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Comparative Analysis of Structural Adjustment Programs in Southern Africa

With Emphasis on Agriculture and Trade

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Regional Trade and Comparative Advantage in Eastern and Southern Africa: Implications for Food Security

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Foreword

Policy reform, geared towards achieving the restoration of macroeconomic stability and emergence of an efficient and effective economic environment, is one of the urgent challenges facing the economies of Southern Africa today. Most, if not all, members of the Southern Africa Development Community (SADC) are currently engaged in a process of structurally adjusting their economies.

The focus of these programs is firmly on transforming the policy environment and on correcting structural macroeconomic disequilibria which have arisen from years of economic mismanagement and pursuit of "wrong" policies and development strategies by these countries.

Structural adjustment programs in the framework of Southern Africa, therefore, entail the implementation of a set of macroeconomic and microeconomic policy reform measures to create an environment that is conducive to growth and development. The policy changes pursued by these countries are, therefore, typically based on macroeconomic reforms, deregulation of markets and prices, and trade liberalization.

Through a USAID subgrant provided through Technoserve Inc., Kenya, the University of Swaziland has coordinated a research activity meant to elucidate and catalogue some of the structural adjustment activities which are in progress in a selected number of countries in Southern Africa. As indicated in this document, the selected countries included Malawi, Mozambique, Republic of South Africa, Zambia, and Zimbabwe.

What is clear from the foregoing analysis is that structural adjustment programs have had different rates of implementation and success in the affected countries. Also, paucity of documented information on the achievement of progress in some countries. For example Mozambique, has had a major constraining effect in providing a clear picture of the extent to which success or failure in the implementation of the adjustment programs has been achieved in the countries concerned.

As structural adjustment programs influence the extent to which countries "open up" their borders to trade, a comparative analysis of the applications of these adjustment programs in Southern Africa reveals the enormous potential for increased trade among countries of SADC. There are clear signs that a combination of the effects of economic liberalization and the emergence of a democratic South Africa will usher in a scenario where trade will increasingly play a major role in SADC interaction and will become a powerful engine for determining the economic transformation of the whole subregion.

Therefore, the results of this study have led to an ongoing regional research activity on the comparative advantage analysis of agricultural production in the region and its implications for enhancing regional agricultural trade and food security. The thrust of the ongoing study, based on agroecological zones rather than political boundaries, is focused on an analysis of changing comparative economic advantage in agricultural production across southern African countries and the extent to which the ongoing adjustment programs and transport costs could transform relative comparative advantage, trade, and food security in the region.

As facilities for communication and sharing of ideas among researchers and other developmentalists constitute one of the critical bottlenecks in enabling regional collaboration in research and dissemination or sharing of ideas, the research activity has installed an electronic communications system connecting researchers and policy makers in the region. This system is called TRADENET. Several African researchers and policymakers have already been connected to TRADENET and the system is proving to be an extremely efficient and cost-effective method of facilitating regional communication.

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This report is one in a series of studies on Africa's regional trade and agricultural comparative advantage, a joint activity of the USAID Africa Bureau's Food Security and Productivity Unit in the Office of Sustainable Development, Productive Sector Growth and Environment Division (AFR/SD/PSGE), and the Regional Economic Development Support Office for Eastern and Southern Africa (REDSO/ESA).

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Glossary of Acronyms and Abbreviations

ADMARC	Agricultural Development and Marketing Corporation
AFR	Bureau for Africa (USAID)
ASAC	Agriculture Sector Adjustment Credit
ASIP	Agriculture Sector Investment Program
CARPA	Center for Agricultural Research and Policy Analysis
CIMA	Committee of Inquiry into the Marketing Act
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
DLMA	Direct Local Market Allocations
EEDRP	Entrepreneurship Development and Drought Recovery Program
EEST	Estate Extension Service Trust
ERP	Economic Rehabilitation Program
ERS	Export Retention Scheme
ESRP	Economic and Social Rehabilitation Program
FRELIMO	Friends for the Liberation of Mozambique
FSRP	Fertilizer Subsidy Removal Program
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GNU	Government of National Unity
GOZ	Government of Zimbabwe
IDA	International Development Agency
IMF	International Monetary Fund
INDEBANK	Investment and Development Bank
ITPAC	International Trade Policy Adjustment Credit
MK	Malawi Kwacha
MLAWD	Ministry of Lands, Agriculture, and Water Development
MOU	Memorandum of Understanding
MRFC	Malawi Rural Finance Company
MSB	Malawi Savings Bank
NAMBOARD	National Agricultural Marketing Board

NTB	Non-Tariff Barriers
OGIL	Open General Import License
PE	Public Enterprise
PFP	Policy Framework Paper
POSB	Post Office Savings Bank
PRE	Economic Rehabilitation Program
PSGE	Productive Sector Growth and Environment Division (USAID)
PSIP	Public Sector Investment Program
PTA	Preferential Trade Area
RDP	Reconstruction and Development Program
REDSO/ESA	Regional Economic Development Support Office / Eastern and Southern Africa (USAID)
SAAU	South African Agricultural Union
SACA	Smallholder Agricultural Credit Administration
SADC	Southern Africa Development Community
SAL	Structural Adjustment Lending Program
SAP	Structural Adjustment Program
SASOL	South African Coal Oil and Gas Corporation
SAL1	Structural Adjustment Loan 1
SALs	Structural Adjustment Loans
SD	Office of Sustainable Development (USAID)
SDR	Special Drawing Rights
SFFRFM	Small Farmers Fertilizer Revolving Fund of Malawi
SSA	Sub-Saharan Africa
TAMA	Tobacco Association of Malawi
UNDP	United Nations Development Program
USAID	U.S. Agency for International Development
VAT	Value Added Tax
WICO	Wood Industries Corporation
ZCF	Zambia Cooperative Federation
ZIC	Zimbabwe Investment Center

1. Introduction

Several southern African countries are currently undertaking Structural Adjustment Programs (SAP) involving macroeconomic reforms. External trade liberalization and internal market decontrol programs are important components of these reforms . Because of the importance of agriculture in the economies of the countries in the subregion, most of these programs contain important agricultural elements which make their success highly dependent on their impact on the agricultural sectors of the reforming countries.

The impact of the reforms has implications not only for domestic agricultural production but also for investment flows and trade and, hence, food security at both the national and regional levels. The importance of analyzing and accurately anticipating the scope, magnitude and direction of this impact cannot be overemphasized. Without a detailed understanding of the nature of the impact and the directions in which changes are taking place or are going to take place, economists will lack answers to questions of pressing interest to policy makers in the subregion. Not only will they be unable to have reliable guide on areas for investments and additional reforms, they will also be unable to answer with much confidence basic questions about wether or not the approaches being followed are achieving their intended objectives and, if not, what remedial actions to take.

As part of its efforts to fill the gaps in the existing understanding of the implementation of SAPs and their impact on agriculture and trade in southern Africa, USAID/AFR/SD/PSGE and USAID/REDSO/ESA, in collaboration with the University of Swaziland's Center for Agricultural Research and Policy Analysis (CARPA) and national institutions and researchers in selected countries of the subregion, carried out this study in order to examine the impact and implications of SAPs for agricultural production, trade, and food security, in Southern Africa. The countries included in the study include Malawi, Mozambique, South Africa, Zambia and Zimbabwe. The study provides a regional comparative analysis of the current status of adjustment programs presently in place and the progress each country is making towards implementing the key policy, regulatory and institutional reforms called for in the programs. The review includes an overview of the relative types of programs in place and their potential impact on trade and national and regional food security as well as a topology of existing reforms and the progress that has been achieved in their implementation in each country.

This synthesis report brings together the analyses and conclusions of the five country studies. Data used in the analyses were derived from several sources including Policy Framework Papers, International Monetary Fund (IMF) and World Bank Staff Papers and reports from various government ministries. The documents consulted in carrying out the analyses are listed in the reference sections of the various country reports in the annexes.

1.1 The Study Countries

With the exception of South Africa, all of the study countries are ranked among the poorest of the world. Mozambique considered by many to be among the poorest countries in the world had a per capita Gross National Product (GNP) of only US$60 in 1992. Malawi at $210 was only marginally better. Zimbabwe and Zambia with per capita incomes of $570 and $670 respectively, were at the higher end of the distribution of low income countries while South Africa with a per capita income of $2670 was considered an upper middle income country (Table 1.1).

The size of their respective populations range from 8.3 million for Zambia to 39.8 million for South Africa. In all five countries, the population has been growing rapidly resulting in either

Table 1.1 Study Countries: Basic Indicators (1992)

	Malawi	Mozambique	South Africa	Zambia	Zimbabwe
Population	9.1	16.5	39.8	8.3	10.4
Population Growth Rate (%), 1980-1992	3.2	2.6	2.5	3.2	3.3
GNP Per Capita (US$)	210.0	60.0	2670.0	670.0	570.0
GNP Per Capita Growth Rate (1980-1992)	-.01	-3.6	0.1	NA	-.09
Average Annual Rate of Inflation (%)					
1970-1980	8.8	NA	13.0	7.6	9.4
1980-1992	15.1	38.0	14.3	48.4	14.4

Table 1.2 Study Countries: Sectoral Rates of Growth (Percent, 1990-1992)

	Malawi	Mozambique	South Africa	Zambia	Zimbabwe
GDP	2.9	0.4	1.1	0.8	2.8
Agriculture	1.4	1.3	1.7	3.3	1.1
Industry	3.5	-0.4	-0.1	0.9	1.9
Manufacturing	4.0	NA	-0.2	3.7	2.8
Services	3.8	1.5	2.1	3.2	3.8

Source: World Development Report 1994, The World Bank, Washington, DC.
NA = data is not available

stagnating or deteriorating per capita socioeconomic indicators. Between 1980 and 1992 all the countries experienced negative per capita growth rates in GNP with the exception of South Africa where there was hardly any growth at all. The rate of inflation was also very high in all the countries during the period. This poor macroeconomic performance reflected inadequate performance of the agricultural sectors in each of the countries. With the exception of Zambia, whose agricultural production grew at an average annual rate of slightly over 3 percent between 1980 and 1992, agricultural production in all of the other countries grew at rates that were well below their population growth rates (Table 1.2).

Given the important role that the agricultural sector plays in the economies of all of the countries (with the exception of South Africa), its growth, the pattern of this growth and the nature of its linkages with the other sectors of the economy are critical not only for its own performance but also for the performance of the other sectors. An interesting phenomenon in the study countries relates to the share of agriculture in their respective GDPs which, under normal circumstances, should have been going down over time as agricultural productivity increases and economic transformation takes place. This share has been increasing in Mozambique, Zambia and Zimbabwe during the period 1980 and 1992 (Table 1.3). In South Africa it fell slightly from 8 to 4 percent while in Malawi, the share dropped significantly from 44 to 28 percent. When these figures are compared to the average annual growth rates in agricultural GDP during the same period, a diverse but disturbing picture emerges. The linkage between agricultural growth and other sectors of each economy is quite spurious.

With regards trade, Mozambique achieved the best performance of the five countries between, 1980 and 1992 (Table 1.4). Exports grew at an average annual rate of almost 6 percent, despite a slight deterioration in the terms of trade. In the other countries, exports either stagnated or declined. The pattern of imports in all five countries is similar to that of exports. The official reserve position of all the five countries has been precarious. In 1992 Malawi had official reserves to cover only two months of imports. None of the other four countries had enough official reserves to cover up to two months of imports. There is not enough information to draw conclusions about the relative indebtedness of the countries in the study. However, with an external debt/GNP ratio of 494 percent in 1992 Mozambique could be said to be overly indebted. Malawi and Zimbabwe with debt/GNP ratios of 46 and 63 percent respectively could be said to be highly indebted.

Overall it can be said that all the countries in the study have been experiencing considerable economic difficulties over the last decade. Per capita GNP has either declined or stagnated, inflation has been relatively high, and the agricultural sectors which were supposed to serve as the engines of growth have been, at best sluggish. It is this poor performance that prompted all of study countries to adopt stabilization and structural adjustment programs during the last decade.

1.2 The Main Areas of Policy Reforms

An important strategy of the reform programs in the study countries is to achieve expansion and balanced growth in trade as a means towards the promotion and maintenance of high employment and growth in real income levels. The goal of the programs in all the study countries have included reduction in the current accounts of balance of payments and achievement of a balance between government expenditure and revenue. The principal policy objectives include: reduction in the size of the public sector and improvements in its management; elimination of price distortions in various sectors of the economy; increasing trade liberalization; and promotion of domestic savings in the public and private sectors. The principal policy instruments utilized have included: exchange rate adjustment, mainly through devaluation; interest rate policy designed to promote domestic savings and more efficient allocation of resources; control of money supply and credit; fiscal policy aimed at reducing government expenditure and deficit financing; trade and payments liberalization; and deregulation of prices of goods, services, and factor inputs.

Table 1.3 Study Countries: Performance of the Food and Agricultural Sectors

	Malawi	Mozambique	South Africa	Zambia	Zimbabwe
Average Annual Growth Rate of Food Production Per Capita, 1979-1992	-5.0	-2.1	-2.1	-0.8	-3.3
Contribution of Agriculture to GDP (%)					
1970					
1992					
	44.0	47.0	8.0	11.0	15.5
Value Added in Agriculture (Million US$)	28.0	64.0	4.0	16.0	22.0
1980					
1992					
Fertilizer Consumption (100mg per ha of	413.0	3,136.0	3,743.0	552.0	702.0
arable land)	473.0	NA	4,069.0	603.	1,115.0
1979/80					
1991/92					
Cereal Imports (000,t)	193.0	78.0	726.0	114.0	443.0
	447.0	16.0	580.0	119.0	528.0
1980					
1992					
	36.0	368.0	159.0	498.0	156.0
	412.0	1,164.0	4,855.0	651.0	1,493.0

Source: World Development Report, 1994. World Bank, Washington, DC.

Table 1.4: Study Countries: Trade Indicators

	Malawi	Mozambique	South Africa	Zambia	Zimbabwe
Average Annual Growth Rate of Exports (%), 1980-1992	NA	5.8	0.7	-3.2	-0.8
Average Annual Growth Rate of Imports (1980-1992)	NA	3.6	-2.5	-0.7	2.1
Terms of Trade (1987=100)					
1985	NA	104	105	90	100
1992	NA	90	104	109	101
External Dept/GNP (%) 1992	46	496	NA	NA	63
Dept Service as Percent of Exports, 1992	8.1	23.8	NA	50.3	32.0
Official Reserves, 1992 (months of import coverage)	2.2	0.7	1.4	1.3	1.8

Source: World Development Report, 1994. World Bank, Washington, DC.

Relating to the agricultural sector, these programs have comprised four major component parts:

Pricing Policies:

1. A statement of structural objectives to be achieved in five to ten years (e.g., increasing non-traditional exports by a given percentage; reducing the rate of growth of total energy use and of imported energy by given amounts; increasing agricultural output; reducing food imports, etc.).

2. A statement of the measures that will be taken over approximately five years to achieve these objectives, e.g., reducing the level of trade protection and reforming its pattern on the basis of comparativeadvantage; increasing the real price of energy; altering the terms of trade between agricultural and nonagricultural sectors; undertaking major changes in the organization of agricultural marketing, including the respective roles of the public and private sectors; etc.

3. A specific and observable set of actions to be taken by the government either before the SAL operation is approved or awing the disbursement period, e.g., one or morecuts in tariffs on imports, introduction ofspecified export promotion schemes; elimination of certain or all quantitativerestrictions on trade; removal of all or part of price subsidies, specified increase in agricultural producer prices, etc.

4. An agreed space upon, quickly disbursable, amount of foreign exchange to finance imports, not linked in advance to specific investment programs with the purpose ofproviding balance of payments support to the borrower during program implementation. The policy reform measures that drive these various components of the programs vary from one country to another but usually include all or any combination of the following:

- Increase the prices of agricultural products
- Increase input prices (decrease input subsidies)
- Increase the price of industrial goods
- Raise energy prices
- Raise the prices of goods produced by state enterprises
- Decontrol consumer prices (reduce consumer subsidies)

Trade Policies:

Export Promotion

- Adjust exchange rate (devaluation)
- Reduce export duties or taxes
- Relax export quotas or regulations
- Introduce export subsidies
- Introduce other financial incentives
- Improve the working capital of domestic or foreign exchanges and introduce credit arrangements for exporters
- Reduce duties on the imports of exporters
- Establish/enhance export development funds
- Establish/enhance export promotion agencies
- Establish export processing/free-trade zones

Import Liberalization Policies

- Remove quotas or licensing restrictions
- Rationalize tariffs and other protection measures
- Change import regulations/procedures

Fiscal and Monetary Policies:

Government Revenues

- Improve collection and compliance
- Increase taxes and set revenue targets
- Shift to ad valorem from specific taxes
- Index certain tax rates
- Introduce tax reforms
- Provide tax incentives to businesses

Government Expenditures

- Set specific expenditure targets
- Rationalize public investment
- Cut current expenditure subsidies, wages/hiring)
- Set limits on transfers to state enterprises
- Improve monitoring and control of public expenditures

Deficit

- Set specific targets

Credit Policies

- Set limits to public sector credit
- Decontrol or establish higher ceilings on interest rates

External Debt Management

- Set limits on new foreign borrowing
- Improve monitoring and control

Public Investment Policies

- Establish payback rule for project choice
- Prepare bankable investment plans
- Introduce/enhance privatization

Public Enterprises Reforms:

- Increase efficiency of public sector enterprises
- Reduce rules and regulations (i.e., minimize bureaucracy)
- Restructure and rationalize agricultural institutions such as marketing boards, extension services, etc
- Undertake comprehensive agriculture sector analyses
- Carry out energy and other sector studies

What follows in this report is a review and analysis of the progress so far made in implementing the various reform measures outlined above in each of the study countries. Progress in each country is evaluated on the basis of an analysis of the discrepancies between program targets and actual performance. Non implementation of programs as well as policy reversals and their consequences are also discussed. Policy strategies and program direction in each country during 1995 and 1996 are also discussed in terms of their integrity and their chances of implementation success in the face of realities on the ground. The review of progress in each country ends with a summary of on going and proposed policy reform measures in each country. Where data permits, policy matrices for past, on going and future policy reform measures are also provided.

2. Malawi

2.1 Background

The country's total population was estimated at about 9.7 million in 1993. During the period 1977 to 1987 the population grew at an average rate of 3.7 percent per annum (3.3 percent excluding Mozambican refugees). The average population density is 85 persons/km^2 but varies widely between regions, with densities for the northern, central and southern regions estimated at 34, 87 and 125 persons/km^2 respectively.

The country's economy is constrained by limited resources, and a rapidly expanding population. It lacks the mineral resources of neighboring countries. Consequently, agricultural land is its primary natural resource. In 1993, Malawi's Gross Domestic Product (GDP) was estimated at MK 1,077 million at 1978 factor cost (MK 8,942 million at current market prices), representing a 10.8 percent increase over 1992. GDP per capita was estimated at MK 111 in 1993, domestic savings at 1.8 percent of GDP, and inflation at 30 percent.

Agriculture is the mainstay of the economy. It supports about 85 percent of the population currently residing in rural areas, accounts for nearly 40 percent of the GDP, about 80 percent of the labor force, and about 90 percent of the foreign exchange earnings. Other key sectors include government services, manufacturing and distribution which accounted for 14, 12 and 11 percent respectively of GDP in 1993.

Constraints to increased agricultural production include: high incidence of poverty, high population density, land degradation, recurrent droughts, over-dependence on tobacco, unequal distribution of resources, lack of opportunities for women, high transport costs, poor rural infrastructure, and limited access to credit.

2.2 The Food and Agricultural Sector

Malawi's agricultural sector is composed of two main groups of farms: smallholders and estates. Estates occupy leasehold or freehold land. Smallholders have customary use-rights to the land they cultivate. Seventy nine percent of the total land area is under customary tenure. The smallholder subsector comprises an estimated 1.8 million smallholder farm families cultivating about 4.4 million ha and producing about 80 percent of the country's food and 10 percent of its exports.

The objective of country's agricultural development include: improving and maintaining food self-sufficiency; expanding and diversifying agricultural exports, while conserving natural resources; raising farm incomes and promoting economic growth; and improving social welfare. The newly elected Government is pursuing these objectives within a broad framework of promoting private sector involvement, improving incentives through liberalizing pricing and marketing, increasing producer prices for export crops, and rehabilitating rural infrastructures. The four main thrusts in pursuing the above objectives include: increasing the productivity of food crop production, and widening the range of food crops grown and marketed; giving smallholders the opportunity to grow burley tobacco; encouraging farmers in general and large-scale farmers and estates in particular, to diversify their activities, broaden the resource base, and increase the output of export and high value-added crops; and expanding livestock activities and integrating them into existing farming systems.

