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PROJECT PERFORMANCE ASSESSMENT REPORT

ZIMBABWE

SECOND STRUCTURAL ADJUSTMENT CREDIT

(CREDIT 2527-ZIM)

February 24, 2003

Operations Evaluation Department

Currency Equivalents

Currency Unit: Zimbabwe dollar (Z$)

Board approval (June 1993) US$1	=	Z$6.44
Closing (December 1997)	=	Z$16.77

Abbreviations and Acronyms

CAS	Country Assistance Strategy
EFF	Extended Fund Facility
ERS	Export Retention Scheme
ES	Evaluation Summary
ESAF	Enhanced Structural Adjustment Facility
ESAP	Economic Structural Adjustment Program
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
IDA	International Development Association
IMF	International Monetary Fund
LSCS	Large Scale Commercial Sector
PER	Public Expenditure Review
PPAR	Project Performance Assessment Report
PTC	Posts and Telecommunications Corporation
SAC	Structural Adjustment Credit
SAL	Structural Adjustment Loan
SDA	Social Dimensions of Adjustment
SDR	Special Drawing Rights
UDI	Unilateral Declaration of Independence
ZESA	Zimbabwe Electricity Supply Authority
ZISCO	Zimbabwe Iron and Steel Company

Fiscal Year

January 1 – December 31

Director-General, Operations Evaluation	:	Mr. Gregory K. Ingram
Acting Director, Operations Evaluation Department	:	Mr. Nils Fostvedt
Senior Manager, Country Evaluation & Regional Relations	:	Mr. R. Kyle Peters
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The World Bank
Washington, D.C. 20433
U.S.A.

GREGORY K. INGRAM
Director-General
Operations Evaluation

February 24, 2003

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Project Performance Assessment Report on Zimbabwe Second Structural Adjustment Credit (Credit 2527-ZIM)

Attached is the Project Performance Assessment Report (PPAR) prepared by the Operations Evaluation Department (OED) on the Zimbabwe Structural Adjustment Credit II (SAC II). It was an (US$125 million equivalent) IDA credit. It became effective on December 8, 1993 and closed on December 31, 1997, following a two and a half years extension. Co-financing for the credit was provided by Germany (US$28.4 million) and the Netherlands (US$26.3 million).

The SAC II supported the second phase of the Government of Zimbabwe's Economic and Structural Adjustment Program launched in 1991. In this phase, the objective was to stimulate a more rapid supply response while continuing efforts to restore macro-economic stability, improve public sector management and shield the poor and vulnerable groups from the adverse transitional effects arising from adjustment. The objectives of the credit were: 1) trade policy reform; 2) agricultural marketing deregulation; 3) private investment deregulation; 4) transport deregulation; 5) constraining parastatal losses and 6) maintaining overall macro-economic stability.

The project did not achieve its objectives. The initial supply response from good progress in implementing components 1) through 4) was not maintained in 1998-2000. Parastatal losses were not constrained and the central government fiscal deficits remained high. The failure to lower the budget deficit, resulted in inflation and continued high interest rates which slowed investment and job creation. The credit failed to shield the poor from the adverse effects of adjustment; real per capita social expenditures fell, and there were shortcomings in the design of the Social Development Fund. Extreme poverty increased from 26 percent in 1990/91 to 35 percent in 1995/96. Outcome is rated highly unsatisfactory, sustainability is highly unlikely and the institutional development impact is rated negligible.

The Bank performance is rated unsatisfactory. The Bank correctly focused on stimulating growth, constraining parastatal losses, and on agricultural marketing reforms.

The Export Retention Scheme was designed to provide a strong transitional incentive for export expansion. But the Bank underestimated government concerns about the impact of reforms on the distribution of income and assets and on the racial divide inherited at independence and the risk to stabilization and to private sector confidence posed by the 1992 Land Acquisition Act. It also did not adequately support macroeconomic stability, and expenditure reform; early analytic work, including a fiscal sustainability exercise was not undertaken which would have avoided inappropriate sequencing (a reduction in taxes before rationalizing public expenditures), and would have helped identify expenditure priorities and options for expenditure rationalization. The social impact of reforms was not monitored during 1991-96 and the second tranche was disbursed in December 1997 when there was no basis for concluding that the macroeconomic management was sound.

The borrower performance is rated highly unsatisfactory. The borrower showed little evidence of commitment to maintaining macroeconomic stabilization and after 1997 it abandoned all efforts at reform, reversed many of the price and trade liberalization measures undertaken earlier in the decade and granted unbudgeted payments to war veterans. It proceeded to takeover large-scale commercial farms which has destabilized the economy.

The experience with SAC II provides four lessons. First, given the short-term necessity of macroeconomic stability, especially achieving fiscal sustainability, the Bank should have undertaken a public expenditure review prior to 1995, should have been more forceful in ensuring that credible steps to achieve fiscal sustainability were incorporated in our adjustment lending and should have formed a judgment not only about the macroeconomic/fiscal targets, but also about the likelihood of their implementation. Secondly, the Bank should not have relied so much on commitments with technocrats in absence of political dialogue and consensus for reforms. Thirdly, the Bank should release tranches of adjustment loans on the basis of results, rather than promises. Fourthly, adequate provisions for protecting the poor are paramount in adjustment operations to a low-income client like Zimbabwe.

Gregory K. Ingram

OED Mission: Enhancing development effectiveness through excellence and independence in evaluation.

About this Report

The Operations Evaluation Department assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, OED annually assesses about 25 percent of the Bank's lending operations. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons. The projects, topics, and analytical approaches selected for assessment support larger evaluation studies.

A Project Performance Assessment Report (PPAR) is based on a review of the Implementation Completion Report (a self-evaluation by the responsible Bank department) and fieldwork conducted by OED. To prepare PPARs, OED staff examine project files and other documents, interview operational staff, and in most cases visit the borrowing country for onsite discussions with project staff and beneficiaries. The PPAR thereby seeks to validate and augment the information provided in the ICR, as well as examine issues of special interest to broader OED studies.

Each PPAR is subject to a peer review process and OED management approval. Once cleared internally, the PPAR is reviewed by the responsible Bank department and amended as necessary. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors.

About the OED Rating System

The time-tested evaluation methods used by OED are suited to the broad range of the World Bank's work. The methods offer both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. OED evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (more information is available on the OED website: http://worldbank.org/oed/eta-mainpage.html).

Relevance of Objectives: The extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). *Possible ratings:* High, Substantial, Modest, Negligible.

Efficacy: The extent to which the project's objectives were achieved, or expected to be achieved, taking into account their relative importance. *Possible ratings:* High, Substantial, Modest, Negligible.

Efficiency: The extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. *Possible ratings:* High, Substantial, Modest, Negligible. This rating is not generally applied to adjustment operations.

Sustainability: The resilience to risk of net benefits flows over time. *Possible ratings:* Highly Likely, Likely, Unlikely, Highly Unlikely, Not Evaluable.

Institutional Development Impact: The extent to which a project improves the ability of a country or region to make more efficient, equitable and sustainable use of its human, financial, and natural resources through: (a) better definition, stability, transparency, enforceability, and predictability of institutional arrangements and/or (b) better alignment of the mission and capacity of an organization with its mandate, which derives from these institutional arrangements. Institutional Development Impact includes both intended and unintended effects of a project. *Possible ratings:* High, Substantial, Modest, Negligible.

Outcome: The extent to which the project's major relevant objectives were achieved, or are expected to be achieved, efficiently. *Possible ratings:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry and supported implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of the project). *Possible ratings:* Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower assumed ownership and responsibility to ensure quality of preparation and implementation, and complied with covenants and agreements, towards the achievement of development objectives and sustainability. Possible ratings: Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Contents

Contents (cont'd.)

Annexes:

This report was prepared as part of the Country Assistance Evaluation of Zimbabwe by Poonam Gupta (Task Manager). Betty Casely-Hayford and Agnes Santos provided administrative support. An evaluation mission visited Zimbabwe from March 26 to April 10, 2001. The team comprised Ellen Goldstein, Jack van Holst Pellekaan, Zahia Khan and Sohail J. Malik. The cooperation of several government officials, members of academia, NGOs, donors, representatives of industry, commerce, agriculture and a cross section of the citizens of Zimbabwe are gratefully acknowledged.

Ratings and Responsibilities

Performance Ratings

	OED Evaluation Summary	*PPAR*	*Comments*
Outcome	Marginally Satisfactory	Highly Unsatisfactory	The objectives of restoring macroeconomic stability, improving public sector management and shielding the poor from the transitional impact of adjustment were not met. The supply response was not sustained.
Institutional Development Impact	Modest	Negligible	The loan targeted reforms in the parastatal sector where results were disappointing.
Sustainability	Uncertain	Highly Unlikely	The 1998-2000 period has been one of macroeconomic destabilization, slippages in structural reforms and forcible land acquisition which has destroyed private sector confidence and the core of efficient agriculture.
Bank Performance	Satisfactory	Unsatisfactory	The Bank correctly focused on liberalizing the economy, constraining parastatal losses, and on agricultural marketing reforms. But it overestimated government ownership of SAC II reforms, and underestimated the risk to stabilization and to private sector confidence posed by disorderly land reforms and improper sequencing of reforms in the macro program. Early analytic work to assist in public expenditure management was not planned and the social impact of reforms was not monitored. There was no basis for concluding that the macroeconomic management was sound when the second tranche of SAC II was released in December 1997.
Borrower Performance	Unsatisfactory	Highly Unsatisfactory	The borrower did not maintain macroeconomic stability. After 1997 it abandoned all efforts at further reform and reversed many of the reforms it had implemented under SAC II.

Key Project Responsibilities

Staff	*At Appraisal*	*At Completion*
Task Manager	Lloyd McKay	R. van den Brink
Division Chief	Praful C. Patel	Ataman Aksoy
Country Director	Stephen Denning	Barbara Kafka

Preface

This is the Project Performance Assessment Report (PPAR) for the Second Structural Adjustment Credit in Zimbabwe. Credit 2527-Zim of two equal tranches in the total amount of SDR 88.3 million (US$125 million equivalent) was approved on June 29, 1993 and made effective on December 8, 1993. The first tranche was released upon effectiveness. The second (and final tranche) was released on December 22, 1997. The credit was closed on December 31, 1997; two and a half years after the original closing date. Co-financing for the credit was provided by Germany (US$28.4 million) and the Netherlands (US$26.3 million).

