MACROECONOMIC INDICATORS

Key Indicators	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
GDP Growth Rate	..	2.6	-1.5	5.8	5.6	4.2	4.3	4.4	4.6	4.8	5.0
GDP Per Capita Growth Rate	..	..	..	2.7	2.6	1.4	1.6	1.7	1.9	2.2	2.4
Consumption per capita gth rate	..	..	..	-3.4	5.9	2.8	2.1	0.8	1.1	2.1	1.8
Total DOD (in US$)	2464.7	2708.1	2913.8	2670.6	2633.6	2706.4	3056.3	3398.0	3726.6	3996.3	4209.6
DOD/GDP	56.6	54.4	54.2	45.2	44.7	44.4	51.4	57.9	62.9	64.0	63.2
Debt Service (in US$)	..	..	..	..	466.3	461.2	402.4	449.9	459.3	506.1	574.5
Debt Service/XGS	..	..	..	..	24.0	24.0	19.4	19.9	18.5	18.6	19.2
Debt Service/GDP	..	..	..	..	7.9	7.6	6.8	7.7	7.7	8.1	8.6
Gross Investment/GDP	21.1	19.4	19.1	19.7	20.7	21.0	23.0	24.3	25.2	25.1	25.3
Private Investment/GDP	12.4	11.1	8.0	7.7	9.8	10.5	13.0	14.7	16.0	16.2	16.4
Public Investment/GDP	8.7	8.3	11.2	11.9	11.0	10.5	10.0	9.6	9.2	8.9	8.9
Budgetary Investment/GDP	3.2	3.3	5.5	6.2	5.3	5.2	5.0	4.8	4.6	4.5	4.5
Public Enterprise Investment/GDP	5.5	5.0	5.7	5.8	5.6	5.3	5.0	4.8	4.6	4.4	4.4
Implied Private ICOR	..	..	..	2.1	2.0	2.5	3.0	3.2	3.3	3.2	3.3
Implied Total ICOR	..	..	..	5.1	4.6	4.9	5.2	5.3	5.3	5.0	5.1
Capital good imports/Investment	29.9	40.7	38.4	38.8	41.3	37.2	40.4	46.6	47.7	48.8	48.6
Domestic Savings/GDP	21.1	19.4	19.1	19.7	20.7	21.0	23.0	24.3	25.2	25.1	25.3
National Savings/GDP	17.6	18.5	19.1	21.0	19.2	18.0	17.1	17.9	19.2	19.9	21.3
Private Savings/GDP	20.5	22.3	20.5	20.5	18.2	16.7	15.4	15.8	16.8	17.0	18.0
Public Savings/GDP	-2.9	-3.8	-1.3	0.5	1.1	1.3	1.7	2.2	2.4	2.9	3.3
Foreign Savings/GDP	3.5	1.0	0.0	-1.3	1.5	2.9	5.9	6.4	6.0	5.2	4.0
Total Public Sector Revenue/GDP	34.3	34.3	39.4	39.5	40.3	39.8	40.4	40.9	40.8	40.6	40.2
Total Public Sector Exp./GDP	45.4	45.5	50.9	51.1	50.8	49.2	48.6	48.1	47.3	46.1	45.3
Total PS Def.(+) or Sur. (-) /GDP	11.2	11.2	11.5	11.6	10.5	9.4	8.2	7.2	6.5	5.6	5.1
Cent. Govt Revenues/GDP	34.4	34.2	38.5	38.4	39.2	39.0	39.3	39.6	39.2	38.9	38.3
Cent. Govt Expenditures/GDP	44.4	44.6	49.3	48.0	48.3	47.6	46.9	45.7	44.0	42.6	41.5
Cent. Govt Savings/GDP	-4.9	-5.8	-4.1	-1.5	-1.0	-1.1	-1.0	0.0	0.9	1.5	1.8
CG Primary Def.(+) or Sur.(-)/GDP	4.4	4.7	4.3	3.0	2.2	2.2	0.6	-1.0	-2.1	-3.0	-2.9
CG Def.(+) or Surplus (-) /GDP	10.0	10.5	10.7	9.6	9.1	8.6	7.6	6.1	4.8	3.7	3.2
CG Def.(Excluding grants)/GDP	11.2	11.6	12.2	10.8	10.4	10.2	9.3	7.8	6.6	5.5	5.0
Inflation (% Change GDP Deflator)	..	15.2	9.2	12.6	10.8	16.0	16.0	14.0	12.0	10.0	10.0
Exchange Rate (ZIM$/US$)	1.612	1.665	1.661	1.802	2.113	2.470	..	..	..	..	..
[Real Index (1987=1)]	..	..	1.00	1.05	0.95	0.91	..	..	..	..	..
Terms of Trade (1987=1)	1.19	1.15	1.00	1.15	1.12	1.06	0.97	1.05	1.05	1.05	1.05
Real Export Growth Rate	..	..	..	..	..	..	4.8	5.2	5.6	5.7	5.8
Real Import Growth Rate	..	..	..	..	..	..	8.5	7.1	3.7	3.7	3.7
Exports/GDP	28.2	29.4	29.9	31.3	32.0	30.7	34.1	37.6	40.6	42.3	43.5
Imports/GDP	27.8	26.2	25.7	26.0	29.5	28.7	33.7	36.9	38.7	39.2	39.1
Net Factor Payments/GDP	2.9	3.7	4.0	3.9	3.6	4.1	4.4	4.8	5.2	5.3	5.3
Current Account Deficit/GDP	3.5	1.0	0.0	-1.3	1.5	2.9	5.9	6.4	6.0	5.2	4.0
Current Account Deficit (in US$)	152.9	48.7	0.1	-78.0	89.2	176.9	348.3	373.1	358.0	325.2	268.7
Net Reserves (in US$)	..	..	..	..	148.1	159.9	295.6	409.2	532.4	640.2	754.6
Net Reserves (in months imports)	..	..	..	..	0.9	1.2	1.8	2.2	2.5	2.8	3.0

ANNEX I

TECHNICAL NOTE: PUBLIC ENTERPRISE REFORM

Introduction and Background

1. Public enterprise (PE) reform will be high on the Government's policy agenda for the next five years. The main objectives of the macro-economic adjustment programme will be to encourage growth by investment in the productive sectors, increase export competitiveness and export earnings and to increase employment. The costly and ineffective operations of the PEs are at present a major obstacle to the achievement of these aims. Not only do the PEs absorb a large proportion of recurrent budgetary expenditure in direct subsidies, grants and advances from Government, but as a group they produce very small returns, if any, on capital invested. They receive large indirect subsidies in the form of concessional loans, customs duties exemptions and other tax exemptions which represent substantial foregone fiscal revenues. Many PEs not receiving direct subsidies, finance their recurrent deficits by borrowing from the financial sector. normally with Government guarantees, thereby potentially crowding out productive private investments and adding to the direct budgetary burden at a later date in case of inability to repay the loans. At the same time, the quality of services provided by many PEs needs improvement and this will be particularly important for those PEs which provide basic inputs, services and infrastructure for economic development.

2. The sector consists of around 40 state owned enterprises, some of which, however, would not normally be considered as PEs, such as research and social and cultural development organizations. Those receiving the largest subsidies and transfers from Government are the agricultural marketing boards through the Agricultural Marketing Authority (AMA), the National Railways of Zimbabwe (NRZ), and ZISCO (see Attachment 1 for details).

3. The reasons for poor PE performance in Zimbabwe vary from one enterprise to another but there are a number of common factors, most of them interrelated and having a compound effect. Firstly, Government pricing policies have not allowed a number of important PEs to cover their costs. This has been a long term problem affecting many PEs, but particularly those whose output prices have an important impact on the national economy. Recent price increases for NRZ, Air Zimbabwe and NOCZIM were a step in the right direction but the problem is currently acute in the case of the agricultural marketing boards, ZISCO, and also for NOCZIM which is still not passing full price increases on to consumers.

4. A second set of factors working against PE efficiency is the financial relationship between Government, as owner, and its PEs. This has sometimes manifested itself as the "soft budget constraint" enshrined in many of the parastatals' enabling Acts whereby Government is required to finance their deficits from the national budget even when these deficits are due to management inefficiencies. On the other hand, there are frequent instances

where Government has required PEs to undertake investments or activities for social and other reasons which are not economically viable but has not paid for the costs of these investments or activities. This has also led to conflicting objectives for PE management. In addition the capital base of many PEs has consisted largely of loans with the consequent heavy burden of debt service on the enterprises.

5. The third set of factors concerns the relative lack of autonomy and accountability of PE Boards of Directors and managers. The involvement of line ministries in day-to-day decision making in PEs is widespread in areas affecting personnel and salaries, investment and purchasing decisions. The actions of Government in the pricing and financial areas mentioned above also have adverse effects on PE autonomy and, subsequently, on efficiency. Managers can therefore claim with some justification that poor PE performance is due to circumstances beyond their control. There are severe limitations on PE Boards' discretion to invest, purchase, hire and fire labor according to needs, set salary levels, set prices, have recourse to the financial markets etc. Internal financial control systems and external monitoring systems for PE performance are inadequate and managers cannot be rewarded or penalized according to their performance. The composition of PE Boards, although recently improved in some cases, does not always include the expertise needed for the effective management of the enterprise concerned.

6. The quality of PE managers in Zimbabwe is noticeably higher than in many other developing countries. However, there is a need to combine adequate financial incentives with autonomy and accountability, in order to retain a sufficient number of well motivated managers.

7. Finally, individual parastatals have their own particular problems which need to be addressed. These may relate to the need for physical rehabilitation or improved organization structures and internal management.

Government Policy Framework

8. The Government's Economic Policy Statement of July 26 1990 presented the following objectives which are now setting the policy framework for parastatal reform:

- clear parastatals' losses and eliminate subsidies, except losses related to social issues, by FY94/95;

- clear the present arrears in subsidy payments to parastatals by FY92/93;

- set up Task Forces to examine the rationale and operations of major parastatals and make appropriate recommendations;

- require parastatals to prepare action plans and work programmes with quantified targets;

- review each parastatal's pricing policy, close the gap between consumer and producer prices and replace it with targeted subsidies to the needy;

- allow and provide equity finance to those parastatals involved in marketing goods and services in a commercial environment;

- introduce private participation in the management and ownership of parastatals especially where this can bring the necessary management expertise and know-how; and

- improve management autonomy, define respective roles of Boards and ministries and introduce performance incentives for management.

Strategy and Action Programme

9. General. The strategy being implemented by government combines reforms of a global nature with measures which are enterprise specific. The strategy is based on the premise that all PEs operating in a commercial environment, whether or not monopolies, will, on completion of the programme, be receiving no budgetary support from Government, except for the purpose of protecting vulnerable social groups. Loans from the banking system to these enterprises will be made at the discretion of the banks, based on bankable proposals and not subject to Government guarantees. There will be a clear separation between the social and commercial roles of PEs. The roles of all PEs are being examined and judgments will be made as to their appropriateness. Areas of overlap between PEs themselves and between PEs and central Government, particularly in the areas of social development, will be eliminated by closures or mergers. Whenever Government requires a PE to undertake a project or activity of a social or non-commercial nature Government will provide all of the finance for this activity through direct budgetary subsidy or grant. All commercial PEs will be capitalized with acceptable debt-equity ratios and be expected to pay a dividend to Government. PE Boards and managers will be given greater autonomy while being held fully accountable for the viability of their commercial activities and for operating within their allowed budgets for their non-commercial activities.

10. Government has already begun implementation of a reform programme within the National Railways of Zimbabwe (NRZ) which will reduce the NRZ's annual losses from Z$201 million in FY89/90 to about Z$78 million in FY90/91. This programme illustrates the types of reforms which will be applied to other PEs. The measures include:

- internal rationalization and operational and management improvements;

- tariff setting mechanism;

- operational and financial performance target setting and monitoring;

- clear definition of role and accountability of the Board;

- staff development programme including succession planning;

- improved capital structure and reduction of subsidy backlog and direct transfers;

- greater flexibility and autonomy in procurement procedures;

- improved investment appraisal and approval of projects based on acceptable economic and financial rates of return.

