Part 3

Staff Response to the External Evaluation of the ESAF

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The team of external evaluators has presented a rich analysis based on developments in ESAF-supported programs in several low-income countries. This analysis is rooted in the observation, which we share, that adjustment and reform do raise incomes and improve their distribution. The common objective of the Fund staff and the evaluators is how to strengthen the design and implementation of programs so as better to achieve lasting improvements in the economies of ESAF countries. The main issues on which the team offers advice are ones with which the Fund staff and management struggle every day—how to better integrate social considerations into the fabric of a macroeconomic program, how to promote ownership of the sometimes radical policy changes needed, how to gauge progress toward external viability, and how to coordinate with other key players, especially the World Bank, to improve policy advice. The report makes a number of useful recommendations for change and, where conflicting considerations preclude unambiguous positions, places in sharp relief the dilemmas often faced by the Fund staff.

The objective in this note is not to address every issue on which the Fund staff does not see eye to eye with the evaluators: there are many points on which our judgment or even understanding of the facts differs from that of the reviewers, but these are not always essential to the main conclusions drawn. Some of the country-specific issues on which we had views are presented in the Annex. Here, we will raise some broad questions on which the Fund staff had comments on important implications from the report.

Social Impact

We agree that there is a need to strengthen further the cooperation between the IMF and the World Bank on social issues. We also agree on the need to draw more consistently on the World Bank to enhance the empirical base for predicting and monitoring the social impact of IMF-supported programs.

We are concerned, however, that the suggested framework for evaluating the impact of programs on social expenditures may not be feasible. We fully agree that it would be desirable to break down prospective changes in social spending into the four components the evaluators suggest, but this is unlikely to be possible in many, if not most, countries. It is rare to find a classification of wage and nonwage costs in social spending or to find indexes for these separate costs. Even aggregate social spending data are unavailable for many countries. Nonetheless, the proposed breakdown provides a useful conceptual framework and standard to aim for in the future, and should provide further encouragement to the significant improvements in data that would be required.

Bank-Fund Collaboration

The report identifies Bank-Fund cooperation as an area in need of attention. Indeed, there are few who would argue that collaboration between the Bank and the Fund is seamless: both we and the Bank are constantly looking for and experimenting with ways to improve it. Already many steps have been taken to put in place channels for communication and procedures for systematic working relationships. In particular, since the last major restatement of the overall framework of collaboration issued jointly with the Bank in 1989, the Fund's management has issued several guidance notes delineating the Fund's areas of responsibility and the areas in which the Fund should rely on the expertise of the Bank. For example, the Fund staff draws upon public investment and expenditure reviews carried out by the Bank staff. These, and related recommendations on social spending, feed into the formulation of budget policies supported by the ESAF. By recognizing these existing forms of collaboration, recommendations for changes and improvements can be concrete and meaningfully integrated into the ongoing review of existing procedures.

Note: This report was prepared by the Policy and Review Department in consultation with the African, Asia and Pacific, and Western Hemisphere Departments, March 2, 1998.

It is not clear, however, that the overlap between macroeconomic concerns of the Fund and microeconomic concerns of the Bank can be limited to fiscal issues as suggested by the evaluators. In fact, the report itself is filled with implicit acknowledgments that the overlap in legitimate Bank and Fund interests goes beyond fiscal issues. For example, the Fund is criticized for focusing solely on the effect of privatization on the budget at the expense of the efficiency implications of various forms of privatization: presumably the Fund is being asked to ensure that microeconomic efficiency considerations are better incorporated into program design. Similarly, the proposal that the Bank provide an assessment of the impact of programs on incomes leads logically to the conclusion that the Fund should concern itself with the implications of macroeconomic policies for social efficiency. In short, macroeconomic and microeconomic concerns are inextricably interactive in areas far beyond narrowly defined fiscal policy. Thus, while the Fund's concentration on the former and the Bank's on the latter should be maintained, collaboration on an array of issues will remain a critical requirement. This needs to be taken into account when considering ways to enhance collaboration between the Bank and the Fund.

Role of the Fund in Post-Crisis Management

We fully agree with the report that aid is only effective in raising growth in good policy environments. Thus, countries that have successfully stabilized and put in place structural policies that are conducive to growth should expect to see substantial aid inflows. We agree that a central feature of ESAF-supported programs is the setting of targets for fiscal and external current account deficits that accommodate these inflows. While ESAF funding (as balance of payments as opposed to development financing) is expected to taper off once a country has eliminated its need for exceptional financing, aid is typically expected to be sustained well into the medium term. ESAF-supported programs aim to accommodate reasonable estimates of such financing. We therefore do not see the basis for the statement that "the Fund gives the impression that it wishes to see aid tapered out over a quite short period in poststabilization environments."