The Government's draft strategy gives emphasis to key commodities, complemented by sector-wide strategies aimed at providing the necessary policy, legislative and institutional framework, and supported by continuous generation and dissemination of appropriate and profitable technologies, the provision of necessary inputs and services, and the improvement of human capital and physical infrastructure.

2.3 Economic Performance Prior to Reforms

Malawi was able to achieve impressive growth during the first 15 years of independence. Average annual rate of growth of GDP was about five percent in the 1960s. This accelerated to 6.3 percent in the 1970s. Similarly, despite rapid growth in population, Malawi's Gross National Product per capita grew at rate of 2.9 percent between 1960 and 1979. The country was also able to maintain its 1960 levels of aggregate per capita food production in the 1970s. Balance of payments and fiscal positions remained fairly stable, with current account deficit varying between seven and 9 percent of GDP and the fiscal deficit averaging less than eight percent of GDP.

The impressive GDP growth came about as a result of strong performances in agricultural exports and successful resource mobilization and investments. Exports (valued at current prices) grew at an average rate of 15 percent per annum in the 1960s, and 22.5 percent between 1973 and 1977. By 1977, the value of exports had grown to almost one-third of GDP. Many reasons can be sited for the country's excellent performance during this period. First, its trade regime was characterized by a relatively liberal exchange rate and trade agreement. The Malawi Kwacha was consecutively pegged to the Pound Sterling, a weighted average between the US Dollar and the Pound, and the Special Drawing Rights (SDR). Import duty was low, and the only restriction to imports import licensing. Second, domestic agricultural policies facilitated growth and increased the profits of the export sector. Third, the economic embargo imposed on the former Rhodesia, a major tobacco producer and competitor on the world market, caused world supply shortages that benefited Malawi. It also resulted in exodus of many experienced tobacco growers from Rhodesia, many of whom settled in Malawi bringing with them new skills and established market outlets. Fourth, the period was characterized by impressive levels of investment and domestic savings, restrained consumption and a strong effort at capital formation.

Although Malawi's export- and investment-led growth strategy resulted in rapid agricultural and economic growth especially in the 1970s, it might have also contributed to the country's structural weakness and vulnerability to the shocks that occurred in the late 1970s. First, the composition of exports became highly concentrated. The country was increasingly vulnerable to movements in the international prices of a few commodities (tobacco, tea and sugar in that order) which accounted for most of the export revenue. Second, the country's open economy policy increased reliance on imports. Third, the extent and nature of government public investment in the 1970s resulted in contraction of consumption, primarily by the private sector. Fourth, the high investment levels were not sustainable because they involved public projects that were unlikely to have high returns, such as an international airport, military aircraft, palaces and colleges.

As a result of the above mentioned factors, Malawi's earlier good performance did not last. The country suffered a major setback in 1979 and, for three years, it experienced a sharp decline in growth. GDP (at 1978 factor cost) fell by 5.2 percent in 1981, and current account deficit rose to 19 percent of GDP (at current market prices) in 1980. The average annual growth rate of the terms of trade for the period 1970-1977 had been 0.7 percent, but in the three years following 1977, it fell at an average annual rate of 15.5 percent. The agricultural sector recorded growth rates of -6.5 percent in 1980 and -8.0 percent in 1981. The parastatals, previously considered a growth pole, became a drag on the economy as their financial positions deteriorated. Malawi's public enterprises were unable to adjust to the unfolding deteriorating situation. The net effect was an economic crisis. The crisis was further compounded by a sharp increase in import prices, severe droughts in 1980 and 1981, rising transport costs due mainly to disruption of the rail route to the sea through Mozambique. The structural weaknesses in the economy including a narrow export base, a stagnant smallholder agricultural sector, heavy import dependence in the industry and energy sectors, and inefficient public enterprises and weak public resource management capacity, could not permit a reversal of the deteriorating trends.

2.4 The Structural Adjustment Programs

In response to the crisis and structural weaknesses Malawi, in 1980, started implementing a broad program of macroeconomic adjustment and structural policy reform supported by financial and technical assistance from the World Bank, IMF, bilateral and multilateral donors.

The Government formulated a medium-term stabilization and structural adjustment program covering 1981/82 - 1985/86. The program was supported by IDA through three SALs, by IMF through successive standby agreements and special facilities, and by other donors through co-financing of the SALl and debt rescheduling in 1982 and 1983. The primary objectives of the program included: stabilizing the economy; accelerating agricultural growth; diversifying the export base; increasing efficiency of import substituting enterprises and parastatals; and improving mobilization and management of public resources.

Table 2.1 shows the main loans, credits, and grants in support of the reform programs.

2.4.1 The Stabilization Programs

Faced with declining revenues and increasing expenditures, the government had to cut several low priority investments in areas such as roads and telecommunications and some recurrent expenditures. The government's aim was to continue reducing the budget deficit and keep it within the limits set by the available external grants and confessional loans. In this regard, the government was required to maintain deficit for 1990/91 at a level satisfactory to the IDA. Between 1989/90 and 1991/92, current expenditure as a proportion of GDP was reduced from 21.6 to 17.4 percent. Expenditure restraint was tightened through a freeze on filling civil service vacancies, cuts in non-wage spending ceilings, strict enforcement of expenditure monitoring procedures, and reduction of fertilizer subsidies.

A public sector management review was completed in 1991 and serves as the basis for improving economic management in the tight fiscal environment existing in the country. Measures were also taken to improve operational and financial status of commercial parastatals such as Malawi Railways, Agriculture Development and Marketing Corporation (ADMARC), and Wood Industries Corporation (WICO) through restructuring, privatization or divestiture. As a result of these actions, the overall budget deficit (excluding grants) was brought down to 5.7 percent of GDP in 1991/92 from nine percent in 1988/89.

In the area of monetary policy, interest rates were liberalized in 1987 and direct regulation of commercial bank discontinued thereafter. To promote greater competition in the banking system, INDEBANK was licensed to accept corporate deposits, and applications of foreign banks to conduct business in the country were considered. The Post Office Savings Bank (POSB) was restructured into the Malawi Savings Bank (MSB) so as to reduce its reliance on Government. These reforms were aimed at increasing the number of institutions in the formal financial sector and increasing the range of financial instruments and services offered by them.

The country started pursuing a flexible exchange rate policy in the early 1980s, devaluing the Kwacha against the SDR by 15 percent in April 1982, and by a further 12 percent in September 1983. The switching from the SDR link to a basket of currencies resulted in a further three percent drop in the value of the currency. Annual devaluations of between 10 and 20 percent occurred between 1985 and 1988 in response to balance-of-payments pressures. To pursue the goal of restoring external

Table 2.1 Malawi: Loans and Credits Supporting the Stabilization and Adjustment Programs

Loan/Credit Title	Main Objectives	Fiscal Year[1]	Status
SAL I (Ln-2026)	Diversify exports base; encourage efficient import substitution; ensure appropriate prices and income policy; improve public sector's financial performance; strengthen GOM's economic planning and monitoring capability.	1981	Closed 8/92
SAL II (Cr-1427)	Diversify export base; encourage efficient import substitution; ensure adequate incentives; improve public sector's financial performance; strengthen policy making capability.	1984	Closed 6/95
SAL III (Cr-1644)	Diversify export base; promote export; strengthen GOM policy making capability; improve performance of development capability.	1986	Closed 9/88
SAL III (Cr-A-9)	Expanding role of private sector in marketing of smallholder crops; improve financial performance and operational efficiency of ADMARC; strengthen food security planning capability.	1987	Closed 9/88
ITPAC[2] (Cr-1920)	Improve policy environment for the manufacturing sector to increase efficiency of resource use and expand employment and exports.	1988	Closed 6/93
ASAC[3] (Cr-2121)	Achieve sustainable growth; reduce poverty; reduce food insecurity.	1990	Closed 12/92
ASAP[4] (NPA: 612-0239)	Increase agricultural productivity, employment and incomes by increasing smallholder access to agricultural inputs, output markets, cash crop production alternatives, and labor market information.	1991	On-going

[1] Fiscal year effected.

[2] Industrial and Trade Policy Adjustment Credit.

[3] Agricultural Sector Adjustment Credit.

[4] Agricultural Sector Assistance Program.

competitiveness and to support import liberalization, the Malawi Kwacha was devalued several times against its basket in 1990 and 1991. March and June 1992 the currency was further devalued by 15 and 22 percent respectively. The 1992 devaluations restored external competitiveness to levels equivalent to 1987/88. February 1994, a managed float exchange rate system was adopted with the Malawi Kwacha being floated against the U.S. dollar. After 12 weeks of flotation, the value of the Kwacha relative to the dollar fell by 25 percent at US$1 to MK7.0. By January 1995, the rate was about US$1 to MK15.3. Today, the Kwacha's value is determined by supply and demand forces at weekly wholesale auctions. The current policy also allows exporters to open foreign currency accounts.

Tax reforms have featured prominently in the country's stabilization program. They began in 1987 and were aimed at improving equity, efficiency, administration and compliance. The tax base was broadened and collection strengthened in 1990/1991. The incidence of taxation was shifted towards consumption and custom duties were rationalized with a view to minimizing the level of protection. With regards corporation tax, a system of advance payment was introduced and the tax was extended to cover parastatals. Other reform measures include the reduction of direct and indirect tax rates, expansion of the surtax base (1991/1992), elimination of surtax exemptions for domestically produced goods (1992/93), and reduction of the tax exemption period for bonded imports. The new Government, May 1994, abolished the poll tax.

Regarding investment reforms, the government introduced measures to encourage private investment, through initiatives related to: freedom to invest; industrial licensing and company formation; transfer of land; taxes and duties; external transport routes; availability of foreign exchange; access to local financing; labor practices; encouragement of small-scale and medium-scale enterprises; encouragement of export-oriented investments; investment assistance and promotion; investment protection; and access to international arbitration.

2.4.2 The Trade Liberalization Programs

The country's trade liberalization program has resulted in the relaxation of most of the restrictions on imports, removal of prior foreign exchange approval requirements, simplification of import/export licensing, and tax rationalization. Export incentives were introduced through a duty drawback system and an export guarantee scheme. Support for these reforms came from SAL II in 1984, SAL III in 1986, ITPAC in 1988, ASAC and the Entrepreneurship Development and Drought Recovery Program (EDDRP) by the World Bank, the IMF standby arrangement of 1988, and the subsequent IMF Enhanced Structural Adjustment Facilities.

There are no quantitative restrictions on both imports and exports. In early 1991, the requirement for prior foreign exchange approval was removed for all imports, except for a narrow list of luxury items. Allocation of foreign exchange was devolved to the commercial banks by the end of ASAC. Thus, for the first time the commercial banks became exercising agents for foreign exchange allocation. Import and export licensing were also simplified by shortening the bureaucracy involved. The intention is phase out by the year 2000.

To promote exports, the government has also introduced a tax allowance for exports. Other steps taken to improve incentives include the introduction of a duty drawback system on a wider set of eligible goods, the streamlining of the procedures for refunds, and the introduction of a new export credit guarantee system. Custom duties are no longer imposed on exports. Instead, a cess, an export surcharge, is levied on certain exported goods and placed in a special fund to be used to stimulate and encourage the growth of the industry concerned.

2.4.3 Agricultural Reforms

Reforms specific to the agricultural sector relate removal of farm input subsidies, agricultural credit, agricultural research, and land tenure. Before the 1990/1991 growing season, burley and flue-cured quotas were allocated only to estate farms. In 1990, a Smallholder Burley Scheme was initiated that allocated licenses to smallholders for the production of burley on customary land. The objective of the scheme is to increase the incomes smallholders, reduce the incidence of poverty among them with a means of financing the intensification of their maize production.

In 1983/84 the government introduced the Fertilizer Subsidy Removal Program (FSRP). The aim was to completely eliminate fertilizer subsidies by 1988/89 and to start phasing out subsidies on seed subsidy at the beginning of 1994/95. The program was, however, suspended in 1987 following a sharp rise in fertilizer costs resulting from the closure of transport routes through Mozambique and a decline in marketed volume of maize production. ASAC has since called for the resumption of the subsidy program.

The credit reforms are intended to improve access to agricultural credit. Until recently, the Smallholder Agricultural Credit Administration (SACA), was the only agency involved in supplying smallholders with seasonal credit through farmers' clubs, and medium-term credit although other a few other informal sources are also available. To expand seasonal credit and deepen the rural banking system, it was planned to convert SACA into a Malawi Rural Finance Company (MRFC) in 1994/95 to serve as a limited liability multi-purpose bank.

The reforms in agricultural research are aimed at increasing smallholder productivity through a shift in the focus of maize research to the development of high yielding maize varieties acceptable to farmers, an improvement in research-extension linkages and methodology and an expansion of the extension system.

The land reform measures are intended to improve efficiency of land use through greater reliance on land pricing and to improve equity. The agricultural sector adjustment credit calls on the Government: to amend the Land Act to ban further transfers of customary land to the estate subsector in areas of high land pressure from 1991/92 and to enable adjustment of estate land lease rent at intervals of not more than 3 years; to implement a system to collect estate land lease rents through tobacco auctions; to introduce differentiated land rents by quality in 1992; to establish estate extension service as an autonomous trust body; and to strengthen the inspectorate staff of the Department of Lands to enforce the establishment of woodlots by estates by 1994.

With regards input and output marketing, the objective is to expand private sector participation in marketing of smallholder crops and agricultural inputs in order to improve efficiency of crop procurement and at the same time reduce the financial burden of the ADMARC as well as to improve supply of inputs, particularly fertilizer. To this end, the measures taken so far include: deregulation of all smallholder crops with the exception of maize from 1987; rationalization of ADMARC through divestiture; implementation of a Memorandum of Understanding (MOU) between ADMARC and the Government under which the Government will finance ADMARC's social function in 1990; implementation of a commission agent system for ADMARC market centers from 1987/88; liberalization of fertilizer marketing; and liberalization of production and marketing of maize seed in 1993/94. The Government has also engaged in an exercise of "progressive decontrol" of prices by increasing agricultural producer prices in general and raising relative prices of export commodities in particular. Both of these are aimed at raising incomes in the agricultural sector, especially among smallholders and at eliminating the high taxation levels on smallholder production.

During the 1980s, Government progressively liberalized its pricing and marketing policies for smallholder crops. Since 1987, private traders have been allowed to buy and sell all smallholder crops, except cotton and tobacco. The marketing restrictions for cotton were lifted in 1991. At the same time, the strategy was intended to enable ADMARC to narrow its participation in these markets and increasingly focus on price stabilization and the management of the country's strategic grain reserve. In 1994, the Government liberalized the marketing of all tobacco including oriental tobacco and Western tobacco grown by smallholders (Northern Division dark fire-cured, Southern Division fire-cured, and sun/air cured tobaccos). Farmers now have the choice of selling their tobacco directly to auction floors or any other intermediate buyer, in addition to ADMARC.

2.4.4 Other Reform Measures

Other reform measures include the introduction of a three-year Public Sector Investment Program (PSIP) which prioritizes, screens, and schedules the various investments in the program and labour reforms aimed at protecting the interests of workers and ensuring a fair remuneration for their services wherever they are located in the country.

2.5 The Performance of the Reform Programs

2.5.1 Macroeconomic Performance

During the 1988 - 1991 period, the major goals of the reform measures appear to have been achieved to a large degree. The average rate of growth increased significantly, the inflation rate decelerated substantially, while the external current account deficit was reduced in line with the program objectives. Regarding structural policy implementation, the import liberalization program was completed, while significant progress was made in the reform of the tax system, the restructuring of parastatal enterprises, and in expanding the role of market forces in resource allocation.

Implementation of the adjustment program during the 1991/92 - 1992/93 period was, however, seriously hampered by exogenous developments and the outbreak of political and labour unrest which led to substantial deviations from the program objectives and targets. Among the exogenous factors was the severe drought, which affected the whole of southern Africa, leading to a significant fall of Government revenue, and a large increase in expenditure on emergency food and related social services. At the same time, external donors decided to suspend non humanitarian balance of payments assistance due to concerns related to governance. Furthermore, the fiscal and external funding situation was aggravated by the outbreak of social and labour unrest, which was temporarily addressed by the granting of substantial wage increases and the initiation of a process of political reform. These factors were, in addition, exacerbated by the continued deterioration of the terms of trade, with tobacco export unit values declining by 50 percent (in U.S. dollars) between 1991 and 1993.

As a result of the above developments, real GDP declined by nearly 8 percent in 1992, inflation accelerated, and the fiscal and financial accounts deteriorated significantly. The overall FY 1992/93 fiscal deficit (excluding grants) rose to nearly 16 percent of GDP (9 excluding drought related operations) compared to 6.3 percent in FY 1991/92 and to 5.7 percent envisaged under the program. The external current account deficit rose to 14.7 percent of GDP (excluding grants) from 11.7 percent in 1991, reflecting, in part, a substantial decline in the terms of trade. Consequently, external reserves declined from the equivalent of 3 months imports at the end of 1991 to about one month at the end of 1992. The rate of inflation rose to 23.1 percent, reflecting, in part, two devaluations of the Malawi Kwacha undertaken during 1992.

Despite the difficult political and external environment, the authorities maintained the external reforms put in place during 1988-1991 though at a significantly reduced pace. In April/May 1993, the authorities prepared a revised macroeconomic framework for FY 1993/94 centered on a tightening of fiscal and monetary policies and the acceleration of structural policy reforms. While virtually all measures incorporated in the 1993/94 macroeconomic program have been implemented, attainment of some of the program targets was complicated by developments that were not anticipated at the time the revised macroeconomic framework for 1993/94 was made. These developments included new expenditures required to fund transitional political arrangements and institutions, and the inevitable outlays related to forthcoming elections. In addition, after a period of restrained wage bargaining, labour unrest erupted seeking, in part, to benefit from the changed political circumstances and political liberalization, resulting in substantial wage increases. With these developments, it became necessary to again revisit the macroeconomic framework for 1993/94.

Generally, real GDP growth rate increased during the first five years of the adjustment program until it declined in 1986. Since then, the growth rate steadily increased up until 1992. Domestic savings steadily declined during the adjustment period dropping from 15.1 percent of GDP in 1982 to only 1.8 percent of GDP in 1993. The current account deficit has generally deteriorated particularly in the late 1980s and early 1990s. Inflation steadily increased during the adjustment period until 1988 when it started dropping before increasing again in 1992.

The structure of the economy did not change much during the adjustment period. Agriculture has remained the dominant sector and contributions of various sectors to the GDP have generally remained the same during the period. Tobacco, tea and sugar still remain the main export commodities.

From the foregoing, it would appear that the performance of the macroeconomic reforms has been rather mixed and does not appear to have resulted in a stable macroeconomic environment during the adjustment period, except perhaps in the late1980s when the environment appeared relatively stable.

2.5.2 Agricultural Performance

Agriculture has been a contributor to economic growth and macroeconomic stability in Malawi. Since Independence in 1964, growth in agricultural GDP has varied, averaging about 5 percent during the 1970s, 1 percent during the early 1980s, and 4.1 percent during 1987-91. During 1973-92, annual growth in agricultural GDP has averaged about 1.96 percent. During the same period the rural population has grown by more than 3 percent per year, indicating a decline in agricultural GDP per capita.

Throughout the 1970s, 1980s and early 1990s, growth in the estate sub-sector has been significantly faster than in the smallholder sub-sector, except in four years (1976, 1978, 1984 and 1991). The share of the estate sub-sector in total agricultural GDP rose steadily from 13 percent in 1973 to 35 percent in 1992. During the past 20 years, 60 percent of agricultural growth has been in the estate sub-sector. Smallholder sub-sectoral growth rates have been low, despite government's policy emphasis on smallholder development. Growth in the smallholder subsector averaged only 0.67 percent per annum between 1980 and 1992, compared with 5.65 percent for the estate subsector (Table 2.2). The agricultural policy reforms therefore have only resulted in marginal improvements in the performance of the agricultural sector in general, and the smallholder has virtually stagnated during the adjustment period.

It would be useful to examine how well the various components of the country's agricultural reform programs were implemented.

The Smallholder Burley Scheme has been a success. The Smallholders have demonstrated their ability to produce high quality tobacco at low cost. There are, however, a number of issues related to the growth of smallholder burley production. First, the current quota system is inequitable and inefficient as it excludes very efficient producers. Second, the staff of the Ministry of Agriculture and Livestock Development is already thin and may not adequately manage the anticipated growth of the smallholder burley production.

With regards the removal of agricultural subsidies, net subsidy levels (actual government and treasury subvention) to cover the Smallholder Farmers Fertilizer Revolving Fund of Malawi (SFFRFM) financial deficit increased more than three-fold from MK6.94 million in 1983/84 to MK22.5 million in 1992/93. The trend of the net subsidy levels has generally been increasing. This is mainly due to escalating cost of fertilizers during the adjustment period. The program does not, therefore, appear to have met the objective of reducing the drain on fiscal resources. Furthermore, there is evidence to suggest that the country's fertilizer and crop pricing policies may not have encouraged smallholders to use fertilizer.

