



THE ECONOMIC STRUCTURAL ADJUSTMENT PROGRAMME (ESAP)
OR
THE ECONOMIC REFORM PROGRAMME (ERP)

For the past twenty five years, the Zimbabwean economy has been controlled to an extent that it was difficult to trade with foreign countries, for the economy to grow and be able to create many jobs, just to cite a few examples.

The advent of the Economic Structural Adjustment Programme, popularly known as ESAP, meant the gradual relaxation of those controls and regulations which inhibit growth.

The purpose of this factsheet is to give

- (i) an outline of the major components of ESAP and
- (ii) a list of some of the controls and regulations which the Government intends to relax in 1993, so as to create an enabling environment conducive to investment, thus increase the productive capacity of our economy.

A. COMPONENTS OF ESAP

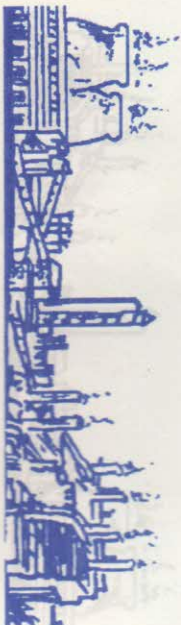
1. Trade Liberalisation

2. Economic deregulation, which is further composed of

- rationalisation of investment promotional guidelines
- relaxation of prices and distribution controls
- relaxation of agricultural pricing and marketing
- relaxation of labour and wage regulations and
- relaxation of transport regulations.
- relaxation of Local Authority bye - laws

3. Fiscal reform, which is further composed of

- civil service reform and
- public enterprise reform



SUBSIDIES

For many years government has paid subsidies on certain foodstuffs such as maize, milk and beef. These subsidies have cost a great deal of money (much of which has been paid by the high taxes paid by the people) and government has now decided to reduce these subsidies each year until by 1995 it no longer pays any subsidies at all. This means that the prices of maize, milk and beef will go up every year. But wages will be going up too and taxes will be coming down so people will not feel the effects of these increases too badly. In the end the result will be a market-led economy which is much more stable and in which job opportunities and wages will be much better than they are at the moment.

PRICE CONTROL

A very important part of the programme is the freedom for manufacturers to price their products realistically without government controls. This is why government has begun to remove price controls, and will continue to do so until these are completely removed. Once the programme begins to work, prices will go down because local manufacturers will be forced to compete with imported goods. Those who cannot do so will go out of business.

PERSPECTIVE

During the past few years many countries in the world have done what Zimbabwe is doing now. In most cases where the programme has been properly managed the economies are now far healthier than they were before. However, in some instances the programmes have been reversed because people became discontented before the programmes had enough time to work. In all instances, there is a difficult period once the programme has started but before it really begins to work. This period is unavoidable. It is characterised by rising prices and unemployment, but as the programme begins to work, usually within a period of



about 18 months, the situation improves dramatically. Many more jobs are created than would otherwise have been the case, wages improve, prices go down as market levels begin to operate, and the country is better off as a direct result of the programme.

CONCLUSION

The government of Zimbabwe and the private sector, that is manufacturing, commercial business, mining, agriculture and tourism, are committed to the ESAP. Our economy cannot continue the way it has been going. If it is allowed to continue we are heading for eventual economic collapse. The ESAP is the only answer. If we manage to get through the difficult period we will emerge in only five years' time with a strong healthy economy, plenty of jobs for our school leavers who have been well educated since independence. Our shops will be full and our Zimbabwe dollar will be negotiable on the international market.

No longer will holiday allocations have to be controlled. People will be able to buy whatever they can afford. The success of the ESAP depends on many factors - but very importantly it depends on every Zimbabwean. It is important that we all understand and support the ESAP in every way we can. We must explain the programme to our family, to our friends. We must all work hard, become quality conscious and accept that when times are hard they will get better.