The report recommends a "taper-in" scheme for Fund support of ESAF countries. In such a scheme, the Fund would gradually increase ("taper in") its financial support as reform proceeds. As an economy achieves stabilization—by which it seems the evaluators mean low inflation and current account convertibility—the Fund would shift its focus away from advice and toward more financial support. It is hard to see how such a scheme would be consistent with the objectives of the ESAF.

Financial support through the ESAF is typically critical during the early stages of adjustment and reform when a major policy effort and large exceptional financing are needed. In later stages, even if inflation is brought down, countries typically still have seriously flawed policies: fiscal deficits may be unsustainable or structural policy weaknesses may have the potential to derail still fragile macroeconomic balances. The ESAF was established precisely because many low-income countries needed a policy framework and support geared not just toward fixing macroeconomic policy shortcomings, but also toward addressing, over the medium term, the structural problems that underpin macroeconomic policy weaknesses. Continuing Fund support could be justified only if the government is committed to concrete measures addressing these serious problems. In other words, it is not easy to envisage circumstances in which the Fund could provide significant financial support to a "poststabilization" country that aimed at maintaining "a few key features of macroeconomic policy" rather than at improvements in other policies. In the longer term, when a country is in a position simply to maintain policies, bilateral or market financing should be adequate, and Fund involvement should be through annual Article IV consultations and, where relevant, technical assistance.

Ownership

We share the conviction of the reviewers that ownership is critical to the success of adjustment programs. Like them, we recognize that the questions surrounding ownership—does it exist, how to encourage it, how involved should the Fund be in a country with doubtful ownership—seldom yield easy answers. The case studies illustrate nicely the political tensions and intellectual debate within governments as they considered options that could be pursued with conviction. From these experiences come several recommendations that we believe would help promote ownership. Specifically, the formation of economic management teams to foster a common mission within governments and the convening of national conferences to broaden public support are promising proposals, especially as more ESAF-eligible countries adopt democratic institutions. We also share the evaluators' desire to tailor the process of negotiating policy framework papers (PFPs) more toward the promotion of ownership and, in this context, note the good experiences reported for Vietnam. Still, a wider range of initiatives

to promote ownership is clearly needed, and we would have liked to see the case studies probed further for even more recommendations.

The report questions whether certain aspects of the Fund's operating style and methods inhibit ownership. Broadly, the report suggests that Fund staff members are too secretive, unduly restrictive in their range of contacts, and inflexible in their negotiating positions. These observations are not unfamiliar, and we have been working to deal with them, particularly by increasing contacts of the Fund staff with labor unions, civil society, and opposition political parties. At the same time, we are cognizant of the fact that the operating style of Fund missions is always a delicate balance. On openness, missions must balance the sensitivities of the government and of the issues at stake against the constructive role the mission can play in interacting with various interest groups. Similarly, while there must be scope for flexibility in negotiations, there are limits dictated by the need to assure that problems are addressed adequately. We must keep these balances under review and seek new ways to deal with them.

The report amply demonstrates the tension that can arise between ownership and the need for adequate measures to address economic weaknesses. It is hardly surprising, however, that the report has evoked some frustration within the staff: for example, receiving criticism at once for acquiescing to programs that are "second best" and for inflexibility in negotiating positions defines the difficult balance that every mission faces. Also, the report is critical about several instances of Fund support for poorly sequenced economic reforms that resulted in "second-best" programs. Yet, in at least one instance, it is subsequently stated that the program originated with the government while the role of the Fund in design was limited. In several other instances, poor sequencing can clearly be traced to episodes where the Fund acquiesced to firm resistance of a government to the Fund's views on the urgency of a particular reform.[1] Cases like these lead to two important conclusions: first, actual decisions on providing support to a program often come up against trade-offs between the depth of a government's ownership and the policies needed to secure economic objectives; and second, ownership is an important but not sufficient condition for a successful program.

Conditionality

Two variations on conditionality are proposed to help introduce a greater element of choice into program design. The first, termed ex ante conditionality, resembles existing arrangements in most respects, with the provision that a larger range of program designs be considered: in essence, a country would come up with or be given a range of possible program paths from which to choose. Of course, when there is such a range of feasible options that would reach broadly the same goals for adjustment and reform over time, the introduction of more choice can only be welcomed. The staff should recommit itself to exploring all such possibilities.