Regarding credit, the number of seasonal credit recipients more than doubled between 1982/83 and 1990/91, increasing from 156,703 to 333,750 during the period. The number of clubs also doubled, increasing from 6,654 to 12,891. Only about 25 percent of the smallholder farm families had access to the credit in 1990/91 and these tended to be the above average farmers. The majority of smallholders still do not have access to credit.

The development of high yielding maize varieties exceeded expectations. Partly as a result of releasing these varieties, hybrid maize has substituted for local maize in production since 1990/91. However, not much has been done to improve research-extension linkages and expand the extension system due to financial limitations.

Government did amend the Land Act, but with exemption clauses that effectively minimized any positive impact. The provision that smallholders can grow and market burley tobacco has probably done more to slow down the transfer process than the amendment banning transfers. Land transfers to the estate subsector continue. While lease rents were increased from MK10/ha to MK30/ha, they are still thought to be too low to have any noticeable impact on the estate land use (the rent was increased to MK50/ha in 1995). Although under-utilization is probably influenced by the low cost of establishing estates and the annual lease rents, inadequate access to capital appears to be the main constraint on more extensive utilization. The provision to collect estate lease rents from the tobacco auction has been successful in improving revenue collection from both current and past accounts. In 1990, the Estate Extension Service Trust (EEST) was established, with ODA assistance, as an autonomous trust under the Tobacco Association of Malawi (TAMA). The Land Department's inspectorate staff has not been strengthened due to limited resources, enforcement of land use covenants has not been intensified.

The Government has rationalized the role of ADMARC as a buyer and seller of last resort for staple food crops. A Memorandum of Understanding (MOU) was prepared which outlines the principles for identifying the social roles undertaken by ADMARC and calculating the costs of these roles. It specifies the arrangements for ADMARC's reimbursement by Treasury for fulfilling social roles and defines specific performance targets to ensure that ADMARC is efficient in carrying out its social functions. Though the MOU was only signed in December 1993, its implementation began before then in 1990/91. ADMARC also implemented a divestiture program which has stayed on course. It closed markets it considered uneconomic with the hope that private traders will take over their activities in those areas.

Table 2.2 Malawi: Annual Agricultural GDP Growth Rates (percent, 1973-92)

Sector	1973-80	1973-92	1980-87	1980-92
Estate subsector	8.64	5.89	4.21	5.65
Smallholder subsector	3.99	0.90	1.96	0.67
Agricultural sector	4.72	1.96	2.41	1.90

Source: World Bank (1993).

This has not always been the case and, as a result, it has been forced to reopen some of the markets. Farmers in areas where ADMARC has not reopened and private traders are not operating have been left without a nearby outlet for their produce and source of agricultural inputs. To rectify the situation, ADMARC attempted to implement a commission agent system for markets that are not financially viable, but despite attractive offers to sell or rent warehouses, they found little interest among private traders, and the program was discontinued.

Expanding the role of private sector, however, continues to be problematic. The policy framework is not conducive to encouraging private participation, particularly with respect to agricultural input marketing. Lack of infrastructure and credit are among the factors that continue to constrain the growth of private agricultural trading in Malawi. This partly explains why private traders have not taken over ADMARC's responsibilities in some of the areas in which it has closed its markets, and why private trading in fertilizer marketing (which is expensive) is not picking up.

Annual price reviews have been carried out during the adjustment period. Currently, Government sets floor and ceiling prices for smallholder maize only, but all other crops have been descheduled. Prices of maize will probably continue to be set for some time to come given the crop's vital role in food security.

Nominal producer prices of both food and export crops have been increased dramatically during the adjustment period. Between 1980 and 1988, nominal producer prices for all agricultural commodities more than doubled since. The price increases have, however, been erratic and abrupt and not in step with the rate of inflation, especially for maize and tobacco. Additionally, pricing has been reactive and are not following any clearly defined rules, shifting dramatically from one year to another.

2.6 The Status of On-Going Policy Reform Measures

An attempt has been made to subjectively assess how well the various policy reform strategies/measures have been implemented over the years. The following points/grades were awarded:

0 = if strategy/measure not implemented;

1 = if strategy/measure partially implemented; and

2 = if strategy/measure fully implemented.

Using the above indices, nearly 60 percent of the policy reform measures highlighted in this study could be said to have been fully implemented; 36 percent partially implemented; and 5 percent not implemented. The implementation of macroeconomic policy and trade policy reform measures appear to have been more successful than the implementation of the reforms specifically targeted to the food and agricultural sector (Table 2.3). It can, therefore, be concluded that Malawi's implementation record has been a mixed one.

Table 2.3 Malawi: Implementation of Policy Reforms

Policy Measures	Total Score	Percent Of Measures By Score			Average
		0	1	2	
Macroeconomic	27	-	30	70	1.70
Trade	9	-	44	56	1.56
Food & Agriculture	27	12	44	44	1.33
Total	56	5	36	59	1.54

2.7 Medium-Term Strategy and Objectives

Malawi's economy remains fragile, narrowly based and lacks key social services and infrastructure. After more than a decade of stabilization and adjustment programs, the structure of the Malawi economy is still dominated by the production and export of a limited number of agricultural crops and the associated processing and distribution of these crops.

Despite the substantial progress in deregulating the economy and creating a more conducive climate for the private sector, the development of the private sector and supply response have remained below expectations, constrained in part by the monopolistic structures in production and distribution. Furthermore, the economy continues to be adversely affected by recurrent droughts and transport bottlenecks that seriously reduce its competitiveness.

Given these structural problems, the future thrust in the adjustment strategy is to place greater emphasis on policies and structural reforms that would promote a greater supply response, accelerate economic diversification, raise average productivity across all sectors, enhance domestic competition, and improve external competitiveness. Agriculture will continue to be a major source of growth, providing employment and subsistence for some 80 percent of the total population and the main source of raw materials for the manufacturing sector. The major challenge in this sector will be to improve productivity in the estate and smallholder subsectors, while vigorously promoting diversification out of tobacco and maize production.

Growth in the manufacturing sector is expected to be generated by the liberalization of the exchange system, the rationalization of external tariff, and the growth of output in the agricultural sector. Additionally, diversification of manufacturing output and increasing the export of manufactured goods will also depend on reduction in transport costs and a substantial broadening of the ownership base.

The continued development of human resources and improvements in the social and physical infrastructure will also constitute critical elements of the future thrust of the reform programs.

2.8 Conclusions and Recommendations

Malawi's adjustment and liberalization efforts have helped to achieve modest growth in the economy. These efforts have also helped, to a certain extent, to improve fiscal discipline and stabilize the external situation. Attempts to improve the market environment, including parastatal performance and price incentives have contributed in containing the negative impact of severe external shocks to which Malawi was subjected to in the 1980s.

However, these improvements have not been caused by change in the structure of the economy. While the policy changes have been necessary to avoid further deterioration in the economy, they have not been sufficient to increase the income and growth potential of the majority of the population in Malawi. Malawi's economy remains fragile, narrowly based and lacks key social services and infrastructure. After more than a decade of stabilization and adjustment programs, the structure of the Malawi economy is still dominated by the production and export of a limited number of agricultural crops and the associated processing and distribution of these crops.

Despite substantial progress in deregulating the economy and creating a more conducive climate for the private sector, the development of the private sector and the supply response have remained below expectations, constrained in part by the monopolistic structures in production and distribution. Furthermore, the economy continues to be adversely affected by recurrent droughts and transport bottlenecks that seriously reduce its competitiveness. As a result, over half of the population continues to have incomes below the poverty line.

Future adjustment and liberalization programs will need to include policy measures which increase the responsiveness of the economy as well as contribute to poverty reduction. The major elements of these programs should include measures to: expand employment opportunities; enhance smallholder agricultural productivity; increase social sector expenditures on human resource development and reduction of population pressure; and develop financial and capital markets.

3. Mozambique

3.1 Background

Mozambique covers an area of 799,388 square kilometres. It has a coastline of 2500 kilometres running from the northern extremity of the country at the mouth of the Rovuma River to the South African Border. Over half of the country's estimated 16 million citizens live in the coastal areas of which over 4 million reside in and around the three largest cities of Maputo, Beira and Qualimane. The population is estimated to be growing at an average annual rate of 2.7 percent. It is estimated that in 1993, at least 1.5 million people were displaced from their homes (deslocados) while more than one million were refugees (refugiados), mostly in Malawi. Although accurate figures are scarce, a large number of other Mozambicans, are presently pouring into the three largest cities of the country as well as into the provincial and district capitals, seeking security and livelihood.

Mozambique has a vast natural resources base which is still largely unexploited. The agricultural resources of the country are considerable and of high potential. The soils and climate are suitable for the growing of a wide range of food and cash crops. Almost 50 percent of the country's vast land areas are considered to be potentially cultivable. Its vast network of rivers provides good potential for irrigated agriculture. The country is also well endowed with woodlands suitable for livestock raising although most of it is presently unsuitable for grazing due to the presence of tse-tse fly.

The combination of a 10 years war of attrition, the severe drought of 1982-83 and weaknesses in the country's own economic policies and management systems created serious dislocations in the economy and resulted in precarious economic and social conditions. It has been estimated that more than two thirds of Mozambicans live in absolute poverty. Measured in United States dollars, GDP per capita declined from an estimated US$99.00 in 1987 to US$63.00 in 1992. The United Nations Development Program's 1993 Human Development Index which combines GNP per capita, life expectancy, and educational attainment ranks Mozambique 157 out of 173 in the world. The Washington-based Population Crisis Committee ranked Mozambique last in 1993 in its survey of the level of suffering throughout the World, a score that was marginally worse than that of Somalia at the height of the crisis in the latter.

3.2 The Policy Environment

In 1981 Mozambique prepared a ten-year plan whose objective was to achieve "victory over underdevelopment" by the end of the decade through the education and training of human resources, the carrying out of agricultural and industrial projects and the building up of social services. Unfortunately, a combination of an expanding war, a severe drought during 1982-1983, debilitating trends in the international economy and weaknesses in the country's own policies and management systems severely constrained the plan's usefulness half way through its life. Faced with near bankruptcy, a brutal war and a serious economic crisis, the Fourth Congress of FRELIMO recognized the need for economic reforms. New emphasis was placed on small development projects using local raw materials to produce goods for local consumption with increased state support for the peasant family farmers and private farmers.

These measures were, however, inadequate to arrest the rapid decline of the economy. By 1985

Mozambique's economy was rapidly approaching "stalling point". Marketed agricultural products had drastically reduced to almost half of their level at the beginning of the plan period. Real production from the productive sectors had fallen by over 40 percent resulting in shortages, inflation, acute foreign exchange problems and a huge deficit in the budget of the government. South African traffic passing through the port of Maputo had declined by over 50 percent while electricity exports to South Africa had virtually ceased due to sabotage of pylons on the high tension lines from the Cahora Bassa hydroelectric project.

The government's initial attempts to respond to the decline in production by expanding credit only resulted in acute financial disequilibrium. Midway through the plan period, export earnings had dropped by more than two-thirds, imports had decreased by over 50 percent and the balance-of-payments stood at nearly $US450 million. As a result of the deteriorating economic situation, strong internal pressures for economic reforms and major external pressures for economic stabilization and adjustment from international creditors were brought to bear on the Government. This prompted the government in February 1987, to adopt a package of macroeconomic interventions in the form of a three-years World Bank and IMF supported Economic Rehabilitation Program (ERP). At the end of its three-year life, the PRE was replaced by an Economic and Social Rehabilitation Program (ESRP).

3.3 The Structural Adjustment Program

The major policy areas of the ESRP include: credit and investment; price and salary; trade and foreign exchange rate; land tenure; and human resource development. These are discussed in detail below.

3.3.1 Credit and Investment Policy

Under the ESRP, financial institutions were directed to give priority to agricultural enterprise development, generally within broad government guidelines. Banks were expected to channel some of their funds into rural credit programs. These programs charge lower interest rates on loans for food crop production, 17 percent instead of the commercial rate of 25 percent which were operating in the country in the 1990s.

The investment policy under the ESRP gives incentives to investors through: reduced payment of customs and import duties on plant, machinery, equipment, and accessories imported for approved agricultural projects; investment allowance depending on the kind of project; and depreciation or capital allowance on equipment and plant up to 100 percent in the year of the investment.

3.3.2 Price and Salary Policies

Price and salary policies are related under the ESRP. The policies attempt to establish the "right" prices to stabilize income levels to the producers and acquisition of foreign exchange earnings for development programs. The policies regarding agricultural inputs and their marketing varies according to the level of desired development of the agricultural sector and the relative importance of the input to agricultural growth. In the past, food prices were held below world (border) prices for consumers. Producers prices were kept also below border prices. Shortages were widespread in the country from 1979 to 1987. In response, parallel markets developed. Considerable cross-border marketing between Mozambique and neighbouring countries flourished from 1981 to 1985, especially between Mozambique and Zimbabwe and Mozambique and the Republic of South Africa. Wealthy and urban people benefited from low prices of food obtained through the rationing system, while poor consumers were forced to the parallel market where prices were higher.

Inefficiency, waste, corruption, and favouritism were common in some government agencies and parastatals. Most of the controls imposed in the markets were benefiting state bureaucrats. Under ESRP these problems were to be solved by turning over the provision of consumer goods, production inputs, and services to private firms. The major assumption was that privatization would release government resources for higher priority uses. Given the distortions already introduced by past policies and the existence of increased poverty, it was not possible to liberalize the markets completely.

There is still need for a dual private and public system to ease the move from public to private sector and reduce opportunities for monopoly pricing and output in the private sector. Also the public sector still is needed for sectors such as education, health, and housing.

3.3.3 Trade and Foreign Exchange Policies

Trade and foreign exchange policies were characterized by protection of domestic production and an overvalued exchange rate. Due to persistent protection of agriculture as well as industry, the prices for agricultural inputs and consumer goods increased. Higher costs made it difficult for agriculture and industries to compete in the international markets.

The expansion of money supply to meet budget shortfalls created inflation problems. Excessive consumption compared with the level of production and investment, excessive mechanization, substitution of capital for labor, and unsustainable balance of payments deficits.

With fixed nominal foreign exchange rates, the currency became overvalued forcing imports to increase relative to exports. The over evaluation of the currency drastically affected the levels of exportation from 1975 to 1985. The country lost its comparative advantages in export crops such as coconut, cashew nut, tea, and cotton. Resulting in huge imports of "artificially" cheap rice, vegetable oil, wheat, and sugar were between 1982 and 1987. These imports chocked domestic production and induced a reallocation of resources toward non-tradables. The ESRP introduced a "devaluation policy".

Due to the need for foreign currency, most of the cash crops are for export. The international demand for these commodities is very inelastic and their real prices has been showing a declining trend.

3.3.4 Human Resources Development Policies

The ESRP is expected to improve the development of human resource in Mozambique. This means that there would be improvements in education and vocational training facilities and services. The Government has been trying to improve health care and family planning as a way to lower the infant mortality and death rates. However, this task has not been successful because of the many constraints facing the economy, principal among which is, the requirement of the ESRP to reduce the budget deficit through reductions in public spending. The private sector, on the other hand, does not have much incentive to invest in public education and health. Consequently, the government's intention to develop the country's human resources seems to be inconsistent with the requirements of the program. Modifications are, therefore, needed to allow the state to improve the provision of public sector services, especially education and health.

3.4 The Performance of the Economy

Overall economic growth in Mozambique from 1987 to 1989 was 10 percent. It slowed to 1.7 percent during the period 1990-1992 due to lack of security in the country-side, drought and lower external financing. In 1993, the economy grew at about 19 percent, helped by a 21 percent increase in agricultural production. In 1992, per capita income was $70 US dollars, in part due to drastic cuts in aggregate consumption.

The deficit in the balance of payments for 1991 amounted to US$437.7 million. Total revenue was US$294.9 million in 1990 compared to expenditures totalling US$733.6 million. GNP increased faster in the first years of the ESRP due to a high level of investment which increased in

1989. Part of the deficit was made up through increased money supply which, resulted in increased inflation.

Following the introduction of the ESRP, the rate of inflation increased from five percent per year to twenty-five percent per year, production increased in an unbalanced manner, and the incidence of poverty worsened. Unemployment increased from 12 percent to about 25 percent. The expected growth rate was five percent per year but in 1990 it was only about two percent. As a result GNP per capita decreased in the face of population growth rate of 2.6 percent.

Transport and communications were improved in 1989. Major public expenditures were directed at improvements of the roads and communication systems in the country. Industry increased its productivity in 1989 although, in 1990, it showed a negative growth rate due to obsolete machinery.

The growth rate of money supply was reduced to less than 20 percent per year. Before ESRP the growth rate was about 35 percent per year. The planned money growth for 1991 was 20 percent. Monetary policy and devaluation of the exchange rate are related to the general pricing and wage systems. However, it is not possible to correlate the macroeconomic indicators of economic growth with these policies because of lack of information.

When the ESRP was established it was expected that there would be frequent changes in the political environment. The need for a minimum level of market intervention and a set of pricing policies to be in place irrespective of changes in the domestic political environment was not obvious to some politicians. The scenario of a multi-party system brought a new challenge to policy making in Mozambique.

The markets are not functioning like they were expected to when the program was established. Some markets have already improved and information about the market system is available. Others are not developed enough to promote sustainable economic growth. This has, therefore, resulted in unbalanced development. Trading in the countryside is extremely difficult due to the poor road system. The number of cooperating agencies involved in public decision-making is increasing, which does not allow the market to function properly, thereby distorting prices. For markets and prices to send out clear and consistent signals to guide the allocative decisions of economic agents, public market interventions and pricing policies by different levels of Government need to be harmonized. Otherwise, the policies would be ineffective resulting in wasteful policy and induced allocative inefficiencies.

3.5 Current Status of Implementation of Key Policy Reform Measures

Administered consumer prices are now limited to two basic breadstuffs (wheat and wheat flour), rents, utilities, and transport fares. Overall, the share of products subject to price control fell to below 5 percent of total production in 1993. Government opened domestic and external trade, allowing increased competition among the traders and permitting direct trading between enterprises.

To improve foreign exchange allocation at the various foreign windows (including donor import support funds) the windows were unified into a market-based system in April of 1992. All foreign exchange is channelled through the banking system under the new system and the rate is determined by market forces. As a result, the parallel market premium declined from 150 percent in 1990 to 10 percent by the end of 1993.

Following the 1991 Privatization Act, the government decreed that all state enterprises, with the exception of strategic enterprises that provide essential public goods and services, were to be either privatized, transformed into commercially oriented public enterprises, or liquidated. Nine large industrial firms and 263 small and medium enterprises were privatized.

Reform of the utility parastatals has begun. The petroleum company, telecommunications, post office parastatals were transformed to commercially oriented public enterprises in 1993. The transformation of airlines and railways has started.

Fiscal adjustment has also been achieved. The revenue base strengthened through tax reforms. This succeeded in improving the tax administration which, in turn, resulted in a rise of budgetary revenues from 18 percent of GDP in 1987 to 20 percent in 1993.

Recurrent expenditures have now fallen to acceptable levels and most investment is financed by donor grants. The Overall deficit after grants declined from 13.5 percent in 1987 to 5.2 percent in 1993. There was an increase of capital supply and consumer goods from donor grants and concessional loans. The average current account deficit before grants was 54.5 percent of the GDP during the period 1990-93. In 1993 the current account deficit before grants fell to 22 percent of the GDP.

Infant mortality declined from 84/1000 in 1987 to 72/1000 in 1992. Maternal mortality rate declined from 300/1000 in 1987 to 180/1000 in 1990.

Budgetary expenditures on goods and services for education and health increased by 19 percent in real terms from 1991 to 1993.

3.6 Future Policy Reform Measures

Government projections for 1995-96 include a reduction of the fiscal deficit after grants from 5 percent of GDP in 1993 to 4.5 percent of GDP in 1994. There will be a reduction of the fiscal deficit after grants to 2 percent of GDP in 1996. The deficit before grants will be reduced from 22 percent in 1993 to 10 percent by 1996. The government's intention is to strengthen credit policies so as to keep monetary growth within targets and to reduce the current account deficit before grants from 2.2 to 1.5 times exports between 1993 and 1996.

Exports are expected to rise by over 14 percent a year in current dollars from 1993 to 2002 as a result of development of new gas fields, increased mining exploration, and revitalization of the industrial base. Imports are expected to increase 6 percent per year on account of reduced dependence on food aid, the end of the demobilization exercise, successful elections, resettlement programs in 1995, and import substitution accompanying the restructuring of the industrial sector.