Remember, things will definitely get better. The programme is here to stay - it has already begun and nothing can stop it now. Five years is a very short time and in five years' time we will be reaping the rewards of the programme.

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Economic Structural Adjustment Programme - A Guide

INTRODUCTION

In October 1990, the Government of Zimbabwe announced the beginning of the Economic Structural Adjustment Programme (ESAP for short). This is a five-year plan to change the economy of the country from one where economic activity is very strictly controlled by the government to one where there are less controls and more freedom for everyone to buy and sell goods and services, to travel and to import and export.

ADVANTAGES

The main advantages of this programme are

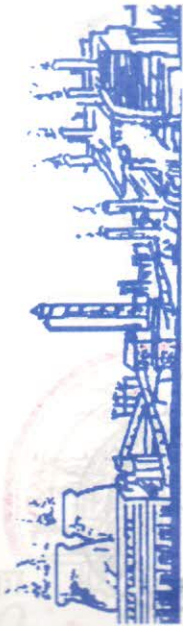
- many more jobs will be created;
- many more companies will be started;
- people will pay less tax (both income and sales tax);
- goods will be freely available;
- there will be no more shortages;
- there will not be any foreign currency problems;
- people will be able to buy anything in Zimbabwe that they can buy anywhere else in the world.

DISADVANTAGES

For the first few years while the programme is still getting off the ground, there will be some problems. These will be:

- increased unemployment;
- increased cost of basic goods;
- general increase in the cost of living.

These problems will be temporary. As companies begin to become cost-effective and as goods are imported from around the world, prices will be forced down. Employment will increase because new companies will be formed and others will expand.



HISTORICAL VIEW

Since UDI in 1965, the economy of this country has been very strictly controlled by government. Foreign currency to purchase imported goods such as spare parts, machinery and raw materials was not freely available because of sanctions from 1965 until 1980. At independence, there was very little foreign currency so government had to continue to control it strictly. This control made it very difficult to obtain all the necessary inputs and machinery for industry. Many other controls were imposed by government, including price control which resulted in a very artificial environment where industry could not grow or develop and where shortages and unemployment were rife.

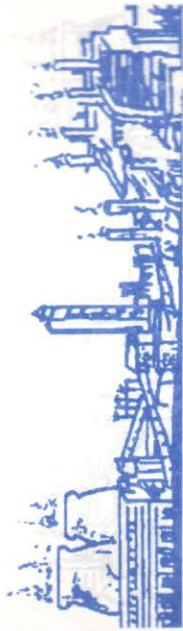
THE PROGRAMME

Last year the government very wisely decided that this could not be allowed to continue. The economic structural adjustment programme (ESAP) was introduced. The programme is laid out in an official document called the Framework for Economic Reform.

Over a period of five years the government aims to do the following:

- reduce the budget deficit (that is the amount government spends over and above the amount it receives in taxes and other forms of income) from 10 percent of Zimbabwe's total earnings to 5 percent;
- reduce the number of civil servants by one in every four (excluding teachers);
- reduce taxation for companies and individuals (which has already begun);
- increase growth in total earnings by the country to five percent annually;
- reduce the inflation rate to 10 percent or less per year;
- place all imported items onto Open General Import Licence (OGIL for short) which means that individuals and companies will by the end of the programme be able to import anything they need without any restrictions at all;

NATIONAL ARCHIVES
ZIMBABWE



- increase exports to 43,5 percent of total earnings by the country;
- reduce all taxes on imports;
- remove completely government subsidies (that is, money government pays to various parastatals that fail to make a profit);
- make all parastatals pay for themselves or else sell them or close them down (where practicable).

The first step in this programme is to increase gradually the number of items companies can import on OGIL. This process was begun in December last year with a few items including plastics and tin plate being put on OGIL. This means that companies needing these items can import them without any government control, without an import licence and they can import as much as they need. Earlier this year a few more items were placed on OGIL and this will continue during the next five years until eventually companies can import anything they need - whether it be raw materials, packaging, machines, spare parts etc - without any government control whatsoever.