11. Classification. PEs will be classified according to the type of action required to achieve the objectives of the reforms, i.e. the elimination of deficits and improved effectiveness. The following classification is tentatively proposed:

- strategic PEs which are already viable or potentially viable (such as the public service monopolies) which will continue in State hands but without budgetary support. In some cases there will be a need for rehabilitation programmes following which no further budgetary support will be provided.

- non-strategic viable or potentially viable commercial or industrial PEs - to be operated on a commercial basis and for which full or partial divestment will be sought;

- non-viable PEs with no strategic or social function - which will be liquidated;

- PEs with a social or developmental role which overlaps with another PE or Ministry or which is no longer required, - will be closed down or merged with other entities;

- non-commercial parastatals (strictly speaking not PEs) with a necessary social role - which will require budgetary support in the form of grants and whose budgetary allocations will be determined according to national priorities as part of the Budget preparation process. However, even in these cases attempts at cost recovery will be made and measures to improve efficiency implemented.

12. The inclusion of a PE in the strategic category will not exclude the possibility of participation by other investors in its ownership or management and active attempts to harness private sector initiative and capabilities in the activities of public service monopolies will be made.

13. Financing Policy. Reducing transfers from the budget is very important to the Government's target of reducing the central government fiscal deficit to 5 percent of GDP by FY94/95. By the end of the programme, commercial PEs will be receiving no budgetary support whatsoever. The essence of the macro-economic adjustment programme is the encouragement of economic and financial viability and efficiency. Indirect subsidies such as import duty exemptions, concessional loans and Government guarantees on commercial bank loans will be eliminated for all PEs and their customers or

beneficiaries. An important part of the reform programme will be the implementation of a timetable for the progressive elimination of all direct and indirect subsidies to commercial PEs, including the monopolies. The only exceptions to these principles will be the provision of full cost explicit budgetary subsidies where a commercial PE is required to carry out a non-commercial function or in the case of temporary direct subsidies to specific target groups adversely affected by the adjustment process. The methods for appraising Government investments in PEs will be improved and only economically viable projects will be approved.

14. The timetable for the progressive elimination of direct subsidies and transfers to the PEs is shown in Attachment 3. In FY91/92 the level of subsidies and transfers to all major PEs will be reduced to Z$360 million (Z$160 million of which is a write-off of the anticipated remaining carry over of past losses) and by FY94/95 to a maximum of Z$40 million. This will result in a reduction in FY91/92 of 2.0 percentage points in the ratio of the fiscal deficit to GDP and of 3.7 percentage points over the entire period to FY94/95. The MFEPD will put mechanisms in place to ensure that provisions to write-off arrears payments are used by the PEs for their intended purpose i.e. the reimbursement of loans from financial institutions.

15. General Policy Environment. The role of Government vis-a-vis the PEs will be directed away from micro-policy decisions and towards setting the macro-economic and policy framework within which the PEs operate. Parastatals will be given autonomy in the setting of prices of PE raw materials, products and services, (except in the case of monopolies), in hiring and firing employees, in setting pay scales and in making investment and procurement decisions. At the same time, PE Boards and management will be held fully accountable for their actions (see paragraph 17 below). They will prepare corporate plans against which, after their approval by Government, their performance will be monitored. As long as PE Boards act within their agreed plans they will be subject to no interference from Government. In the case of the public service monopolies, such as power and water supply, tariff setting mechanisms such as that recently developed for NRZ will be applied. Once these formulas have been developed there will be no need for these PEs to go to Government each year asking for price increases. The monopolies of the state owned agricultural marketing and production entities will be reviewed and steps taken to introduce competition. Over time, industrial and commercial entities such as ZISCO will set their prices in free competition with other suppliers, including imports.

16. Legal and Institutional Reforms. The enabling Acts or Memoranda and Articles of Association of a number of PEs have already been modified e.g. NRZ and Zimbabwe Trade Development Corporation (ZTDC). The legal status of all PEs will be reviewed and changes will be made where necessary. In some cases this will involve bringing parastatals under the Companies Act. The method of appointing Boards, their composition and their rules of operation, will be modified to ensure their effectiveness and appropriateness for the job to be done. The respective roles of management, Boards, ministries and other Government agencies will be spelled out and adhered to.

17. Monitoring and Accountability. Along with greater autonomy will come

better accountability. A central unit will be designated, staffed and equipped to manage a comprehensive information system on PE performance and to oversee the implementation of the PE reform programme. The information system will be used to assess the performance of the PEs and serve as the basis for determining incentives for managers. Since the monopolies are to be given full management autonomy and automaticity in setting tariffs for public services there will need to be independent mechanisms created to monitor their activities and the quality of service delivered to the consumers. The formulas developed for the automatic setting of monopoly tariffs will ensure that the enterprise can obtain a reasonable return on investment while at the same time ensuring that consumers' interests are protected by the encouragement of efficiency and cost containment.

18. Possible Divestment. An assessment will be completed early in 1991 of the best means of mobilizing private sector resources and skills in the running of the PEs and of generating revenue from the sale or lease of PE assets. The methods selected could vary from outright sale of shares or assets to leasing agreements, management contracts or the contracting out of services. Employee ownership schemes will be used and small investors' savings will be mobilized through the issuing of shares in PEs to the general public through the stock exchange. Other methods such as debt-equity swaps, the creation of investment portfolio funds etc. will also be examined.

19. Measures for Individual PEs. Diagnostic studies will be carried out on the most important PEs and rehabilitation programmes prepared where necessary. In some cases studies have already been completed. The studies will cover in depth all aspects of the PEs' rationale and operations.

20. Social Dimensions of PE Reform. Measures will be prepared and implemented to provide targeted assistance for the population groups particularly vulnerable to the short term effects of price increases and the rationalization of PE structures. These targeted payments will be limited mainly to the poorer maize producers and consumers and to retrenched employees of the PEs concerned.

Timetable

21. To determine precise details of the action programme, studies will be carried out during 1991 in the following areas:

- a comprehensive assessment of the direct and indirect burden of the PEs on national finances and preparation of an action programme to eliminate it by April;

- a review of the legal and institutional framework governing the PEs and Government supervisory structures including mechanisms for setting and monitoring tariffs and price increases by April;

- an assessment of the possibilities for divestment and for greater private sector participation in the management of the PEs by April;

- design of an information system to monitor PE performance by June;

- individual PE diagnostic studies.

The terms of reference for these studies are included in Attachment 4.

22. The timetable for action over the period of the adjustment programme is shown in the attached policy matrix. The main actions to the end of 1991 will be as follows:

Designation of a unit to oversee the PE reform process and manage a PE information and incentive system - done November 1990

Classification of PEs according to type of action required - done December 1990

Completion of studies on PE budgetary burden, legal and institutional framework and possible divestment - April 1991

Preparation of comprehensive action programmes for agricultural marketing and production parastatals, ZISCO, Air Zimbabwe and ZESA - June 1991

Design of PE information system - June 1991

Enactment of legal changes affecting all PEs - during 1991

Implementation of PE information and incentive system - August 1991

Initial programme of closure/merger of PEs with overlapping or redundant functions - June 1991

Initial programme of liquidation of non-viable, non-strategic PEs - June 1991

Elimination of price controls on commercial PEs - end 1991

Inclusion in the 1991/92 budget of the first stage of reduction of transfers to parastatals - July 1991

Preparation of comprehensive action programmes for remainder of PEs - September 1991

23. The programme will continue up to 1994/95 with the progressive reduction of the budgetary burden of the sector, the commercialization of many PEs and some of the activities of the others, the partial or total divestment of some PE or PE activities and the rehabilitation of those PEs to remain in State hands.

Attachments

Attachment 1

HISTORICAL TRENDS IN GOVERNMENT SUBSIDIES AND ADVANCES TO MAJOR PUBLIC ENTERPRISES, 1986/87 - 1990/91 (Z$ million)

	1986/87	1987/88	1988/89	1989/90	1990/91
Agricultural Marketing Boards	166.0	210.0	156.1	160.2	.....
Grain Marketing Board	48.1	123.9	80.0	48.9	.....
Dairy Marketing Board	65.0	43.3	40.0	56.1	.....
Cold Storage Commission	49.5	31.2	11.1	37.5	.....
Cotton Marketing Board	--	11.7	25.0	17.7	.....
Agric. Marketing Authority	3.4	--	--	--	.....
National Railways of Zimbabwe	80.0	100.0	120.0	100.0	255.0
Air Zimbabwe Corporation	45.0	39.9	10.0	15.0	9.0
Affretair	15.0	3.0	--	--	.....
Zimbabwe Steel Corporation	82.0	100.0	167.0	100.0	100.0
Agricultural Finance Corporation	18.4	4.5	15.0	12.5	.....
National Oil Company of Zimbabwe	--	--	--	--	.....
Total	406.4	457.4	468.1	387.7	628.6

Attachment 2

HISTORICAL TRENDS IN PE PROFITS AND LOSSES (-) OF MAJOR PEs, 1985/86 - 1989/90 (Z$ million)

	1985/86	1986/87	1987/88	1988/89	1989/90
Agricultural Marketing Boards	-183.0	-214.8	-193.1	-163.0	-166.7
Grain Marketing Board	(-82.9)	(-86.6)	(-71.7)	(-71.8)	(-59.2)
Dairy Marketing Board	(-55.6)	(-49.3)	(-51.3)	(-52.2)	(-59.8)
Cold Storage Commission	(-33.4)	(-28.9)	(-36.7)	(-18.0)	(-32.5)
Cotton Marketing Board	(-11.1)	(-50.0)	(-33.4)	(-21.0)	(-15.2)
Agric. Marketing Authority	--	--	--	--	--
National Railways of Zimbabwe	-91.7	-126.8	-116.7	-117.6	-216.0
Air Zimbabwe Corporation	-25.1	-23.2	-27.1	-10.1	-4.5
Affretair	-3.3	--	--	--	--
Zimbabwe Steel Corporation	-57.9	-89.4	-87.2	-77.6	-80.0
Agricultural Finance Corporation	-14.6	-17.9	-16.0	--	--
National Oil Company of Zimbabwe	-13.4	119.0	112.2	5.9	-106.9
Total	-389.0	-353.1	-327.9	-362.4	-574.1

Attachment 3

PLANNED REDUCTIONS IN GOVERNMENT SUBSIDIES, AND ADVANCES TO MAJOR PUBLIC ENTERPRISES UP TO 1994/95 (Z$ million)

	90/91	91/92	92/93	93/94	94/95
Reduction of operating losses of budgeted parastatals :	-309.0	-160.0	--	--	--
Marketing boards	-166.7	- 83.4	- 50.0	33.3	--
of which GMB	(-59.2)	(-29.6)	(-17.8)	(-11.8)	(--)
DMB	(-59.8)	(-29.9)	(-17.9)	(-12.0)	(--)
CSC	(-32.5)	(-16.3)	(- 9.8)	(-6.5)	(--)
CMB	(-15.2)	(-7.6)	(- 4.6)	(-3.0)	(--)
NRZ	(-70.0)	(-35.0)	(-21.0)	(-14.0)	(--)
AZ	(- 4.5)	(-2.3)	(- 1.4)	-0.9	(--)
ZISCO	(-100.0)	(-80.0)	(-60.0)	(-40.0)	(-40.0)
TOTAL	-650.2	-360.7	-132.5	-88.2	[1] -40.0

[1] Off-Budget Parastatal (NOCZIM)

Operating loss (after stabilization) on the basis of current prices in 1990/91 = Z$118 million

Attachment 4

TERMS OF REFERENCE FOR STUDIES FOR THE PREPARATION OF THE PE REFORM Programme

1. Study on the Financial Relations between the State and the PE Sector

The aim of this study will be to define and quantify the implicit and explicit financial flows between the State and the Public Enterprises and to prepare a detailed action programme and timetable for reducing significantly the budgetary burden of the PEs. Working with and including staff of the Ministry of Finance, Economic Planning and Development (MFEPD), the study team will compile information over the last five years on the following:

transfers from Government to PEs

- direct subsidies and grants
- direct transfers in the form of Government equity
- direct transfers in the form of loans from Government
- estimates of indirect subsidies in the form of:
    - import duty exemptions
    - other tax exemptions
    - loans from Government at subsidized interest rates
    - Government guarantees on commercial bank loans
    - non-payment for services provided by Government or other PEs e.g. rent on buildings, utilities etc.
    - arrears of payments due to Government or other PEs

transfers from PEs to Government

- taxes and customs duties
- dividends on equity invested
- arrears in payments due from Government or from other PEs to PEs e.g. subsidy payments, late payment for utilities etc.

