Board Meeting of Thursday, May 22, 1997
Statement by Mr. Joaquim Carvalho

**Zimbabwe: Country Assistance Strategy**

On behalf of my Zimbabwean authorities, I would like to express appreciation to the Bank, the Fund, and a number of other development partners for their support to Zimbabwe's reform efforts which has helped to improve many social conditions in the country. The relationship between the Bank and Zimbabwe, initially hesitant, has developed into a productive and stable one. Accordingly, we wish to commend the Zimbabwe team in the Africa Region for raising the level of the dialogue with our authorities and for their contribution in the implementation of their Economic Structural Adjustment Program (ESAP).

Our Zimbabwean authorities too, deserve to be commended for their courage in taking very difficult economic decisions, some of which have been politically sensitive. The ESAP program generated heated debate among local and international NGOs. However, after great efforts to improve the dialogue between the government and civil society on economic management issues, the reform agenda is now receiving country-wide support.

The Zimbabwean government has undertaken structural reform on a number of fronts, having dismantled the foreign exchange allocation system and eliminated exchange rate controls, and having abolished all price controls. Civil service reform has resulted in the elimination of 23,000 posts and a further 12,000 from the more sensitive military. In the social sectors, Zimbabwe has been able to achieve better social indicators than Sub-Saharan Africa's averages. More importantly, the government remains committed to giving priority to investing in health and education which is essential for human resource development.

Inspite of these achievements, however, the government recognizes that a number of major challenges still lie ahead. Although on average, real GDP and employment both grew by 2 percent per annum in 1991-96, both are still outstripped by population growth which is estimated at about 2.8 percent, and which still remains a contributing factor to rural poverty. Economic growth must be consistent and maintained above the population growth rate if significant improvements in living standards are to be enjoyed by Zimbabweans and rural poverty levels reduced. This is one of the considerations that led the government to prepare the Zimbabwe Program for Economic and Social Transformation - ZIMPREST - through close consultations with various segments of civil society. Indeed the government plans to continue

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with this consultation process until August this year and to present the final version of the program for cabinet approval by September 1997. The ZIMREST underscores the need for growth to accelerate to around 7-8 percent in non-drought years.

During the last several years, a series of exogenous factors in the form of droughts and falling prices for major agricultural exports, to name a few, presented formidable obstacles to Zimbabwe's sustained growth. As the CAS document clearly states, the droughts have had major fiscal repercussions as revenues were depressed and expenditures to mitigate the effects of the droughts increased. As a result of the sharp decline in revenue resources, the government has had to resort to domestic borrowing to finance essential programs. Consequently, managing the budget deficit became a major problem. Government is, therefore, committed to reducing the fiscal deficit from the 11.2 percent of GDP recorded in FY 95/96 to around 6.1 percent of GDP by FY2000. The Zimbabwean authorities consider this level of deficit reduction crucial for the attainment of a 4.8 percent growth rate during the FY98-2000 period as well as the realization of a significant poverty reduction during the same period.

Mr. Chairman, agriculture will remain the mainstay of rural Zimbabwe. Therefore, the sustainability of the rural environment remains a priority not only for the attainment of poverty reduction, but also for the long-term equitable distribution of the rural wealth. In this regard, the main thrust of rural development has been on the empowerment of the communities through capacity building. Furthermore, government policy will increasingly be directed at improving the access of smallholders to water resources and better quality land as well as accelerating the commercialization of smallholder agriculture.

In the area of private sector development, the Zimbabwe government has consistently given greater attention to the deregulation of the domestic market and encouraging more organized private sector involvement, particularly in the agriculture sector. Work is on-going on tariff reduction to make Zimbabwe's exports more competitive, and in readiness for a free trade regime within the SADC sub-region. While doing all these, the government remains mindful of the relative absence of indigenous participation in the formal private economy. Conscious efforts are therefore being made to create indigenous entrepreneurs to broaden private sector development.

Given Zimbabwe's relative sophistication in private sector activity, we consider IFC's investment of $76 million grossly inadequate for private sector needs. We would, therefore, urge the Corporation to make a more substantial contribution to the development of the relatively well-off private entrepreneurs in order to enable government to use other more concessional resources to improve the participation of the otherwise vibrant, but poor indigenous arm of the private sector.

In conclusion, my Zimbabwean authorities have expressed satisfaction at the current level of their dialogue with the Bank in general and the CAS in particular. They strongly believe that poverty reduction, a centerpiece of their development agenda, can be achieved through policy reform with emphasis on deficit reduction and the restructuring of budgetary expenditures towards the social sectors. Hence the Bank Group Country Assistance Strategy is not only consistent with government's overall development strategy, but has benefited from full consultations with the Zimbabwean authorities and the people of Zimbabwe.