The Macroeconomics 1 Division of the Africa Region in the Bank prepared the Implementation Completion Report (ICR) in 1998. The ICR provides a good account of the structural adjustment program's implementation experience and lessons. The Operations Evaluation Department (OED) prepared this Project Performance Assessment Report (PPAR). It reviews the impact of the credit five years after it closed. An OED mission visited Zimbabwe in March/April 2001 to discuss the overall effectiveness of the Bank's Assistance Program during the 1990s. The Bank's lending for structural adjustment received considerable attention during these discussions. The kind cooperation and valuable assistance of Government, Donors (bi-lateral, and multi-lateral), Bank Staff, Zimbabwean academics, Non-Governmental Organizations (NGO's) and a cross section of people from different segments of Zimbabwean society is gratefully acknowledged. The list of persons interviewed is attached as Annex G.

This PPAR downgrades the Evaluation Summary outcome rating from marginally satisfactory to highly unsatisfactory, institutional development from modest to negligible, sustainability from uncertain to highly unlikely, borrower performance from unsatisfactory to highly unsatisfactory and Bank performance from satisfactory to unsatisfactory.

The PPAR was sent to the borrower for comments. No comments were received.

1. Background

1.1 Prior to the 1965 Unilateral Declaration of Independence (UDI), Southern Rhodesia operated as an open economy. During those years, the economy experienced high overall growth, massive government investment in electric power, rail and road transport, and a large infusion of foreign capital. The economy was, however, highly dualistic. The Land Apportionment Act of 1930 reserved 30 percent of agricultural land for 1.1 million Africans living in mostly low fertility Native Reserves and 51 percent (high fertility land) for 50,000 white settlers (roughly 5 percent of the population at that time); the remaining 19 percent was unassigned land and forest areas. The white minority also dominated the relatively well-developed industrial and commercial sectors.

1.2 The UDI in 1965 provoked international sanctions which prompted the Government to switch towards greater reliance on import-substituting industrialization policies. After a period of relative prosperity between 1965 and 1974, sanctions, shortcomings of these policies, and civil war between 1973-1980 caused growth to slump. The war culminated in the creation of Zimbabwe on April 18,1980.

1.3 In order to redress inequities, the new Government intensified the direct controls inherited at independence and increased expenditures. Controls on the allocation of foreign exchange and price determination were extended to cover the labor market; minimum wages were introduced, and increased sharply in the early 1980s. To prevent lay offs, regulations were introduced with severe restrictions upon firing. Expenditures on health and education were increased and by 1990, many social indicators were significantly better than in 1980 and in Sub-Saharan Africa.

1.4 But problems emerged. The government deficit rose to 10 percent of GDP. This was financed partly through high tax revenues (36 percent of GDP), with the remaining financed by domestic borrowing at negative real interest rates. Controls slowed economic growth and raised unemployment to more than 20 percent in 1989.

1.5 Thus, the Government came to regard economic policy change as necessary and launched the Economic and Structural Adjustment Program (ESAP) covering 1991 through 1995. The program, unlike in many African countries, was initiated not by a crisis but by a recognition that conditions for more rapid growth were needed.

1.6 The Bank supported the ESAP with two structural adjustment loans starting in 1991. The first involved US$175 million equivalent (an IBRD loan of US$125 million and an IDA credit of US$50 million equivalent) and was complemented by other donor financing. IMF's support under the Extended Fund Facility (EFF) of SDR 114.60 million was approved on 9/11/1992.[1] The first SAL/SAC had four main components: 1) fiscal and public enterprise deficit reduction coupled with prudent monetary policy; 2) trade and exchange rate liberalization; 3) domestic de-regulation; and 4) measures to alleviate the adverse impact of reforms on vulnerable groups. The SAC II emphasized these same components in addition to agricultural marketing reforms and transport deregulation (para 2.1).

[1] Relations with the IMF are summarized in Annex E.

1.7 There was noticeable progress in components 2) and 3) but not in the other components.[2] The decrease in government revenues due to a reductions in the direct and corporate tax rate introduced to foster private sector economic activity were not offset by increased incomes and receipts from sales tax. Inability to reform the parastatal sector led to mounting parastatal losses. The 1992 drought, characterized as the worst drought of this century also increased government expenditures and contributed to declining revenues, further exacerbating the fiscal situation. The Bank approved its second Structural Adjustment Credit (SAC II) on June 29, 1993, based on significant real reductions in non-drought related expenditures including reductions in the size of the civil service and substantial increases in the consumer tariff for utility services.[3] The credit was expected to fully disburse by June 1995.

2. Project Objectives and Design

Project Objectives

2.1 The SAC II supported the second phase of the Government's ESAP. In this phase, the objective was to stimulate a more rapid supply response while continuing to restore macro-economic stability, improve public sector management and shield the poor and vulnerable groups from the adverse transitional effects arising from adjustment. The credit emphasized: 1) trade policy reform; 2) agricultural marketing deregulation; 3) private investment deregulation; 4) transport deregulation; 5) constraining parastatal losses and 6) maintaining overall macro-economic stability (Box 2.1).

2.2 The SAC II was for US$125 million on IDA terms. This amount was based on an overall external financing plan worked out with the Government and IMF for 1993 and 1994. The large allocation of IDA resources was due to Zimbabwe's financial assistance requirements as a result of the drought and the deterioration in its debt servicing capacity and per capita GDP. The credit was to be disbursed in two equal tranches—the first upon effectiveness and the second upon completion of a set of further conditions. The specific actions included as the conditions for effectiveness and the release of the second tranche are summarized in Box 2.1.

Relevance of Objectives

2.3 The objectives of SAC II were relevant in many respects. Liberalizing the economy, improving public sector management were important as was support for liberalizing trade and exchange rate policies, deregulating agricultural marketing, removing restrictions on small transport and improving the operational efficiency of parastatals. Agricultural marketing reforms which addressed elimination of the requirement that farmers sell their maize to the Grain Marketing Board, removal of all geographic restrictions on the transport of maize within Zimbabwe, and a change in the marketing arrangements for beef, dairy products, oilseeds and cotton, were needed for increasing agricultural growth.

[2] PPAR of SAC I.
[3] Zimbabwe became IDA eligible in 1992.

Box 2.1: Statement of SAC II Objectives

Objective	*Path to Achievement*	*Condition of Effectiveness*	*Condition of Second Tranche Release*
Trade Policy Reforms: Continue to liberalize the trade regime	Progressively move to unified market based foreign exchange system; and an import regime based on modest tariff-based protection by 1995.	Improve efficiency of Export Retention Scheme (ERS) market by moving to system of holding export retentions in foreign exchange or by allowing importers to hold ERS entitlement passbooks and permitting trade in actual ERS entitlement.	Increase percentage of own export earnings retained under the ERS from 50 to 60 percent
Deregulate private investment	Free from sanctioning all investments not asking for an allocation of foreign exchange and steps to encourage foreign investment.	Automatic and unrestricted remittance of after tax dividends accruing on foreign investment provided such dividends were remitted through ERS market.	
Deregulate road transportation	Changed certain restrictive provisions of motor transportation act detrimental to emergence of small-scale transport enterprises.		Submit draft bill to parliament removing route and commodity specific licensing for goods transport and focusing licensing regulations to vehicle roadworthiness, traffic safety and insurance coverage.
Continue to deregulate agricultural marketing	Remove marketing Board's monopoly and remaining price controls on maize, cotton, dairy, meats , oilseeds, and wheat.	Announce the specific detailed measures set forth in Para 23 of Letter of Development Policy (Annex C) .	Implement the specific measures. (Annex C).
Improve the operational efficiency of public sector enterprises.	Efficiency enhancements in four parastatals.	Introduce an operating framework; including performance contract for Zimbabwe Electric Supply Authority (ZESA) acceptable to IDA.	1) Finalize restructuring/ efficiency studies for Air Zimbabwe and Posts and Telecommunications Corporation (PTC); introduce operating frameworks with performance contracts for both by January 1, 1994 and 2) prepare a plan to improve the financial performance and efficiency of Zimbabwe Iron and Steel Company (ZISCO).
Design and implement programs to minimize the economic costs of adjustment	Assist the vulnerable through the Social Development Fund (SDF) which has received funding from the Government and the African Development Bank. Continue public works programs. Restore per capita real expenditures in health and education in the FY93/94 budget to the levels that prevailed in FY91/92.		
Macro-economic management:	Maintain sound and sustainable macro-economic management in the context of the ongoing IMF program.	Present to parliament (at end July 1993) a budget for fiscal 1993–94 with a deficit of less than 6 percent)	

Source: The President's Report of Structural Adjustment Credit II (Report No. P6085-Zim. June 4, 1993).

2.4 The SAC II emphasis on the export retention scheme (ERS) designed to provide a strong transitional incentive for export expansion was essential for success in terms of external balance, employment expansion, growth and poverty reduction, and was necessary to minimize the initial negative consequence of a conventional simple liberalization.[4]

2.5 However, the SAC II did not have explicit poverty reduction objectives. The Bank did not believe at that time that poverty was a major problem in Zimbabwe. Zimbabwe's Central Statistical Office (CSO) had estimated the incidence of poverty at 53 percent for 1990/91 on a per capita basis, but Bank staff were of the view that the survey contained methodological shortcomings that affected the validity of the estimates. The 1991 Agricultural Sector Memorandum, apart from mentioning more equitable distribution of assets and food insecurity, made no reference to poverty in rural areas. The 1995 Country Economic Memorandum (CEM) was labeled as a poverty assessment but it was a slim poverty profile with no proposed action plan or strategy for reducing poverty. It estimated the incidence of poverty in 1990/91 at 25 percent, less than half for most African countries.[5]

2.6 The strategy supported by SAC II was, therefore, to create a supply response, generate more rapid employment growth, restore real per capita spending on social services to 1990/91 levels and minimize the transitional adverse impact of adjustment on the poor through a Social Development Fund (SDF) financed by the government and the African Development Bank. However, there was no explicit provision in SAC II or in the Bank's strategy for adequate funding and monitoring of the implementation of the SDF.

2.7 The macro reform program had design flaws which made it difficult to maintain a sound and sustainable macroeconomic management under the SAC II implementation period (June 1993-June 1995) envisaged in the President's Report. The fiscal aspect of the macro program as designed in 1991 had three elements: (i) a reduction in the fiscal deficit; (ii) a reduction in explicit taxation rates; and (iii) a deregulation of interest rates.[6] A reduction in tax rates and the deregulation of interest rates sequenced to come before rather than after expenditure reductions from parastatal reform and public employment reductions turned out to be fiscally very costly and led to a domestic debt trap. Borrowing to finance high deficits in the context of financial sector liberalization led to a rapidly increasing debt burden that squeezed real public spending for social services.