A detailed timetable for reducing and/or eliminating the implicit and explicit budgetary burden of the PEs will be prepared with quantified target ceilings for each category of transfer with target dates. Care will be taken to ensure the compatibility of the recommendations with macro objectives and targets. The emphasis in the study will be on actions to be taken by Government, in particular the MFEPD. Actions to be taken at enterprise level to ensure viability will be the subject of other studies.

The study will require an estimated two man-months of consulting assistance and should be carried out by staff of the MFEPD and consultants with experience in financial analysis, in particular with Government and public enterprise accounts. Local consultants should be available for this task. The timetable for the reduction of the budgetary burden should be prepared by the MFEPD.

2. Study of the Legal and Institutional Framework for the PEs

This study will review the legal and institutional environment affecting PE operations, identify the legal and institutional constraints to PE effectiveness, autonomy and accountability and draw up an action programme to be implemented as part of the general PE reform programme. The degree of autonomy given to PEs in the following areas will be examined:

- price setting
- recruitment and retrenchment of labor
- fixing of salaries
- investment and borrowing
- procurement
- day-to-day operational decision making

The enabling Acts of all the parastatals will be examined as would labor and other legislation affecting PEs. The possibility of incorporating parastatals under the Companies Act will also be examined.

The respective roles of central and sector ministries, Boards of Directors and general managers will be examined as will Government supervisory mechanisms and reporting systems. The composition of PE Boards and the rules governing their operations will be assessed as to their effectiveness.

Recommendations will be made and a timetable determined for necessary reforms in the legal and institutional framework to be implemented over the first two years of the adjustment programme with critical actions identified for immediate implementation.

The estimated duration of the study is three man-months and consultants will be qualified corporate lawyers with experience in public enterprise reform in developing countries and in Government supervisory structures and systems.

3. Potential for Possible Participation

This study will examine the full range of options available for PE privatization in its broadest sense. Options to be explored will include, but not be limited to:

- sale of shares

- sale of assets
- leasing
- management contracts
- contracting out of activities

The assessment will take full account of the need to attract foreign investment, know-how and marketing channels while protecting Zimbabwean national interests and harnessing and developing to the fullest extent local entrepreneurial skills. Mechanisms such as the sale of shares to PE employees, management and employee buy-outs, the selling of lands and property to tenants or small farmers and employee stock option plans will be included as will the possibility of the sale of shares in profitable companies to small Zimbabwean investors through the Zimbabwe Stock Exchange. In some cases the breaking of PE monopolies and the allowing of private operators to enter the market will be the best means of privatizing. In others the contracting out of activities by the public utilities such as customer administration and vehicle maintenance, will be appropriate. The consultants will also examine such possibilities as internal and external debt-equity swaps and the creation of portfolio investment funds.

Recommendations in the form of a series of options for each PE will be made and an action programme and timetable prepared.

The study will require an estimated three man-months and the consultants will need to have had up-to-date experience in the design and implementation of PE privatization and liberalization programmes in developed and developing countries, in corporate finance and in the operations of capital markets.

4. Design of an Information System to Monitor PE Performance

In the context of enhanced PE autonomy and accountability consultants will be needed to design and help implement a central information system for the monitoring of PE performance and for the determination of incentives to PE managers. The system will also be used to monitor general progress in the PE reform programme. The location of the system has yet to be determined but the MFEPD appears at present to be the most appropriate agency to manage it. The work of the consultants will be in three phases. Phase one will be the determination of information flow requirements and formats and the conceptual design of the system. The second phase will be the determination of the computer software and hardware requirements. Phase three will be the installation and commissioning of the system and the training of personnel to operate it.

Phase I will be completed by an economist and accountant/financial analyst with experience in the design of information systems for economic reform programmes and enterprise performance. It will require an estimated four man-months. Phases II and III will be carried out by a systems analyst and programmer whose work will overlap with that of the economist and financial analyst and will require a further four man-months. The estimated duration of the work from initiation to full operation of the system is be six months.

5. Assistance in the Preparation of Comprehensive Action Programmes for Individual PEs

The PE reform programme will include actions to be taken at individual PE level. Much diagnostic work has already been done on the individual PEs. Some is up-to-date, much is out of date. The terms of reference for studies to help update work already done and prepare action plans for individual PEs and the qualifications of consultants needed will be determined by the individual Task Forces to be created by Government. In the first year of the programme it is likely that assistance will be needed for the agricultural marketing and production parastatals, ZISCO, ZESA and Air Zimbabwe. An estimated 18-24 man-months of consultant time in total will be required.

TECHNICAL NOTE: MONETARY POLICY AND FINANCIAL SECTOR REFORM

1. Reform of monetary policy instruments and the financial sector has a key role in containing inflationary pressures and mobilizing saving as an integral part of Zimbabwe's structural adjustment program. There has been of late acceleration in, the rate of inflation - from annual average rate of about 12% in December 1989 to approximately 16% in July 1990, and it may increase further in the next couple of years.

2. Factors fuelling inflationary pressures include wage increases both in the private and public sectors, the steadily depreciating Zimbabwean dollar, unfreezing of price controls, marked growth in private sector credit of almost 20% between January and September 1990 and expansion in money supply. Looking ahead, both the rate of credit expansion in the wake of liberalization of the economy and monetary expansion may increase even further. Consequently, it will be imperative to control inflation because it would hamper the progress of economic reform and would also have adverse distributional consequences for vulnerable groups within society, such as the fixed income earners.

3. Along with the need to control inflation, there will be new urgency to raise the saving rate. The savings rate has fallen in recent years and in the absence of counterbalancing changes is likely to continue a declining trend as trade and foreign exchange controls are relaxed. While the public sector has been dissaving, the private sector has maintained a relatively high level of savings, largely as a result of supply constraints, particularly relating to availability of foreign exchange. Furthermore, as the fiscal deficit is reduced, channels through which available savings can be effectively mobilized and allocated to productive investment will have to be reinforced. Such reform of the financial system and the monetary policy instruments will set a stage for introduction of market oriented policies which would help achieve the growth objective of the adjustment program.

4. Until recently, the monetary policy of the Reserve Bank although primarily directed at controlling inflation has tended to accommodate changes in the real economy and the government's financing needs. Amongst the factors affecting money supply changes, two important ones, the net foreign assets and credit to the government have been outside the effective control of the Reserve Bank. However, the Reserve Bank has encouraged government to reduce its recourse to inflationary bank financing and to rely more on nonbank financing. The private credit has often been a residual not necessarily responding to the requirements of productive enterprises in the private sector but it has been largely influenced by foreign exchange allocations. The Reserve Bank exercised discretionary control, in some cases, in the allocation of private credit according to a certain priority ordering so that the productive sectors of the economy would grow rapidly.

5. Monetary and credit control is currently maintained through administered interest rates, moral suasion, reserve requirements, liquid assets ratio and the purchase and sale of Bank bills.

6. Until the end of 1989, the Reserve Bank fixed the minimum lending rates and maximum deposit rates for banks and finance houses. Thus, the level and structure of interest rates has remained almost unchanged while inflation rose during the last few years, resulting in negative real interest rates. Normally, this could not have been conducive to the rapid growth of financial savings needed for financing private sector investment or public sector deficits. However, in the presence of supply constraints prevailing in the economy, financial savings in the private sector were not particularly hampered by the negative real interest rates.

7. Moral suasion was employed mainly to direct credit flows to the productive sectors rather than to the consumer sectors and in some cases to set quantitative targets for specified sectors. Liquid assets ratio, though intended to be used to control credit, has been more an allocative mechanism to channel credit to the government, some parastatals and private sector enterprises. Changes in reserve requirements, which could have been effectively used for regulating money and credit was rarely resorted to.

8. On the whole, if the monetary policy had been less active than desired, it was because the inflation fueling factors such as growth of credit demand of the private sector, wage and price increases were regulated by the foreign exchange allocation mechanism and by prices and incomes policy.

<u>Recent Initiation of flexible interest rate policy</u>

9. From October 1989, the Reserve Bank introduced a new system of administered interest rate policy by substituting a base lending rate (BLR) for the earlier minimum overdraft rate, and fixing maximum lending rates for various sectors by stipulating a certain margin over the BLR. The margin is lower for the productive sector than for other sectors. The BLR, essentially an indicative rate, is based on certain assessment of cost of funds in the market, rate of return on investment, and the prevailing monetary policy stance. In August 1990, BLR for banks was raised with specified add-on maximum margin for productive and export sectors as before, while prescribing only a minimum lending rate of 17% for consumption borrowing. For finance houses, the BLR prescribed was 14.5%. The mortgage rates for non-owner houses was raised to 18.25%, from 14.75%, with down payment raised to 40%, from 30%. Besides, the Reserve Bank stipulated minimum rates on demand deposits and saving deposits for the first time. The adjustment in rates covered all financial institutions in varying degree and to be consistent with this, the Reserve Bank raised the discount rate to 9%, so that banks should trade the discountable paper at a going rate in the secondary market rather than to discount it at a lower rate from the Reserve Bank. At the same time, the authorities continued their earlier policy of not fixing the rates on fixed deposits of commercial and merchant banks except for the rates on fixed deposits of building societies and the Post Office Savings Banks. The August measures marked a departure from the earlier practice in one important respect, though the mode of determining interest rate levels remained basically the same as before. Rates on saving and demand deposits, being the minimum, could move up to any level, depending upon the choice of the depositors and the financial institutions. Thus, the interest rate policy moved towards market determined interest rates. Yet as it turned out, interest rates on bank deposits of all kinds as well as other freely determined interest rates

such as rates on call deposits, negotiable CD's, treasury bills etc, could vary only to a limited extent and generally hovered around a narrow band, despite the acceleration in inflation rate. The main reason for this was the maximum limit imposed on banks' lending rate, so that the resulting spread between lending and deposit rates could vary only in a narrow margin.

10. Thus, though the recent shift in interest rate policy is welcome in initiating some degree of adaptability in the level and structure of the market interest rates, to changes in monetary and real economy, it could be considered only a first step towards a total elimination of the administrative element in interest rate determination. For all the recent changes, the interest rates continue to be either negative in real terms or uncompetitive with foreign interest rates after allowing for the expected depreciation of the exchange rate. When inflation dangers are real, the savers would divert their savings to goods or foreign assets through illegal channels away from the domestic financial assets on which the rate of return obtained is not commensurate with return on goods and thus deprive domestic producing sectors of much needed financial resources. If the level of interest rates is lower than the market would indicate, it would lead to misallocation of resources and result in socially wasteful expenditure, thereby slowing the growth of the economy. Furthermore, in an environment of progressively deregulating economy, where the market signals will tend to guide the allocation of resources, the financial system cannot remain saddled with administrative decision making procedures because it has to mobilize resources to finance new investment in the private sector and it has to allocate them on the basis of profitability of projects. It is recognized that a control of reserve money or monetary aggregates as an objective of monetary policy is more effective and efficient, if the indirect and market oriented instruments are employed. The only two monetary policy instruments capable of regulating money stock are the reserve requirements and open market operations. However the first is cumbersome for managing short term variations in liquidity, while open market operations have limited scope under the current conditions, in view of administered interest rates not only on the liabilities and assets of financial institutions but on other financial assets like the treasury bills and long term government bonds. The indirect monetary policy instruments have certain advantages as a mechanism to control liquidity in the economy more effectively and through it the market interest rates.