The second proposal—ex post conditionality—raises more questions. Seen in one light, the proposal differs little from conditionality as now practiced, particularly when countries commit to undertake significant prior actions or to perform well under a staff-monitored program before drawing from the Fund. If, however, the proposal is to be interpreted as the Fund providing financing in situations where the criteria for support are not well defined and the path of policies is not specified in advance, the practicality of ex post conditionality is more doubtful. Specifically, any commitment of Fund resources needs some provision whereby assistance, once flowing, would be halted in the event of a serious breakdown in policy implementation. Moreover, it is important for countries to know in advance the circumstances under which committed financing will remain available. The specification, ex ante, of conditions on the instruments of policy (as opposed to outcomes) is intended, inter alia, to make clear the actions a country must take to ensure the continued flow of Fund financing. Anything less would introduce disruptive uncertainty into the outlook for financing.

External Viability

The report provides some useful suggestions for alternative measures of a country's external debt position. We agree that the "real external debt burden" can be an informative indicator of the debt position, but the strengths and weaknesses of this and other indicators need to be considered carefully. For example, why are export-based indicators of external viability so widely used? In our view, in situations where exchange markets are distorted (as in many developing countries) and a substantial part of GDP is nontraded, the export-based indicators can be more meaningful than GDP-based ones.[2] Perhaps more important, for countries that have limited or no

[1]Some of these are mentioned in the Annex to this paper.

[2]See, for example, Daniel Cohen, "How to Evaluate the Solvency of an Indebted Nation," *Economic Policy*, Vol. 1 (November 1985), pp. 139–67. Cohen, who pioneered the DDI recommended by the report, "translates" DDI-type indicators into their equivalent debt-to-exports ratio.

access to world capital markets and are therefore unable to "convert" their GDP into foreign exchange at will, the capacity to service external debt may be more closely related to foreign exchange earnings (exports) than to total GDP. In general, we believe that ratios both to exports and to GDP contain useful information, and hence both were used (with equal weight) in the internal review.

The report is right to warn that debt ratios should not be used for static analysis only. In Fund work, viability thresholds have been established for use as rules of thumb, but the focus is usually on the evolution of the ratios over time. Moreover, ESAF-supported programs generally include a detailed medium-term scenario in which assumptions about investment and savings decisions several years into the future are presented.

Should ESAF Resources Be Used for Budget Support?

The report makes much of the destination of ESAF resources. The argument put forward is that because ESAF funds now typically go to the central bank rather than to the government, they operate as a tax on exports (through an effect on the exchange rate) and are not available to the government to use for social expenditures.[3] This is a mischaracterization of the role and use of Fund resources. In fact, where the money from the Fund goes initially does not determine its final use or effect. How the money is used—to expand credit to the private sector or government ultimately for imports or to build reserves—depends on the objectives and corresponding financial ceilings in the program. Once the target for reserves and ceilings on credit to the government and nongovernment sectors have been set, it is irrelevant whether the Fund financing is provided to the government or to the central bank. It follows that there is no link between the initial destination of the Fund resources and the exchange rate or level of government spending.

Tax Policy and Revenue Mobilization

The report asserts that "the Fund often appears to encourage revenue-raising measures without considering explicitly the cost and incidence of taxation. A possible consequence of this is the continuing heavy reliance of many ESAF countries on import taxation." Determining the incidence of taxation is difficult for any country, especially when data deficiencies are severe. But, the following points are relevant here:

- The Fund's strategy for tax reform has systematically centered on reducing marginal rates and broadening the tax base, with a focus on taxing consumption. At the same time, tariff reform has targeted eliminating quantitative restrictions, reducing tariff rates, limiting the number and dispersion of tariff rates and improving customs administration. Significant changes in tax and tariff policy, however, take time to show up in the aggregates. In the fiscal area, Fund technical assistance, which is generally praised in the report, has focused on these issues.
- The report seems to identify an increase in the observed reliance on international trade taxation with postponed or reversed trade liberalization. However, through a variety of channels—tariffication of quotas, devaluations that often accompany major trade liberalizations, and reduction in evasion that follow cuts in very high tariff rates—trade liberalization can result in an increase in trade tax revenues, especially when starting from a highly restrictive system.
- Many of the examples of policy decisions contained in the case studies seem to suggest considerable attention to the costs of taxation and the desirability of containing or even reducing reliance on taxes. In the case studies of Malawi, Zambia, and Zimbabwe, the report recognizes that the thrust of the fiscal program was to cut spending relative to GDP to minimize the reliance on revenue measures or (in Malawi) to accommodate planned reductions in revenues.