Foreign investment is projected to rise to $600 million dollars by the Year 2000. Current account deficit before grants is projected to decrease from 71 percent of GDP in 1994 to 28 percent of the GDP in 2002. The dependence on external aid is projected to reduce from $67 per capita in 1993 to $34 per capita in 2002 (1990 prices). The Government is, however, of the opinion that the country would need continued debt rescheduling up to the Year 2002.

3.7 Concluding Remarks

A number of conclusions can be drawn from this review. While the country continues to suffer from increased incidence in the levels of absolute poverty and famine, overall growth is likely to increase as a result of the end of the war, the successful election process, and the return to normalization of economic activities in the country. Commodity prices would stabilize after more than a decade of decline. Marginal improvements in per capita income and consumption would occur from 1995 to 2000.

Mozambique's economic development can be assured if the ESRP is able to create the conditions for increased surplus in agriculture followed by development of human resources, increased market development in the rural areas, and reduction in the level of poverty. In summary, the attainment of sustainable development of the country involve economic growth, structural transformation, reduction in the poverty level, low unemployment, and greater income equality.

4. South Africa

4.1 Country Background

Before 1994, 85.5 percent of the land was occupied by large scale white commercial farmers and the remaining 14.5 percent was communal land held for Africans, 93 percent of which was used for agricultural purposes. It has been estimated that only 16 million hectares of South Africa's land area are arable.

In April 1994, the country's political system changed from constitutional representation (for non-blacks) to proportional representation (for all races). The country is currently governed by a Government of National Unity (GNU) guided by the 1993 Interim Constitution which allows for three tiers of government: a national government, nine provincial governments, and local governments.

The economy is characterized by: under and unemployment of more than a third of the labor force; a racially skewed concentration of income and wealth and a spatially skewed concentration of economic activity; high levels of urbanization; financial constraints manifested in budget deficits, high taxation and constraints on the capital account of the balance of payments; persistently high inflation rates in comparison with its main trading partners; low levels of savings and investment in relation to GDP; low productivity; and shortages of entrepreneurial and professional expertise and technical skill.

With a per capita income of US$ 1920 in 1994, South Africa ranks as an upper middle income country. This high income level, however camouflages the extreme income inequalities between whites and blacks in the country. At the end of the 1980s, the average income of the country's white citizen was 9.5 times that of the average black income, 4.5 times that of average colored and 3 times that of the Asian population. Although recent evidence shows a slight narrowing of the gap between whites and blacks, the absolute income gap between the rich and poor has worsened in the last decade. In 1993, the poorest 40 percent of the population received less than 10 percent of total income, whereas the richest 10 percent earned 43 percent of income. Social indicators for whites are comparable to those of developed countries while those of blacks are analogous to those in other African countries. During apartheid, income inequalities were accentuated by public expenditure patterns. Fiscal spending on public services such as water, sanitation, electricity, education and health was strongly biased in favor of whites. It is estimated that there are more than 17 million people living under the minimum income level of which 11 million live in rural areas. Female-headed households in rural areas and those with no formal-sector breadwinners are the worst off.

4.2 Agriculture in South African Economy

The agricultural sector makes the classical contributions to the economy. Its contribution to GDP in the 1990s averaged slightly below 5 percent per annum. This contribution is ,however, understated by GDP figures. Agriculture has been a major field of employment and subsistence. There is evidence to suggest that the percentage of economically active people in agriculture has declined in recent years. Much of this decline is accounted for by people who are in peri-urban settlements as a result of forced removal policies and acute poverty in rural areas. Most of these people would ordinarily be engaged in agricultural production if they had access to land and other critical support services.

The country is self-sufficient in all major agricultural commodity categories. This has enabled agriculture to be an important supplier of raw materials to South Africa's industry. Between 1974 and 1988, the producers' share of the consumer value of the food basket declined from 55 to 46 per cent, indicating that by 1988 some 54 per cent of consumption expenditure on food was spent on services and processing intervening between farmer and consumer. Forward linkages of agriculture indicate that the total intermediate turnover of agricultural products amounts to some R9,000 million. Also, in 1978, the South African Agricultural Union (SAAU) claimed that between 25 and 30 per cent of both industrial employment and output occurred in industries based on agricultural raw materials. The SAAU also estimates backward linkages of agriculture to comprise over R4,000 million spent on intermediate inputs annually while total inputs exceed R10, 000 million.

The agricultural economy, particularly commercial agriculture, has regressed since 1980. This retrogression may be ascribed to drought, inflation and managerial deficiencies, including over-mechanization and excessive expenditure on some short-term inputs such as fertilizer.

The general impression, however, as is evident from aggregate macro data, is that of an efficient, modern agriculture which simultaneously provides the population with adequate supplies of food, contributes positively to foreign exchange earnings, industries and employment, and serves as a substantial market for industrial output. This would appear to be a remarkable situation - an agricultural sector yielding more and better goods, contributing through its linkages to more and better employment (directly and indirectly) and ultimately to abundance for the whole population. And yet, this is not uniformly the case.

Self sufficiency has often been confused with efficiency. Evidence, however, points to inefficiency of production at the micro level. High output levels in the commercial sector were achieved through excessive capital utilization resulting in declining total factor productivity rates. Meanwhile, continuous restrictive policies have completely destroyed small-holder black agriculture, which would have most likely utilized production methods congruous with South Africa's resource endowment. Although changes in the macroeconomic environment have led to a shift to high value crops and to improvements in factor productivity for some farms from the late 1980s, many are still inefficient and barely surviving.

South African agriculture has been characterized by a "marathon" history of intensive direct government intervention, manifested in commodity, factor and technology policy policies. The government's interventionist program reached a high point around 1980 with a variety of laws, statutes and regulations controlling access to and the use of natural resources, finance, capital, labor, as well as marketing of agricultural products.

4.3 Economic Performance Prior to Reconstruction

At constant 1990 prices, gross domestic product per capita increased by only 19 percent over a period of 34 years, with GDP per capita measuring R6,813 in 1994 as against R5,717 in 1960. This is due to both economic stagnation, especially during from the 1980s onwards, and relatively high population growth rates. Using per capita income, life expectancy and literacy figures as measures of socioeconomic opportunities and capabilities, the United Nations Development Program constructed a human development index which ranks South Africa 93rd out of 173 countries. This puts South Africa at par with Botswana and China.

4.3.1 Macroeconomic Performance

South Africa is a major economic power block in the region, currently constituting about 25 percent of the continent's total GNP. Over the past 15 years the country's output has been adversely affected by sharply reduced net fixed investment, stagnating labor productivity, the impact of trade and financial sanctions and associated quest to maintain the country's international creditworthiness, as well as the indirect cost of trying to make the country independent of so-called strategic imports.

The South African economy has seen a long-term decline in economic growth since the 1960s. The average annual economic growth rate, as measured by the change in GDP at 1990 constant prices, was 5.5 percent during the 1960s, 3.3 percent during the 1970s, and 2.2 percent during the 1980s. On average, no growth occurred during the early 1990s. During 1993 and 1994 the growth rates were 1.1 and 2.3 percent respectively. The growth rate for 1995 is expected to be 2.5 per cent in 1995. This long-term decline in economic growth, has been associated with a corresponding decline in gross domestic investment and gross domestic savings.

The ratio of the annual budget deficit of the central government to GDP was about 4.2 per cent in the 1960 compared to an average of about 5 percent between 1986 and 1995. The persistent budget overruns of especially the central government and the former homeland governments, pushed total government debt up from 36.8 percent of GDP in 1980 to 55.1 percent in 1995. On the other hand, the country's total foreign debt has been reduced as a percentage of GDP from 43 per cent in 1985 to 22 per cent in 1994, and as a percentage of total export earnings from 126 percent in 1985 to 94 percent in 1994. South Africa maintained current account surpluses from 1985 to 1993. The real effective exchange rate of the rand also declined steadily from 1985 to 1994. The rate of inflation has been high since the mid 1970s. as a result of successive periods of inadequate fiscal discipline, relatively high wage increases, occasional excessive monetary expansion, low growth in productivity and exchange rate depreciation. The authorities have, however, succeeded in curbing high rate from 17 percent in 1991 to 9.3 percent in 1994.

Throughout the period between 1980 to 1993 the population growth rate far exceeded real GDP growth. This resulted in declining per capita incomes. Between 1980 and 1987 per capita income fell by an average 2.8 percent per annum, stagnated between 1988 and 1989 and continued to decline between 1990 and 1994 by an average of 2.9 percent per year. Clearly, the country's population growth had a major influence on its macroeconomic performance throughout the 1980s. Between 1980 and 1993 living standards declined as population growth contributed to falling per capita incomes. In addition, its effect on labor force growth has had a profound impact on employment participation rates, particularly for the blacks.

Probably the most alarming development in the South African economy is the decline in the labor-absorption capacity of the economy. Employment in the non-agricultural sectors of the economy remained virtually constant between 1980 and 1994, while the total population increased on average by around 2.5 per cent per annum during the same period. The result was a national average rate of unemployment of more than 32 per cent in 1994, with wide variations in different parts of the country.

An analysis of macroeconomic performance in the structural adjustment context has to include an evaluation of structural changes in the economy and their likely impact on future growth. The contribution of the primary, secondary and tertiary sectors to GDP has changed significantly over the years. The contribution of the primary and secondary sectors been declining since the 1970s while the service or tertiary sector has progressively increased its. The problem is that the service sector creates the least number of jobs created per level of output and investment and is more most vulnerable to labor-displacing technological change.

Of the two primary sectors, agriculture and mining, agriculture's share in GDP has fallen faster, from over 14 percent in the mid 1950s to around 9 percent in the mid 1970s. This decline continued throughout the 1980s so that by 1993 agriculture contributed only 4.4 percent to GDP. The manufacturing sector's contribution to GDP increased by 3.9 percent between 1979 and 1990, at an average rate of 0.35 percent per annum. This was much less than the rate of growth of the labor force. Between 1990 and 1993 the manufacturing sector's contribution to GDP declined by 2 percentage points. This was due to declining real manufacturing output which has fallen substantially from the mid 1980s. the poor performance of the manufacturing appears to reflect a process of de-industrialization in the country.

4.3.2 Agricultural Sector Performance

Total factor productivity of South African agriculture has been growing at an average annual rate of 4.6 percent since the early 1980s. In spite of the periodic droughts experienced during the 1980s, South African agriculture still succeeded in producing surpluses. The country's agriculture can, therefore, be said to have been able to produce enough to make self-sufficient in all the important staples. Crop production can therefore drop (in total) before South Africa becomes a net importer of these products on a regular basis. Some individual commodities in this group are, however, imported on a net basis (e.g. oilseeds).

In horticultural production, particularly fruit, South Africa is not only self-sufficient, but to a large degree sells in the market. The situation in respect of horticultural products is therefore even more favorable than that of field crop production. Red meat, coffee, rice, vegetables, animal fats and vegetable oils are the most important food products imported. The total gross value of agricultural production in South Africa was almost R15,000 million in 1987, whereas that of food imports amounted to about R1 200 million. Food exports in the corresponding period amounted to about R2,400 million.

The area grown to crops has been fluctuating throughout the past ten years. The decline since 1986/87 in the area under maize is particularly noticeable. This is largely the result of the change in the price policy of the maize industry and the land conversion scheme introduced to take land out of maize production. The changes in area cultivated under crops such as maize, sorghum, groundnuts and sugar cane have been rather mixed, each showing declining rates ranging between -0.61 percent and -10.78 percent per annum between 1980 and 1990. The area under cultivation of sunflower seed, dry beans and soybeans increased by 5.24 percent, 2.3 percent and 11.57 percent per annum respectively.

With regards trade, one remarkable aspect is the growth in South Africa's deciduous fruit exports at an average rate of 0.55 percent per annum, despite trade sanctions. Citrus export volume showed an overall decline of 2.02 percent and 9.3 percent per year in 1980-1990 and 1980-1985 respectively. However between 1985-1990 citrus exports grew impressively by 5.3 percent per annum.

Maize exports declined over the periods 1980-1990 and 1980-1985, but showed a marked growth of 22.79 percent per annum over the period 1985-1990. Sugar exports grew at rates of 2.81 percent and 1.58 percent in the periods of 1980-1990 and 1980-1985 respectively but declined at a rate of 2.71 percent per annum during the period 1985-1990.

The cost effectiveness, efficiency and competitiveness of South African agriculture are dependent on free access to foreign markets and international trade. The effect of sanctions which restricted South Africa's access to international trade, caused a loss of export marketing opportunities for the agricultural sector. In spite of this, the quality of South African agricultural products, marketing reliability, and stringent quality controls, enabled the country to maintain its export position in the world market. During the 1980s, incentives were also introduced to promote exports.

The country's agricultural terms of trade have declining for some time now due mainly to tariffs and exchange rate depreciation. The 1980s experienced low terms of trade which slightly improved towards the turn of the decade. The improvement has been mainly due to favorable changes in world prices for primary products since 1987. Trade liberalization and changing exchange rate policies have also combined to affect the secular trend in the cost-price squeeze that has hurt South African farmers over the past 10 to 15 years. On the one hand is the above-mentioned uncertainty with respect to producer prices. On the other hand is the effect of trade policy reform on the agricultural input prices, especially equipment and chemicals, together with the effects of a weakening Rand.

4.4 The Policy Environment

The agricultural sector was subjected to two phases of restructuring in the period up to the early 1980s. The first phase embraced initial steps directed at territorial segregation of white and black farmers which was realized through the promulgation of the Natives' Land Act of 1913. This served to effectively segregate ownership in addition to abolition of various tenancy forms (mainly share-cropping). Peasant farmers were in effect converted into farm laborers in their large numbers. Two decades later, intensification of state intervention in agriculture was achieved through introduction of legislative measures such as the Marketing Act of 1937 and the Co-operative Societies Act of 1939 which "excluded" other categories of farmers such as smallholder black farmers, and part-time farmers.

The second phase consisted of increased mechanization of commercial farming and the resultant substitution of capital for labor around 1970. Around the same period, government intervention in black agriculture consisted of physical "betterment planning" and administrative control. The failure of this 'development' approach to achieve its welfare objectives saw a shift to intensive large-scale, centrally-managed agricultural development projects in black areas which became the mainstay of agricultural development efforts in the late 1970s and early 1980s. The structural imbalances between white commercial and black subsistence agriculture became apparent resulting from the "two-track policy" toward the two agricultural sub-sectors. This manifested itself through limited access to land and agricultural support services and effective lobbying market for homeland farmers.

The built-up to the 1980s saw increased concerns from commercial farmers about the "unhealthy state" of agriculture resulting mainly from the ever-widening gap between production costs and producer prices. In the late 1970s, producer prices rose by only 9 per cent a year, while production costs rose by about 15 per cent a year. Against this background, farmers' debts increased to R2 621million in 1978. During the same year, agricultural sector's net income was only 62 per cent of the total debt load.

The above policy environment was the result of immensely complex socioeconomic and past political processes. The country's new Reconstruction and Development Program, is therefore, intended to address both the restructuring of the as well as provide for the people's basic socioeconomic needs.

4.5 The Reform Measures

Macroeconomic policy reforms in South Africa can be divided into two distinct phases: 1980-1988/9, and 1990 to the present. In both phases there are some similarities as well as significant differences in the circumstances underlining the policy reforms. The reform packages were 'home grown' in that donors were not involved in their design or implementation. Apartheid policies were also central in reforms of the two phases.

The reforms of the 1980s were prompted by stagnation of the economy and were put in place in an attempt to perpetuate the apartheid state given the operating hostile external environment and debt repayment problems. The 1990s reforms, on the other hand, sought to reverse the socioeconomic effects of apartheid by using macroeconomic instruments to promote an integrated and coherent growth and development strategy. The latter strategy is encapsulated in the country's Reconstruction and Development Program (RDP). The RDP is viewed as the main vehicle by which the legacies of apartheid are to be redressed, including the legacy of large income disparities.

The RDP base document and the subsequent White Paper on it are the basic points of departure for all future sectoral and issue-based socioeconomic policies of the country. The RDP is a comprehensive integrated framework as reflected by its basic principles and programs. It also represents an inclusive approach to developing and implementing policy measures which is a positive departure from past practices in the country. Furthermore, the reforms contained in the RDP calls for the restructuring of the state system which had become excessively complex and inefficient.

Whilst trying to conform to the orthodox IMF/World Bank-type objectives of stabilization and structural adjustment, the reforms called for in the post-apartheid era must also concern itself with the endemic problem of inequalities in income distribution. Thus, the restructuring of the South African economy in the 1990s has to put poverty and equity on the center stage given the extreme inequalities in society that was inherited from apartheid. This is crucial if sociopolitical stability, which is a prerequisite for economic growth, is to be achieved. So, although fiscal prudence and sound monetary policies should be guiding principles for designing economic policy, the government must play a significant role in ensuring that the required levels of social expenditures are undertaken.

4.5.1 Fiscal Policies

Adjustment and liberalization programs in South Africa in the 1980s were aimed at: reducing the size of the public sector; increasing the efficiency of government entities by exposing them to the competitive forces of the market place; and reducing or eliminating reliance on public funds by such entities/functions.

Up until April 1994 fiscal reform measures in the country focused on:

1. Raising the economic growth potential via tax reduction, changes in the tax structure, greater tax effectiveness, more efficient and purposeful state spending, a relatively lower level of state expenditure and the systematic elimination of government sector dissaving.

2. Promoting more equal opportunities via priority shifts in state expenditure towards socioeconomic services and more effective targeting of government assistance in the case of the genuinely needy.

3. Promoting macroeconomic stability via the reduction of the fiscal deficit, avoidance as far as possible of money creation in financing the deficit, the redemption of public debt and a larger role for dynamic public debt management in short-term stabilization policy.

Although progress has been made in some areas in achieving these objectives, in other areas there has been little if any advance. Adjustments to the taxation and expenditure structure include: partial elimination of fiscal drag and reduction of the top marginal rate of income and corporate taxes; reduction or termination of several tax expenditures and their replacement where appropriate with better targeted direct expenditures; partial phasing out of the import surcharge; tax reforms, including the introduction of VAT, reduction of the estate duty, full phasing in of fringe benefits tax, and elimination of double taxation on dividends; increase of general government expenditure on socioeconomic services as a percentage of aggregate general government expenditure and GDP; far-reaching policy decisions on the limitation and reallocation of state expenditure, such as those involving privatization and commercialization actions, and the reallocation of funds previously tied up in strategic supplies towards socioeconomic services; and the development of mechanisms in the public and private sectors of large-scale development financing, which implies a different pattern of investment in the economy.

Important fiscal areas in which little or no progress has been made include: reduction of the share of direct taxation in the total taxation;

complete elimination of fiscal drag; the systematic elimination of government sector dissavings; and the limitation of the share of state expenditure in the economy. Cyclical factors, political transition factors and uncertainty regarding the nature and stability of a new constitutional dispensation acted to complicate the implementation of the foregoing fiscal strategy.

The change in government in 1994 following democratic elections, led to expectations of major changes in fiscal policy, particularly in government expenditure. However, while the broad fiscal policy objectives remained the same after the elections, the direction of government spending is expected to undergo fundamental changes.

4.5.2 Monetary Policies

Throughout the 1970s, monetary policy was rarely used to achieve macroeconomic goals, and was conducted mostly through direct control measures. With the increase in the inflation rate of the 1970s, however, nominal interest rates no longer reflected the real cost of capital and there was a shift to indirect monetary policy instruments. Up till the mid 1980s, the money supply increased strongly, with rapid growth following periods of very high gold prices. Excessive increases in liquidity resulted in low interest rates compared to domestic inflation and overseas interest rates. This was reinforced by exchange controls on residents, preventing funds from earning higher rates overseas. Artificially low real rates of interest contributed to low personal savings, the increased use of credit, capital intensity in production and thus low productivity of available capital.

A sharp policy reversal followed in 1984/85, contributing to a severe reduction in economic activity and the demand for credit, while inflation was marginally lowered. The resulting decline in investor confidence plus political considerations accelerated capital flight, leading to the refusal of foreign creditor banks to roll over foreign debts in 1985. Since then the basic philosophy behind the country's monetary policy followed Africa is that monetary policy has one prime and overriding responsibility, to protect the value of the currency.

The philosophy, the framework and the operational procedures of the monetary authorities in South Africa are all based on the presence of sound financial institutions, particularly banking institutions, and on the existence of well-functioning financial markets. The Reserve Bank is also actively involved in developing the money and capital markets. It also has the responsibility of managing the Bank's regulatory function which is now firmly based on the principles and directives of the Basle Committee.