Preconditions for Reforms

11. Far reaching and enduring financial sector and policy reform is predicated on firm control of the fiscal deficit, currently constituting roughly 10.6% of GDP. Though it is largely financed by domestic non-bank and foreign sources, it relies also on support from the domestic banking system. If the fiscal deficit is not reduced, the pace of financial liberalization of which interest rate deregulation is an important component, will have to be slower as the resulting higher market-determined interest rates will have an adverse impact on the budgetary position of the government. This calls for a synchronization of the financial liberalization policy with the reduction in the fiscal deficit. Thus the financial liberalization, whether in regard to monetary policy instruments or the institutional structure of the financial system has to be gradual, increasing its speed when the fiscal deficit is drastically pared down.

12. It is also necessary that the financial sector should be operating competitively eliminating opportunities for collusion amongst banks, so liberalized interest rates would be determined freely by market forces.

Phasing of Reform
First Phase 1991 - 93

13. A reform can begin in the initial stages of the program, ie 1991, with setting up an anchor interest rate which can be taken by the economic agents as indicative of market conditions. At present a BLR serves this purpose to a certain extent. If the BLR level is also determined by reference to the relevant foreign interest rate (say LIBOR in the UK or whichever), after adjusting it for expected depreciation of the exchange rate, in addition to the existing criteria adopted by the authorities, with varying weights attached to each component and involving some judgmental discretion, it would broadly approximate the level that might be reached in a freely operating financial market. It would be the indicative lending rate charged by all financial institutions for productive enterprises without any add-on maximum limit as currently prevails.

14. As maximum lending rates are abandoned, there will be no need to modify the existing method of prescribing minimum rates on deposits of banks and other financial institutions. With the lending rate without a maximum limit and a freedom for minimum deposit rates to rise in response to market conditions, the resulting spread between lending and deposit rates will reflect intermediation costs consistent with normal profitability of banks' operations. The BLR will be abandoned by the end of 1993.

15. During this first phase, the present policy of administering, directly or indirectly, or through formal or informal arrangement the treasury bill rate and government bond rates should be continued until the fiscal deficit reaches a reduced level targeted in the program. Otherwise, the higher interest cost that would follow the deregulation of these rates would hinder fiscal deficit reduction to a desired level, and this may stall the progress of financial liberalization.

16. Since inflationary pressures could increase with expansion of private credit demand, the Reserve Bank will have to manage monetary and credit aggregates carefully as the economy is liberalized, so inflation is contained. To this end it will continue to rely on the discount rate adjustment, to prevent easy access to its credit and on cash reserve requirements in addition to the use of Treasury and Reserve Bank bills to control liquidity. This will mean adjusting the discount rate upward to a level which will not provide an incentive for discount houses to make profit on rediscounts. In order to be more effective, the Reserve Bank will redesign its reserve requirement technique which currently specifies different ratios in respect of time, demand and saving deposits. These requirements will be unified as is done in a large number of countries, so that banks will not be able to evade the impact of reserve requirements with a shift in the composition of their deposits. At the same time, the Reserve Bank could phase out Reserve Bank bills which are currently used to absorb the banks' excess liquidity. This technique is basically analogous to differentiated reserve requirements in its impact and modus operandi.

17. The Reserve Bank will discontinue the non-cash liquid assets ratio as a monetary policy instrument, which is, in any case, not a credit control instrument. This ratio will be reduced immediately in 1991 to a level desired essential for prudential purposes. While doing this, the Reserve Bank will redefine liquid assets, to include only treasury bills, government stock and government guaranteed parastatal paper.

18. During this phase when interest rates are likely to be higher because of partial deregulation, and aggravation of inflationary pressures, several ongoing enterprises which earlier could operate profitably at lower interest rates are likely to change their line of activity or close. Non-performing loans of the financial institutions will rise. The supervisory machinery and prudential controls will be strengthened to monitor closely the liberalized and competitive financial system. The authorities will be cautious in regard to entry of new banks, until such time that they put in place a new modernized banking legislation, which will accommodate new demands of the financial system, lay a legal foundation for emergence of new financial instruments and services and set effective prudential norms for banks and other financial institutions. The legislation will also aim at eliminating compartmentalized functioning of financial institutions so that they can then freely compete in the market for mobilization of savings and profitable investment opportunities.

19. During 1991, the government will set up a Security Exchange Commission to monitor the functioning of the stock exchange. This regulatory mechanism will prevent malpractice like inside trading, cornering of shares etc. to regulate new issues in a systematic fashion and to build investor's confidence. The government's role will be confined to regulatory aspects, leaving the conduct of trading activity to the privately managed board. As it is, the stock exchange is quite active with 57 public companies trading their stocks. The turnover in volume and value terms has steadily increased since 1975. With the liberalization of interest rates, new financial assets, diverse and with different maturities will necessitate a strong secondary market.

Second phase 1994 - 1995

20. During the second phase ie the last two years of the program period, once the fiscal deficit is reduced substantially, further liberalization measures will be taken to switch completely to indirect methods of operating monetary policy and to abandon restrictions on entry of new banking units in the country except those required for conducting sound business e.g. minimum capital requirements. Government stock will be taken out of the corset of administered interest rates. Once government bonds compete with other financial assets issued by the private sector, financial sector and parastatals, they will be widely held by nonbank/public. The Reserve Bank can then conduct open market operations in treasury bills, government bonds and even parastatal papers,for money market intervention and thus be in a better position, to control market interest rates.

21. The restrictive provisions in the insurance and pension acts prescribing minimum holding of government stock and other paper will be relaxed. The level of holding of government paper by the insurance companies and pensions funds will be at a level necessary for prudential purposes rather than be driven by government's finance needs. The

government will also strengthen the machinery supervising the operation of these institutions.

22. As experience is gained with increased domestic competition among banks and other financial institutions, and a bank supervisory machinery is in place, an open door policy will be adopted as regards entry of new banks. During this phase also, many enterprises in the private sector and the newly restructured parastatals will be provided with incentives to issue their own paper - short, medium and long to borrow funds or raise equity, thus proyiding channels through which resources of nonbanks which formerly used to be absorbed by government could be redirected to the private sector investment.

TECHNICAL NOTE: ASSESSING AND ADDRESSING THE SOCIAL DIMENSIONS OF ADJUSTMENT

Introduction

1. The basic purpose and rationale of structural adjustment is to promote growth and improve social welfare, but to be fully effective the design of specific programmes needs to be deliberately focussed on making the adjustment process work in favor of the poor and vulnerable members of society. It has also increasingly been realized that there may be transitional social costs involved in the process of structural adjustment, and that corresponding compensatory mechanisms and programmes may be required to parallel the economic reform measures.

2. Concern about the social aspects of the proposed adjustment programme has already been highlighted by the Government. For example, in his Economic Policy Statement of July 1990, the Senior Minister of Finance, Economic Planning and Development said the following:

> "Structural adjustment programmes are usually accompanied by social problems, especially to the vulnerable segments of the society such as the poor, and unemployed. With market forces determining price levels, in the short term prices are bound to increase beyond the reach of the poor and this can lead to social unrest. Government will therefore take measures to cushion the poor against such possible adjustment effects. It is important that measures to reduce unemployment are introduced and that small investors are given incentives to expand and take on new employees. There will be need to examine and promote the activities of the informal sector which equally has a potential of creating employment.... There is need for targeted subsidies to be introduced to alleviate the hardships affecting the vulnerable groups."

3. Following this clear policy statement, the Government has begun to ensure that the detailed plans of action for the implementation of the structural adjustment programme are designed to follow the policy goals. To do this it has been necessary to (i) specify clearly the mechanisms and ways through which poor and vulnerable groups may be adversely affected; (ii) build-up socio-economic profiles of the vulnerable groups in Zimbabwe which may be affected; (iii) relate the specific proposed adjustment measures to each of these vulnerable groups in order to assess as accurately as possible how and to what extent they may be expected to be adversely affected; (iv) prepare compensatory programmes and policy measures to counteract any potentially adverse effects; and (v) design a system of monitoring and evaluation to assess the socio-economic impact of the adjustment measures, and where appropriate to stimulate mid-course changes to be made in the programme. This note highlights the work done so far.

I. Potential Ways in which Vulnerable Groups may be Adversely Affected.

4. It is essential to stress that the overall impact of the adjustment programme will be to improve social welfare. Net employment effects will be positive, and over the long-term, disadvantaged groups will have greater opportunities to improve income levels and welfare. Of

particular importance for the poor will be the measures taken to deregulate the economy and to allow for the expansion of the small-scale and informal sectors. However, there will undoubtedly be some transitional social costs in selected areas, and compensatory actions are being designed for implementation to ensure that the poor and vulnerable groups do not suffer during the adjustment process.

5. Several different taxonomies could be used for assessing the potential negative effects of structural adjustment measures on the poor and vulnerable. Here the effects are considered under three headings: (i) employment and unemployment; (ii) inflation and removal of subsidies; and (iii) social services and increased cost recovery. For the first of these, while employment growth is a central objective of any adjustment programme, it must be recognized that unemployment also may be generated in some areas in the short-term. This may be in the formal business sector (to the extent that industry is inefficient and cannot adjust to increased competition), in the small-scale or informal sector (to the extent that increased efficiency in the formal sector displaces or discourages some previous small-scale or informal sector activities), in the public sector (to the extent that civil service retrenchment is considered necessary), and in the parastatal sector (to the extent that restructuring induces worker lay-offs).

6. Secondly, the introduction of a structural adjustment programme is often accompanied by increased inflation (especially if fiscal deficits are not tackled aggressively). With exchange rate depreciation and the lifting of price controls, there may be a (short-run) increase in inflation -- though greater competition in production may also have a counteracting, opposite effect. In at least the medium-term, of course, one of the positive effects of a structural adjustment programme should be to reduce the rate of inflation. Besides changes in the overall level of prices, however, particular attention needs to be given to changes in relative prices -- and, in this context, of highest social concern is the crucial issue of the relative prices of the most essential items of consumption. An associated issue is the level of producer prices paid for items produced especially by poor farmers.

7. Thirdly, there is the question of whether the need to reduce public expenditures leads to reduced budgetary allocations to the social sectors, whether any such reductions translate into cut-backs in those basic services particularly used by the poor, and whether and how user charges for such services are introduced or increased for revenue reasons. Each of these mechanisms needs to be examined in order to assess the potential negative impact of an adjustment programme on the poor and vulnerable. Before that can be done, however, it is necessary to understand who are the poor and vulnerable people, and the nature of their socio-economic profiles.

II. Socio-Economic Profiles of the Poor and Vulnerable in Zimbabwe.

Introduction

8. In reviewing the socio-economic profile of the country, emphasis is placed on those groups who are dominant in the population, and who are least able to protect themselves from potential adverse effects of the structural adjustment programme. The identification of these specific segments of the population, their income and expenditure patterns, and the

factors which contribute to their poverty, is necessary for the design of policy changes which are least likely to impact negatively on these vulnerable groups. With specific socio-economic profiles in hand, the task of targeting any necessary compensatory adjustment measures to cushion the adverse effects of adjustment is simplified.