Conclusions

The external evaluation of the ESAF complements last year's internal review and contributes to the continuing debate within the Fund on how best to serve the needs of low-income countries. The basic message of the two reviews is that adjustment and reform are crucial to the fundamental economic objectives of low-income countries—raising living standards in a durable and equitable manner. The evaluators' report contains a number of thought-provoking suggestions for ways to improve the Fund's work by promoting ownership, ensuring that the social impact of adjustment programs is fully understood, improving measures of external viability, and enhancing the working relationship between the Fund and the Bank. These

[3]The report notes that in the CFA franc countries, governments, and not the central bank, receive ESAF funds. It fails to note, however, that any country is free to designate the recipient of ESAF resources.

will provide fertile ground for change in the Fund in the coming years.

Many of these initiatives will place greater demands on staff resources. In particular, aims such as increasing the number and staffing of resident representative offices, allowing more time for missions, providing more technical assistance, and coordinating more closely with the Bank, to name a few, are worthwhile but will have significant implications for staffing of the desks and departments working on ESAF countries. Acting on many of the recommendations will involve careful consideration of these issues.

Annex

Bangladesh

We fully agree with the evaluators that the commitment to reform in Bangladesh needs revitalization. The report seems to us, however, to overplay both the difficulties stemming from Bangladesh's pluralistic and democratic framework and the amount of work needed to create the conditions for effective policymaking in such a framework.

In spite of the polarization among the political parties, Bangladesh has made significant progress toward a functioning parliamentary democracy—most recently in 1996, when a constitutional amendment reinforced the framework for fair parliamentary elections. In view of the current government's parliamentary majority, progress in structural reform is not obstructed so much by a lack of consensus among political parties (the main opposition parties adopted many of the same reforms under the SAF and ESAF while they were in power in the late 1980s and early 1990s) as by strong vested interests that may have undue influence (e.g., civil servants, labor unions, major loan defaulters, and import-competing industrialists). These problems could probably be tackled within the existing parliamentary institutions. Moreover, Bangladesh has a remarkably free press and an abundance of public seminars and workshops where the main policy issues are actively debated. Such institutions should facilitate the task of building a consensus. In this context, the support for reform from Bangladesh's impressive nongovernmental organization community and the growing private sector will become increasingly important.

Bolivia

The evaluators express concern about what they see as a high incidence of slippages in the implementation of reforms owing largely to difficulties in forging consensus for agreed reforms. We found this surprising. The program, particularly in its privatization aspects, was very much a homegrown one. In it, the government devised ways to secure the benefits of privatization (private financing for investment in sectors previously reserved for the public sector together with the use of private sector management and technology skills), while overcoming political resistance to the outright sale of public sector assets. Unusual efforts were made to secure congressional approval of the capitalization law (which removed constitutional barriers to privatization). It is true that the implementation of some key reforms was delayed. However, in a number of instances these delays were needed to gain popular and congressional support. Over the period as a whole, Bolivia implemented an impressive set of reforms.

We wonder if the evaluators' perception that recent governments did not make sufficient efforts to seek consensus could reflect a focus in the interviews that was more on members of the government that took office in August 1997 than on representatives of earlier governments. By not reporting on the significant extent to which successive governments (in particular, the one that had left office just before the interviews were conducted) worked within the political system to present feasible reforms, the report missed an opportunity to provide insights into how to promote ownership.

Emphasis is placed in the report on the mostly negative image of the Fund, which is said to be reflected in sensational treatment in the news media. This is, of course, a subjective issue, but the distinct impression of many staff missions to Bolivia during the past five years is that there has been generally low-key treatment by the press of discussions between the government and the Fund.

Côte d'Ivoire

The report rightly draws attention to the important policy dilemmas surrounding taxation of coffee and cocoa in Côte d'Ivoire. It misses a key aspect of this dilemma, however, which is that weaknesses in the country's tax administration and the lack of a tax on agriculture have left export taxes as the only effective means of taxing the rural sector. Notwithstanding this difficulty, it is noteworthy that the cocoa tax rate in fact fell from a peak of 28 percent in 1994/95 to about 19 percent now. The tax rate is slated to fall further, to about 15 percent by 2000, at which point it will be replaced by a system of domestic taxation.