Since 1994, renewed fears of accelerating inflation have led the Reserve Bank to hike the interest rates, with speculation rife that further increases will be needed before the cycle tops out in the next year or two. However, it remains an open question whether the Bank is over-prioritizing the control of inflation to the exclusion of other critical macroeconomic objectives.

4.5.3 Exchange Rate Policies

Following the breakdown of the Bretton Woods Agreement in 1971, South Africa has accommodated floating exchange rates, for the most part within the framework of a dual rate system which allowed for a managed Commercial Rand and a floating Financial Rand. The Commercial Rand applied to all international trade transactions between South Africa and the rest of the world as well as payments and repayments of foreign loans and direct investments into the country. The Financial Rand was introduced to control capital flows by non-residents, largely for fear of large scale capital flight in light of South Africa's growing pariah status and declining business confidence. After being abolished in February 1983, the two-tier exchange rate system was reintroduced in September 1985 in the face of serious balance of payments difficulties.

In April 1995 the Financial Rand was again eliminated, largely for the sake of demonstrating to the international community that South Africa is capable and eager to reintegrate into the world economy. The event was anti-climatic, in the sense that it did not accelerate the depreciation of the Rand relative to the currencies of South Africa's major trading partners.

Exchange rate policy in South Africa is an integral part of monetary policy. Monetary targets, which imply a certain level of interest rates in relation to international inflation and interest rate differentials, largely determine the exchange rate of the Rand. The Reserve Bank does not have a predetermined target for the exchange rate of the Rand, except that it should be as stable as possible. The Bank intervenes from time to time in the foreign exchange market to smooth out short-term fluctuations, and sometimes even to counteract somewhat longer-term pressures, as long as they are considered to be of a transitory nature.

4.5.4 Trade Policies

South Africa has one of the world's longest traditions of a deliberate, coordinated import substitution industrialization strategy, having started as far back as the 1920s. During the era of international sanctions, South Africa's commitment to import substitution was fortified, with the attendant bulwark of protectionist measures evolving into one of the most complex in the world.

There is, however, now substantial movement away from protectionism to trade liberalization. With increasing official acceptance of the necessity to liberalize trade the emphasis has now moved to export promotion. Since the mid 1980s steps have been taken to reduce the number of tariff lines and it is the declared intention of the authorities to continue with further reduction.

Despite the substantial liberalization trade that has taken place, serious problems still remain to be eliminated gradually in accordance with the phasing in of South Africa's proposals to the General Agreement on Tariff and Trade (GATT).

4.5.5 Investment Policies

There are no written or legal guarantees on investments but there are, at present, no restrictions on the transfer of profits, dividends, interest, etc., on any investment in the country. The GNU is supporting a market-oriented private business economy. In the past, expropriation of property had been entirely for local infrastructure requirements with suitable compensation, and this is expected to continue in future. With regard to foreign investment, there are no targeted sectors or sectoral restrictions, foreign-to-local equity ratio requirements or minimum investment levels. Expatriate employment should comply with the basic requirements of the Aliens Control Act, 1991.

4.5.6 Labor and Wage Policies

There exist no ethnic quotas with regard to employment in South Africa. Since 1979 *de jure* discrimination on the basis of race, color, gender, etc., has been removed from the labor statutes, but the *de facto* situation is that discriminatory labor practices still prevail, e.g. the wage differentials between male and female workers, and between white and non-white workers, especially in the unskilled and semi-skilled categories. Furthermore, through the abolishment of influx controls and changes with regard to regional development policies, the one-time policy of fixed ratios between skilled and semi-skilled categories in manufacturing have been removed. Movement of labor between countries, including cross-border movement, is regulated in the Aliens Control Act, 1991.

No price, wage or salary is determined in South Africa without inflation indexing effecting it in one form or another. Wage bargaining is influenced by many factors, such as socioeconomic and political considerations. Issues including inequalities, disparities in income and socioeconomic goods and services, have served as variables in the level of wage demands since the 1980s, the sources of these problems need to be addressed by other policy measures, that should augment and complement labor policies and labor market processes.

The wage bargaining structures and processes in South Africa have not changed substantially over the past 70 years, except for the dualistic nature of the collective bargaining system at the beginning of the 1980s to provide access to all workers to the formal bargaining machinery. Apart from this, the levels of wage bargaining revolved around the industrial council, reconciliation board and the wage board centralized systems, while the major part of wage bargaining took place on a mainly decentralized industrial or individual basis, although heavily influenced by the centralized wage bargaining process. A new Labor Relations Bill is currently being drafted.

4.5.7 Price and Market Controls

Subsidies in South Africa take many forms. Firstly, many goods and services are provided free of charge or at prices substantially lower than actual cost. Traditionally, these have included provisions for the disabled, and education and health services. Secondly, there are also a large number of price, equity, loan and interest rate subsidies to public enterprises and private business in the railways, the nuclear and armament industries and petrochemicals, as well as subsidies for housing, water supply and water works. Thirdly, there are special provisions for deductions or exemptions from taxes and excise duties for households and enterprises (both private and public). Mossgas and SASOL's exemption/reimbursement of fuel levies and tariffs constitute large indirect subsidy items not recorded as public expenditure in the government's budget.

4.5.8 Food Policy

One of the major aims of agricultural policy in South Africa was "self-sufficiency in respect of food, fibre and beverages and the supply of raw materials to local industries at reasonable prices". In order to achieve this aim, the South African agricultural bureaucracy was geared in a biased manner to support the white commercial farmer. Farmers were protected from foreign competition, received various forms of subsidies, received producer prices at a premium to world prices and had access to the latest and most productive mechanical and biological technology through an impressive research and extension network. Through these measures South Africa maintained its position as a surplus agricultural producer and achieved the aim of self-sufficiency in the majority of commodities as shown earlier.

Agricultural policy during the 1980s was also characterized by the large sums of government subsidies to farmers in the form of drought aid and other disaster payments. In 1985/86 government subsidies to farmers amounted to R708 million. In early 1988 it was noted that 25,000 of the 59,000 farming units had received government aid which amounted to R24 billion in the previous seven years. This did not include government financial aid to the wool industry (R15.5 million), the maize industry (R309 million) as well as flood aid. It also did not include the government guarantee for debt carried over (R900 million) and the additional R400 million to keep insolvent farmers on land.

Apart from the subsidies to individual farmers, the government also paid industry subsidies to the wheat, maize, dairy industries amongst others. The industry subsidy to the wheat industry was paid to keep consumer prices of wheat and wheat products (flour, bread) as low as possible. The payment to the maize industry was in terms of the government's subsidization of the Maize Board's handling and storage costs in order to keep selling prices of maize as low as possible. The extent of the subsidies to the wheat and maize industry is shown in Table 6 below. Apart from the subsidization of the Maize Board's handling costs, the government, from year to year, was also responsible for payment of the Maize Board's export losses due to the fact that the producer price was fixed by the Minister of Agriculture.

4.5.9 Agricultural Marketing Policy

Since the early 1980s, a number of political economic pressures led to a more market related approach in the marketing of agricultural commodities in South Africa. There was a reduction in the use of price control on a number of commodities. There were also shifts to more market-based pricing systems and away from the old cost plus pricing procedure. Other pressures came from within the system with many farmers becoming increasingly unhappy with aspects of the controlled marketing of many agricultural products. Furthermore, there was also a realization of the poor aggregate performance of the agricultural sector as measured by the very slow rate of productivity growth. In addition to the sectoral reforms, the economic environment for agriculture has been profoundly affected by changes to macro-economic policy, most notably the tightening of monetary policy through increases in interest rates, and exchange rate depreciation.

The trend towards market liberalization was further enhanced by the pressures emerging from the GATT negotiations for the abolishment of quantitative import controls and the introduction of tariffs on all agricultural commodities. The replacement of quantitative controls on external trade by tariffs is intended to reduce the distortions created by quantitative administrative controls, to create a more commercial environment in the planning of imports, to reduce the role of government in the allocation of licenses, to limit the use of quantitative controls, and to increase the extent of competition. A general policy of tariffication has been in operation since 1985, but its application to agricultural commodities only started in 1992. During the past year tariffs have been established for poultry, tobacco, vegetable oil, oilcake and red meat and an overall strategy has been developed for submission to GATT.

The appointment by the Minister of Agriculture of the Committee of Inquiry into the Marketing Act (CIMA) in June 1992 was probably the main event which triggered the on-going process of market deregulation which began in 1993. Since the release of the CIMA report in January 1993 a total of 8 marketing schemes and marketing boards were abolished, while the one channel pool scheme of the Wool Board was abolished but with the Wool Board remaining intact to perform product development, advertising and other services.

4.6 Concluding Remarks

This section of the report reviewed structural changes in the macro-economy of South Africa and the major events associated with the restructuring of agriculture and farming in the country. The review pointed out vital changes in general growth in the sector; changes in farming costs, farm incomes, profits, yields and related variables associated with performance; changes in natural factors (climate, diseases, and disasters); as well as changes in agricultural policy. A large part of the section was devoted to agricultural policy during the 1980s. The decade is often considered to represent the third period of structural change in South African agriculture which witnessed a major change in farm policy - the result of changes in the broader political economy on the one hand, and of more direct policy reactions to the needs of the farming sector on the other. These changes are analyzed in detail showing their effects on farming debt, total factor productivity growth and farm incomes. It can be concluded that the changes of the 1980s made the agricultural sector poorer and leaner. On the other hand, they also made the sector fitter and prepared it to meet the challenges of higher rates of economic growth which is highly likely under the new political dispensation and more stable economic conditions of the 1990s and beyond.

Table 4.1: South Africa: Matrix of On-going Policy Measures

Policy	Objectives	Commencement Date	Status of Implementation
Fiscal Policy	• maintain fiscal discipline • Reduce fiscal deficit and general government dis-saving • Avoid permanent increases in the tax burden relative to GDP • Restructuring the Public Sector and reorienting expenditure to new GNU objectives. • Investigate tax system to assess improvements • Rationalize public development finance institution on national and provincial level	June 1994 June 1994 June 1994 June 1994 June 1994 1994	• Ongoing • On going budget deficit reduced from 9.8% of GDP in 1993/94 to 6.4% in 1994/95 • Ongoing but introduced a transition levy on all tax payable. • Establish RDP and Fiscal and Finance Committee to facilitate implementation • Set up a Commission of Inquiry into tax system. Report tabled in November 1994 • A Commission into Rural Financial Services was set up and will report at the end of 1995
Monetary Policy	• Abolition of the dual exchange rate system	1995	• The financial rand was abolished in 1995
Trade Policy	• align protection regime in line with GATT • Revise the export promotion system • Participate in regional trade organizations	1994 1994 1994	• Ratified GATT Agreement in 1995 • GEIS will be phased out over three years to be replaced by supply-side and export support measures consistent with international practices • Acceded to the SADC Treaty in 1995
Investment Policy	• Guarantees • Import protection • Exemption and Deduction from tax • Specialist incentives	1994	On going

Table 4.2 South Africa: Matrix for Proposed Future Measures, 1996/97

Policy	Objectives	Commencement Date	Status of Implementation
Fiscal Policy	Improvements of the tax system		Implemented
	• abolition of gender discrimination from the tax system	1995	
	• amalgamate Receivers of Inland revenue and customs	1995	• Was done in 1995
	• harmonization of tax systems of the former TBVC with that of SA	1995/96	• Was to start with the 1995/96 financial year
	• international agreements on avoidance of double tax	1995	• Several agreements signed or ratified.
	• reorientation of development institutions		
	• restructuring of states assets Privatization		
Monetary Policy			
Trade Policy	• export promotion		
	• financial institutions to offer various assistance to finance export debtors.		
	• government guarantees pre and post - export shipment finance for SMMEs		
Price Policy	• Liberalizing administrative pricing policies for services	1995	• Currently investigations under way on market based pricing for services such as electricity

5. Zambia

5.1 Socioeconomic Background

At independence in 1964, Zambia's rich mineral resources were well developed and during the first ten years, world market conditions were generally favourable. During this period the pattern of government expenditure actually reflected the country's steady export receipts from copper. The external shock resulting from the quadrupling of oil prices in 1973 and the major decline in copper prices in 1974 marked the beginning of Zambia's protracted economic decline.

Because Zambia had failed to diversify its export base away from the declining copper sector, when copper prices plummeted in 1974, the country experienced severe economic difficulties. The government's efforts to develop the agricultural sector in a bid to offset the damage caused by the declining mining industry was not rewarded due to a host of constraints emanating mainly from its own crippling policies which included a single channel marketing system; fixed agricultural producer prices, including that of maize (the staple crop); regulated road haulage rates; marketing and consumer subsidies in the maize area; etc. The non-traditional exports (i.e., non-copper exports) also failed to provide a substitute to the declining export revenue.

During this period, very little effort was made to broaden the country's export base mainly due to the government assumption then that the crisis in the copper sector was only temporary. Hence, trade in agricultural products maintained its relative insignificance in Zambia's total export earnings and the positive fluctuations that were registered during this period were largely a function of movements in international commodity prices. Against the above gloomy picture, Zambia's economic stagnation has persisted since 1974.

5.2 Economic Performance Prior to Reforms

5.2.1 Macroeconomic Performance

Zambia's economy grew at an average annual rate of 2.4 percent prior to 1974 although the share of domestic investments in GDP averaged 20 percent during the period. Between 1974 and 1988, the country's foreign exchange earnings from metal products fell by 23 percent. Copper production also declined steadily from 1978. In addition, both inadequate foreign exchange earnings and accelerating domestic inflation barred the mining companies from reinvesting in spares and maintenance needed to sustain output levels. In terms of value added, the mining sector's output actually declined by 33 percent over the 1974-85 period. Mineral revenue as a proportion of GDP stood at 3.8 percent in 1975 but declined to below 2 percent over the 1975-85 period.

This economic picture has persisted since 1974. Between 1974 and the time the country's reform programmes were put in place in 1985, GDP growth averaged only 1 percent per annum, which was well below the population growth rate of 3.3 percent. In fact, government revenue declined sharply from 28 percent of GDP in 1975 to less than 18 percent by 1989. It is instructive that there appears to have been a strong correlation between the decline in copper revenue and the government's appetite to borrow abroad in a bid to maintain its import capacity for both consumption and investment. When both copper production and prices declined sharply in the early 1980s, Zambia's net external borrowing per annum tripled (at constant prices) while world interest rates increased. Consequently, despite the severe revenue decline, government expenditures increased from 27 percent of GDP in 1974 to over 30 percent during much of the period prior to 1985. The increased public expenditure on consumption adversely affected domestic savings which, in turn, reduced domestic investment considerably. Thus, although Zambia's capital formation during the 1971-76 period averaged 13 percent of GDP, this declined to only 10 percent of GDP in 1985.

5.2.2 Agricultural Performance

Zambia's potential to grow a wide variety of crops and to rear livestock is enormous. Maize is, however, the predominant and staple crop of the country accounting for 60 to 70 percent of cultivated land. In terms of value, maize is the most important economic commodity next to copper and possesses considerable potential as an export earner.

The agricultural sector grew at an average annual growth rate of 2.5 percent during the past two decades, which is well below the population growth rate of 3.3 percent. Consequently, Zambia has been unable to become self-sufficient in this strategic crop, a phenomenon that makes the country a net importer of food. For example, during the early 1980s, Zambia's food imports amounted to as much as 10 percent on average, of the total import bill of the country while agricultural exports, comprising mostly tobacco, stood at less than 2 percent of the country's export receipts.

The country's agricultural performance has, therefore, been generally disappointing. During the 1980s and early 1990s, agricultural production levels fluctuated considerably due a host of reasons including uneconomical prices paid to the farmers; poor rainfall patterns; and inefficient marketing systems. Although over the past decade, the agricultural sector registered quantitative increases in output (e.g., 65 maize for maize; 176 percent for wheat; 113 percent for mixed beans; and 42 percent for oilseed), much of these increase was at great cost to the country. For example, increased maize production was achieved at the expense of other food crops given the government's supportive bias in favour of this crop.

5.2.3 International Trade

During the pre-reforms period, the exportation and importation of commodities, including agricultural products, were controlled by the government through a system of licensing. Maize and maize meal exports were not permitted as it was believed that this would adversely affect national food security. At the time, only NAMBOARD and, later ZCF, were allowed to be involved in the maize import/export activity.

Inadequate local production and supply of food due to a combination of factors, including the weather, forced the country to import a variety of commodities. The country is also a major receiver of food aid particularly during drought years. The country's food imports have, thus, been growing since independence. During the 1980s, the cost of food imports (mainly cereals) ranked second to manufacturing. The main food imports included maize, wheat, and rice.

Unauthorized cross-boarder trade is known to exist between Zambia and her neighbours. Some estimates of the level of 'illegal' trade in maize has been put at several million bags annually. The main reason for this high incidence of illegal trade is attributable to the over-valued Zambian currency at the time. The highly subsidized cheap maize meal also provided an incentive to people along the borders to sell it across with handsome returns. The Shaba Province in Zaire was known to depend quite considerably on Zambian maize while illegal flows into Malawi, Namibia, Angola and Mozambique, increased significantly.

5.2.3 Factors Responsible for the Poor Agricultural Performance

There are two main reasons for the country's failure to realize its potential during the pre-reforms period include: excessive government regulation and intervention in the agricultural markets and weak infrastructural support services. These factors are examined briefly below.

Government Interventions

The marketing and producer price policies during the pre-SAP period had a serious adverse effect on the performance of the agricultural sector. The marketing of most agricultural commodities were monopolized by the parastatal sector and government-instituted co-operatives. The National Agricultural Marketing Board and, later, the Zambia Co-operative Unions exclusively handled the marketing of most cereals. Grain milling was also, by government policy, the exclusive preserve of three parastatals, namely, the Indeco Milling Company; National Milling Company and Mulungushi Investments. State intervention was also applied to tobacco, cotton and oilseeds.

With respect to the handling of agricultural inputs, Nitrogen Chemicals of Zambia Limited, another parastatal, monopolized fertilizer production and importation. Seed marketing was exclusively assigned to Zamseed, a parastatal. Overall, it was the National Agricultural Marketing Board (NAMBOARD) and later the Provincial Co-operative Unions and the Zambia Co-operative Federation (ZCF) that had virtual monopoly over most agricultural inputs. Moreover, for all the controlled agricultural commodities, the government regulated both the procurement and sale prices. Transport rates were also determined by the government. Hence, in order to maintain uniform prices of controlled goods and services, the government had to extend subsidies.

Producer Price Policies

The producer price for the country's staple crop (maize) continued to be set by the government so that it remained the same throughout the country (pan-territorial) and throughout the year (pan-seasonal). Started in the 1974/75 crop season, uniform farm gate floor prices were set for producers to ensure a "fair" and "equitable" compensation to all farmers. These uniform prices, however, failed to recognize variations in transport costs. Their levels were determined using four main criteria, namely: production costs; export and import parity; crop profitability; and `fairness' to both consumers and producers. Of all these criteria, the one relating to "fairness to consumers" seemed to have been the most important given the government's desire to appease the politically charged urban-based consumers. By trying hard to keep the consumer prices low, the government actually succeeded in forcing producer prices well below both import parity and free market prices.

Consumer Price Policies

The percentage of the average household income that is spent on food has been increasing in the past decade. In the mid-1980s, 60 percent of low-income households spent about 40 percent of their earnings on cereals, mainly maize meal. By the early 1990s this share had increased to over 70 percent. Given the fact that over 50 percent of the country's total population now reside in the urban areas, (i.e., a population that consists mainly of consumers), increases in meal prices and/or disruptions in meal supply could easily translate into social unrest, as happened in December 1986 and June 1990. Consequently, the former government remained fully mindful of the potential threat to its political survival should maize meal prices go beyond what the urban consumers consider reasonable.

As a result, for much of the pre-SAP period, the government controlled the retail price of breakfast (i.e., refined) and roller meal. To ensure that prices were kept at controlled levels, a large proportion of marketed maize meal was sold through state shops. The coupons system was introduced in January 1989 and constituted yet another form of subsidizing the cost of maize meal. It was exclusively targeted towards the politically-sensitive urban and peri-urban households that earned annual incomes of less than K20,500.

Marketing Subsidies

The marketing of maize has also benefited from government subsidies, initially through NAMBOARD and later through ZCF and the provincial unions. Under the system, millers were able to procure maize at prices that were closer to producer prices. It is equally noteworthy that the government also set the mill price for maize so as to ensure that the price was uniform throughout the country. When the government felt that the large-scale private millers were not complying with the price control regime, it nationalized them in 1986. The budgetary implications of the high pre-reforms subsidies were significant. In particular, between 1980 and 1990, maize subsidies ranged between 21 percent and 145 percent of the total budget deficit.

Weak Government Support Services

The government's pricing and marketing policies in the agricultural sector during the pre-reforms period failed to provide sufficient incentives for increased output by farmers. The state dominance of the agricultural sector in both inputs supply and actual production (e.g., through state ranches/farms, rural reconstruction canters, etc) discouraged the emergence of private sector-led agricultural development. The weak infrastructural support to the farming community only worsened the situation.