9. The following table presents a general breakdown of the various groups to be discussed, based on the results of the Central Statistical Office's Household Incomes, Consumption and Expenditure Survey of 1985:

Socio-economic Characteristics by Household Type, 1985

Characteristics	Communal Lands	Commercial Farms	Resettlement Areas	Small-Scale Farms	Urban & Semi-Urban
Population	48%	15%	2%	2%	33%
Family Size	6.2	5.0	5.0	4.9	4.1
Average Monthly Income (Z$ 1985)	70	72	92	119	72
Transfers in Income	43%	11%	89%	5%	7%
Expenditures:					
Food	39%	43%	33%	27%	31%
Rent, fuel	2%	2%	3%	4%	17%
Transport	5%	5%	12%	13%	6%
Other	53%	50%	52%	46%	39%

10. Rural groups, either in the communal areas or employed on large-scale farms, comprise the bulk of the population and on average receive exceedingly low household incomes. A poverty datum line (PDL) was established by the Riddell Commission in 1981 to indicate the minimum income level needed to meet the basic food, clothing and shelter needs of a family of six. In 1985, as a result of inflation, this would have been equivalent to approximately $210; and in December, 1989, the equivalent amount would have been $356 per month. Given that the expenditure weights for this measure have not been changed since 1981 and that there is no distinction made in the PDL between urban and rural areas, the PDL should only be taken as a rough indicator of a poverty cut-off point rather than as precise measurement. Given these problems with the PDL and in the absence of income distribution data, an estimate of the percentage of the population residing in poverty is unavailable. Anecdotal evidence suggests that almost two-thirds of the population within the rural areas were, and still are, residing in severe poverty. While average household incomes in urban and semi-urban areas were above the poverty line in 1985, there was, and still is, a considerable range of incomes, with a significant share of urban dwellers also counted among the poor. Due to their greater ties to the market economy and larger reliance on cash-based consumption patterns, the vulnerable groups in the urban areas may even be impacted by the structural adjustment programme more quickly than rural groups.

A. Urban Areas

11. Urban areas are home to more than one-quarter of the population of Zimbabwe. Rates of urbanization have increased tremendously since independence, although rural-urban migration is still limited by strict zoning laws and housing regulations. In 1989, over 2.5 million people were living in urban and semi-urban areas, with an estimated average of 4.5 people per household. Harare and Bulawayo dominate the urban profile, comprising more than 60 percent of the total urban population. Using the weights from the 1982 census and current population estimates, low

estimates of the size of Harare and Bulawayo would be 1,130,000 and 850,000 people respectively.

12. Urban low-income households can be divided by the type of employment of the head of the household in order to facilitate an examination of the impact of specific policy changes on different groups. Thus, it is useful to examine the characteristics of formal sector workers (broken down into skilled and semi-skilled, and unskilled workers), and small-scale and informal sector workers separately. Approximately 800,000 people are employed in the formal sector, half at the skilled and semi-skilled level and half at the unskilled level. Approximately 100,000-200,000 people are employed in the small-scale or informal sector. A rough, but low estimate of unemployment in the urban areas is 300,000-400,000 people.

(i) Urban Formal Sector: Skilled and Semi-Skilled Workers

13. Skilled and semi-skilled workers make up roughly one-half of the workers employed in the urban formal sector, or approximately 400,000 employees. They are most heavily represented in the following sectors: public administration, health, education, finance sector, and wholesale and retail trade. Average earnings in these industries are significantly higher than in agriculture, construction or domestic service. The per capita income level of this group is considerably higher than the country's average of Z$1,400 per annum.

(ii) Urban Formal Sector: Unskilled/Domestic Workers

14. The other half of the labor force employed in the urban formal sector is made up of unskilled employees, numbering approximately 400,000 people. Over the course of the past decade, unskilled workers have suffered a decline in real earnings, which has probably placed a growing proportion of them and their families below the PDL. Average earnings for construction workers and private domestics fell well below the PDL cut-off point, with construction workers in December, 1989 averaging $90 per month and private domestics averaging about $80. However, where families have more than one income earner, the chances of being above the PDL are improved. Unfortunately, data on family employment is unavailable, and thus it is impossible to provide a clear picture of the number of households now below the PDL.

15. While average earnings in manufacturing and mining are well above the PDL, it can be assumed that the unskilled workers in these industries are earning substantially less than the industry-wide averages. In 1988, for example, 40 percent of employees (excluding agricultural workers) were earning less than $250 per month, which was below the PDL estimated for that year. In other words, despite substantial increases in average wages in manufacturing and mining , those for unskilled workers have generally failed to keep pace with inflation and the poverty line.

16. The expenditure pattern of low-income workers differs substantially from the general pattern for urban areas as a whole. A worker earning the minimum wage in manufacturing in 1988 spent more than half (55 percent) of his total expenditures on foodstuffs, and nearly one-fifth (18 percent) on rent, fuel, and lighting. The increased importance

of food and shelter in total expenditures reflects the relative and absolute poverty of this group of urban low-income households.

(iii) Urban Informal and Small-Scale Sector

17. The 1986/87 Labor Force Survey indicate that workers in the informal sector accounted for only 7.7 percent of the employed population. This figure was probably an underestimate due to the likely unwillingness of survey respondents to admit that they were unregistered workers. As a rough estimate, it appears that employees in this sector in urban areas numbered between 100,000 and 200,000 in 1989. A nationwide survey of the informal sector was carried out in 1984, and the average monthly income was then found to be about $260 (substantially higher than the minimum wage in unskilled occupations) in a number of different informal sector activities. While the average monthly income of informal and small-scale sector workers may be somewhat higher than the average of unskilled workers, there is probably a wide range of incomes within this sector with a large number of people earning substantially less than the PDL.

18. Women dominate in the informal sector comprising 64 percent of total workers, as opposed to 25 percent in the formal sector. Most (54 percent) of women surveyed in Harare in 1984 stated that they started informal sector businesses because they could not find other employment. Women are more likely to engage in home-based informal activities, such as handicraft or textile production, due to the demands of child-care. As in the formal sector, earnings for women in the informal sector fall below male earnings.

(iv) Unemployment

19. The current official estimate for unemployment is 26 percent of the labor force, but other estimates have ranged as high as 37 percent. The unemployed are predominantly young (in 1986/87 57 percent were under 25 years old), and educated (more than 75 percent had then completed primary school and slightly more than one-third were form IV leavers). While the gender distribution among the unemployed is roughly equal, women dominate in the 25-59 age bracket, representing nearly two-thirds of this group.

20. A frightening trend, closely linked to the prevalence of unemployment, is the growth of child labor, particularly in urban areas. Unfortunately, there are no data available on the scale of the problem, although for any urban resident it is becoming increasingly visible. A recent survey done of street children in Harare provides some limited information on the socio-economic situation of street children. More than half of the children responded that they were on the streets because of poverty or destitution. Most children used their money to buy food (33 percent), clothing (33 percent), or to pay for school fees (16 percent).

B. Rural Areas

21. The agricultural sector in Zimbabwe consists of four main groups: communal areas, large-scale commercial farms, resettlement areas, and small-scale commercial farms. Rural residents comprise three-quarters of the population of Zimbabwe, or about 7 million people. Households in communal areas and employees of large-scale commercial farms are the most

vulnerable groups within the rural areas. The small-holder farming system established in the communal areas involves about one-half of the population of Zimbabwe, or about two-thirds of the total rural population. Approximately 300,000 people work on large-scale commercial farms. While great strides have been made by the Government particularly in the areas of health and education, the quality of social services in rural areas is still substantially lower than those available in the urban areas.

(i) Communal Areas

22. Average incomes in the communal areas are the lowest in Zimbabwe. In 1985, households in communal areas on average earned less than one-quarter the amount earned by their urban counterparts, placing a significant proportion of households in the communal areas substantially below the PDL. Female-headed households are common in these areas, as survival strategies lead to split families and male emigration to mines, towns or commercial farms. Only 39 percent of communal farmers are men, and of this group nearly 75 percent are either under 25 or over 46 years old.

23. In aggregate terms, smallholder production in the communal areas has increased impressively since 1980. Marketed maize and cotton originating from this sector grew from 10 percent to more than 50 percent of total marketed output over the course of the decade. However, inequality of asset and income distribution within communal areas remains significant and in fact has probably increased. Maize production is concentrated in natural region 2, comprising 11 percent of the designated communal areas. And, even within these privileged areas, the top 20 percent of producers account for nearly two-thirds of total maize sales. A study of the Mutoko Communal Lands found that just over 50 percent of the income went to the richest 20 percent of the households, while the bottom 20 percent received only 3 percent of the area's total income. Many inputs are directed to the better-off communal farmers, leaving a continuing problem of food insecurity in those households with limited or no assets. Because of the need to encourage efficiency of farm production, a shift occurred in the resettlement programme in the mid-1980s away from the resettling of the poorest landless towards encouraging the "master farmers" to enter the programme. As these tend to be well off compared with other communal area farmers, there is a tendency for increased inequity.

24. Increasing unemployment and poverty in the urban areas has worsened the situation in the communal areas, as the regions are linked through flows of labor and capital. Three-quarters of the increase in the labor force between 1982 and 1987 had to be absorbed by the already saturated communal agriculture. Remittances from family members employed in the formal sector provide a further link with the urban economies: in 1985, gifts and transfers made up more than 40 percent of total household incomes in the communal areas.

(ii) Employees on Large-Scale Commercial Farms

25. Approximately 1.4 million people live on large-scale commercial farms. As of 1989, the minimum wage in this sector was $116 per month, but for agriculture as a whole average earnings were $91 per month. This discrepancy is most likely explained by the large number (90,000 in 1984) of casual and seasonal laborers employed at low wages in commercial

agriculture. Of this group, over 60 percent are women. While household income levels may be underestimated due to the fact that some commercial farm laborers may also be members of communal area households, it remains clear that workers on large-scale commercial farms are among the poorest of the poor in Zimbabwe.

C. The Socio-Economic Situation of Women

26. Women outnumber men in some of the poorest and most vulnerable sectors of the economy: agriculture, the informal sector, private domestics within the formal sector, and the unemployed. Women accounted for 53 percent of the urban unemployed in 1986/87, and most unemployed women are older than their male counterparts.

27. Agriculture in Zimbabwe is largely a female enterprise. Most (86 percent) women in Zimbabwe live in rural areas, and it has been estimated that they are responsible for 70 percent of total agricultural labor. Female-headship is prevalent in over 40 percent of households in communal areas, as there is substantial male migration to commercial farms, mines and towns, given the need for families to supplement extremely low income levels. In addition to providing the bulk of the labor on the family plot, women supplement farm income with non-farm income. They provide more than 60 percent of casual labor within agriculture and the bulk of the labor in the rural non-farm informal sector. Women are largely responsible for food crop production and labor-intensive tasks on other crops, as well as fuel collection, child-care and other domestic tasks. Despite their central importance in agricultural production, however, women continue to have limited access to land or other agricultural assets. Traditional communal property rights and inheritance systems based on patrilineal kinship ties severely restrict women's abilities to capture productive resources.

III. Potential Negative Effects of the Structural Adjustment Programme.

28. There is no doubt that the structural adjustment programme is needed and should be implemented by the Government. At the same time, however, there are several ways in which the programme could have negative effects on poor and vulnerable groups in Zimbabwe. These potential effects are discussed below.

A. Employment and Unemployment

Introduction

29. The end result of the adjustment programme will be an increase in the employment generating capacity of both the formal and informal sectors. As far as the former is concerned, it is expected that the economic adjustment programme will generally have positive effects. The increased utilization of current capacity as well as increases in investment will create new jobs over the length of the five year adjustment period. Currently, industry is operating at between 40 percent and 70 percent of existing capacity. It is expected that this figure will increase to 85 percent to 90 percent over the course of the adjustment programme. Increased levels of investment in manufacturing are expected to generate

employment growth at one-half the projected 6 percent rate of growth of output, or approximately 3 percent per year. Thus, formal sector employment in manufacturing as a result of new investment could grow by approximately 5,000-10,000 additional jobs per year, or perhaps up to 50,000 jobs over the five year period. Skills shortages have already been felt by employers, and the demand for skilled workers is expected to increase with the implementation of the new economic reform package. The new manufacturing jobs created would be in addition to the existing trend rate of growth of non-manufacturing employment, and do not take into account the replacement needs of the formal sector due to normal retirements and attrition. While the structural adjustment programme will not solve the current unemployment problem, therefore, it will aid in reducing it. In the absence of structural adjustment, furthermore, open unemployment would certainly increase.