2.8 The design of SAC II was weak in other respects. Conditionality on the major parastatal, Zimbabwe Iron and Steel Company required only the preparation of a plan to improve its efficiency. Performance contracts were required to be introduced for the Post and Telegraph Company and Zimbabwe Electric Supply Authority (ZESA), but such contracts in state-owned public enterprises have led to disappointing results because they do not address the structural problems of the enterprises and because of the difficulty in demarcating responsibilities between

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[4] Under the ERS, exporters were to be allowed to retain an increasing proportion of their foreign exchange earnings and trade their ERS entitlements in the open market.

[5] Even the Country Assistance Strategy, May 1 1997, Report No. 16541-Zim. stated that "Poverty is not as prevalent as in many other Sub-Saharan countries, but is likely to have increased in 1990-95.

[6] See the IMF External Review of the ESAF, 1998. According to this review, liberalization (financial and tax reduction) should have been phased in after expenditure reductions from parastatal reform and public employment reductions.

owner and manager.[7] SAC II also did not include a conditionality on institution strengthening related to public expenditure management in large part because the Public Expenditure and Management Review (PER) was completed in end 1995, too late to inform the design of SACII. In addition, the SAC II made no mention of the risk to stabilization and to private sector confidence posed by the 1992 Land Acquisition Act which had broadened the Government's power for compulsory land acquisition and increased the risk of expropriation. This risk eventually materialized. The Government announced in 1995 its decision to acquire 5 million hectares of land. By November 1997 it had targeted 1,471 commercial farms for compulsory acquisition, and in June 2000, the takeover of large-scale commercial farms commenced.

2.9 The SAC II appropriately supported the recommendations of the 1991 Agriculture Sector Memorandum on agricultural marketing reform. However, the SAC II could have also included easing the regulations for subdivision of land, given the importance of land policy for equitable growth, poverty reduction and political stability, and the emphasis placed on it by the memorandum and earlier analytical work in the 1980s.[8] Easier subdivision might have encouraged the Large Scale Commercial Sector (LSCS) to bring more land onto the land market, and might have allowed the Government to resettle more poor landless farmers.

2.10 A final issue is that the Bank overestimated client ownership on SAC II reform areas. The FY94 CAS, for example, stressed the "convergence of views" on economic reform, characterizing differences on the major reform issues in SAC II, such as, greater deregulation of the investment environment, deeper structural reform in agriculture, a reduction of fiscal deficits, and reform of parastatals, as "differences in emphasis." In fact they reflected fundamentally different approaches to issues. For instance, the Bank and some senior technocrats saw liberalization (investment deregulation, trade) in SAC II as necessary to spur growth, but the President and senior members of his party were more concerned about redistributing wealth, and remained unconvinced that liberalization would achieve this objective. Also, the Bank, and senior staff in the economic ministries, saw parastatal reform in SAC II as a means of increasing the efficiency of the public sector and reducing bank financing. For the President and his party, however, parastatals met important social objectives.

2.11 Of great significance was a deep suspicion within the party leadership that the Bank's major shareholders dictated what the Bank could and could not do. Had the Bank analyzed the extent of country ownership of reforms, based on the degree of consensus among decisionmakers, the locus of policy initiatives (whether local or external), the existence of up-front actions, and the participation of major stakeholders, it would have realized that ownership of SAC II reforms was weak, and narrowly based on commitments provided by a small circle of

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[7] *Bureaucrats in Business; The Economics and Politics of Government Ownership*. A World Bank Policy Research Report, 1995. The report finds a lack of clear link between performance contract and improved efficiency and productivity. It recommends using performance contracts sparingly and only when government shows a clear commitment to following through on its promises. These were also the lessons in OED's 1992 project performance audit report on Mexico's, Public Enterprise Loan and have been reconfirmed in the draft *Private Sector Development in the Electric Power Sector*: A Joint OED/OEG/OEU Review of the World Bank Group's Assistance in the 1990s,"December 23, 2002.

[8] At the end of the 1980s, ownership of good quality land had remained with a few thousand large scale commercial farms (LSCS). About 56 percent of LSCS land was in Natural Regions I, II, and III, the areas of highest agricultural potential. In contrast, 25.8 percent of CA land was found in these regions. The LSCS consisted of 4,660 farms while 1,020,400 households resided in communal areas. The Memorandum found that "the persistence of land concentration owes a good deal to the limitations which have been placed upon its marketability through restrictions on subdivision. The same applies to underutilization" (pg. 86).

technocrats. Ultimately, the reforms under SAC II were not sustained because power lay, not with individual ministries and technocrats with whom the Bank dialogued but with the political party whose trust the Bank was unable to gain.

Achievement of Objectives

2.12 The second tranche could not be released as scheduled in mid-1995. While second tranche conditions relating to trade policy reform, deregulation of transportation and agricultural marketing and parastatal reform had been met, the overall central government fiscal deficit, excluding grants, for 1994/95 had risen to 12.5 percent of GDP from the previous year's level of 7.6 percent and the IMF program went off track in 1995.[9] The Bank assisted the Government in a useful PER, which was completed in late 1995. The Government implemented the PER recommendations, reducing the actual fiscal deficit for 1996/97 to 7.6 percent of GDP. However, just before the second tranche was to be disbursed in August 1997, the Government approved an unbudgeted compensation package for war veterans equivalent to 2.6 percent of GDP. Shortly thereafter in November 1997, the Government announced an accelerated land reform program, targeting 5 million hectares (about half of commercial farming sector) for compulsory acquisition.

2.13 The Bank released the SAC II second tranche in December 1997, based on written governmental assurances "that the implementation of these new policies would be handled in a manner that did not jeopardize achievement of the agreed 1997/98 fiscal targets nor the intention to further reduce the fiscal deficit in subsequent years" and an IMF "comfort letter." [10] In December 1997 the Government announced a package of tax and expenditure measures to reduce the deficit. It also provided assurances that the land acquisition program would be carried out in a transparent manner, in accordance with the law. The second tranche of US$62.5 million was released on December 22, 1997—two and a half years after the original loan closing date.

2.14 The Bank should not have released the tranche based on government promises. An assessment of the macroeconomic situation would have confirmed that while there appears to have been a reduction in the central government deficit for the fiscal year 1997/98 to 6.6 percent, parastatal losses amounting to 7.4 percent of GDP in that year meant that the overall public sector deficit (central and parastatal) for 1997/98 was about 14 percent of GDP. It is also important to note that data on the budget deficit for the period immediately prior to the tranche release vary considerably, but it is clear that the sustainability of the reduction in the overall budget deficit into the future period was unlikely.[11] Concerns about the Government's accelerated land acquisition program, and lax monetary policy reform program had led to intense selling pressure on the Zimbabwe dollar. Just before, and during, second tranche disbursement, the Zimbabwe dollar depreciated, by 15 percent during the second half of November 1997, and

[9] In 1992 the IMF approved parallel arrangements under the Extended Fund Facility and the Enhanced Structural Adjustment Facility. The arrangements expired in September 1995. Total revenues fell short of expectations, declining by 2.3 percent of GDP between 1993/94 and 1994/95. Mechanisms for expenditure control proved ineffective; total expenditures increased by 2.5 percent because of rising interest payments on domestic debt and transfers. A new IMF Stand-By Arrangement was approved in June 1998 following the disbursement of the Bank's second trance in December 1997.

[10] See Implementation Completion Report (ICR) of the Second Structural Adjustment Credit.

[11] Estimates for the central government fiscal deficit, excluding grants, for the calendar year 1997 were 8.8 percent (IMF Staff Report for the 1999 Article IV Consultation). For the 18-month period July 1997-December 1998, the deficit was 6.6 percent (IMF Zimbabwe-Statistical Appendix, April 1999).

by another 30 percent in December. Also in December 1997, the Reserve Bank eliminated "temporarily" the right of corporations to maintain foreign currency accounts. By the end of the year, gross reserves had declined to 0.8 month of imports, and inflation had accelerated.

2.15 The economic and governance situation since 1998 has steadily deteriorated. IMF's first review of the Stand-By Arrangement (approved in June 1998) was held between August 1998 and February 1999, however, the review could not be completed.[12] At the time of the review, the 1998/99 central government budget deficit was estimated to be 11.5 percent. In 2000, the central government fiscal deficit (excluding grants) rose to 22.5 percent led by large, unbudgeted increases in civil service wages, defense spending. In July 2000, a newly-elected government proceeded to take over large-scale commercial farms under the Fast Track land reform program involving the compulsory acquisition of 5 million hectares of commercial farm land. One year later in July 2001, the Government increased the amount to be resettled from 5 million hectares to 8.3 million hectares, or almost 77 percent of the land area with large-scale commercial farming. And in November 2001, the fast-track program was accelerated to allow the Government to assume immediate ownership of land targeted for acquisition; current owners were instructed to vacate farms within three months.

3. Program Outcomes[13]

3.1 There were successes in trade, foreign exchange liberalization, and investment deregulation. On July 3, 1994 the exchange rates were unified, and allowed to float.[14] By 1995, the private sector had full authority to maintain and use foreign currency accounts. Under the ERS, where exporters were to be allowed to retain an increasing proportion of their foreign exchange earnings and trade their ERS entitlements in the open market, the retention rate was increased to 100 percent, above and beyond the second tranche release condition of 60 percent. The utilization of retained foreign exchange was expanded to allow the importation of any good or services, and to be traded in the domestic market. Restrictions on licensing and repatriation of profits by foreign investors were eased. By 1996, quantitative restrictions on imports that were in effect during the 1980s were largely dismantled and replaced by tariffs. But the positive effects of economic liberalization and deregulation of investment on private sector development in the SACs was counteracted by inappropriate sequencing of fiscal reforms in the macroeconomic program. Financial liberalization and tax reductions before reductions in expenditures led to an increase in government deficits, and high real interest rates which stifled private investment.

3.2 *Agricultural marketing reforms* were also implemented. The Grain Marketing Board's (GMB) monopoly in maize marketing was removed in 1996, but was re-instituted in June 2001. The GMB has also continued to manage the Strategic Grain Reserve with substantial cost. This together with poor management have been important factors underlying the GMB's poor

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[12] IMF Staff Report for the 1999 Article IV Consultation. The first program review under the arrangement was scheduled to have been completed by end-November 1998.
[13] The ICR of the second structural adjustment loan provides a detailed assessment of the achievement of objectives.
[14] With a sharp depreciation of the Zimbabwean currency in end 1997 and 1998, the Government pegged the exchange rate in January 1999 to the US dollar. In August 2000, the RBZ introduced a crawling peg with a band of 5 percent of each side of the central parity, as well as periodic devaluations based on inflation differentials with trading partners.

financial performance. The State Cotton Company and the Dairy Marketing Board were demonopolized and privatized in 1997. Oilseeds marketing and livestock sectors were liberalized.