Prices will come down as more and more goods appear in the shops. Local producers will have to make sure their products can compete with imported goods.

FUNDING

In order for the programme to be able to proceed, a large amount of money is needed to launch it and this money is needed in foreign currency. At the moment Zimbabwe's reserves of foreign currency are very low indeed. The value of the dollar has been falling steadily for many years now. In order to fund the programme, the government is looking for two sources of money:

- increased exports by local companies
- loans from international banks and other countries.

The Paris Conference held in March secured pledges worth US\$700 million to finance the first year of ESAP. Altogether the programme requires US\$3 444 million. This money is needed to pay in foreign currency for all



the goods that will be brought in under OGIL as well as for new machinery to enable industry to compete with other countries. This money will mean many more jobs for Zimbabweans and many more goods on the shelves of our shops which previously have been brought in by those going on holiday or travelling abroad.

EXPORTS

One of the most important aspects of the programme is the export capability and performance of local companies. It is very important that Zimbabwean companies earn as much foreign currency as possible by exporting the goods they make to other countries in the region and around the world. Zimbabwe will have to pay back most of the money borrowed and this can only be achieved by increased exports of primary products, manufactured goods and by attracting more tourists to Zimbabwe.

In order to do this, local manufacturers will have to spend a lot of money on improving their equipment because most of this is very old. They will also have to produce very high quality goods because the international market is extremely competitive. This means that many companies will have to change completely from what they are doing now. If they cannot compete successfully they will have to close down.

Generally speaking manufacturers will have to become very specialised, streamlined, efficient and quality-conscious in order to succeed on world markets. Productivity of the workforce will be a key factor.

GOVERNMENT

Government itself is planning to become much more efficient and streamlined as part of the whole programme. The number of civil servants is to be reduced by one quarter by the end of 1995. This means that those civil servants remaining will have to work efficiently. Government also plans to make all the parastatals more efficient. If they do not become efficient they will be sold to private companies or closed down.

- tax reform

4. **Monetary policy and financial sector reform**
5. **Social Dimensions of Adjustment**

WHERE:

1. **TRADE LIBERALISATION** involves the opening up of the economy through removal of quantitative controls or trade barriers which inhibit domestic and international trade. This entails removal of administrative foreign exchange allocations and regulations, tariff reform. Successful trade liberalisation will therefore lead to efficiency in production and exports, competition and availability of a wider choice of goods and services of quality and at affordable prices.
 2. **ECONOMIC DEREGULATION** involves removal of various controls which are inhibiting investment. eg removal of a vast array of controls, permits and licensing procedures which are inherent in our system, and which have often driven legitimate private business into the underground or the parallel economy.
 3. **FISCAL REFORM** involves the restructuring of all organs charged with the handling of public funds, so that they efficiently allocate and utilise the scarce resources. The major objective of fiscal reform being to reduce the budget deficit through a gradual reduction of Government expenditure and taxation, which tends to negatively affect people's incomes. This exercise entails reforming the civil service and public enterprises which are expected to operate along commercial and profitable lines.
 4. **MONETARY AND FINANCIAL SECTOR REFORMS** This involves reforming our monetary policy and the financial sector through relaxation of controls which are inhibiting entry of new financial institutions such as commercial banks. Monetary policy instruments would be managed in such a way as to encourage resource mobilisation and therefore increase investment, such as removal of direct controls on interest rates so that they would be determined by market forces.
 5. **SOCIAL DIMENSIONS OF ADJUSTMENT** This is a programme put in place by the Government to cushion vulnerable groups from the adverse transitional costs or effects of ESAP. Assistance to those who are affected is given through the Social Development Fund. The transitional effects of ESAP manifest themselves through frictional unemployment, hardships brought about by cost recovery measures in education and health, and inflation.
- B. CONTROLS AND REGULATIONS TO BE REMOVED / RELAXED IN 1993**