30. Prospects for employment creation in the informal/small-scale sector are also good, though they will be contingent upon the pace of deregulation under the structural adjustment programme and the willingness of the Government to continue and strengthen its support of'these sectors. Under an optimistic scenario which includes the relaxation of Governmental regulations (such as the zoning regulations, rules governing the licensing of small businesses, and the stipulation of what entails a factory), employment growth in these sectors could average 25,000-35,000 workers per year. Possible bottlenecks to growth in these sectors include the difficulty of raising start-up costs due to increased inflation, lack of credit, and the resistance of local governments towards deregulation. In general, it is not believed that any increase in efficiency in the formal sector will lead to retrenchment or new unemployment in the existing small-scale or informal sectors in Zimbabwe.

(i) Retrenchment in the Formal Sector

31. However, there may also be some negative effects on employment in the short-term. While it is difficult to furnish a precise estimate of the unemployment effects of the structural adjustment programme, it is possible to schematize them and provide some rough ideas as to their size. The potential, short-term negative employment effects can be broken down into three categories: (i) retrenchment in the formal sector; (ii) retrenchment in the civil service; and (iii) retrenchment in the parastatals.

32. In the formal sector some job retrenchment in inefficient and uncompetitive firms will undoubtedly occur, its extent depending on the pace of liberalization and the streamlining of labor regulations. On the one hand, the faster the pace of the adjustment measures, the greater the likely extent of retrenchment and short-term frictional unemployment. For example, if 10 percent of manufacturing were to close down due to inability to compete, roughly 20,000 workers could have to be retrenched. On the other hand, the faster and more effective the adjustment programme, the more new jobs will be created and the more the social costs of unemployment will be minimized.

33. Whatever the pace of adjustment, however, it is clear that there will be some retrenched workers requiring compensation--and that some proportion of them will also seek retraining. The Ministry of Labour, Manpower Planning and Social Welfare is drafting guidelines on compensation and assistance to be provided by employers to retrenched workers; and although it will be important for any retrenched workers to be compensated

and assisted as much as possible, the guidelines will seek to balance this objective with the need to avoid any measures which would unduly discourage employers from hiring new workers. Regarding retraining programmes, the Government's strategy is to strengthen the existing public sector vocational and technical training colleges, and also to review and possibly improve the fiscal incentives provided to employers to conduct training themselves.

34. In conclusion, the social costs of adjustment in the form of retrenched formal sector workers could perhaps be about 20,000 workers joining an already large and growing pool of unemployed. These workers are likely to be relatively unskilled and older, and probably more than half will be female. The impact on the welfare and income levels of this group will depend upon the extent of retrenchment packages offered by employers, as well as on private and public programmes for retraining.

(ii) Retrenchment in the Public Sector.

35. Government currently employs approximately 189,000 workers. The Government has indicated that 25 percent of the civil service (excluding the education sector) would be considered for retrenchment. This strategy would suggest that the number of non-education civil servants would drop from about 104,000 to about 78,000 by the year 1994/95. In other words, about 26,000 workers would need to leave the civil service over the next four years. However, with a natural rate of attrition of about 3,000-4,000 civil servants annually, the need to find ways to accelerate attrition would be less. Specifically, the impact will be reduced to the extent that retirees are not replaced, or to the extent that they are replaced through redeployment within the civil service. However, over this period the Government may still have to find ways of reducing the size of the non-education civil service by up to about 10,000 workers who would not otherwise have left the service. This could be done either through improved incentives for civil servants to leave voluntarily, or through compulsory retrenchment (with appropriate compensation). Counting teachers, whose total number is projected to increase from 85,000 to 92,000, the overall size of the entire civil service would only decline somewhat to 170,000.

36. The Government's present strategy is to identify those areas of the civil service which are non-essential, inefficient and/or duplicate other areas. Non-essential posts will be frozen as soon as they fall vacant, and other vacant posts will be filled wherever possible from within the civil service. Consideration will also be given to compulsory redundancies in some areas in order to achieve the fiscal and manpower targets. For example, there are 3,000-4,000 casual laborers whose work-load is seasonal and who could be removed from the permanent establishment and contracted on a seasonal basis. Although this approach would contribute to the necessary budgetary savings and would improve the efficiency of the public sector, any compulsory retrenchment of civil servants would require additional costs. Provisions already exist for civil servants whose posts are abolished to be compensated through commuted pensions. Officials are also currently discussing possible incentive schemes to encourage the early voluntary retirement of public employees.

37. The social dimensions of any reduction in the size of the civil service would depend on the details of its implementation. For example, retrenchment could affect some people in the lowest strata of the civil

service, including the casual laborers mentioned above. Given the current wage structure and the fact that the bulk of these employees reside in rural areas, they would be among the most vulnerable to any decline in income level within the civil service. Assuming that casual laborers are currently each earning $300 per month and that they would anyway shift to employment on public works at $100 per month, the Government would only save approximately $20 million or 0.15 percent of GDP by pursuing this policy. While these workers are only one of the groups who may face the prospect of compulsory retrenchment, the Government will need to find ways of carrying out its retrenchment policy while bearing in mind the net (as well as gross) fiscal savings, the administrative and political implications, and the need to make provision for the retrenched workers.

38. Another potential social (and efficiency) issue which arises is the possibility of a general skills reduction within the public service. In particular, incentives given for voluntary retirement tend to be most attractive to higher skilled and enterprising employees with the best potential for advancement in the private sector. Additionally, given the skills shortage expected to accompany growth in the private'sector, the existing tendency for higher qualified civil servants to go to the "greener pastures" of the private sector may be accelerated. Any reduction in the size of the civil service, therefore, needs to take account of the necessity of retaining a competent civil service.

(iii) Retrenchment in Parastatals.

39. It is difficult to evaluate the impact of employment changes generated by the proposed reorganization and streamlining of the parastatal enterprises, in view of the fact that specific plans of action for most parastals are still under preparation. Before the employment effects can be determined, it is necessary to know which parastatals currently are overstaffed, by how much , and whether or not retrenchment is part of the plan of action. However, it is generally believed that overstaffing may not be a major problem for the parastatals, and that significant retrenchment may not be required. The main parastatals where retrenchment is a possibility include the railways and perhaps ZISCO. As a rough indicator, though, it is believed that up to 2,000 parastatal workers would have to be retrenched as a result of parastatal restructuring.

(iv) Overall Effects

40. The long-term prospects for employment generation arising from the structural adjustment programme are good, but there will be some short-term social costs of job retrenchment and some frictional unemployment. Also, despite the overall positive employment effect of the programme, Zimbabwe will continue to face a difficult employment problem in view of the present large and growing number of unemployed. Besides those currently unemployed, and the relatively modest number of workers expected to be retrenched as a result of adjustment (maybe 20,000 formal sector workers, 10,000 civil servants and perhaps 2,000 parastatal workers), there will be about 200,000 new entrants to the labor force each year. Of this group, under a growth scenario, up to 100,000 each year might be able to find employment in the formal sector (from job vacancies arising from normal attrition as well as from any new jobs created), and 25,000-35,000 in the informal sector and in small-scale enterprises. The remaining 60,000 would

still have to find productive activities in the communal areas or simply swell the ranks of the already crowded urban unemployed.

B. The Impact of Inflation and Removal of Subsidies.

Introduction

41. The social costs associated with inflation and subsidy removal can be broken down into three categories. First, there is the effect of an increase in the general price level. This effect will be felt most strongly by those groups who have fixed incomes, lenders and those whose nominal earnings do not keep pace with the pace of inflation. Secondly, there are effects in terms of consumer welfare resulting from changes in relative prices. Here, from a social point of view, the main concern is with possible increases in the prices of basic commodities (and especially maize) resulting from the reduction or removal of consumer subsidies. Finally, there is the issue of the effects of the removal of producer subsidies, particularly for items produced by the rural poor. Again, the main item of interest is the producer price of maize.

Inflation.

42. The Zimbabwean economy has experienced relatively high levels of inflation in recent years (13 percent in 1989), and over the past decade there has been a decline in the index of average real earnings from 100 in 1980 to 89 in 1989. The only industry where average real earnings increased was mining (which rose from 100 to 112). Even in the case of domestic service, where the increase in the Government minimum wage over the period was substantially higher than in any other industry, the index of average real earnings still declined from 100 to 82 over the course of the 1980's.

43. Inflation is projected to continue at the present rate of 16 percent per year during the first two years of the structural adjustment programme, and drop down gradually thereafter. It should be emphasized, therefore, that the social costs of inflation are short-run costs and should diminish as the programme progresses. It should also be reiterated that the problem of inflation is not a result of the structural adjustment programme, but rather one of the problems that the programme is designed to combat. The effect of inflation on the incomes of salaried workers will be contingent upon the rate of nominal wage increases. The Ministry of Labour, Manpower Planning and Social Welfare has revised regulations concerning wage setting, and collective bargaining has already been introduced. Some Governmental intervention will continue in those sectors where collective bargaining is not yet feasible due to the weak organization of workers.

44. It is expected that at least half of wage earners, some 1,200,000 employees (including commercial farm workers), will suffer some wage erosion in the face of inflation. The groups most severely affected may be those with the weakest collective bargaining power-- for example, agricultural laborers and unskilled workers. Average wage increases for civil servants will also be below the rate of inflation, given the Government's determination to pursue fiscal restraint in support of the adjustment programme. However, greater differentiation will also be

introduced in its wage policy by the Government, in order to maintain and even increase the compensation of key workers who have better opportunities in the private sector. It is expected that approximately half of manufacturing workers (or perhaps 100,000 people) will suffer some drop in real earnings, the level contingent on the collective bargaining power of each industry. Ten percent of the workforce in manufacturing, or approximately 20,000 workers, might experience severe wage erosion and drop below the PDL. Unfortunately, given the lack of information on family employment, it is impossible even to estimate the existing number of families below the poverty line, let alone future levels. In contrast, skilled and semi-skilled workers are unlikely to suffer adverse effects from real wage erosion. The combination of increased labor demand and their already strong collective bargaining power should ensure that their real wages keep pace with the rate of inflation.

45. In terms of the social dimensions of the programme, the Government's basic strategy is to reduce the general rate of inflation as part of its demand management measures. However, particular attention will also be focussed on the price of the staple items of consumption, and especially maize.

(iii) <u>Removal of Consumer Subsidies</u>

46. Maize is the most important single item of expenditure by the poorest households. As such, any possible increase in its price as a result of the structural adjustment programme and particularly subsidy reductions is a major issue. In this context, the Government plans to cut the subsidy to the Grain Marketing Board (GMB) from Z$ 59 million in 1990/91 to Z$ 30 million in 1991/92, Z$ 18 million in 1992/93, Z$12 million in 1993/94 and to zero in 1994/95. Currently, the highest consumer prices for maize are already paid in low-income food deficit rural areas, where controls on GMB marketing and distribution, limited development of rural markets and the high cost of transport all lead poor households in these areas to pay as much as twice the urban price of maize and mealie meal in times of food scarcity. The issue is whether the GMB subsidy reductions will make this situation worse, and what can be done about it.

47. Wheat subsidies make up a large portion of the consumer subsidies currently provided by the GMB. Although the consumption of bread has been rising rapidly, the wheat subsidies do not primarily benefit the lowest income groups whose staple food is maize rather than wheat. Similarly for beef and milk, those most likely to be affected by removal of consumer subsidies are the middle and upper income urban residents, and it is possible that the supply response to decontrol in these areas would increase production of these goods and restrain the market price naturally anyway. For these reasons, it is not proposed to focus attention on these other items of food expenditure, nor to moderate the strategy of GMB subsidy reduction in these areas.