3.3 The liberalization in agriculture and food marketing had direct benefits for the poor, through increased employment opportunities and reductions in the price of basic foods, such as maize meal (Box 3.1). Production of maize and cotton on communal farms increased (Annex F, Table 1), but, as explained later, agricultural growth was not broad based enough to arrest an increase in poverty during the nineties.

Box 3.1: Benefits from the Removal of Distortions in Maize Marketing

Before the removal of market distortions in Zimbabwe, urban maize milling was dominated by large, registered (government supplied) millers, using roller mills. These mills produced fine maize meal with very high profit margins. Controls on the inter-regional movement of grain products gave the urban millers a *de facto* monopoly in the maize meal trade. Rural hammer mills which produced coarse maize meal (whole meal) at much lower prices, were usually unable to obtain maize because of the controls on inter-regional movement of grain products. Hence, they were restricted in terms of production volume, and were also unable to sell in the urban market. Removal of the preferences for urban millers and removal of controls on the movement of grain products forced the urban millers to reduce their prices in the face of competition from the rural hammer mills, which now found a ready market for their coarser maize meal among poor consumers.

Source: Background paper entitled " Zimbabwe Country Assistance Evaluation Agricultural Development and Poverty Reduction." (March 2002)

3.4 *Deregulation of the transport sector* was also successful. Small-scale trucking companies and commuter transport expanded, raising the share of the sector in GDP from around 5.5 percent prior to SAC II to 8 percent post SAC II . Transport sector reforms drove down costs and facilitated the transportation of produce across regions. Partial liberalization of air transport attracted new airline services and supported the rapid expansion of horticultural exports. The value-added in the transport sector grew at an average 13 percent per annum between 1994-97. However, from 1998-2000, the average yearly rate of contraction was –1.3 percent.

3.5 On *parastatal reform*, a reduction in losses proved to be short-lived The combined operating losses of nine major public enterprises declined initially from about 3 percent of GDP in 1993/94 to 1.1 percent of GDP in 1995/96. However, by 2000, they were 3.5 percent of GDP (Annex F, Table 2). Continuing losses incurred by parastatals has directed bank credit away from the private sector.[15]

3.6 Of the parastatals explicitly targeted in SAC II second tranche condition, financial information on ZESA and PTC is unavailable in Bank documents until 1997/98, but in 2000, losses were Z$3 billion for ZESA and Z$3.2 billion for PTC. Losses incurred by ZISCO continued to increase and by 2000 they were almost Z$2.7 billion. Air Zimbabwe was showing profits at the start of SAC II but was loosing Z$100 million in 2000. The Grain Marketing Board moved from a surplus in 1995/96 to a loss of Z$3.3 billion in 2000.

[15] Claims by public enterprises on banks increased from Z$879 million in 1994 to Z$7,360 in 2000.

4. Program Impact

Macroeconomic Stabilization and Growth

4.1 Macroeconomic stabilization was not achieved (Table 4.1). The central government deficits (excluding grants) averaged 8.8 percent in 1993/94-97/98, 10.3 percent in 1999 and 22.9 percent in 2000. A lack of progress in controlling fiscal deficits resulted in high inflation, which remained at 21 percent in 1994-97, rising to 46.6 percent in 1998 and 55 percent in 1999-2000.

4.2 Budgetary interest payments rose from only 4.5 percent of GDP in 1990/91 to 6 percent of GDP in 1993/94 and to 9.2 percent in 1997/98. In 1999/2000, interest payments rose further to 15 percent of GDP. Zimbabwe was caught in a domestic debt trap, whereby the government had to borrow heavily, just to finance interest payments. This borrowing absorbed substantial private savings (around 8 percent of GDP per annum) and kept real interest rates high.[16] To reduce the cost of high interest rates to exporters, the Government allowed offshore borrowing by firms and banks. But this measure led to rapid monetary expansion and persistent inflation. The overall consequence of high interest rates and high inflation was the appreciation of the real exchange rate.

Table 4.1: Selected Economic Indicators

Indicator	*1991-93*	*1994-97*	*1998*	*1999*	*2000*
Real GDP Growth per annum	-0.7	4.7	2.5	-0.2	-4.9
Agricultural Growth per annum	1.6	5.5	4.9	3.5	2.5
Gross Fixed Capital (% of GDP)	22.2	20.6	17.6	10.0	--
Real Growth of US$ export value per annum	-2.4	11.1	-20.6	-0.1	--
Central Govt. Budget Balance, excl. grants (% of GDP)a	-8.2	-8.8	-4.7	-10.3	-22.9
Major parastatal losses/GDP (%)	-2.1	-2.2	-7.5	-3.4	-3.5
Commercial Bank lending rates (weighted av.)	33.3	34.7	49.2	66	69.2
Average annual inflation (CPI end of period)	32	21	47	57	86
Current Account/GDP(percent) Excl. official transfers	-7.8	-5.5	-5.6	0.5	-1.4

Source: SIMA Database and IMF reports.

Note: Budget balance and interest payments are based on fiscal years. The budget balance numbers for 1998, 1999 and 2000 are on annual basis.

4.3 During 1994-97 (between SAC II effectiveness in December 1993 and closing in December 1997), growth was 4.7 percent per annum, about 2.1 percent in per capita terms. Commercial agriculture and private sector services, particularly tourism and transport, responded well to liberalization. Agriculture grew at an average rate of 5.5 percent per annum in this period because of a substantial reduction in controls on and involvement in agricultural production and marketing; the manufacturing sector grew only at 1.8 percent as inefficient firms were weeded out. Trade and exchange rate reforms improved overall firm profitability, fueled an increase in domestic and foreign investment, and resulted in more rapid export growth (an average rate of 11 percent per annum in 1994-97). The good export performance was mainly driven by agriculture, and to a lesser extent by mining. Manufacturing exports did not show any improvement.

[16] Commercial bank lending rates (weighted average) increased from 35.4 percent in 1994 to 69 percent in July 2000.

4.4 Mounting fiscal imbalances, farm invasions and uncertainties in government's economic policy took their toll on the economy in 1998-2000. GDP per capita growth was –6.8 percent in 2000 and –10.3 percent in 2001.

The Impact on the Poor

4.5 The 1998 analysis of the 1995/96 CSO survey showed that the overall prevalence of extreme poverty between 1990/91 and 1995/6 increased from 26 to 35 percent.

4.6 This is not surprising since during 1991-97, output growth of 2.4 percent per annum, fell below the population growth , which averaged 2.6 percent per annum. Moreover, the devastating drought of 1992 (as well as the less severe drought of 1995) destroyed rural assets such as livestock and dramatically reduced maize yields.

Table 4.2: Zimbabwe: Distribution of Poverty Indexes, 1990/91 and 1995/96[a]

Poverty Measure	*1990/91*	*1995/96*
All Zimbabwe		
Prevalence (%)	25.8	34.9
Depth	8.8	11.8
Severity	4.2	5.4
All rural areas		
Prevalence (%)	35.8	48.0
Depth	12.4	16.6
Severity	5.9	7.7
All urban areas		
Prevalence (%)	3.4	7.9
Depth	0.8	1.9
Severity	0.3	0.7

Source: Alwang, Mills and Taruvinga, World Bank 2002.
a. The estimate is based on a poverty line created by measuring the cost of a minimum-needs basket of food and is on adult equivalent basis which adjusts for family composition.

4.7 Agricultural growth of 3.8 percent per annum in 1991-97 was also not high enough to reduce rural poverty. A sustained broad based growth of higher than 6 percent per annum was required before the incidence of poverty in rural areas could decline because the changes in poverty in relation to growth (growth elasticity) in rural areas was very low. However, broad-based growth of 6 percent per annum could not have been achieved just with agricultural marketing reforms targeted in SAC II. The skewed distribution of land needed to be resolved. As of 1988, the large-scale commercial sector (LSCS), numbering about 4,660 farms, controlled 29 percent of the nation's land area, located mainly in the areas of highest agricultural potential. More than 1,000,000 families remained in the overcrowded communal areas on 42 percent of the land area, located mainly in areas of poor agricultural potential.[17] The vulnerability of the communal sector to droughts, and a lack of public sector extension services, credit facilities, distribution of fertilizer and other agricultural inputs also needed to be addressed.

[17] According to the 1999 draft poverty assessment, even controlling for land quality, the poor in communal areas were distinguished by high dependency and small holdings per household member.

4.8 The SAC II was intended to generate higher employment which did not happen.[18] Despite significant structural reforms (including labor market deregulation), high real interest rates, downsizing in the public sector and political uncertainty all combined to slow investment and job creation. As a consequence, official data indicate that formal sector employment has been essentially flat since 1991 with formal unemployment estimated at 25 percent in 1998. A decline in remittances from urban areas (a major source of income for the poor in rural areas) also increased rural poverty.

4.9 The social impact of adjustment was not well heeded in SAC II. While problems with the implementation of the SDF established in 1991, had become apparent in 1992, the SAC II made no provision for safety nets. The Bank's investment portfolio also did not directly support social protection.[19] A cumbersome means testing program in the SDF created confusion about the definition of the targeted groups, and insufficient resources ensured that large numbers of eligible households were unable to get the benefits intended for them. Furthermore, the SAC II recommendation to increase the use of public works programs was not implemented.[20] In 1994—too late to impact on the design of SAC I and II--a broader social safety net concept was introduced as an element of the Government's Poverty Alleviation Action Plan, and an IDA credit for a Community Action Program, was approved in May 1998.

4.10 The expectation in SAC II that real per capita recurrent expenditures by government on health and education in the 1993/94 budget would be restored to the levels that prevailed in 1991/92 was not met. During the SAC II period, real expenditures on health and education declined (even though the non-interest budget share of these two sectors increased). By 1996/97 they were still 10 percent and 3 percent lower in real terms, respectively, than those in 1990/91. The reduction was mainly brought about by a decline in real staff wages and non-wage expenditures. The overall number of teachers and health workers changed little.[21] A decline in real wages and non-wage expenditures increased staff shortages in health clinics and reduced drug availability. These factors, together with the HIV epidemic which now affects almost a third of the adult population, have reduced life expectancy from 56 years in 1990 to 40 years in 2000. Gains in infant mortality achieved in the 1980s have largely been eroded.