As regards ownership and the role of the policy framework paper process, the report notes that ". . . the ESAF program . . . benefited from a reasonable measure of national ownership, especially judged from the apparent commitment of the top levels of political leadership, and from the degree of government in-

volvement in the preparation of policy documents, particularly the PFP." This statement accurately describes the process related to Côte d'Ivoire's most recent ESAF arrangement, the negotiations for which were based on a draft PFP drawn up by the authorities. We were surprised, however, by the seemingly contradictory statement, shortly afterward, that Fund staff customarily drafted PFPs and that the exceptions were "occasional" and "grudging."

A final but important factual point: we were surprised by the claim that the most politically difficult reform issues " . . . had been largely exhausted by the time the ESAF program began." To use an example cited in the report, however, even now the authorities are continuing efforts to downsize the civil service and are encountering considerable political resistance.

Malawi

In the discussion of the political considerations surrounding the program that began in 1994, two main points are made. First, in the crisis environment that existed, the government had scant time to build a fully satisfactory consensus for reform. Second, in the absence of such a consensus, the finance minister, who spearheaded the reforms, became increasingly isolated as the program progressed.

We agree that the timing of the 1994 program, drawn up in the midst of chaotic macroeconomic conditions, was not conducive to the orderly building of consensus. This is often the unfortunate byproduct of crisis. Indeed, we are not sure how to react to the statement that "a number of donors . . . expressed concern that the program had been imposed on an inexperienced and ill-prepared government, without due regard for the critical economic and political conditions it faced." While it would have been ideal to have had time to build a stronger consensus, the situation in 1994/95 clearly indicated that delaying measures (and in the interim increasing their ownership) would also have increased the risks of a major confidence crisis.

The observation that the reform effort was spearheaded by one minister is accurate. However, it is important to recognize that the Fund staff held extensive discussions on various sectoral issues with the responsible ministers and other high-ranking officials who implemented the agreed reforms. Evidence of this close involvement was the joint preparation of the PFP and the meetings with the Cabinet Committee on the Economy. The initial draft of the PFP was done by Bank and Fund staff and was distributed to all concerned ministries about a month before it was discussed. In these discussions—which were comprehensive and normally lasted for 12–15 hours—all ministries provided inputs, including sectoral policy proposals and commitments, and exchanged views with their colleagues about the sequencing and consistency of reforms. During meetings with the Cabinet Committee on the Economy, staff usually sought the commitment of the committee to the policies described in the Memorandum of Economic and Financial Policies.

Uganda

One of the chief concerns of the evaluators in connection with Uganda is the widening of the gap between rural and urban incomes that occurred during the program. We fully share this concern. We would, note, however, that overall absolute poverty was reduced in both the rural and urban sectors. Also, as the programs followed a prolonged period of mismanagement, the infrastructure and administrative capacity to deliver targeted poverty alleviation programs were weak. Nevertheless, over the period as a whole, there may be merit to the observation that the authorities could have provided more resources to alleviate rural poverty through targeted social spending. This issue is being addressed under the current ESAF arrangement.

The report takes the position that Uganda's program for 1994–97 could have focused entirely on structural reforms and implies that the fiscal stance under the program could have been eased, because inflation had been sharply reduced. In our view, there would have been serious risks in such a strategy. The 1994–97 program sought to consolidate the stabilization already achieved through appropriate fiscal discipline. The underlying aim was to safeguard a stable economic environment that was credible and attractive to private investors and to support the supply response to further structural reforms. Greater access to bank credit for the private sector was likely to bring about more durable growth than an easing of the fiscal program.

Relatedly, the report sees the medium-term fiscal profile under the 1994–97 program as too restrictive and implies that higher aid inflows should have been factored in. This would have allowed more spending on social and capital outlays and/or lower taxes. Why was this not done? First, the program was based on reliable projections of aid inflows—in our view, higher estimates would have been unrealistic: this was born out by the experience, as shortfalls in external import support from programmed levels were registered during much of this period. Second, in the longer term, a strategy based on continued high aid dependency would also be unrealistic. Third, in practice it has been difficult to control outlays on unproductive expenditures at the expense of social and capital outlays.

The report rightly criticizes the structure of taxation (a heavy dependence on excise taxes on petroleum and

a few other products). However, it was generally accepted that revenues needed to be raised from an unusually low base, and with weaknesses in the administration of direct taxes, the burden fell on excises. Also, we would note that there was a considerable reduction in the reliance on import taxes: maximum import tariff rates were reduced to 20 percent from 50 percent.