48. Until detailed plans of action for deregulation or parastatal rationalization have been completed, there is little definite that can be said about the effects of changes in relative prices of other non-food items on the purchasing power of the lowest income groups. Increases can certainly be expected in the electricity tariffs, in the cost of rail and air transport, and in the price of steel for example. However, the social costs should not be unduly high, especially if specific attempts are made

to cross-subsidize low-income households in urban areas and small-scale or informal businesses.

(iv) Removal of Producer Subsidies

49. As in the case of consumer subsidies, the crop of greatest concern is clearly maize, and the danger is that removal of producer subsidies might severely hurt low-income maize producers. Assessment of the social impact of the removal or reduction of producer subsidies will be based on the specific plan of action for the GMB. Nevertheless, several points should be borne in mind. First, much of the marketed maize is produced by large-scale commercial farmers who are far from being in the vulnerable group. Second, within the communal areas, most of the marketed maize is produced by relatively better-off farmers. While it should not be assumed that these farmers are not poor and vulnerable, they are mainly more prosperous than the majority of communal farmers. Third, the poorest of the rural poor (commercial farm laborers and their families, the poorer farmers in the better communal areas, and the majority of those living in food-deficit areas) are mostly purchasers of maize and maize products. In short, the reduction or even removal of producer subsidies on maize might not entail serious social costs, although a careful analysis of this issue is warranted.

C. Social Services and Increased Cost Recovery.

(i) Introduction

50. Tremendous advances have been made by Zimbabwe in the provision of social services in the first decade of independence. Infant mortality has dropped dramatically, fertility levels have started to fall, and there has been a vast expansion of schooling. While the gains were partly the result of communities' own efforts, the lead in these programmes was taken by the Government. Social sector spending continued to receive high priority, even during difficult economic times and years of drought, and expenditures were directed towards the poor people in remote areas. For the future, however, the Government has decided to reduce its net spending on the social sectors, both through tightening up expenditures and also through increased cost recovery by programme beneficiaries. In this context, the challenge for the social sectors will be to adjust to the new fiscal realities and objectives, while at the same time protecting the impressive social grains made since independence.

(ii) Macro Context

51. Expenditure by the central Government on the social sectors in fiscal year 1990/91 amounts to about Z$ 1,991 million, or about 13.0 percent of GDP. This includes Z$ 1,329 million budgeted for the Ministry of Education and Culture, Z$ 203 million for the Ministry of Higher Education, and Z$ 459 million for the Ministry of Health. In the next few years, both health and education will have some reduction in their share of the budget, although the reduction for health will be smaller than that for education. The main strategy of the Government will be to maintain existing activities, to be highly selective about any new areas or items of

expenditure, and to recover a higher proportion of costs from beneficiaries.

52. At present revenue from social service charges go to the Treasury. The Government will review this policy to consider allowing the individual social sectors to keep such revenue. In a few cases (such as at Parirenyatwa Hospital) this is already the practice. The latter approach has the advantage that it provides the line ministries with incentives to raise charges and improve collection efforts, and also encourages further decentralization of management (in line with the broad policy statement of the Senior Minister of Finance, Economic Planning and Development).

Sectoral Budget Projections: Health and Education, 1990/91 - 1994/95

	1990/91	1991/92	1992/93	1993/94	1994/95
Health Budget					
Nominal terms (Z$m)	460	552	651	756	872
Real terms (Z$m)	460	484	510	538	565
Prop. of GDP (%)	2.77	2.77	2.77	2.77	2.77
Prop. of Gov. Expenditure (%)	5.6	5.9	6.2	6.4	6.5
Education Budget					
Nominal terms (Z$m)	1,532	1,797	2,097	2,408	2,747
Real terms (Z$m)	1,532	1,576	1,642	1,714	1,778
Prop. of GDP (%)	9.97	9.72	9.47	9.24	9.01
Prop. of Gov. Expenditure (%)	18.5	18.0	17.6	17.1	16.7
Memorandum Items					
GDP growth rate (%)	4.3	4.4	4.6	4.8	5.0
GDP deflator	0.16	0.14	0.12	0.10	0.10

(iii) Health Sector

53. Over the first decade of independence, the health budget increased in real terms at an annual rate of 4.7 percent, roughly 50 percent faster than the rate of economic growth. Over the period up to 1994/95, the health budget is projected to grow annually at approximately the same rate, with the share of GDP remaining constant and the proportion of central government expenditure rising slightly. This will enable the Ministry of Health to continue to provide critical services throughout the country, and also to improve the quality of care. Managerial improvements, however, will be needed to ensure efficiency of expenditures. The Ministry of Health will also implement a second family health project, which will be focussed particularly on 16 mainly remote districts of the country. This project will help to ensure that the rural population does not suffer as a consequence of the structural adjustment programme.

54. At present, revenue from cost recovery is about Z$ 15 million (ie. equivalent to about three percent of expenditures) and Z$60 million (equivalent to about 10% of health expenditures or 0.2% of GDP) has been chosen as a target to be achieved by 1994/95. The strategy of the Ministry of Health to achieve this target is to: (i) strengthen efforts to collect fee revenue presently due; and (ii) review and raise upwards hospital fee schedules, at least in line with inflation. The Z$ 150 household income exemption threshold will be maintained in order for poor people to continue to be entitled to free health care. However, more effort will be made to ensure that only those with incomes less than Z$ 150 per month are treated with no charge.

(iv) Education Sector

55. The fiscal adjustment required of the education sector will be considerably greater than that of the health sector. At independence spending on education nearly doubled in one year; and after that, over the first decade of independence, the trend growth rate was 10.3 percent annually. Together the Ministry of Education and Culture and the Ministry of Higher Education receive about Z$1,532 million from the Treasury, equivalent to about 10 percent of GDP or about 18.5 percent of central Government expenditure. At present, the Treasury receives about Z$35 million in tuition and boarding fee revenue from the students in Government schools. Over the period up to FY94/95, however, it is projected that spending by the Government on the education sector will be reduced by about 0.5 percent of GDP--ie to about 8.7 percent of GDP in 1994/95, equivalent to about Z$1,778 million in constant prices. Even so, the proportion of central government spending on education would still increase from 18.5% to 20.7% of the total. The reduction in spending would be accomplished by a reduction in Government support to those schools that at present receive higher than average subsidies per student. In particular, this would include former A, trust and mission secondary schools. In addition, 0.5% of GDP (ie. equivalent to about Z$160 million FY94/95) would be raised through cost recovery, designed to be focussed at the relatively well-endowed schools. The system is being designed in such a way as to be related to ability to pay and a system of exemptions will be introduced for those who cannot pay. Government's assistance will be weighted in favour of the less endowed schools. Scholarship programmes would also be expanded to assist most capable but poor students to attend the best schools.

D. Summary of Social Impact on Structural Adjustment on Vulnerable Groups

56. The following is a summary discussion, by social group, of the issues outlined above. In general, despite the many advantages to be gained through implementation of the structural adjustment programme, there could be negative short-term effects on some vulnerable groups. However, understanding the possible adverse social effects of the policy changes has allowed some fine-tuning of policy change to minimize or eliminate the potentially deleterious effects on vulnerable groups, while additional compensatory measures have also been designed.

(i) Urban Formal Sector: Skilled and Semi-Skilled Workers

57. This group is the least likely to be adversely affected by the structural adjustment programme, but there is the possibility of some frictional unemployment for those workers employed in uncompetitive industries. However, given the current shortage of skilled labor, the expected increase in demand for trained workers, and the already strong collective bargaining power of skilled and semi-skilled employees, it is expected that these workers in general will have no difficulty in achieving nominal wage levels that more than keep pace with inflation. In fact, given the likely relaxation of wage ceilings, the real earnings of many skilled workers are expected to increase substantially.

58. The removal of consumer price subsidies on such items as wheat, dairy products and beef, as well as increases in the rates charged by public utilities, will presumably raise the cost of living for skilled workers and their families. As food and shelter make up a relatively small share of the total expenditures of this group, however, the relative price effects are unlikely to be severe. An opposite price effect will result from the fall in the price of consumer durables brought on by trade liberalization. Cost recovery in the provision of health services and education will hit this section of the population hardest; but in view of the current inequalities of income distribution, the necessity for fiscal restraint, and the fact that this group has previously been receiving significant subsidies when in fact they had the capacity to pay, the social costs involved should not be unduly high and the proposed measures are reasonable.

(ii) Urban Formal Sector: Unskilled/Domestic Workers

59. Workers and their families in this group will undoubtedly be among those who face mixed effects from the structural adjustment programme in the short term. Some unskilled workers may be laid off during economic restructuring, and they would then face great competition in finding new employment. Furthermore, women may be more likely than men to suffer from any retrenchment during the adjustment process. Additionally, low skills levels and the large pool of unemployed limit the collective bargaining power of unskilled workers. Due to inflation, it is expected that the real earnings of some unskilled workers may be eroded quite significantly, and perhaps 10 percent of this group could drop below the PDL due to a fall in real earnings. As earlier stated, though, the prospects of this group would be even worse with no adjustment programme.

60. The drop in the earnings ability of this group of formal sector workers has clear implications for social welfare. The imposition/increase of fees for health services and especially education, unless carefully designed, could force hard choices to be made between the provision of basic goods and access to social services. The proposals for increased social service cost recovery, therefore, need to be accompanied by carefully designed exemption systems. Strategies to maintain the affordability of maize (and to a lesser extent other essential items of expenditure) will be particularly important for them too. The drop in the earnings ability of this group of formal sector workers, together with the difficulties encountered particularly by women in finding employment, reinforce the Government's objective to relax the current limitations on the growth of the informal sector.

(iii) Small-Scale and Informal Sector

61. The overall social impact of the structural adjustment programme for this group will positive, through the liberalization of regulations governing the licensing of small businesses, zoning and factory specifications etc. However, there are several areas where the adjustment programme could negatively impact on the poorest within this sector. First, inflation will raise the cost of inputs. Secondly, any increase in transitional unemployment in the formal sector will increase the number of job-seekers and competition among workers, and perhaps lower the level of average earnings. Finally, it is conceivable (though unlikely) that the increased efficiency of the formal sector, an expected result of the

adjustment process, might lead to a decrease of the market share of the small-scale and informal sector in a few, particular industries. In general, the informal sector is expected to benefit from greater prosperity in the formal sector, especially where there are positive linkages between the two.

(iv) Unemployed

62. Of all the urban groups, the currently unemployed are likely to face the most severe difficulties during the adjustment process in the short term. The projected temporary increase in inflation, especially in the prices of basic goods, could have a serious negative effect on the standard of living of this most vulnerable group in the cash economy. Again it should be stressed, however, that such problems should be attributed more to the economic difficulties already facing the country, than to the structural adjustment programme itself. However, while the structural adjustment programme is expected to generate additional jobs to the benefit of the presently unemployed (as well as for any retrenched workers and new labor market entrants), this will take time and there will be continued, strong competition for these jobs.

(v) Communal Areas

63. The preponderance of low household incomes in rural areas suggests the need for careful design of any policy change which may negatively affect them. This applies particularly to the cost recovery programmes in the provision of social services and to the reduction in subsidies to the GMB. Specifically, any cost-recovery scheme that increases fees in rural areas needs to be carefully examined with regards to its effect in worsening an already severe inequality in income and access to social services. In particular, the welfare and food security of the poorest rural households, in particular, could also be threatened by the removal or reduction of consumer subsidies on maize . It is possible that the rationalization of the GMB could in fact lead to reforms in transport and distribution that mitigate any rise in the price of maize for the poorest rural consumers, but other measures (such as the closing of collection depots in low-production areas) taken to accommodate the reduced subsidy from the Government could have a potentially devastating effect on the welfare of poor people in those areas.