4.11 Poverty has likely increased since 1996 for several reasons. First, both GDP per capita and GNI per capita have on average declined since 1996 by 2.2 and 3.4 percent respectively.[22] The decline has been particularly marked since 1999. Second, there have been considerable increases in the prices of food and other consumer goods such that inflation was 60 and

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[18] Jeffrey Alwang, and Bradford Mills. *Why has Poverty Increased in Zimbabwe?* Unpublished mimeo, March 2001, page 17. This recent work confirms earlier conclusions that ".... While the Zimbabwean government has made successful investments in human resources in the past, it has had less success in improving the sources of livelihood for most of the poor." Understanding Poverty and Human Resources in Zimbabwe: *Changes in the 1990s and Directions for the Future*, A Discussion Paper, Human Development Group, Eastern and Southern Africa, The World Bank, December 1996.

[19] The SDF was designed to protect the poor from the impact of price liberalization (e.g., maize), school tuition fees, improved collection of charges for health care services, and reductions in civil service employment. The African Development Bank provided direct support, which was linked to the policy-based operations supported by IDA.

[20] ICR for SAC II.

[21] Implementation Completion Report of Second Structural Adjustment Credit, June 1998 and the May 1, 1997 CAS.

[22] The trends in GDP per capita in 1995 prices and GNI per capita in 1993 PPP track each other closely, particularly from 1996. The Atlas method for calculating the trend in GNI per capita shows a substantially greater decline compared with the PPP method because inflation has been high, and exchange rates have not been market-determined but administratively adjusted from time to time.

85 percent in 1999 and 2000 respectively. Third the misery of the poor has been reinforced by a substantial shortfall in maize production in 2002. Finally, the fiscal crisis has led to a devastating reduction in access and the quality of social services at a time when they are badly needed..

Distributional Effects

4.12 Policy changes under the SACs helped trigger a massive redistribution of income from formal sector wage earners to farmers. Formal sector employment in manufacturing and public administration declined and real wages fell. Meanwhile, agriculture benefited initially from exchange rate adjustment, the removal of price controls and the elimination of marketing board monopolies.

4.13 Within agriculture, however, skewed distribution of resources meant that the LSCS consisting of a few thousand commercial farms were the major beneficiaries of reforms. The liberalization of the exchange rate regime provided the LSCS opportunities not only for enhanced access to foreign exchange but also improved access to short-term external capital. Commercial farmers were able to respond quickly to agricultural marketing reforms because of their location in regions of high agricultural potential, and their higher initial stock of farm investments. Tobacco (the single most important crop in the commercial farm sector) and horticultural production accounted for the whole of the increase in value of agricultural exports. On the other hand, wage paid employment, important for alleviating poverty in the rural areas showed little or no improvement because of the capital intensive nature of these farms.

4.14 Thus, overall inequality remained high, with an estimated Gini coefficient of 0.63 in 1995/96. This undermined support for the program, because the country was trying to overcome its legacy of a highly dualistic economic structure and segregated past.

5. Performance Ratings

Outcome

5.1 Outcome ratings are based on relevance and efficacy. The loan's objectives of stimulating a more rapid supply response while continuing to restore macro-economic stability, improve public sector management and shield the poor and vulnerable groups from the adverse transitional effects arising from adjustment were relevant. However, financial liberalization and tax reductions before the implementation of deficit reduction measures in 1991-92 made it difficult to restore macroeconomic stability in the SAC II implementation period . Parastatal reform conditionality was weak. There was no explicit provision in SAC II for adequate funding and monitoring of the implementation of the Social Development Fund that had been established to mitigate the negative impact on the poor and the vulnerable. The SAC II also did not include conditions for easing the regulations on subdivision of land, which might have had a positive impact on land markets, thereby easing some pressure for land reform. In terms of efficacy, the SACII objectives of restoring macroeconomic stability, improving public sector management and shielding the poor from the transitional impact of adjustment were not met. The initial supply response was not sustained after 1997. The outcome of SAC II is rated highly unsatisfactory.

5.2 The 1998-2000 period has been one of macroeconomic destabilization and slippages in structural reforms, reflected in aborted attempts to implement IMF Stand-by arrangements in 1998 and 1999, and failure to move ahead with a third structural adjustment credit. This unfavorable situation stems in part from a political response to social discontent over rising poverty, limited employment opportunities for a relatively well-educated workforce and persistent dualism and high inequality in the distribution of assets. Controversial and unexpected policy decisions (e.g., civil service wage increases, land redistribution) have increased fiscal deficits, fueled inflation, destroyed investor confidence and disrupted official capital flows. The ensuing crisis has led to policy reversals in areas such as exchange rate management, foreign exchange restrictions, trade barriers and interest rate caps. Initial restrictions have been eased, but not eliminated. The sustainability of the net benefits, having been severely compromised, is rated as highly unlikely.

Institutional Development Impact

5.3 The loan did not aim to strengthen civil service management, domestic debt management, governance, financial accountability or budgetary systems, domestic capacities to monitor and evaluate, or legal and regulatory frameworks for private sector development. It did facilitate agricultural marketing reforms and temporary trade liberalization through the ERS but negligible progress was achieved in the crucial area of parastatal reform targeted by SAC II. Overall, institutional development is rated negligible.

Bank Performance

5.4 The Bank correctly identified the need to liberalize the economy and to reduce fiscal deficits. The SAC II building on SAC I appropriately supported the gradual dismantling of a restrictive system of foreign exchange allocation and exchange rate determination which undermined competitiveness and suppressed imports and private investment. At the same time, it supported the elimination of many non-tariff barriers and a reduction/simplification of trade tariff rates, as well deregulation and a reduction of unsustainable levels of public sector expenditures and parastatal losses. The Export Retention Scheme was designed to provide a strong transitional incentive for export expansion. The SAC II also addressed elimination of the requirement that farmers sell their maize to the Grain Marketing Board, removal of all geographic restrictions on the transport of maize within Zimbabwe, and a change in the marketing arrangements for beef, dairy products and cotton which were important for stimulating agricultural growth, and poverty alleviation.

5.5 However, the Bank underestimated the risks to the adjustment program. The risks stemmed from the strong possibility that reforms could exacerbate income inequality and from the Land Acquisition Act in 1992 which increased the threat of expropriation.

5.6 Bank performance fell short in other respects. Given the necessity of a "sound and sustainable macroeconomic management" in SAC II implementation period, [23]public expenditure

[23] See page 14, SAC II President's Report.

work, including a fiscal sustainability exercise should have been undertaken. It would have identified the sequencing problem discussed above and would have helped establish expenditure priorities and options for expenditure rationalization. It would have allowed the authorities to have put in place a sustainable fiscal framework through expenditure restructuring and rationalization prior to reforms that lowered the revenue-to-GDP ratio and raised interest expenses in the budget. In turn, this would have contributed to a reduction in real interest rates, which would have helped accelerate the recovery of employment in manufacturing and reduced the decline in real wages. It would have also made the overall fiscal framework more viable, as it would have been a better alternative to achieving the program's fiscal deficit targets without implying the draconian reductions in discretionary expenditures that were implied by the sequencing in the program. This would have helped generate political commitment for reforms in SAC II. It might also have maintained the provision of services to the poor which had been the core of the Government's strategy in the 1980s.

5.7 SAC II could have been more effectively leveraged. The relaxation of rules for subdivision of land could have been included as a condition of disbursement which might have had a positive impact on the land markets, thereby easing some pressure for land reform. Parastatal conditionality should have been stronger; it should not have focused on plans, studies and performance contracts. [24]

5.8 Finally, the Bank should have formed a judgment not only about the macroeconomic/fiscal targets, but also about the likelihood of their implementation. Disbursement of second tranche should not have taken place until fiscal rectification had occurred, and not just on the basis of promises. The IMF "comfort letter" (para 2.13) did not explicitly address the issue of tranche release, nor the likelihood of the government implementing its macroeconomic framework, and it was dated six months before the tranche was actually released.[26] The Bank performance is rated unsatisfactory.

Borrower Performance

5.9 While the Government implemented economic liberalization under SAC II, it showed little evidence of commitment to maintaining macroeconomic stabilization. After 1997, it abandoned all efforts at reform, reversed many of the price and trade liberalization measures undertaken earlier in the decade, and adopted special interest measures, such as payments from the budget to war veterans. It progressively became more strident in its claims that white farmers should move off their land and be replaced by black farmers, and in June 2000, proceeded on an aggressive takeover of large-scale commercial farms. These actions have destroyed the core of efficient agriculture, and negated the benefits of marketing reforms, and destabilized the economy. Borrower performance is judged to be highly unsatisfactory.

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[24] Dr. Chidzero, the Senior Minister of Finance, advised the Bank to get commitments before pushing harder.

[25] Dr. Chidzero, the Senior Minister of Finance, advised the Bank to get commitments before pushing harder.

[26] According to the ICR of SAC II, the tranche was released based on government assurances that payments to war veterans in August 1997 and increased military expenditures "would be handled in a manner that did not jeopardize achievement of the agreed 1997/98 fiscal targets nor the intention to further reduce the fiscal deficit in subsequent years" and a "comfort letter" from the IMF.

6. Lessons

6.1 The experience with SAC II provides four lessons.

- First, given the short-term necessity of macroeconomic stability, especially achieving fiscal sustainability, the Bank should have undertaken a public expenditure review prior to 1995, should have been more forceful in ensuring that credible steps to achieve fiscal sustainability were incorporated in our adjustment lending and should have formed a judgment not only about the macroeconomic/fiscal targets, but also about the likelihood of their implementation.

- Secondly, the Bank should not have relied so much on commitments with technocrats in absence of political dialogue and consensus for reforms.

- Thirdly, the Bank should release tranches of adjustment loans on the basis of results, rather than promises.

- Fourthly, adequate provisions for protecting the poor are paramount in adjustment operations to a low-income client like Zimbabwe.

Annex A

BASIC PROJECT DATA SHEET

Second Structural Adjustment Loan (Credit 2527-ZIM)

Key Project Data *(amounts in US$ millions)*

	Appraisal Estimate	*Actual or Current estimate*	*Actual as % of Appraisal estimate*
Total project costs	259.7	n.a	
Loan amount	125.00	n.a	
Co financing		n.a	
- Germany	28.4		
- Netherlands	26.3		
- Multilateral Institutions	80.0		
Cancellation			

Cumulative Estimated and Actual Disbursements *(amount in US$ thousands)*

	FY93	*FY94*	*FY95*	*FY96*	*FY97*
Appraisal Estimate	62.50	62.50			
Appraisal Estimate Cumulative	62.50	125.00			
Actual	50.78	11.02	0.0	0.0	59.98
Actual as % of appraisal (%)	81.24	17.63			
Actual Cumulative	50.78	61.80	61.80	61.80	131.78

Project Dates

	Original	*Actual*
Preparation		1/22/93
Appraisal		4/08/93
Negotiations		5/11/93
Board Presentation		6/29/93
Effectiveness		12/08/93
First Tranche Release		1/21/94
Second Tranche Release	09/08/94	12/23/97
Closing date		12/31/97

Staff Inputs (staff weeks)

	Staff Weeks	*US$(000)*
Preappraisal	53.5	133.9
Appraisal	13.2	30.7
Negotiations through Board Approval	16.5	38.5
Supervision	147.1	378.3
Completion	20.0	50.0
Total	250.3	631.4

Annex A (cont'd)

Mission Data

	Date (month/year)	*No. of Persons*	*SW in Field*
Identification	11/92	n. a	n. a
Pre-Appraisal	01/93		
Appraisal	04/93		
Supervision*	02/96		
Completion	06/97		

* Supervision by resident mission staff.