5.3 The Policy Environment

The policy response to the economic adversity that had befallen the country was both inadequate and, in large part, inappropriate. Faced with decreased foreign exchange availability and the reluctance to permit a decline in consumption, the government erected a control regime and borrowed heavily from abroad under the impression that the crisis was only a passing phase. Since the country then was in the category of medium income group, access to such multilateral institutions as the World Bank and the IMF at non-concessionary terms was easy and it borrowed heavily to maintain its public consumption.

The following policies were prominent in the country during the pre-reform period:

1. Import substitution
2. State control, ownership and management of economic activities
3. Government direction of investment, including that of the private sector
4. Protection of domestic industry from foreign competition

Other pre-SAP government policies further compromised the development of a sustainable economic base. Firstly, the government sought to control and influence private investment through the system of industrial licensing. Secondly, the policy of nationalization was initiated through the 1968 Mulungushi Reforms that covered the major sub-sectors of the industrial sector. This was followed by the 1969 Matero Reforms that saw the expropriation of 51 percent controlling shares in the foreign mining business. The government established nearly 80 parastatals by 1975 and it owned controlling shares in most of them. In short, there emerged in Zambia a proliferation of state-owned enterprises (parastatals) that operated under a sheltered market and, thus, enjoyed a wide range of preferences, including privileged access to state subsidies and foreign exchange; subsidized credit; guaranteed markets; preferential tax concessions; and special treatment in access to import licenses. In short, the country's productive sectors were largely composed of firms that were internationally uncompetitive.

In the area of trade, one of the noteworthy macro-economic policy in the pre-SAP economy was the system of import licensing and foreign exchange allocation. After 1975 and mainly due to foreign exchange shortfalls, the government placed quantitative restrictions on imports and put in place an elaborate system of import licensing and administrative allocation of foreign exchange. Additionally, the policy of price control was particularly damaging to enterprise performance and profitability. In so far as price control had a high propensity to reduce corporate profitability, this inhibited both new investments and the ability (and willingness) to finance plant maintenance. From the point of view of the manufacturing sector, price control in Zambia and the resultant enterprise inefficiency placed supply at a much lower level than effective demand.

Another aspect of the pre-SAP external sector in Zambia concerns shortcomings in the government's foreign exchange management system at the time when the balance of payments crisis began. During this period, the state failed to recognize that the exchange rate was an important instrument of balance of payments management. Instead, it opted to ignore market signals and administratively maintained an overvalued exchange rate that fuelled excess demand. This development resulted in the deepening of the foreign exchange crisis.

The economic effect of these economic policies was serious especially when combined with external shocks (mainly the rise in oil prices and the decline in copper prices). The balance of payments problems; the consolidation of the import substitution industries; and the dominance of the inefficient import-intensive and parasitic state sector that succeeded in stifling the emergence and growth of the private sector all played their part in the economic stagnation of Zambia during the pre-SAP period.

What did Zambia learn from the economic regime that existed before structural adjustment policies were adopted? The following lessons are apparent from the preceding analysis:

1. Zambia's macro-economic policies ultimately determined the structure of incentives to agricultural production and trade. The country's policy of price interventions, which was a component of the economy-wide control strategy, worked against the incentives needed to increase agricultural output and the direct and indirect benefits accruable form these incentives.

2. The government's policy on self-sufficiency in the country's staple food crop (maize) was achieved at great cost to other crops that possess a comparative advantage in intra-regional trade. The goal of national food security was also threatened by the policy-induced restraint on crop diversification.

3. Government subsidies on consumption not only inflated the huge government deficit but diverted resources away from the more productive pursuits of the government, including agricultural extension and supportive infrastructure provision.

5.4 The Reform Programs

It is evident from the preceding sections that the pre-structural adjustment period in Zambia was symbolized by a `command economy' and characterized by a policy environment in which government intervention, price controls, and the absence of competition restricted both agricultural and industrial growth. The high degree of protection emanating from the country's import-substitution policy and the subsequent absence of competition, resulted in decreased efficiency and escalated cost structures. Similarly, the policy of price control seriously affected the productive sectors' performance and profitability. In so far as the policy of price control had a high propensity to discourage efficiency, this inhibited new investment among both the farming community and manufacturers. From the point of view of the production of any commodity, price control in and the attendant inefficiency restricted supply to a level much lower than effective demand.

In order to cope with the above problems, the government began in 1983 to work towards economic stabilization. Although a number of stabilization packages agreed with the IMF date back to 1973, most of these were aimed at demand management and hardly amounted to a comprehensive reform package. It was really the 1983-87 package, agreed with the IMF and World

Bank, that constituted the first comprehensive approach to reform.

The program covered a much wider range of structural policies. It was interrupted in May 1987 when the government, under pressure from the people, unilaterally abandoned it. The political discontent that was mounted against the program, particularly from the strong organised labour under the Zambia Congress of Trade Unions, turned into food riots in December 1986 which resulted in the loss of lives. One of the components of the reforms (the auction system) was particularly blamed for what were generally seen as insensitive policies.

After mid-1988, the government the economic realities in the country forced the Government to return to the IMF and the World Bank-supported reform program and to gradually liberalise the economy. In June 1989, a comprehensive list of decontrol measures were put in place, evidently in preparation for a smooth return to a highly flexible regime with movement towards full-scale liberalization. The economic and financial Policy Framework Paper (PFP), covering the 1989-1993 period, was prepared by the government with assistance from the IMF and the World Bank. However, the political wind of change swept President Kaunda out of office and the new government of President Chiluba took over the reigns of power after multi-party elections in October 1991. The new government committed itself to adopting the structural adjustment program with added political will and policy commitment. This has continued up to now.

In spite of the characteristic `stop and go' experience with past reforms, the basic components of the new reforms remained essentially the same. In this regard, the country's rather rocky experience with reforms be categorised into five phases: 1980 to 1983, the period before SAP proper; 1983-1987 when SAP was adopted; mid-1987 to 1989 when the government abandoned SAP; 1990-1991 when liberalization was re-introduced; and late 1991 to the present day (1995) when a new government came into power and full-scale and an accelerated pace of reforms was adopted. The basic policy attributes of the reforms in all the various phases outlined above are presented below.

5.4.1 Fiscal Policies

Zambia's fiscal policies under structural adjustment revolved around prudent fiscal management that aimed at balancing the budget by way of gradual reduction and eventual elimination of the large budget deficit. A number of strategies have been adopted to realise this. First and foremost, the government decided to eliminate subsidies on maize and fertilizer. It recognised that subsidies suppressed agricultural production. The plan for subsidy elimination was phased. Initially, fertilizer and mealie meal subsidies were eliminated by June 1992 while that on maize handling did not come into effect until 1992 because of the drought. By 1994, all consumer subsidies on maize and maize products were completely eliminated and the price of mealie meal liberalised. Complimentary to this decision was the government's policy to totally withdraw from the marketing and distribution of mealie meal in order to allow for private competition.

Another fiscal reform measure that has had considerable impact on the level of government subsidies is the policy on privatization. The goal of competition enhancement was best expressed through the government's decision to privatise the parastatal companies. Given the background of poor performance by these state enterprises, the decision to privatise them constituted the heart of the country's economic restructuring exercise. The Privatization Act was passed in July 1992 and, subsequently, the Zambia Privatization Agency was created to handle the privatization process. The Act authorised the divesture of government from commercial enterprises by way of trade sales, management by-outs, share floatation, leasing, management contracts, dilution of government shareholding, etc.

Yet another fiscal policy measure that has had long-term positive effects on the budget deficit is that of retrenchment in the civil service to make it leaner, efficient and more productive. The aim was to reduce the civil service as part of the civil service reform. Related to this was the decision of the government to extend financial autonomy to city and municipal councils, thus, removing undue control and support from the central government.

Lastly, in an effort to promote prudent fiscal management, the government adopted a cash-based budget system in January 1993. Under this system, the government took a policy decision to curb inflation by reducing money supply. The aim of the government was not to incur any expenditure that is not covered by existing revenue.

5.4.2 Monetary Policies

Monetary policy reforms in Zambia were aimed primarily at complementing the government's on-going efforts to reduce inflation, mainly through a reduction in the rapid rate of growth of money supply. One key guiding principle in this respect was the central bank's withdrawal from commercial and semi-commercial activities so as to allow commercial banks to perform these functions. As a result, the Bank of Zambia now concentrates mainly on controlling both primary liquidity and money supply.

A number of other monetary policy reform measures were adopted. They include: interest rate liberalization, exchange rate liberalization and the creation of capital markets. The essential aspects of these reform measures are outline below.

Interest Rate Liberalization

The government decided to move away from government-determined/regulated interest rates and towards positive interest rates that would encourage savings, investment and an efficient allocative system to service competing users of loanable finance. Prior to the reforms, interest rates were negative in real terms. Complete interest rate liberalization was, thus, effected in 1992. Since January 1993, the sale of government treasury bills is being administered by the Central Bank at rates of interest that are market-determined. Under the tender system, the amount of bills offered for tend is equivalent to what the government needs to meet the maturities for the following week.

Exchange Rate Liberalization

Exchange rate management also featured prominently in the reforms. In this respect, the exchange rate is adjusted to a level that clears the market. In February 1990, the government quickened the pace of the effective exchange rate adjustment by introducing, as a temporary measure, a dual foreign exchange regime with two windows. The copper sector's foreign currency receipts are sold at the first window (the official rate) while receipts from non-traditional (i.e., non-copper) exports and external loans and grants are channelled through the second window (market rate).

The exchange rate liberalization measures resulted in immediate devaluation of the Zambian Kwacha. In early January 1992, a 30 percent devaluation of the Kwacha was effected. Two months later, exporters of non-traditional exports were allowed to retain 100 percent of their foreign exchange receipts unlike in the past when 50 percent of this had to be surrendered to the Central Bank. In October 1992, *"Bureaux de Changes"* were allowed to operate and two months later, the official and the bureaux rates of exchange were unified. Since then, the market has been allowed to determine the exchange rate with a view to allowing it to achieve full convertibility.

Creation of Capital Markets

The Government created capital markets by facilitating the growth of the banking sector so as to allow for a diversified system of financial intermediation. The government expects that this would result in the creation of sophisticated money and capital market instruments through which borrowers can source the needed productive investment capital.

5.4.3 Trade Policies

Reforms have also taken place in the Zambia's trade sector. Access to foreign exchange for exporters and importers has been liberalized while administrative and other non-tariff barriers to trade have been substantially eliminated. The country's external trade performance has been closely linked to the country's exchange rate policies. Non-traditional exports increased by close to 80 percent in the two years following the introduction of reforms in 1983. When it abandoned the reform programs in mid-1987, the real rate of exchange appreciated considerably, dramatically reversing export growth in the non-traditional sector such that by 1990, the export levels were similar to that of 1983. Expectedly, when the government returned to the policy of liberalization around 1990, an appreciable degree of non-traditional export growth was registered. The post-1991 reforms which registered a relatively stable, albeit slightly appreciating, real exchange rate was accompanied by a weakening of the non-traditional export sector.

5.5 The Performance of the Reform Measures

5.5.1 Macro-economic Reforms

The policy reforms have resulted in considerable progress in many areas. Firstly, the fiscal deficit was reduced from over 10 percent in 1991 to 3.5 percent in 1992. This reduction was brought about principally by the substantial removal of agricultural subsidies. However, the fiscal success was adversely affected by the severe drought that affected the country in 1992. This resulted in the costly importation of large volumes of grains. This development, taken together with the government's decision to increase salaries by 150 percent in 1992 largely explained the high rate of inflation in that year compared to the previous years.

By 1992, the rate of inflation reached 191.2 percent as opposed to 111.1 percent the previous year. The situation improved in 1993 when the rate was 138.3 percent. Due to the government's financial stringency especially following the strict adherence to the cash budget, the rate was as low as 35.1 in 1994. There are several explanations for the high inflation rate during the pre-1994 period. The high expansion rate of aggregate demand superseded supply while the large government deficit, high wage settlements, and over supply of money all worked towards increasing the growth in demand.

The generally poor economic performance over the 1991-93 period had an adverse effect on the real growth of the economy. The value of manufacturing output declined by 10 percent in 1991 compared to a 7.8 percent increase the previous year. The poor performance has been explained by: reduced ability of most manufacturing firms to import the needed raw materials and requisite equipment; poor plant rehabilitation record; and liquidity problems due to low profit margins and prohibitively high interest rates on commercial loans.

In the area of financial liberalization, some positive changes have taken place with respect to interest rates, exchange rates and the rate of foreign exchange. Interest rates remained quite high during the pre-1993 reform period. However, they began to respond positively when the government introduced the treasury bills tender in January 1993. Interest rates on commercial loans moved from over 100 percent in 1993/94 to less than 50 percent by March 1995. Significant progress was also achieve with regard to foreign exchange liberalization. The rationing of foreign exchange through the Foreign Exchange Management Committee was abandoned in 1990 when an Open General License (OGL) Import System was introduced. The OGL initially operated on a positive list concept but was later switched to that of negative list. Foreign exchange controls were finally abolished in January 1994 and subsequently, the OGL system was also abandoned. After the merger of the official with the bureaux de change rates, the Kwacha depreciated significantly. During 1994, the exchange rate fluctuated between K647 and K720 to the US dollar, reflecting the general stability of the foreign exchange market, relative to the previous period. It was not until February/March 1995 that the rate climbed to over K800 to the US dollar and concern emerged. The government decision to replace the Central Bank Governor in early 1995 has been attributed to the need to bring back confidence in the financial market following the negative rate movement.

The privatization process started at a slower pace than anticipated. The Zambia Privatization Agency which was established to manage the sale of state-owned companies has so far approved the sale of more than 100 companies although only about 10 have successfully been sold.

Notwithstanding the above mentioned achievements of the reform programs, a number of disappointments have been registered in several areas. Firstly, although the financing of maturing treasury bills through roll overs rather than paying them out of the government's revenue has avoided the crowding out of the limited resources for other domestic expenditures, it has nonetheless prompted the escalation of the government's debt stock from K45 billion in January 1993 to about K150 billion by October 1994. While this latter amount represents a bearable percentage of GDP, the potential danger of the system worsening the government's domestic debt burden does raise concern.

Secondly, the fiscal stringency of the cash budget, much as it has significantly reduced the high inflation rate operating in the country in 1994, did bring about severe hardships to many government and government-aided institutions that have been starved of both recurrent and capital expenditure resources. Real wages have also declined particularly for the public service employees.

5.5.2 Agricultural Sector Reforms

The reform measures have had far reaching implications for the agricultural sector in Zambia. Firstly, the Government deregulated the marketing of agricultural products and inputs through the Agricultural Marketing Act of 1989. As a result the state only intervenes in the private sector-led agricultural marketing for the purpose of ensuring the maintenance of strategic national food reserves to fill whatever deficit that the private sector may be unable to meet. To implement this policy, all parastatals that were involved in marketing activities were either abolished (e.g., NAMBOARD) or earmarked for privatization.

Related to the issue of marketing is the policy decision to permit exports of all agricultural commodities as long as they adhere to health regulations. Similarly, imports of agricultural commodities and inputs are allowed subject to the payment of duty and tax. The government strives to set these tariffs at levels that are low enough to avoid the creation of barriers to trade in farm products. It is noteworthy that the government decided to convert the sales tax to Value Added Tax (VAT) effective July 1995. It is expected that the VAT system will enhance, the country's export competitiveness by eliminating input sales tax for exporters.

As a result of these liberalization measures, production and marketing subsidies on maize have been eliminated. Hence, maize marketing decisions and prices are now, in principle, governed by market forces.

With regard to regional trade in agricultural commodities, the reform measures have not significantly affected the flow of non-traditional exports even though the country has liberalized both import and export trade in agricultural products. As a member of such regional organizations as COMESA (formerly PTA) and SADC, the country also strives to harmonise its trade policies with other regional member countries. The country's exchange rate liberalization has, however, provided an added impetus to the non-traditional exporters to penetrate the regional export market.

Despite the considerable progress made in the liberalization of agricultural production, marketing and distribution, there still remain a good number of constraints. Grain output has been hampered by both natural calamities and the fiscal stringency under the new budget system. The speed of liberalization in the agricultural sector also appears to have caused serious transitional difficulties for both farmers and private sector agents involved in crop and inputs marketing and handling. The government was unable to pay them towards the end of 1993 and, instead, offered them promissory notes to be redeemed the following February. Furthermore, the private sector was unable to respond positively and promptly to the new environment due to a host of reasons. First, because of high interest rates against loanable capital from commercial banks, the private sector failed to fill the space created by the withdrawal of Government from the provision of this service. Consequently, considerable amounts of maize remained unsold during the 1993/94 marketing season, causing severe hardships to many cash constrained farmers. Second, the private sector has been quite slow in investing in storage facilities.

There are also other constraints to the successful implementation of the reform measures in the agricultural sector. Firstly, there is absence of the essential information to support the implementation of the reforms. An adequate and reliable market information system is crucial in a liberalized agricultural sector so that the government, producers and traders can make sound business decisions. Secondly, the absence of an adequate and fairly decentralized capital market has limited access to funds for purchasing crops and agricultural inputs. Crop financing, even under the liberalized system, continues to be provided mainly by the government. Thirdly, insufficient storage facilities as well as poor road and transport infrastructure combined to negatively affect the smooth implementation of the reform program in the agricultural sector.

5.6 Implementation Status of Key Reform Measures

All the major stabilization and adjustment measures discussed above are on course. Zambia's fiscal policies still revolve around the desire to reduce the large budget deficit and the rate of growth of inflation. In this regard, all subsidies have been eliminated and the cash budget is still operational. The civil service reforms is also on-going with the reduction of the large public sector as its central focus.

It is noteworthy that, the issue surrounding the implementation of the key policy reform measures is not so much wether new reform measures should be introduced. Rather, the effort is on the consolidation of the policy decisions passed several years ago. This fact notwithstanding, a number of structural and strategic difficulties which compromise the speed and success of the adjustment process still persist. In the area of privatization, the program seems to be too ambitious given the institutional capacity limitations and resource constraints. The case of the agricultural sector illustrates this concern vividly. Agricultural marketing has failed three years in a row chiefly because resource and capacity limitations prevent the private sector from responding promptly and positively to the liberalized mode of doing business. The 1993/94 agricultural marketing season has been described as the worst in living memory. The break neck speed with which the government is balancing the budget and lowering inflation has significantly reduced resources to the agricultural sector. As a result: loanable capital dwindled (amidst prohibitive interest rates); resources to purchase farmers' produce dried up; and the inability of the liberalized system to collect grain to safe storage all worked against the farming community's confidence in the policy reforms.

The experience of the process of liberalization in the agricultural sector (and in many other productive sectors) suggests that the timing, sequencing and speed of the reform process must always be taken into careful account vis-a-vis the economy's characteristics and capacity constraints. It is evident in the Zambian case that there has been serious difficulties resulting from the government's attempt to simultaneously undertake far-reaching structural reforms as well as tough macro-economic stabilization measures.

In recognition of the many constraints to improved agricultural performance and the fragmented donor support in the area of agricultural growth enhancement, the government, with the support of the World Bank and other donors, has come up with the Agricultural Sector Investment Program (ASIP). This Program adopts the integrated sector approach and consists of three main components, namely: policy and institutional reforms; support for private sector investment; and rehabilitation and strengthening of public sector agricultural services.

5.7 Concluding Remarks

The analysis in this section has revealed a number of important elements and factors regarding agriculture and trade in the context of Zambia's economic reform measures. The poor economic development that characterized the pre-1983 period came about as a result of both external shocks and internal problems. The latter was characterized by both faulty government policies and weak institutional capacities. The absence of competition; the existence of price controls; the dominance of the state sector; and the subsequent suppression of private sector development all worked to prevent the economy from growing positively.

In the agriculture sector, ineffective allocation of the limited resources available to the sector adversely distorted both the investment patterns and the price structure in the sector. The policy environment also encouraged the dominance of one crop, a phenomenon that partially explains why less than 20 percent of the country's arable land is currently under cultivation.

It was against this background that reform measures were attempted in 1983. These reforms, despite the ups and downs in their implementation have remained sustained for the past four years. It is noteworthy, nevertheless, that a considerable number of civil society groups are increasingly challenging the speed, sequencing and adverse effects of the reform measures. The magnitude of this resistance has, nevertheless, not reached the level that could threaten the government resolve to proceed with its austerity measures.

To the extent that the reform measures have managed to reduce and stabilize, to an acceptable level, the budget deficit, inflation, money supply, and interest rates, they should be seen as a qualified success. However, the transitional adverse effects of the reforms such as significant reduction in employment levels, decline in the level of household food security (mainly a function of reduced access to a nutritionally adequate food basket), etc., all suggest that the social dimensions of adjustment must be addressed in the future.