We were surprised by two statements: that "the exchange rate is seldom even discussed by Fund missions," and that "disagreement between the Fund and the government persists, notably in the areas of privatization, civil service reforms, and defense expenditure cuts." Neither is correct.

Vietnam

The report suggests that the reform process in Vietnam has lost momentum in recent years, and many critical measures have suffered long delays in large part because of the authorities' difficulty in reaching consensus on the next reform steps.

The report implies that the authorities' loss of commitment to reform stems at least in part from the process of negotiating annual programs with the Fund. In our view, the situation is more complex. The crux of reforms now needed involves actions that would reduce the extent to which the state controls the economy. These are difficult issues for any government and require significant departures from past approaches to economic policy. We would be surprised if there is any perception of a change in the speed of or flexibility in the negotiations, although the content certainly has shifted to difficult terrain.

We were surprised by the statement suggesting difficulties in the working relationship between the Bank and the Fund. Collaboration has been close and effective, especially after 1989/90 when the Fund increased its involvement in Vietnam through technical assistance, the posting of a resident representative, and eventually ESAF support.

Zambia

The evaluators point to three main weaknesses in Zambia's past programs. First, they consider the financial and exchange rate liberalization in 1993 premature in the absence of fiscal stability. Second, they feel that the structural reforms suffered from improper sequencing, notably the delays in privatizing of the Zambia Consolidated Copper Mines (ZCCM). Third, they suggest that the social safety net provisions in the programs were not commensurate with the problems, and, in the event, escalating wage costs in the social sectors crowded out spending on materials and supplies.

With respect to the macroeconomic reforms during 1992–93, it is clear that the enormous swings in policy performance resulted in erratic developments in the main macroeconomic variables. However, as the evaluators note, the budget was brought under control in 1993 with the introduction of a cash budget, and inflation dropped sharply within just a few months. The liberalization of the economy was a central element of the program and provided credibility to the adjustment efforts. Thus, the need for liberalizing the economy, which had been stifled by controls and shortages, was so great that the potential short-run costs were probably unavoidable.

On the structural reforms, we fully support the view that a much earlier resolution of the problems in the copper parastatal was needed. In the event, the Fund was faced with the dilemma of how to deal with a second-best situation: should Fund support be halted over the failure to address these problems or should support continue while allowing flexibility in the timing of highly sensitive parastatal reform?

In an economy that had experienced a massive impoverishment over the years, it was unavoidable, given limited resources, that social safety nets in the programs could only partially deal with the enormous problems. Nevertheless, we agree with the evaluators that the failure of the government to control wage costs as called for in the program significantly ate into outlays for nonwage spending, especially in the social sector.

Zimbabwe

We agree with a number of the conclusions from the case study of Zimbabwe. Particularly well taken is the point that the absence of a broad-based consensus in support of the 1992–95 program considerably weakened its chances of success. We have reservations, however, about two observations made in the report.

First, it is argued that the program failed to take account of the distributional effects of fiscal adjustment and was therefore doomed to fail from the start. The program envisaged a cut in noninterest spending relative to GDP by 7.5 percentage points during 1992–95; the evaluators call this an "astonishing contraction," which would have required that "social and redistributional expenditures be massively curtailed." In fact, no such curtailment in expenditures was envisaged or required. The programmed reduction in spending was to consist of (1) no further need for the drought-related subsidies of over 4 percent of GDP in the previous year; (2) reduced net lending to the public enterprises relative to GDP of 3 percentage points, of which 1 percentage point was to stem from privatization proceeds; and (3) a reduction in the civil service wage bill relative to GDP of 2 percentage points. Other expenditures were programmed to rise relative to GDP. In the

event, however, the government failed to bring the financial performance of the public enterprises under control, and spending cuts were made in "softer" areas of the budget. But this certainly was not the intention.

Second, the report suggests that Zimbabwe possessed many of the characteristics of a transition economy and that the decline in manufacturing output of 14 percent during 1991–96 should thus have been "broadly predictable" and allowed for in the program. While the Zimbabwean economy was certainly highly protected and subject to a range of controls prior to inception of the program, it was for the most part in private hands (the public enterprise sector probably accounted for no more than 5–10 percent of GDP). Moreover, it is not clear that output would have contracted as it did if the fiscal program had remained on track: fiscal slippages contributed to increases in real interest rates and in the real exchange rate that significantly hurt manufacturing output. The problem was not liberalization per se, but rather the fact that it was accompanied by widening macroeconomic imbalances that were policy induced.