Annex B

Status of Legal Covenants

Loan Agreement Section	*Description of Covenant*	*Comments*
Article III	Particular covenants related to progress monitoring, review, reporting, recording and accounting.	Compiled with
Schedule 3, 1(a)	<u>Second tranche release conditions:</u> Increase the Export Retention Scheme rate to at least 60 percent.	Done
Schedule 3, 1(b)	Implement the agriculture, marketing and processing reform measures for beef, dairy, cotton and maize, respectively, as set forth in paragraph 23 of the program.	Done
Schedule 3, 2	Introduce, in accordance with paragraphs 42 and 44 of the Program, respective operational frameworks for Air Zimbabwe and the Posts and Telecommunications Corporation from January 1, 1994, in substance satisfactory to the Bank.	Done
Schedule 3, 4	Take all necessary governmental action to submit for parliamentary approval, legislation which would: (i) remove route and commodity specific licensing for the transportation of goods within its territory, and (ii) focus licensing requirements on vehicle road worthiness, traffic safety and insurance coverage.	Done
Schedule 1, 4	Macroeconomic policy framework is consistent with the objectives of the Program	- On August 6, 1997, Board agrees to release second tranche given satisfactory fulfillment of second tranche release conditions. However, just before the second tranche was to be disbursed, new unplanned public expenditures were announced (i.e., compensation package for war veterans), which were not consistent with the macroeconomic policy framework. - This led the Bank to withhold disbursement of the tranche, until December 19, 1997, when the government had adopted a series of compensating fiscal measures, and assured the Bank that its planned land reform program would be implemented in an orderly manner, without jeopardizing the fiscal framework.

Annex C

Para 23 of the Letter of Development Policy
Agricultural Marketing

During the past 18 months, the government has begun a significant reform of the agricultural pricing and marketing system in order to improve the efficiency of marketing mechanisms, increase the role of the private sector in marketing and processing activities, and to increase the volume of production in the sector, especially among small-scale farmers. The government has recently completed a draft of a comprehensive marketing and price liberalization strategy. Using this document as a basis, the government will continue with the program for reforming the agricultural pricing and marketing system, including the elimination of the marketing monopolies currently held by the four agricultural parastatals and abolition of price and other controls impeding the participation of the private sector in agricultural marketing and processing activities.

(i) **Beef.** The government will announce by the end of July 1993 its intention to: (a) eliminate the floor on producer and wholesale beef prices sold in domestic markets; (b) eliminate slaughter quotas at all abattoirs; (c) review present health standards and regulations to insure that public safety is maintained without reliance on production quotas; and (d) review export regulations with the objective of permitting private individuals and firms to export beef and beef products. The above-mentioned changes will be made effective no later than the beginning of the 1994–95 marketing year. In addition, the government will announce the policy changes effective for the 1994–95 marketing year based on the review of health standards at abattoirs and export regulations.

(ii) **Dairy.** The government will announce by the end of July 1993 its intention to: (a) transfer licensing authority for dairy enterprises from DMB to an appropriate authority; (b) review the present health standard regulations to ensure minimum health standards for milk production; (c) continue the policy of allowing milk and milk products to be unregulated commodities (as per the government's announcement of March 31, 1993); (d) allow DMB to continue to purchase milk at process that are to DMB's best advantage; and (e) review export regulations with the objective of permitting private individuals and firms to export dairy products. The above-mentioned changes will be made effective no later than the beginning of the 1994–95 marketing year. In addition, the government will announce the policy changes effective for the 1994–95 financial year based on the review of health standards and export regulations.

(iii) **Cotton.** The government will announce by the end of July 1993 its intention to: (a) abolish the marketing and processing monopoly of the Cotton Marketing Board and abolish all regulations restricting entry by others into the domestic marketing and processing of cotton and cotton products, except for those relating to health, safety and environment; (b) continue to allow producer prices for seed cotton to be market determined (as per the government's announcement of March 31, 1993); (c) allow all marketing agents including CMB the authority—subject to complying with uniform government quality standards – to market cotton products domestically to their best advantage, (d) review export regulations with the objective of permitting private individuals and firm to export cotton and cotton products; and (e) maintain the policy of allowing unrestricted cotton lint imports through the ERS. The above-mentioned changes will be made effective no later than the beginning of the 1994–95 marketing season (April 1994). In addition, the government will announce the policy changes effective for the 1994–95 marketing year based on the review of export regulations.

(iv) **Oilseeds.** The government will announce by the end of July 1993 its intention to: (a) eliminate price floors on oilseeds and by products and allow GMB to purchase oilseeds to their best advantage; and (b) review export regulations with the objective of permitting private individuals and firms to export oilseeds and oilseed products. The above-mentioned changes will be made effe4ctive no later than the beginning of the 1994–95 marketing season (April 1994). In addition, the government will announce the policy changes effective for the 1994–95 marketing year based on the review of export regulations.

(v) **Wheat.** The government will announce by the end of July 1993 its intention to: (a) review trade and stocking policy; (b) eliminate all marketing controls on wheat; (c) allow GMB to announce and defend a floor for the producer price of wheat; (d) allow any private sector firm to participate in domestic wheat marketing; and (e) review export, import, and stocking policy with the objective of permitting private individuals and firms to trade of wheat. The above-mentioned changes will be made effective no later than the beginning of the 1994–95 marketing season (April 1994). In addition, the government will announce the policy changes effective for the 1994–95 marketing year based on the above-mentioned review.

(vi) **Yellow Maize.** The government will announce, by the end of July 1993, policy changes that will eliminate all prices and marketing controls of yellow maize, thereby allowing market determined prices and any private sector firm to participate in domestic yellow maize marketing. The government will also review export regulations, with the objective of permitting private individuals and firms to export yellow maize. The above-mentioned changes will be made effective no later than the beginning of the 1994–95 marketing season (April 1994). In addition, the government will announce by December 1994 the policy changes effective for the 1995–96 marketing year based on the review of export regulations.

(vii) **White Maize.** The government will, by the end of July 1993, develop a maize stocking policy consistent with the government's security objectives and announce the first phase of a package of reforms that will: (a) remove the requirement on farmers to sell white maize off take to the Grain Marketing Board and allow anyone, except designated large millers, to buy white maize from any domestic source; (b) redefine zones A and B so that zone A is limited to the operating premises of specific large-scale commercial millers in natural regions I, II and III, and zone B as the rest of the country; (c) allow free and unrestricted movement and sale of white maize in zone B; (d) allow GMB to defend a floor price for white maize at selected depots in the country; (e) require GMB to sell at the wholesale price to all individuals and firms. The above-mentioned changes will be made effective no later than the beginning of the 1994–95 marketing season (April 1994).

The second phase of price and market liberalization for white maize will be implemented at the beginning of the 1995–96 marketing season, and will (a) allow all white maize and milled products prices to be market determined, but GMB will continue to defend a floor price at selected depots, (b) permit free and unrestricted movement and sale of white maize in all areas of the country, i.e., the distinction between zones A and zone B will be eliminated.

Annex D

Timeline: Structural Adjustment Program in Zimbabwe

March 1991	Consultative Meeting – to discuss Framework for Economic Reform (FER)—later termed ESAP, 1991-95.
December 1991	President's Report date for SAP I ($125 million IBRD, $50 million IDA).
9/11/1992	IMF Approved EFF and ESAF for 148 percent of Zim quota.
January 1992	Board approval for SAP I (two tranches).
April 1992	SAP I Effectiveness (1st Tranche release).
October 1992	SAP I second tranche release.
June 1993	Board approval for SAC II.
December 1993	SAC II Effectiveness (1st Tranche release).
December 1993	Closing of SAC/SAL I.
February 1994	Last disbursement SAC/SAL I.
December 1994	Exchange rate unified and market determined. Open General Import Licensing abolished. Export Retention Scheme rate increased to 100 percent (beyond 60 percent needed for SAP I 2nd tranche release).
January-June 1995	IMF Cancels last year of ESAF—fiscal program off track.
February 1995	Exchange rate market determined, Zimbabwe qualifies to sign Article VIII of IMF.
June 1995	Original closing date for SAC II (extended).
June 1995	Performance Audit of SAC I.
July 1995	Budget deficit (excl. grants) rises to 10.9 percent GDP–cancellation of final year of ESAF program, delay in SAC II 2nd tranche.
July 1997	Bank informed that budget deficit reduced to 6.5 percent GDP (recorded at time).
August 1997	Announcement of payments to war veterans (2 percent GDP equivalent.).
September 1997	Government of Zimbabwe announces "fast track" land acquisition program.
November 1997-January 1998	Exchange rate collapses, inflation accelerates. Government eliminates "temporarily" right of corporations to maintain foreign currency accounts. Promise to reinstate once market is "stabilized".
December 1997	Government publishes ZIMPREST – stage two of its ESAP.

Late 1997/early1998	Civil unrest due to price increases.
December 1997	IMF "comfort letter" supported Bank release of SAC II due to perceived improvement on fiscal deficit. SAC II second tranche release.
December 1997	Closing of SAC II (2.5 years beyond original closing date).
January 1998	IMF develop Stand-by arrangement.
June 1998	IMF approves Stand-by arrangement.
Aug.-Oct. 1998	Exchange rate collapses again.

Annex E

Zimbabwe: Relations with the Fund (as of October 31, 2000)

I. Membership Status: Joined: 09/29/1980; Article VIII

II. General Resources Account:	SDR Million	% Quota
Quota	353.40	100.0
Fund holdings of currency	479.44	135.7
Reserve position in Fund	0.31	0.1

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	10.20	100.0
Holdings	0.01	0.1

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
Stand-By Arrangements	63.94	18.1
Extended Arrangements	62.4	17.7
Poverty Reduction Growth Facility (PRGF) Arrangements	93.56	26.5

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By Arrangement	08/02/1999	10/01/2000	141.36	24.74
Stand-By Arrangement	06/01/1998	06/30/1999	130.65	39.20
Extended Fund Facility (EFF)	09/11/1992	09/10/1995	114.60	86.9

VI. Projected Obligations to Fund: (SDR Million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	10/31/2000	2000	2001	2002	2003	2004
Principal		4.5	66.5	73.5	46.4	24.1
Charges/interest		2.2	7.1	4.8	2.4	1.0
Total		6.7	73.6	78.3	48.8	25.1

VII. Exchange Rate Arrangement

From January 1999 to July 2000, the Reserve Bank of Zimbabwe (RBZ) at US$1=Z$38 fixed the exchange rate de facto. Since August 1, 2000 exchange rate has been allowed to fluctuate in a range of +/-5 percent around the central rate set by the RBZ. The central rate is adjusted periodically in light of inflation differentials with trading partners. As of October 23, 2000, the central rate was US$1=Z$55.