Table 5.1: Zambia: Matrix of Policy Reform Measures: 1991-95

POLICY	OBJECTIVE	DATE	STATE OF IMPLEMENTATION
Fiscal Policy			
(a) Revenue Mobilization	•Expand income base to include fringe benefits and reduce tax rates; harmonize domestic and import sales tax; convert sales tax to Value Added Tax (VAT)	1992-93	Completed. However, introduction of VAT was delayed until July 1995
(b) Expenditure Restructuring	•Elimination of subsidies on food and fertilizer	1992-94	Effected by 1994
	•Improve targeting of vulnerable groups through increased current expenditure to relevant sectors	1992-94	Share of social sectors increased in 1994
© Fiscal Management	•Strengthen monitoring and control of expenditure	1992	Cash budget introduced in January 1993
(d) Civil Service Reform	•Improve incentives for technical and managerial positions, while reducing size of public service	1992-94	Up to now (July 1995) very little progress has been registered
(e) Privatization	•Competition enhancement and removal of government from direct economic involvement	1991	By 1995, only 13 companies were sold out of about 150 parastatals
Institutional Policy			
(a) Civil Service Reforms	•To make the civil service leaner, professional and more efficient	1992	Little progress up to now in terms of general organized structure and number of employees
(B) Capital Markets	• Facilitate growth of capital markets by allowing for a diversified system of financial intermediation	1992	Several private commercial banks have emerged and Lusaka Stock Exchange became operational.

Table 5.2: Zambia: Matrix of Policy Reform Measures: 1991-95

POLICY	OBJECTIVE	DATE	STATE OF IMPLEMENTATION
Investment Policy			
(a) Parastatal Reforms	• Establish managerial autonomy	1991	Managerial autonomy by May 1992, including removal of routine subsidies and institution of price mechanism.
	• Abolish the holding company, ZIMCO		ZIMCO abolished by 1994
(b) Expenditure restructuring	• Increase share of budget allocated to capital expenditure and to maintenance and rehabilitation	1992-94	Process on-going. However, cash budget has introduced severe fiscal stringency that has affected both recurrent and capital expenditure
© Mining	• Formulate a detailed medium-term investment and production program for ZCCM	1992	Plan implementation started in 1994
	• Improve operational efficiency of ZCCM	1992-94	Measures began in 1992 and on-going
	• Divesting ZCCM nonmining activities		Began in 1992 and on-going
(d) Legislative Reform	• Streamline procedures and liberalise treatment of both local and foreign investment	1992	Began in 1993 and parliamentary enactment of business-related laws effected
(e) Social Action Program	• Ensure adequate provision for health; education; and sanitation	1992	Began rather slowly and concept changed to *'Social Sector Recovery'*

Table 5.3: Zambia: Matrix of Policy Reform Measures: 1991-95

POLICY	OBJECTIVE	DATE	STATE OF IMPLEMENTATION
Monetary Policy			
(a) Interest Rate	•Attain positive interest rates that would encourage savings. Interest rates were, thus, deregulated	1991	Complete interest rate liberalization was effected in September 1992
(b) Exchange Rate	•Allow the Zambian Kwacha find its market value by liberalizing exchange rate	1990	In February 1990, the government initially introduced a two-window exchange regime. The two windows were unified in December 1992 following introduction of bureaux de change. Since then, market-determined exchange rate adopted.
© Credit	•Limit net borrowing by government from banking system	1992	Cash budget introduced in January 1993 which set borrowing requirement to zero
(d) Money Supply	•Introduce and make active use of new liquid asset requirements	1991/92	Introduced and managed at high levels (maximum of 50% for core liquid assets plus 32.5% statutory reserves by end of 1993
Price Policy	•Price decontrols	1991	Prices of all goods, including maize and fertilizer, decontrolled by 1994.
Trade Policy	•Liberalize access to foreign exchange; remove tariffs and non-tariff barriers	1991	All foreign exchange controls eliminated by 1994 and the process of rationalizing and reforming the tariff structure is on-going

6. Zimbabwe

6.1 Background

Zimbabwe is a small open economy which is heavily dependent on the agricultural sector, a sector that has undergone a great deal of adjustment in the last 20 years. In foreign exchange terms, the agricultural sector is the second largest foreign exchange earner after the mining sector. It contributes significantly in terms of raw materials both to the food processing and textile industry. It is also the country's largest contributor to total formal employment even though formal employment has been declining since the mid-1980s. It is estimated that if the number of farmers in the commercial and smallholder areas and their dependents are added, approximately two out of every three people in Zimbabwe derive their livelihood from the sector. In addition, the relative productivity of agriculture ensures national food security and the country is largely self-sufficient in food. There exists a "food insecurity paradox" particularly as food security at the national level is not matched by food security at the household level.

6.2 The Policy Environment

During the 1980s, Zimbabwe's economy registered uneven and sluggish growth rates and reflected a general failure to fulfil its growth potential. It was a decade in which the economy was characterised by a number of negative factors including: rigid foreign exchange rationing and price controls allowing monopolistic rents to be earned by importers; over-valuation of the Zimbabwean dollar acting as a disincentive to agricultural exporters and an incentive to importers of agricultural inputs; and the use of retention schemes acting as an incentive to the manufacturing industry more than agriculture.

After analysing these developments, the Government of Zimbabwe (GOZ) decided to get its macroeconomic policies right by implementing from 1990, a comprehensive 5-year economic reform program to achieve higher and sustainable economic growth, economic efficiency, encourage investment and reduce poverty and unemployment. One key component of the reform program was the reform of the macro economy although the reform of the agricultural pricing and marketing systems were also critical components in the program.

However, as the GOZ began to move ahead with the implementation of the economic reform program, the country experienced its worst drought this century. Agricultural production fell by about 24 percent in 1992, and shortages of electricity in the second half of 1992 contributed to a 9 percent reduction in industrial output and 8 percent decline in mining production. The general downturn in economic activity led, in turn, to a severe recession in the service sectors. The Government responded promptly to curtail the effects of the drought with a food relief and drought recovery program that included subsidised inputs to smallholder farmers and confessional refinancing of farmers' debts.

Notwithstanding the adoption of the economic reform program, the objectives of the Government in the agricultural sector have remained unchanged and emphasise the need to:

1. Increase food production in order to ensure food security for the growing urban and rural population;

2. Improve the living standards of farmers, in the communal, resettlement and small scale commercial farming areas;

3. Sustain and expand employment in the agricultural sector;

4. Improve the net balance of payments by increasing foreign exchange earnings from agricultural exports and also by reducing food import requirements;

5. Generate higher rates of growth for the national economy as a whole, since growth in the agricultural sector has major multiplier benefits for other sectors;

6. Provide a regular supply of raw materials for the country's domestic manufacturing industry, 60 percent of which is agriculture related; and

7. Contribute to the food requirements of the Southern African region as a whole.

From the mid-1980s, the Government was preoccupied with addressing a major issue critical to the achievement of these objectives - the rapidly fluctuating supply and demand situation for "controlled" or regulated agricultural products. However in 1990, under the terms of the economic reform program, the Government became more concerned with the evolution of crop pricing and marketing as it enhances or impedes the achievement of its objectives in the agricultural sector. The most immediate goal of the economic reform program as it relates to agriculture is to raise agricultural output to meet the country's short-term domestic processing and consumption needs and also the medium-term growth target of 3.2 percent per annum. As part of the strategy to achieve this goal, the Government undertook a phased program of liberalizing the pricing and marketing system to reduce the financial deficits of the agricultural marketing boards, improve marketing efficiency and respond to producer and consumer requirements. Improving incentives and infrastructural services for farmers is also a key element in the reform program.

6.3 The Structural Adjustment and Stabilization Programs

This section reviews progress on the implementation of the key aspects of the country's reform policies. The evaluation of progress is done by comparing reform targets against actual outcomes. Cases where there is no change in policy or where there are policy reversals are also discussed. The section ends with a summary of future policy reforms.

6.3.1 Fiscal Policy

On-going Reforms

Zimbabwe started the 1990s with a large fiscal imbalance resulting from high government spending and declining trade tax revenues caused by the collapse of commodity prices in the late 1980s. Budget deficits (including grants) in excess of 7 percent of GDP were the norm. Under the economic reform program, the Government's fiscal policy objective was to reduce the budget deficit from 11 percent of GDP in 1990/91 to 5 percent of GDP by 1994/95 by cutting public expenditure to 38 percent whilst reducing the tax burden to about 33 percent of GDP. This reduction was to be achieved by reducing the fiscal deficit ratio by two per cent in 1991/92 and by one per cent per annum thereafter. However, while is was happening, the Government also wanted to maintain infrastructure and address social concerns through improved targeting of subsidies to the poor and a general shift in the focus of government activities away from direct intervention in the market for goods and services towards reducing "market failures" and creating an enabling environment.

The position at the start of the economic reform program in 1990/91, was that central government revenue and expenditure stood at 37 percent and 48 percent of GDP respectively, implying a budget deficit of 11 percent of GDP. This was one of the causes of the lack of growth. Despite the attempt to reduce the deficit, the fiscal situation in the country remained fragile. The budget deficit was not helped by relatively high government spending in the early 1990s at the same time as interest payments were also increasing. Cuts were mostly in capital spending which was unfortunate because the level of capital spending was not excessive although its composition needed improvement.

The Government made some initial progress in 1991/92. The primary fiscal deficit as a share of GDP improved much better than the overall fiscal deficit. It is suggested that the increased revenue was achieved largely through an increase in customs tax revenue arising from exchange rate depreciation. However, the overall 1992/93 fiscal deficit, excluding grants, climbed back to 10.4 percent of GDP. A large part of this deficit was caused by subsidies and transfers to Public Enterprises (PEs), much of which arose from the drought, and a high public wage bill. Zimbabwe is one of five countries in sub-Saharan Africa (SSA) with the largest increases in the wage bill as a share of GDP. Ideally, spending cuts should have been reinforced by revenue increases. However, government revenue did not increase. The financing of the budget deficit was adversely affected by an overall shortfall in external financial assistance, as well as the bunching of available disbursements from multilateral financial institutions towards the end of the fiscal year. Consequently, the government's net borrowing was well in excess of the revised program target.

Future Policy Reforms

From the above developments, it is quite clear that recurrent expenditure can only be reduced slowly over the years as government initially pays off retrenched workers in the public sector. Most of the budget deficit reduction will have to come from a reduction in subsidies going to public enterprises, the trimming down of the civil service, and from defence cuts. However, the target is to also raise additional resources through cost recovery measures such as charging for dipping services, charging higher school fees and health charges.

There are also a number of proposals to reduce the central government deficit through company and individual tax rates and improvements in revenue collection. The Government will also attempt to make some headway on further reductions in the size of the civil service, followed by increasing wages in the public sector to ensure appropriate competition with the private sector. There are also proposals to improve procurement procedures and to reduce expenditure growth.

6.3.2 Monetary Policy

On-going Reforms

The main goals of the Government's monetary policy in the reform program are to maintain a low rate of inflation and suitable level of economic activity through an appropriate real interest rate.

Zimbabwe experienced high and negative real interest rates for long periods during 1991-1992, leading to a tight monetary or credit policy, high inflation, and heavy taxation of depositors as the monetary authorities tried to cool off the economy. Since 1992, however, the country has experienced highly positive interest rates, suggesting tighter credit policies and excess demand for credit. These highly positive rates are riskier for banks as they are forced to lend at high real rates to remain profitable. However, during this period, interest rates had a limited value as an indicator of monetary policy in Zimbabwe as financial markets were thin and government (through the Reserve Bank) set the rates.. Interest rate liberalization during 1993 helped to reduce the negative real interest rates.

There has been an annual increase in the Consumer Price Index (CPI) of the low-income group since 1991. The upsurge in inflation reached almost 45 percent by mid-1992 compared with an average of 25 percent in 1991. The reform targets for 1991 and 1992 were 16 per cent and 12 per cent respectively. This high level of inflation resulted from a combination of the factors including: the relatively high level of government expenditures, particularly for financing board deficits; the transitional effects of adjustment as companies responded to price decontrol; the staggering of price increases by parastatals; and the high cost of importing food during the drought.

The Government responded by adopting a more active monetary and interest rate policy which included, inter alia, the use of monetary instruments such as raising the rediscount rate and the Treasury Bill Rate. However, while the use of these instruments led to a deceleration of inflation by early 1994, it also created tight liquidity conditions, rising nominal interest rates, and serious financial difficulties for farmers, as banks rationed credit and biased it towards farmers with a lower credit risk. This was to the detriment of smallholder farmers, many of whom were viewed by the banks as risky.

Future Policy Reforms

In adopting more market-based instruments, the Government intends to reduce inflation to below 10 percent in 1995. The monetary authorities also plan to make the Bank Lending Rate dependent upon the cost of foreign and local borrowing, before being replaced by the use of open market operations particularly the use of rates of government stock and reserve requirements. With regards to access to credit by smallholder farmers, the intention is to open up the financial sector to entry by new banks and financial institutions to provide necessary competition and enhance efficiency.

6.3.3 Exchange Rate Policy

On-going Reforms

Zimbabwe started the adjustment period in 1990/91 with an over-valued exchange rate and a high parallel premium for foreign exchange. The Government was defending its international reserves through foreign exchange rationing and trade restrictions towards the end of the 1980s. The adoption of the economic reform program signalled a change in exchange rate policy towards a more flexible and market-based system. This was in line with the elimination of the foreign exchange allocation system. The move to a market-based exchange rate system was initially through the Export Retention Scheme (ERS) where exporters could retain a part of their export earnings. Entitlements were made tradeable in mid-1992 such that by the beginning of 1993, retention levels had been raised from 30 percent to 50 percent. This contributed to the expansion of the ERS market and the resulting premium became a proxy for the market value of the Zimbabwe dollar.

However, the ERS scheme had some key problems among which were that it was restricted only to exporters, the encouragement of multiple and distorting exchange rates, and the negative impact on the reserves position due to the unpredictability of the utilisation of entitlements. The monetary authorities, cognisant of these problems, introduced corporate Foreign Currency Accounts (FCAs) to replace the ERS at the same time as the retention threshold was raised to 60 percent. This led to the development of an inter-bank foreign exchange market with its own foreign exchange rates, resulting in a two-tier exchange rate system. What followed was the liberalization of exchange controls. The introduction of corporate FCAs meant that the local currency was devalued by 17 percent, thus bringing the "official" rate closer to the perceived market rate, the gap narrowing down from five percent in the first few weeks to one percent by June 1994. The two-tier exchange rate system was unified in July 1994 and export retention raised to 100 percent at the same time, making the Zimbabwe dollar fully convertible.

Future Reforms

With the establishment of a market-based exchange rate, future exchange rate management will be guided by the need to maintain overall competitiveness through maintaining a constant real effective exchange rate; monitoring market rates vis-a-vis the internal rate based on a trade-weighted basket of currencies; determining parameters and bands to enable Reserve Bank intervention; and the use of open market operations to buy and sell foreign exchange to smoothen any swings.

6.3.4 Trade Policy

On-going Reforms

From a country that entered the adjustment period with an over-valued exchange rate and heavily rationed foreign exchange rate, the Government made tremendous strides in liberalizing imports. The phased depreciations of the exchange rate and the adoption of a macroeconomic policy consistent with a sustainable balance of payments had, as of the end of 1993, done away with foreign exchange rationing, eliminating the import scarcity premium that was reflected in the parallel market. The initial inflow of external funds to support the liberalised import program also played a major role in abolishing foreign exchange allocation.

The Government adopted a phased, outward-looking policy of trade liberalization involving a movement away from the system of foreign exchange allocations to a market-based system by the end of 1995. The economic reform program called for two phases of liberalization. In the first phase, the system of allocating foreign exchange was to be phased out and replaced by a tariff-based system. Imports were to be progressively freed, domestic productive capacity modernised, and producers prepared for external competition by encouraging them to reorient their activities towards exporting. During the 5-year period of liberalization, it was anticipated that the total amount of foreign exchange available would increase significantly as a result of enhanced exports from the agricultural, mining and manufacturing sectors and higher earnings from tourism and increased external borrowing. The total amount of foreign exchange available after deducting net invisibles each year, was to be allocated between current imports and capital needs.

The second stage of trade liberalization, which was to overlap with the first, was to complete and supplement these reforms by identifying specific weaknesses in the productive sectors and introducing remedial measures to overcome them, strengthening infrastructure and reviewing domestic regulations. During this phase, the government was to increase sales taxes on luxury goods to curtail demand.

There were to be two main areas of emphasis during the early stages of the trade liberalization program: revision of the tariff regime, and provision of the necessary degree of protection to domestic producers as they adapt their production arrangements to a more liberalised trading environment. To evaluate Zimbabwe's import liberalization program, three key relationships are examined: foreign exchange allocation, NTBs to imports, and tariffs.

Although the Government had almost universal discretionary control over imports at the start of the reform program, it had moved to non-discretionary access of imports by the end of 1992. The Government initially introduced various mechanisms other than the elimination of foreign exchange licensing to relax the country's foreign exchange constraint. An ERS, was introduced in 1992 which allowed exporters to retain a part of their foreign exchange earnings. The ERS applied to all productive sectors and was based on actual export earnings. The agricultural sector was initially entitled to retain 5 percent of the value of exports for the purchase of imported raw materials and capital goods to be used for existing lines of operation. The retention was on a cumulative six months' export earnings based on fully discharged forms. At the start of the scheme, allocations for the agricultural sector were issued through the Ministry of Lands, Agriculture, and water Development (MLAWD). Exporters had to apply through their banks to the Reserve Bank for "non-transferable" export retention allocation certificates.

In theory, this retention scheme should have been relatively simple to administer in cases where large amounts of exportable value-added came from single firms. However, in practice, there were a number of bureaucratic procedures to be followed including having to obtain an import licence. In applying the idea to agriculture, there were three major problems. First, for most crops, not all sales could be exported, and it was difficult to distinguish between exportables and non-exportables. Second, individual farmers sold only a relatively small proportion of exportables and they were not themselves involved in importing inputs. Only a small number of large-scale commercial producers could get ERS allocations large enough to import anything substantial. Most farmers were getting very small amounts which were not very useful unless accumulated over a long period of time. Third, while the requirements of input suppliers, transporters and processors, who play a very important role in exporting farm produce were catered for under the scheme, Marketing Boards, many of whom export, had to be given special consideration.

With regards to tariff and non-tariff barriers, the introduction of FCAs and elimination of the allocation of foreign exchange for imports at the beginning of 1994 is probably among Zimbabwe's biggest achievements of the reform program.

Import liberalization can largely be judged from the Government's progress in eliminating NTBs. Import licences were key barriers and were connected to foreign exchange allocations in the sense that a valid import licence was required to obtain foreign exchange. The licences also had the additional function of protecting domestic producers from foreign competition. Because the licences were specific to either a firm, individual or end-use, they not only limited the quantity of imports but, very often, also reduced their economic benefit. In many cases, the imports did not flow to those who needed them most.

Substantial progress has been made in reducing the number of goods requiring prior approval for import. A Tariff Committee was set up by the Government in 1990 to be responsible for revising the old tariff regime. A Tariff Commission was also set up to assist in the creation of a smooth transition to freer trade. A great deal of work was done to ascertain the appropriateness or otherwise of particular rates of duty. Subsequently, recommendations of revisions that would strike a "correct" balance between the interests of producers and manufacturers on the one hand, and consumers/users of the products on the other were made and adopted by government.

Then followed the introduction of an OGIL system. The Government decided from the outset that the rates of duty under the new tariff should be at levels that are consistent with GATT rules. In setting the rates, the primary consideration was the state of competitiveness of the particular domestic activity against external competition. This meant that the rates applying to specific goods could be high or low, irrespective of whether they were primary, intermediate or finished goods. In the case of "luxury" goods, domestic consumption was initially discouraged by imposing a higher rate of duty or a selective consumption tax. Duty-free and drawback facilities were also made available under the revised tariff regime. The new tariff regime was, however, not devised as a revenue measure although, as imports increased, revenue also increased.

Some of the key imports which still needed foreign exchange allocation include those for the general needs of the state such as petroleum, defence and security. Other expected imports under the Open General Import License (OGIL), the Export Promotion Program (EPP), the Export Revolving Fund (ERF), the Export Retention Scheme (ERS) and the Direct Local Market Allocations (DLMA), were to receive allocation after key import requirements had been dealt with. All foreign exchange made available under the OGIL scheme was to be used to best advantage to generate exports and restructure productive capacity. Thus, a key criterion for placing an item early on OGIL was its effect on the balance of payments. Other key considerations included: present and potential export capacity and ability to compete; the relative attractiveness of the export and the nature of domestic markets for producers as indicated by domestic/export prices; and linkages between sectors in the supply of inputs and the direct and indirect employment effects.