64. Rural-urban linkages in the form of labor and capital movements could also carry any negative effects of adjustment from the urban areas into the communal areas. Remittances, largely from urban areas, presently contribute a substantial share of total income in the communal areas. Thus, an inflation-induced fall in real incomes in the urban formal sector could also impact on the recipients of transfers in the communal areas, through a reduction in the amount available for remittances.

(vi) Workers on Commercial Farms

65. The overall social impact of adjustment for workers on large-scale commercial farms may be mixed. A 10 percent increase in employment of workers on large-scale commercial farms, as a result of relaxation in the current labor regulations governing hiring and firing, has been predicted by an association of commercial farmers. However, existing farm laborers

have limited collective bargaining power and may face wage erosion due to inflation and only modest increases in the minimum wage rate. With agricultural exports expected to expand, however, the potential for increased profits in the commercial farming sector also exists. As with the rural poor in communal areas, any increased cost recovery measures (especially in education) could have a strong adverse impact on commercial farm laborers and their families.

(vii) Women

66. Any negative effects of adjustment felt by the rural poor, unskilled urban workers and the unemployed would be particularly felt by women simply because of their disproportionate numbers. Furthermore, there may be gender differentials in the social costs of adjustment in a variety of other ways. For instance, additional cost recovery in the education sector may erode progress made in improving the educational status of women. If families with extremely limited resources are asked to pay increased school fees particularly at the primary level, girls are likely to lose out more than boys in view of the existing socio-cultural value system. This is already happening in secondary schools, where tuition fees are charged. Second, the higher age profile of urban unemployed women suggests that women may have greater difficulties during any period of frictional unemployment and also that they may have less opportunities for retraining. Third, women may suffer more from any increased barriers to entry in the informal sector as they generally have less start-up capital than their male counterparts. For all of these reasons, particular care are being taken in considering gender implications in the specific details of the design of the structural adjustment measures and also of the compensatory activities.

IV. Compensatory Measures

67. Although the overall effects of the structural adjustment programme will undoubtedly be positive, and while particular care has been taken to minimize any deleterious social effects on poor and vulnerable groups in the design of the programme, some compensatory activities and programmes will also be implemented to provide further protection for them during the adjustment process.

68. Training systems will be strengthened to ensure the provision of the necessary human resources for economic growth, as well as to provide for anyone retrenched by the adjustment measures. Currently, the Ministry of Higher Education (MHE) is working on a manpower development plan, and the Government strategy will include both measures to encourage more training to be financed and carried out by the private sector itself, and also measures to improve its own training programmes. At present, the MHE provides technical and vocational training at seven technical colleges located in urban areas throughout the country and at two vocational training centers (VTCs) located in Msasa and Westgate. Although the VTCs would be suitable for providing any Government-sponsored retraining efforts, currently they have the capacity to train only 2,000 workers at any time. The VTCs do not have the necessary capacity to cope with the potential retraining needs, not to mention the training requirements for the unskilled workers and the currently unemployed. While strengthening of the TTC's and VTC's will be critical to the success of the structural adjustment programme, several innovations could be made to their

programmes. For example, the capacity of the existing VTCs could be expanded through double-shifting and/or the design of short-term programmes focussed to meet the needs of target industries. Evening courses could also be established in the technical colleges to accommodate the needs of industry for upgrading programmes, and mobile training units could be attached to each technical college to allow the MHE greater flexibility in responding to specific on-site industrial training requirements.

69. To assist retrenched workers interested in establishing their own small-scale businesses, as well as existing and emerging entrepreneurs, the Government will make every effort to ensure greater credit flows from the formal banking system to the informal and small-scale sectors. Currently, the Reserve Bank sets performance targets for commercial banks to provide 5 percent of their total lending to small and newly established black-owned enterprises. Also, several banks have organized special schemes on their own for financing small enterprise development. The Government will widen the scope of such schemes so that greater amounts of credit from the formal credit system flow to new enterprises in the informal sector, thus supplementing financing which it derives from the existing sources such as the collective self-finance scheme, rotating saving and credit associations and the Zimbabwe Women Finance Trust, etc. These changes will be taken within the broader adjustments to be made in monetary policy.

70. The Government recognizes that small enterprises in the informal sector entail greater risks than the established firms in the formal sector. To alleviate the difficulties arising out of the perception by banks of high risk in lending to the informal sector, the Government will also extend the coverage of informal sector enterprises by the Credit Guarantee Company (CGC) and raise the guarantee share of the CGC. Bringing the informal sector increasingly within the orbit of the CGC will enable small business people to have greater access to the formal banking system. Since it is the access to such sources of credit more than its costs that is critical, the informal sector will develop more rapidly and healthily as access to credit improves.

71. The Government has also decided to set aside a provisional amount equivalent to 35 percent of the wages and salaries saved to be used as a "safety net" to cover the costs of retraining any civil servants who want and request it. This retraining could be done in public or private training facilities. This amount would equal four months' salary on average for each retrenched worker, and the total would come to Z$ 14 million in 1991/92, Z$ 21 million in 1992/93, Z$24 million in 1993/94 and Z$10 million in 1994/95. However, this sum would be additional to the commuted pensions which would be paid in line with existing provisions for any civil servant whose post is abolished.

72. As far as the parastatals are concerned, if retrenchment is required for them to become efficient, then the respective parastatals would also make any necessary compensatory payments to their workers in line with existing provisions. The costs of these payments would be covered from the parastatals' normal budget without any additional support from the Government. As earlier stated, retrenchment within the parastatals is not expected to be a major problem, but the issue will be handled as part of the individual restructuring plans for each of them.

73. In the case of the private sector, employers would be required to compensate any retrenched civil servants in line with the new guidelines produced by the Ministry of Labour, Manpower Planning and Social Welfare.

These guidelines balance obligations of employers to assist retrenched employees with the need to avoid overly generous provisions which might increase reluctance of employers to take on additional manpower.

74. The commitment to cut parastatal subsidies provides an excellent opportunity to review the system of grain marketing, while at the same time improving the efficiency of the GMB. In particular, relaxation of the control of movement of grain among communal areas, use of GMB collection points as local distribution points, and the encouragement of small-scale rural distributors and millers (through relaxation of current transport regulations and the admission of small-scale buyers to the maize market) could significantly help to improve food security for low-income families and also reduce costs for the GMB. In this way, any potential increase in the consumer price of the staple food for poor people (due to the removal of GMB consumer subsidies) could be mitigated by policy change to increase the efficiency of grain marketing. However, reductions in transport subsidies could tend to raise the price of maize further, as could the pressure on the GMB to reduce its expenditures. The reduction of Governmental subsidies to the GMB, therefore, is being carefully coordinated with the process of grain market liberalization.

75. In view of the sensitivity of the maize price issue, the need to induce greater efficiency in the GMB, the critical importance of ensuring that poor people have access to grain at an affordable price, and the possible negative effects that a reduction or even removal of consumer subsidies on maize might have on some vulnerable groups, it has been decided that 30 percent of the fiscal savings resulting from the subsidy reduction for the GMB should be set aside as a further "safety net" to be used to cover the costs of any necessary continuing or new payments for social welfare purposes. The proposed subsidies to be provided to the GMB for "social" activities would amount to Z$ 9 million in 1991/92, Z$14 million in 1993/94 and Z$ 18 million annually thereafter. As the reductions in the basic subsidy from the Government to the GMB would be falling at a faster rate, however, there would still be a decline in the fiscal burden for the Government.

76. Deleterious social effects of the fiscal strategy for the health sector should be minimal. The maintenance of the Z$150 threshold will mean that very few people in rural areas (where the majority of the poor are located) will pay fees for health care. To the extent that the commercial farm workers, for example, have wage increases bringing their compensation above the threshold level, then some additional people would have to pay - but this would probably not be a widespread phenomenon. Of more concern would be potentially adverse effects in the urban and semi-urban areas. By definition it is difficult for the unemployed to prove their status and income level, in contrast to poorly paid workers who could demonstrate that their wages are below the Z$ 150 threshold level. In their efforts to try to minimize evasion of health fees, there would be a danger that genuinely poor patients might face charges. The Department of Social Welfare already has staff trained and deployed to identify indigents and to issue them with cards exempting them from paying health fees etc, and some of these will be based within the major health facilities themselves. While it is difficult to see any perfect solution to the problem of identifying the truly indigent and those unable to pay the basic fees, it is felt that the present existing problem is not unduly large and that the present arrangements and procedures are manageable to protect at least most of those genuinely in need in the urban areas during the process of structural adjustment. This issue will, however, be kept under constant review.

77. In addition to the fee exemption level, the Government will also take further measures to protect and improve the welfare of a large number of people in rural areas through implementation of the recently-designed second family health project. An initial project has already been implemented by the Ministry of Health and Zimbabwe National Family Planning Council in eight selected districts of the country, and the new project will extend the approach into sixteen more districts (many of which are particularly poor and remote). Indeed, 40 percent of the entire population of the country is expected to benefit from the new project. The total cost of the project is estimated to be about U.S. $100 million, and it will be supported partly by a World Bank loan. Some grant cofinancing has already been committed by several donors, but additional grant or concessional external support is now being sought.

78. Government strategy for cost recovery in education is to introduce a system of school fees based on ability to pay, and to design a system of assistance based on the relative endowment of each school. It is recognized that such a system is complex to design, and if it has to be effective in catering for those who are unable to pay, it has to be thought out carefully. For this reason, Government has delayed the introduction of a comprehensive cost recovery system in education until late in 1991. When cost recovery is introduced, there will be measures to avoid low income and poor families being adversely affected. As part of the package, Government is proposing to set up a scholarship fund which will be used to pay school fees for those who cannot afford them.

V. Monitoring and Evaluation

79. The effects of the structural adjustment programme will be monitored closely, not only retrospectively to assess whether the objectives have been achieved, but particularly to enable mid-course corrections to be made where necessary. Clearly monitoring is needed of the main economic aggregates, but of equal importance is the need for monitoring of the social effects of the programme. In this context, it should be noted that poverty reduction is one of the specific aims of the programme, and also that nutritional status has been chosen as a proxy indicator of social welfare.

80. In order to monitor the programme's effects systematically, there is need for baseline data on the critical indicators and a system for data collection and analysis over the period of the adjustment programme. As far as the social effects are concerned, particular use will be made of three monitoring systems--household income and expenditure surveys; an extension of the existing national household survey capability and the nutritional surveillance system, which is part of the national health information system. However, some strengthening of other data and information systems will also be needed.

81. Much of the existing information on socio-economic profiles in Zimbabwe is based on the 1984/85 income and expenditure survey. The Central Statistical Office is presently conducting a follow-up survey, with four quarterly rounds being conducted in the period up to July 1991. By March 1991 some data will have been processed from the first round of that survey, and it will help to establish a baseline for some of the economic parameters to be monitored. When data from all four rounds of collection have been assembled by late-1991, a much more detailed information set will be available. Another such survey will definitely be carried out towards

the end of the current adjustment period in 1994/95, and intermittent additional surveys will also be considered. Second, supplementing these surveys will be an extension of the present system of household surveys. Thirdly, collection of time series data on nutritional status especially of under- five year old children will add greatly to understanding the impact of the adjustment programme on poor and vulnerable groups. The existing nutritional surveillance system is already operating well, though some aspects of it will be strengthened to ensure rapid and disaggregated data processing. Nutritional data will be of particular importance in providing decision-makers with key information on potential adverse effects of the adjustment programme especially in rural and peri-urban areas. Finally, other data systems will also be strengthened to provide additional information for monitoring purposes. In particular, labor market information systems will be enhanced in order to generate more data on the extent of unemployment, new job openings and labor requirements. This will further help to reduce the extent of frictional unemployment.