Zimbabwe accepted the obligations of Article VIII, Section 2, 3, and 4 of the Fund's Articles of Agreement on February 3, 1995. The RBZ maintains a multiple currency practice arising from outstanding contracts under a discontinued RBZ scheme for forward foreign exchange cover (to be cleared by end-2001). Fund approval of this measure, pursuant to Article VIII, Section 2(a) and Section 3, lapsed in March 2000. Moreover, the limitation on the availability of foreign exchange from the RBZ (as evidenced by the accumulation of external payments arrears by the private sector), gives rise to an exchange restriction subject to Fund approval under Article VIII, Section 2(a).

VIII. Article IV Consultations

Zimbabwe is on the standard 12-month consultation cycle. The last Article IV consultation was concluded on May 5, 1999 (EBM/99/51).

IX. Technical Assistance

Fund technical assistance to Zimbabwe has been limited during the past 12 months. An MAE-sponsored long-term advisor arrived in Zimbabwe in August 1996 to assist in the area of banking supervision; his appointment was not extended beyond October 1999. Another MAE expert on monetary operations provided advice and trained staff in the implementation of open market operations and the use of repurchase agreements from October 1998 until October 2000. A third MAE expert on the payment system, who also advised the RBZ on the array of monetary instruments to be used to monitor and manage liquidity in the financial sector, completed a one-year assignment in October 1999.

X. Resident Representative

A resident representative office was opened in July 1993.

Annex F

Table 1: Profits/Losses of the Major Public Enterprises

	1991/92	*1992/93*	*1993/94*	*1994/95*	*1995/96*	*1996/97*	*1997/98*	*1999*	*2000*
National Oil Company of Zim. (NOCZIM)	116	272	183	119	-266	-1,013	-5,502	-3,143	-2,106
Zim. Electricity Supply Authority (ZESA)	Na	na	na	na	na	na	na	-282	3,038
Posts and Telecommunication Corporation (PTC)	Na	na	na	na	na	na	na	-367	-3,250
National Railways of Zimbabwe (NRZ)	-72	-128	-108	-121	-253	-184	-703	282	-1,080
Cold Storage Company (CSC)	-83	-125	-123	-27	-288	-546	-901	-455	-1,723
Zim. Iron and Steel Company (ZISCO)	-110	-184	-187	-380	-277	-495	-688	-1,339	-2,730
Air Zim. AIRZIM	9	-41	41	36	-105	-206	-282	97	-106
Grain Marketing Board GMB	-521	-626	-1,144	-1,061	29	-183	-450	-2,124	-3,332
Agricultural Bank of Zimbabwe AGRIBANK	-20	16	14	18	19	31	51	93	-38
Total	-681	-816	-1,324	-1,416	-1,141	-2,596	-8,475	-7,238	11,327
Percent of GDP	-1.8	-2.4	-2.8	-2.2	-1.1	-2.5	-7.4	-3.4	-3.5

Note: Until 1999, the fiscal year was from July to June, except for 1997/98 which covers 18 months from July 1997-December 1998.
Source: World Bank Public Enterprises in Zimbabwe, Financial Performance. Fiscal Impact and Recent Reform Initiatives, September 2001.

Table 2: Percentage Distribution of Gross Domestic Product by Industry, 1990-99

Industry	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*
Agriculture, Hunting, and Fishing	14.8	14.0	11.7	14.5	14.8	13.6	14.8	15.0	15.4	16.4
Mining and Quarrying	3.9	3.7	4.0	3.8	4.0	4.3	3.7	3.6	3.8	3.6
Manufacturing	20.5	21.3	21.9	21.4	20.5	19.0	19.6	19.0	18.2	17.8
Electricity and Water	2.5	2.2	2.4	2.0	2.1	2.1	1.9	1.8	1.7	1.8
Construction	2.9	2.7	3.1	2.9	2.8	2.1	2.1	2.4	2.5	2.5
Finance and Insurance	6.2	6.0	6.5	7.3	7.3	7.5	7.1	6.6	6.8	6.5
Real Estate	2.2	2.1	2.5	2.5	2.5	2.6	2.4	2.5	2.5	2.7
Distribution, Hotels and Restaurants	15.2	15.1	15.5	15.1	15.4	16.2	15.7	15.6	15.2	15.5
Transport and Communication	5.5	5.3	6.3	5.9	6.1	7.5	8.1	8.0	7.7	8.1
Public Administration	5.7	5.4	5.7	5.3	4.4	4.4	3.7	3.4	3.1	3.1
Education	5.9	5.6	6.1	6.0	5.8	5.9	5.9	6.2	6.4	6.4
Health	1.5	1.5	1.6	1.8	2.0	1.9	1.6	1.2	1.2	1.2
Domestic Services	1.6	1.5	1.6	1.5	1.5	1.4	1.4	1.4	1.3	1.3
Other Services	3.6	3.9	4.4	4.3	4.2	3.9	3.9	4.2	4.1	4.4
Less Imputed Bank Service Charges	-2.0	-2.0	-1.5	-2.0	-2.3	-1.8	-1.3	-1.1	-0.9	-0.6
GDP at Factor Cost	90.0	88.3	91.7	92.4	91.0	90.7	90.7	89.6	89.0	90.4
Net Other Taxes on Production	0.6	0.6	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3
GDP at Basic Prices	90.6	88.8	92.1	92.8	91.4	91.1	91.1	90.1	89.4	90.7
Net Taxes on Products	9.4	11.2	7.9	7.2	8.6	8.9	8.9	9.9	10.6	9.3

Source: Bank Regional Data Base.
Note: Constant 1990 prices.

Table 3: Zimbabwe Agricultural Crop Production, 1990-2000[1]

	1990				*1996*		*1997*		*2000*	
	Z $ m	*% of total value*	*000 tons*	*% of total Production*	*000 tons*	*% of total Production*	*000 tons*	*% of total Production*	*000 tons*	*% of total Production*
Commercial farms[2]		**75**								
Tobacco (flue cured)[3]	868	40	124	100	169	100	162	100	185	100
Maize	128	6	709	36	784	33	628	31	756	41
Cotton[4]	106	5	84	42	74	33	64	25	64	21
Sugarcane[3]	216	10	3,093	100	2,532	100	2,075	100	1,149	100
Wheat[3]	148	7	274	100	206	100	245	100	250	100
Tea[3]	83	4	26	100	20	100	15	100	22	100
Coffee[3]	51	2	11	100	14	100	10	100	8	100
Soybeans[3]	49	2	111	100	95	100	97	100	139	100
Communal lands[5]		**25**								
Maize	293	13	1,285	64	1,607	66	1,397	69	1,110	59
Cotton	103	5	118	58	151	66	191	75	240	79
Groundnuts	74	3	102	100	68	100	143	100	168	100
Sunflower Seeds	19.2	1	60	100	45	100	30	100	10	100
Rapoko	19	1	66	100	36	100	19	100	11	100
Mhunga	18	1	74	100	74	100	68	100	29	100
Sorghum	12	1	72	100	87	100	113	100	83	100

Source: Central Statistical Office.

[1] Crop Season ending in year indicated.

[2] Large and small-scale commercial farms.

[3] Large-scale commercial farms only. Production on large-scale commercial farms constitutes more than 95 percent of total production.

[4] Includes deltapine and delmac cotton.

[5] Communal lands and resettlement areas

Annex F (cont'd)

Table 4: Employment Growth by Industry 1991-99 (%)

Industry	*Averages* 1985-90	*Averages* 1991-95	*1995*	*1996*	*1997*	*1998*	*1999*	*Averages* 1991-99
Agriculture, Forestry, and Fishing	1.20	2.90	1.21	3.89	5.19	-1.37	-7.50	1.63
Mining and Quarrying	-0.90	3.00	11.32	1.69	-1.67	3.39	-3.28	1.68
Manufacturing	2.90	-1.00	-7.00	-1.08	7.61	6.06	-4.76	0.31
Electricity and Water	3.00	2.00	11.11	20.00	8.33	15.38	13.33	7.45
Construction	9.20	-0.60	-15.29	8.33	0.00	5.13	-15.85	-0.60
Finance and Insurance, and Real Estate	2.00	3.80	-4.55	4.76	18.18	11.54	6.90	6.71
Distribution, Hotels and Restaurants	3.10	1.10	-3.81	0.00	4.95	6.60	1.77	2.09
Transport and Communication	1.00	-0.80	-3.77	-1.96	2.00	11.76	-24.56	-1.86
Public Administration	0.80	-3.60	0.00	-7.79	-5.63	-1.49	-4.55	-4.16
Education	4.40	1.40	2.65	9.48	7.87	2.19	-3.57	2.55
Health	3.90	0.80	0.00	3.85	0.00	3.70	0.00	1.28
Domestic Services	0.70	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Services	5.00	3.40	-5.49	8.14	10.75	0.97	9.62	5.16
Total	*2.40*	*0.80*	*-1.90*	*2.74*	*3.85*	*3.40*	*-4.31*	*1.08*

Sources: 1) Zimbabwe Congress of Trade Unions. 2001. Chiripanhura B.M. and Makawavarara T. "The Labour Market and Economic Development 1980-2000." Harare (mimeo) based on CSO.

2) Zimbabwe: Recent Economic Developments, Selected Issues, and Statistical Approach, IMF Country Report No. 01/13.