It was considered that external liberalization could be accelerated if more funds were available. Initially, because of the difficulties associated with establishing the value of imports in advance, the share of OGIL imports by value were calculated on the basis of the previous year's imports. Thus, for example, goods eligible for OGIL at the of June 1992, comprised only those goods which during 1991 had accounted for at least 15 percent of the value of imports. The whole thrust was to progressively place SITC categories of goods on OGIL during the first three years of the program so that in year four (ie 1994/95), the list of OGIL goods would be eliminated and all goods would fall immediately under the unrestricted OGIL unless included under a negative list. Progressive additions were made to the list in successive years, starting first with raw materials (irrespective of whether they were domestically produced or not), and followed by intermediates and selected capital goods.

With regard to consumer goods, the target was to place them on OGIL in the fourth year to minimise damage to local industry and employment, while ensuring that industries could restructure for external competition. The sectors with the strongest export capabilities have first claim on foreign exchange. However the agricultural sector continued to have access to the EPP until it was phased out in 1992 following the introduction of the ERS in July 1992.

The initial approach was clearly to place the less widely used items onto OGIL with a view to ensuring that the import bill was kept within manageable limits. However, as the liberalization program progressed, it was decided to change the approach to ensure that the latter stages of the program would not be confronted with widely used and costly items which would induce undue pressure on the balance of payments. As the OGIL and ERS systems gradually began to replace the foreign currency allocation system, modest tariffs became the only source of protection for local producers as almost all tariff rates were already in the 10 to 30 per cent range by the end of 1991. However, by the end of 1992, he Government's approach had shifted towards progressively expanding both the OGIL and ERS to reduce the amount of foreign currency allocated under DLMA as well as the number of foreign exchange windows.

A departure from the original OGIL sequencing was soon implemented following the introduction of a high-pitched transferable ERS. It was considered that under the combined OGIL and ERS, the exporting sectors should be catered for by the ERS, while the OGIL had to shift from its original export promotion thrust and towards providing for the non-exporting sectors. Thus, in making a decision about what items should be placed on OGIL, government began to relate OGIL to ERS. After a comprehensive review of the system in May 1993, a new sequence was put in place that required further import liberalization to be implemented by increasing the ERS to provide an additional market-based incentive to export and avoid the risk of an unsustainable balance of payments situation. Thus, all firms could have access to foreign exchange through the ERS market.

It can be concluded that, however useful the OGIL scheme may have been in helping to phase in import liberalization and reducing NTBs, it is still neither open nor general. True, the scheme has enabled Zimbabwe to move from a system of highly rationed imports to a more liberalised regime and currency convertibility. It has, however, not committed the Government to an overall liberalization that might place the country's reserves at risk. The use of the OGIL scheme to liberalise NTBs does not, then, constitute a complete opening of trade.

Good progress was also achieved in rationalising tariff codes to increase revenue collection. Pre-reform tariff codes were complex, often determined by ad-hoc tax rates, exemptions and conditions. Zimbabwe has now moved beyond remedying reducing the number of tariff rates, rationalising those that remained, and improving administration and collection.

6.3.5 Investment Policies

On-going Reforms

In 1993, government announced major steps in the deregulation of private investment, mandating the Zimbabwe Investment Center (ZIC) with responsibility for implementing the measures. The key elements included de-licensing of investments not requiring access to "official" foreign exchange and measures to decontrol the repatriation of profit, dividends and capital. The objective was to substantially relax domestic controls over investments made with "own funds" to give flexibility to firms to respond to favourable competition and new opportunities and to generate a supply response.

The following reforms were undertaken:

1. During 1992, the government introduced surtax and import tax exemption for capital goods under projects approved by the ZIC. Investments made outside ZIC could only benefit from this if they obtained authority from the Ministry of Finance.

2. The Government introduced flexibility in investment licensing in 1993. While ZIC would continue to register all investment projects, approval in terms of foreign exchange would only be for those requiring direct foreign exchange allocation and for large projects.

3. Any new company established with foreign shareholding and without recourse to direct foreign exchange allocation became eligible for unrestricted remittance of after-tax dividends accruing to foreign shareholders.

4. Foreign companies established prior to May 1993, became eligible to remit a percentage of dividends through the ERS;

5. Foreign companies established prior to September 1979 who could not remit their dividends, became eligible to remit a higher percentage of net after tax profits. For all companies, any new foreign investment made after 1979 became eligible for unrestricted repatriation of foreign exchange injected as capital in the project.

Other key areas were the deregulation of the labour market, municipal by-laws, transport regulations. Of relevance to agriculture was the deregulation of the labour market which was aimed at reversing the upward trend in unemployment and establishing a positive link between labour regulations and employment levels. The deregulation of the transport sector was targeted at opening up the sector for small truckers and doing away with restrictive permits that prevent small transporters doing business in rural areas and growth points.

Future Policy Reforms

In the future, the Government intends to phase out the need to approve most investment proposals except those for large investments. The final phase of delicencing will be the establishment of the ZIC as an investment promotion rather that project approval agency. As part of efforts to attract foreign investment, the Government is committed to eliminating all exchange controls and maintaining a legal framework that provides full protection of private property rights for investment, whether local or foreign.

6.3.6 Agricultural Reforms

On-going Reforms

In the past, Zimbabwe's farmers faced one of the world's heaviest rates of agricultural taxation, perhaps partly because agriculture is such a crucial source of revenue for government. Zimbabwean farmers were taxed explicitly through producer price fixing, export taxes, and taxes on agricultural inputs. They were also taxed implicitly through an overvalued exchange rate which reduced the prices they obtained for their exports, and through high levels of industrial protection, which raised consumer prices.

Market liberalization has focused on the restructuring of marketing boards to prepare them to face the challenge of operating in a competitive environment and the replacement of officially-determined pricing and marketing systems by market-based systems. Since 1991, the Government began to implement a series of far-reaching marketing and pricing reforms. The Government has made significant progress in the implementation of pricing and marketing reforms including the elimination of monopolies held by the four marketing boards and the abolition of price and other controls constraining the participation of the private sector in these activities.

Overall, the easiest reform to implement has been moving producer prices towards export or import parity. The most difficult has been limiting the boards to their identified commercial and food security functions in light of concerns about unemployment and protecting producers' access to markets in remote areas.

Restructuring of Marketing Boards

In a far-reaching policy statement in January 1991, the Government announced its intention to restructure the agricultural marketing boards. This was followed by the setting up of boards of directors in June 1991 to improve efficiency and the commercialisation of a number of their activities. The Government also announced its intention to give greater autonomy to the new boards through amendment of Board Acts and performance contracts for management based on effectiveness, efficiency and financial criteria.

The program for improving efficiency included the preparation of business plans and proposals indicating those activities that fall within the scope of the Boards themselves and those which require changes in government policy. Some of the areas included:

1. Cost-reduction measures and rationalisation of board operations and structures

2. Splitting the "business" of the board into commercial aspects which can be floated off or privatised, operations which have become less relevant because of liberalization and thus need to be discontinued, and social or strategic activities to be financed by the Treasury

The whole purpose of commercialisation is to release the Government from the burden of providing loan funding either by way of direct loans, or loan guarantees and to create conditions for loan capital to be financed through normal commercial channels at current interest rates and to be serviced entirely by the board itself. The commercialisation of marketing boards proceeded relatively slowly. Much of 1991-1993 was spent preparing a competitive institutional framework and setting up boards of directors for the marketing boards. Currently, all the boards have a very low or non existent capital base and an exceptionally high proportion of debt financing.

Price and Marketing Reforms

The Government has undertaken a great deal of reform of its domestic pricing/marketing systems but has not abolished marketing boards nor liberalised the export market. The first step, taken during 1991-1992, was the introduction of floor/ceiling prices for all "controlled" agricultural commodities. The second was the process of linking producer prices to world market prices. The third type of reform - maintaining the board but allowing private traders to compete - is meant to encourage the benefits of competition and gradually demonopolise the boards. The Government is following this approach with dairy, beef, oilseeds and grains.

Future Policy Reforms

Future reforms will concentrate on establishing institutional efficiency. This will be achieved through splitting the "business" of the marketing boards into three categories:

1. Those commercial aspects which can be floated off to the private sector or privatised

2. Those operations which have become redundant as a result of market liberalization and must thus be discontinued

3. The social and strategic activities which have to be undertaken but funded by government (Grain Marketing Board's strategic grain reserve)

6.3.7 Public Enterprise Reform

On-going Reforms

The Government's economic reform program emphasised the need to achieve greater operational efficiency and improved financial performance through the restructuring of public enterprises. Their restructuring was to be carried out partly through reforms in their legal and institutional framework by June 1993 and clearing the backlog of subsidies.

The process of clearing the subsidy backlog started in the 1990/91 fiscal year when government set ceilings for the losses of the enterprises and indicated measures to ensure that they kept their losses to within established targets. There were then large price increases for many of their products and services, while agricultural producer prices were raised significantly in 1992/93 to provide the appropriate incentives to producers.

Much of the initial reduction in subsidies was achieved by giving greater flexibility to pricing and marketing, introducing greater competition and pushing for improvements in enterprise performance. However, initial results were significantly below target. By December 1992, the outturn for the 10 major public enterprises reflected a huge combined operating loss. Subsidies were also high because of the need to provide for write-offs of their past losses. The 1993/94 marketing year saw major reductions in explicit subsidies on maize and maize meal, as well as wheat and wheat products. But because of the drought, transfers to the enterprises increased, although there were some major achievements by the Dairy Marketing Board.

Future Policy Reforms

To achieve the objective of improved financial performance, all public enterprises will be expected to implement tariff setting formulas and adopt market-based pricing.

Concluding Remarks

The preceding analysis reveals that Zimbabwe's weak economic performance during the 1980s is the direct and indirect outcome of a combination of factors, including a highly administered foreign exchange allocation, pricing, and marketing system, as well as overvaluation of the Zimbabwe dollar. It was against this background that the Government of Zimbabwe embarked on a comprehensive economic structural adjustment program beginning in 1990 with the objective of achieving higher and sustainable economic growth, economic efficiency, encouraging investment and reducing poverty and unemployment.

The Government made some initial progress in the area of fiscal reforms during 1991/92, but this was eroded by that year's drought and a high public wage bill. On agricultural reform, significant progress has been made in implementing pricing and marketing reforms, removing constraints to private sector participation in agriculture, as well as eliminating a number of marketing board monopolies. But initial results from public enterprise reform remain significantly below target.
In monetary policy, interest rate liberalization during 1993 helped to reduce the negative real interest rates, but inflation surged to 45% in mid-1992 although the reform target for that year was 12%. As efforts to reform exchange rate policy via the export retention scheme faced problems, monetary authorities introduced corporate foreign currency accounts to replace the scheme; this was ultimately followed by the liberalization of exchange controls. As regards trade policy reforms, significant achievement was made in liberalizing imports by eliminating non-tariff barriers and reducing the number of goods requiring prior approval for import. The introduction of an OGIL system such that tariffs are at levels that are consistent with GATT rules also represented a major advance in reforming trade policy, although the OGIL system is still neither open nor general. The introduction of FCAs and elimination of allocation of foreign exchange for imports in early 1994 is arguably among the most significant and far-reaching achievements of the reform program.

While the structural adjustment program has made progress in reforming some sectors of Zimbabwe's economy, a lot more remains to be done in ensuring overall recovery and sustainable economic growth. The 1991/92 drought, Zimbabwe's worst in almost a century, greatly undermined agricultural and industrial vigor and vitality, as well as the momentum and potentially positive benefits of the reform program. While the social dimensions of adjustment were addressed by the Government of Zimbabwe with bilateral and multilateral donor support at least two years after the reform program began in 1990, with some progress recorded in it also, future reforms should ensure that such social safety net programs be elaborated thoroughly and implemented simultaneously with, if not in advance of, reforms.

Table 6.1: Zimbabwe - Matrix of Implemented and Future Policy Reform Measures (page 1 of 5)

POLICY	OBJECTIVES	GENERAL PLAN	STATUS OF IMPLEMENTATION (1991-94)	FUTURE REFORMS (1995-96)
1.Fiscal Policy	Reduce GOZ's central deficit & budget deficit; curtail recurrent expenditure, & reduce tax ratio which is quite high at 40% of GDP; introduce a more efficient revenue collection regime; improve targeting of subsidies to the poor.	Reduce GOZ deficit (excluding grants) from 11% of GDP to 5% by FY 1994-95, by 2 percentage points of GDP in FY 1991-92, & by 1% in FY 1992-93, 1993-94, and 1994-95 through parastatal reform; reduce tax levels & rationalize tax structure thus strengthen equity & efficiency; introduce cost recovery in education, health, training, etc, reduce size of civil service.	Progress achieved in fiscal deficit reduction in FY 1991-92 to 8.7% of GDP. But deficit rose in 1992-93 because of subsidies & transfers to PEs on drought expenditures & rising wage bill. Task force set up to identify duplication & non-essential posts in civil service, then followed incentive retirement schemes to reduce its size; subsidies were made transparent; cost recovery followed & increased revenue by Z$40m from Z$35m in FY 1990/91 to Z$75m in FY 1991/92.	Reduce company tax rates, tax deduction & allowances & top marginal rate for individual & company tax & government deficit (except grants) to 5% of GDP; improve revenue collection; complete reform & reduction of civil service; award competitive wages vis-a-vis private sector; improve public sector procurement procedures & curtail growth of expenditure.
2.Monetary Policy	Curtail monetary and credit creation at or below targeted growth of nominal GDP to contain inflation and support BOP objectives; maintain positive interest rates & increase competition in the financial system.	Use market-based monetary instruments with emphasis on open-market operations in reserve requirements; progressively reduce inflation to about 10% p.a. by 1995.	Bank Lending rate (BLR) increasingly used by Reserve Bank to control all monetary aggregates. Very high inflation in 1992/93 caused by food imports during the drought and the removal of subsidies was contained by demand management. The Banking Act was revised to allow financial services, instruments and the strengthening of bank supervision.	BLR will first be dependent on local & foreign borrowing cost, later to be replaced by use of Govt. Stock, open market operations, & the setting of reserve requirements; fiscal & monetary instruments will be used to reduce inflation to less than 10%

3.Investment Policies	To create opportunities for increased investment by providing firms with increased flexibility to respond to competition and opportunities, reduce costs and generate supply response.	Generally shifting public sector participation cost of the market for private goods and services towards facilitating private sector participation via the creation of an enabling economic environment, provision of greater flexibility to firms to respond to competitive environment & emerging opportunities, reduce costs & generate a supply response.	Investment constraints progressively removed. Exchange controls especially dividend & profit remittances were first simplified then liberalized via the ERS market. Deregulation took place in areas such as labor & transport laws & pricing & marketing; next, investments not requiring "official" forex de-licensed; control over "own" funds were released. Surtax & import tax exemptions were allowed on capital goods & after-tax dividends liberalized. But ZIC continued vetting projects.	Registration & vetting of investment proposals by ZIC will be eliminated except large investments; ZIC will establish itself as an investment protection agency; all exchange controls will be eliminated.
4.Trade Policies a) Quantitative Controls & Import Licensing	Eliminate foreign exchange controls & introduce a unified, mkt-based foreign exchange system with modest tariff-based import protection by 1995.	Introduce a comprehensive trade liberalization program from 1991-95 via phased expansion of OGIL & ERS, rationalization of customs duties and phasing out of surtax & export.	By mid-1993, 20% of imports were on OGIL & 15% on end-use restricted OGIL; tariffs were rationalized to within the 0-30% range by end 1997. About 60% imports put on unrestricted OGIL by end 1993 & import tax reduced to 10%.	Move all goods into OGIL except small list of items for defence or safety; import tax will be reduced to zero percent.

Table 6.1: Zimbabwe - Matrix of Implemented and Future Policy Reform Measures - CONTINUED (page 2 of 5)

b) Exchange Rate	Flexible management of the exchange rate to support trade liberalization; introduction of a market-based exchange rate system.	Manage exchange rates alongside other foreign exchange schemes in a multiple exchange regime and in such a way as to shift resources to support exports.	Initially, the exchange rate operated alongside the EPP and ERS up to 1992. Thereafter, the exchange rate was managed through the ERS. Foreign exchange entitlements were made tradeable mid-1992 and retentions were raised from 30% to 50% in early 1993. The resulting premium became a proxy for the market value of the Zim $. Corporate Foreign Currency Accounts (FCAs) were introduced in early 1994 to replace the ERS and retentions raised to 60%. Thus arose an interbank forex mkt, resulting in a 2-tier exchange rate system. But FCAs also led to the devaluation of the Zim $ by 17%, bringing the Reserve Bank rate closer to the market rate. The gap between the "official" and market rate narrowed from 5% to 1%, leading to the unification of rates in July 1994 and an expansion of retentions to 100%. From then, the Zim $ became fully convertible.	No major reforms. Changes to policy will be guided by: i) need to achieve overall competitiveness through a constant real effective exchange rate; ii) constant monitoring of market rate and "official" rate; (iii) incorporation of macro variables e.g. inflation, to enable better determination of Reserve Bank parameter bands for intervention; iv) judicious purchase and sales of forex through open market operations to smoothen any swings.

Table 6.1: Zimbabwe - Matrix of Implemented and Future Policy Reform Measures - CONTINUED (page 3 of 5)

c)Export Incentives	Improve incentive system to encourage exports	Introduction of broad-based foreign exchange retention schemes	Government continued to implement the duty drawback scheme and EPP for the manufacturing sector, the EPP for mining and agriculture to end-1992. The ERS was introduced in 1992 replacing the EPP. An inland processing rebate was also introduced to enable exporters to import raw materials without paying duty. In addition, a pre-and post-shipment export finance scheme was introduced to assist in off-shore funding schemes by banks. The ERS was streamlined in 1963, while ERF was replaced by an export support facility (ESF) to cater for raw material requirements for new and existing manufacturing exporters.	Elimination of export subsidies
5.Agricultural Reforms	To improve efficiency of marketing systems; increase the role of the sector in marketing and processing activities; and increase the volume of production in the sector especially among smallholder farmers.	Deregulation of commodity pricing and the single-channel marketing system, elimination of marketing board monopolies and abolishment of attendant controls impeding participation of the private sector.	During 1991-94, reforms focused on the restructuring of marketing boards and removal of GOZ-determined pricing and marketing by market-based systems. GOZ set up Boards of Directors 1991 for marketing boards to be autonomous enough to prepare performance contracts with management. This has yet o be achieved. By 1994, price and market controls had been removed for all commodities except maize and wheat. All subsidies on maize, maize meal and wheat and wheat products were eliminated in the 1993/94 marketing year. However, GMB continues to operate as a residual buyer and seller, defining a Government-mandated floor price for white maize and maintaining a strategic grain reserve for Government.	Future reforms will focus on limiting marketing boards to identified commercial or food security functions; split the "business" of the boards into the following: i)commercial aspects which can be sold floated off or privatized; ii)operations which have become irrelevant and thus need to be discontinued; iii)social/strategic activities to be funded by government.

Table 6.1: Zimbabwe - Matrix of Implemented and Future Policy Reform Measures - CONTINUED (page 4 of 5)

6.Public Enterprise Reform	To achieve greater operational efficiency and improved financial performance.	Introduction of a program of structural reforms in public sector, a phased program of reducing direct subsidies and eliminating indirect subsidies.	Large price increases were effected for many PEs, and agricultural producer prices were raised significantly as producer incentives beginning in the 1992/93 season. Among major commodity price increases in992 wre those for white maize, cotton, milk and soybeans. In the 1993/94 season, there were major reductions in explicit subsidies on maize and wheat. However, transfers to PEs increased in 1993/94 because of drought induced expenditure. It was also caused by response to commercialization. The GMB became a 100% government-owned company in July 1994 and CMB in Sept'94.	Implementation of tariff setting formulas in PEs; private sector to be allowed to subcontract for some PE services; complete market based pricing by commercial PEs; the Boards of PEs will have flexibility to hire on contract senior management, to hire and fire labor, set non pay scales, enter into own direct procurement and not via govt.

<u>**Abbreviations**</u>

BLR = Bank Lending Rate
CMB = Cotton Marketing Board
DMB = Dairy Marketing Board
FY = Financial Year
ERS = Export Retention Scheme
GDP = Gross Domestic Product
GMB = Grain Marketing Board
GOZ = Government of Zimbabwe
OGIL = Open General Import License
PE = Public Enterprise
ZIC = Zimbabwe Investment Center

Table 6.1: Zimbabwe - Matrix of Implemented and Future Policy Reform Measures - CONTINUED (page 5 of 5)

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