Annex F (cont'd)

Table 5: Trends in Real Earnings, 1990-99 (Indices 1980=100)

Sector	*1990*	*1992*	*1994*	*1996*	*1998*	*1999*
Agriculture	130.4	69.8	74.8	85.4	80.5	72.5
Mining	115.6	97.3	89.5	113.2	117.8	106.2
Manufacturing	103.1	83	73.8	88.9	75.2	68.1
Electricity	93.6	78.7	85.1	129	182.2	138.6
Construction	77.7	56.6	46.2	65.5	66.8	53.8
Finance	93.4	89.2	77.5	99.3	88.2	73.4
Distribution	84.5	70.4	57.9	74.9	67.7	61.5
Transportation & Communication	90	66.2	60.7	68	63.9	63.7
Public Administration	60.5	41.2	35.1	59.5	68.3	66.7
Education	81.8	64.2	48.5	75	75.2	74.1
Health	89.8	67.8	55.7	80.3	98.9	87.5
Pvt. Domestic Services	81.9	48.4	31	25.3	13.3	8.4
Other	80.3	61.4	54.9	70.1	65.5	56.3
Total	*102.8*	*78*	*67.1*	*88.1*	*88.7*	*80.7*

Source: Zimbabwe Congress of Trade Unions. 2001. Chiripanhura B.M., and Makawavarara T. "The Labour Market and Economic Development 1980-2000." Harare (mimeo) based on CSO.

Table 6: Functional Distribution of Income, 1991-97 (%)

	1991	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*% Change 1993-97*
Wages	43	43	40	37	40	37	39	-2.5
Rent	2	3	2	2	2	2	2	0.0
Profit	58	57	60	63	52	63	61	1.7
Total	*100*	*100*	*100*	*100*	*100*	*100*	*100*	

Source: Zimbabwe Congress of Trade Unions. 2001. Chiripanhura B.M. and Makawavarara T. "The Labor Market and Economic Development 1980-2000". Harare (mimeo). Calculated From Quarterly Digest of Statistics, December 1998.

Note: Percentage shares do not add to 100 due to omission of imputed Bank charges.

Annex G

LIST OF PERSONS INTERVIEWED

Government

H.E. Mr. Msika, Senior Vice President of Zimbabwe
H.E. Dr. Bernard Chizero, Former Senior Minister of Finance, Advisor to the President
H.E. Mr. July Moyo, Minister Employment, Social Welfare and Community Development
H.E. Dr.Timothy Stamps, Minister of Health
Dr. Leonard Tsumba, Governor, Reserve Bank of Zimbabwe,
Mr. Nicholas Ncube, Principal Secretary, Ministry of Finance and Economic Development
Dr. Vincent Hungwe, Principal Secretary, Ministry of Agriculture and Lands
Dr. Mambo, Principal Secretary, Ministry of Higher Education
Mr. Chiwewe, Principal Secretary-Ministry of Foreign Affairs
Dr. Sikosana, Principal Secretary , Ministry of Health
Mr. Charles Kuwaza, Former Principal Secretary Finance, Advisor, President's Office
Dr. Sydney Gata, Chairman, Zimbabwe Electric Supply Authority
Ms. Diana Guti, Commissioner, Public Service Commission
Mr. Fred Chunga, Advisor, President's Office
Dr. S. M. T. Malaba, Deputy Governor, Reserve Bank of Zimbabwe
Mr. Obert Matshalaga, Director, Domestic & Intl. Finance, Ministry of Finance & Economic Development
Mr. Andrew Bvumbe, Director, Privatization Agency of Zimbabwe.
0Mr. Vongai E. Dube, Accountant General
Mr. E. T. Chigudu, Ministry of Finance and Economic Development
Mr. Mutasa Dzinotizei, Ministry of Finance, Fiscal and Economics Department
Mr. Manungo, Reserve Bank of Zimbabwe,
Dr. Stewart Hargreaves, Ministry of Agriculture
Mr. Machirovi, Director of Central Statistical Office
Mr. F. N. Maziveyi, Assistant Director, Ministry of Mines and Energy
Mr. M. M. Mantiziba, Ministry of Industry and International Trade
Ms. Florence Makombe, Ministry of Industry and International Trade
Mr. Madavo, Ministry of Local Government
Mr. C. T. Mzezewa, Ministry of Mines and Energy
Ms. Meise Nasasu, Ministry of Finance, Public Sector Expenditure Division
Mr. Herbert Takavarasha, Domestic and International Fin
Ms. Eppie Ushewokunze, Ministry of Health
Ms. Joan Mtukwa, Chief Executive Grain Marketing Board
Dr. Enos Shumba, GM, Forestry Commission,
Mrs Goromonzi, Ministry of Employment, Social Welfare and Community Development
Mr. Mhishi, Ministry of Employment, Social Welfare and Community Development
Mr. Turugari, Ministry of Employment, Social Welfare and Community Development
Mr. Mashingaidze, Ministry of Employment, Social Welfare and Community Development

Annex G (cont'd)

Politicians not in Government
Mr. Morgan Tsvangirai, Leader of the Opposition- Movement for Democratic Change
Mr. Gasela, Member of Parliament

Bank Staff
Mr. Yaw Ansu, Country Director
Ms. Barbara Kafka, former Country Director
Mr. C. Poortman, former Resident Representative
Mr. David Cooke, Former Resident Representative
Mr. Tom Allen, former Resident Representative
Mr. Rogier van den Brink, Acting Resident Representative
Mr. Farehtin Yagci, Lead Economist
Mr. Hans Binswanger,
Mr. Steven Jaffe,
Mr. Jorge Munoz
Ms. Laura Fragenti
Ms. Trina Haque
Mr. Muzumbuka Dzingai
Ms. Imoni, IFC Res. Rep
Mr. Caesar Chidawanyika
Dr. Ebrahim Jassad
Dr. Hope Phillips-Volker
Mr. Patience Matshe, Investment Officer-Sub-Saharan African Department, International Finance Corporation (IFC)
Dr. Musonda Chipalo, Senior Investment Officer-Sub-Saharan African Department International Finance Corporation (IFC)
Ms. Imoni Akpofure, Regional Representative, International Finance Corporation (IFC)

Donors
Ms. Palmberg, Embassy of Sweden
Mr. Abdi Foum, Embassy of Sweden
Mr. Fred Bitanihirwe, FAO
Ms. Rose-Marie Depp, Director USAID
Ms. Joy Kimemia, Head AMSCO
Mr. Peter Halpert, USAID
Ms. Gill Wright, First Secretary and Program Manager, Acting Head, DFID
Mr. Jean-Paul Cosse, Economic and Commercial Counselor for Zimbabwe, Zambia and Malawi, French Trade Commission/Embassy of France
Mr. Adriaan Adams, Trade Representative, South African High Commission
Mr. Calisto Chihera, Senior Program Officer, Australian High Commission
Mr. Peter Esderts, Director, German Technical Co-operation
Mr. Takeaki Sato, Resident Representative, Japan International cooperation agency
Ms. Marwienke Tillema, Second Secretary, Embassy of the Kingdom of the Netherlands
Ms. Kathryn Dunlop, Counselor, (Development), Canadian High Commission
Dr. Werner Koehler, Counselor, German Embassy
Mr. Titier Baillet, Agence Francaise de Development Proparco

Annex G (cont'd)

Alex Kremer, Counselor (Economic), European Union (Delegation of the European Commission to Zimbabwe
Mr. Chuah T. B., Counselor, Malaysian High Commission

NGOs
Mr. Mike Mispalaar, SAFIRE LAND NGO
Dr. Sunanda Ray, SAFAIDS
Mr. Andrew Boner, Country Director, Population Services International
Mr. Frank Guni, People living with AIDS
Dr. Mugurungi, NACP
Mr. Abby Taki Mciuciu, Woman and Land lobby Group
Ms. Tokozile Ncube, Assistant Information Officer, Women's Action Group
Ms. Lydia Zigomo Nyatsanza, Director, Zimbabwe Women Lawyers Association
Mr. Gladman M. Kundhlande, Deputy Director, Southern Alliance for Indigenous Resources
Mr. Dennis O'Brien, Country Director, CARE Zimbabwe
Mr. C. Muropa, Communication Link Trust
Ms. Evelyn D. Serima, Executive Director, Zimbabwe Aids Prevention and Support Organisation (ZAPSO)
Ms. Matshaka Mary, Zimbabwe AIDS prevention Project (ZAPP)
Mike Mispelaar, Project Advisor, Community-Based Resettlement Approaches and Technologies Project (CREATE)
Bheki Maboyi, Community-Based Resettlement Approaches and Technologies Project (CREATE)
Joy Kimemiah, Regional Office Training Coordinator, African Management Services company (AMSCO)
Mr. Victor Chisi, Consumer Council of Zimbabwe

Academics
Professor Tony Hawkins, Graduate School of Management, University of Zimbabwe
Professor Peter Robinson, Zimconsult (Independent Economic and Planning Consultants)
Professor Daniel B. Ndlela, Zimconsult (Independent Economic and Planning Consultants) and Advisor MDC
Professor Sam Moyo, SAPES Trust
Ms. Pozarny, Land Tenure Center, University of Zimbabwe
Dr. Tobias Takavarasha, Department of Agricultural Economics, University of Zimbabwe
Dr. Jacob Kaliyati, Institute of Development Studies University of Zimbabwe,
Dr.Bill Kinsey, Researcher
Ms. Nomasomi N. Mpofu, Social and Gender Analyst, Poverty Reduction Unit/United Nations Development Programme
Mr. Roger Dhhwayo, Lecturer, University of Zimbabwe
Ms. Muriel Mafico, Coordinator, Poverty Reduction Forum, Institute of Development Studies, University of Zimbabwe
Dr. Theresa Moyo, Manager, Southern African Micro Finance Capacity Building Facility

Annex G (cont'd)

Business
Mr. Mr. Tim Henwood (President) and Senior Members, Commercial Farmers Union
Mr. Kumbirai Katsande, Chairman, Chamber of Commerce and Industry and Chairman, PG Manufacturing
Mr. Malvern Zed Rusike, Chief Executive, Confederation of Zimbabwe Industries
Mr. Callisto M. Jokonya, Vice President, Confederation of Zimbabwe Industries
Mr. Bernard Mufute, Senior Economist, Confederation of Zimbabwe Industries
Mr. Joshua Nyoni, J. M. Nyoni & Associates (Pvt.) Ltd,
Mr. Zumbika, Agribank,
Mr. Mutumwa Mawere, Industrialist and Banker
Ms. Florence Mashaire, Director, Florimask Enterprises (Pvt.) Ltd
Ms. Emelda Nyamupingidza, Executive Director, Zesk Products/Barron Floor Polishers/Mega Candles
Ms. Grace Kuvengurwa, Indigenous Business Women's Organization
Mrs. Shungunashe Famba, Vanity Kitchens P/L
Mr. Ben Magaiza, ZNCC
Mr. David W. Hasluck, Director, Commercial Farmers' Union of Zimbabwe
Mr. Norman Ndlovu, Cotton Company of Zimbabwe
Mr. Collins Chihuri, Company Secretary, The Cotton Company of Zimbabwe Limited

IMAGING

Report No.:	25479
Type:	PPAR