WORLD BANK OPERATIONS EVALUATION DEPARTMENT

OED REACH

AUGUST 18, 2004

Based on the *Zimbabwe Country Assistance Evaluation.*

Zimbabwe: Country Assistance Evaluation

- Government policies in the 1980s brought social progress, but at the cost of unsustainable fiscal deficits and low growth. Land distribution remained highly unequal. In the 1990s, efforts to accelerate growth through better fiscal management and market liberalization largely failed. Social progress slowed, per capita incomes declined, and poverty increased.
- The outcome of Bank assistance during the past two decades is rated unsatisfactory. The Borrower showed little commitment to macroeconomic stability and poverty alleviation. It abandoned the rule of law and respect for property rights by forcibly acquiring land. In the 1980s, the Bank engaged in substantial investment lending which, however, was largely not oriented to reducing inequality. During the 1990s, the Bank engaged in policy lending, but with mixed results: progress on liberalization was not matched by improvement in macroeconomic stability. The Bank neglected to forcefully address the all-important land reform issue until late in 1998.
- Given the arrears situation, the Bank cannot lend even for a narrowly defined social agenda. AAA should focus on an assessment of poverty and inequality; an analysis of the political economy factors that have impeded reforms in the past; learning from pilots on land reform in other countries; and a public expenditure review focused on fiscal sustainability and the required rationalization of public expenditures.

Background

During the first decade after independence on April 18, 1980, land redistribution through resettlement was slower than anticipated. To redress inequities, the Government intensified controls inherited at independence and increased expenditures. By the end of the 1980s, social indicators had improved, but annual per capita income growth was only 1 percent per annum. To accelerate growth, the Government launched an adjustment program in 1991, and under this program, substantial progress was made in liberalizing the economy. The average annual per capita growth in GDP in 1991-97 was 0.3 percent (excluding the 1992 drought year, it was 2.3 percent). But growth was not broad based enough to reduce rural poverty. A drought exacerbated the conditions of the rural poor. The overall prevalence of extreme poverty increased and inequality remained high. Starting in 1997, the Government back tracked on reforms and became increasingly strident in its claims that white farmers should move off their land and be replaced by blacks. Expectations for a meaningful land reform increased in September 1998 as a result of agreements reached in a donor conference, but the divergent views of the Government and the donors on what had been agreed led to an impasse. By July 2001, the Government was targeting 77 percent of large-scale commercial farming land for resettlement. In November 2001, the Government began assuming immediate ownership of targeted land. The country is in a serious economic crisis.

Bank Assistance

The outcome of the Bank's assistance during the past two decades has been unsatisfactory. During the 1980s, the Bank responded to the country's poor management with good analytical work but was unable to mount economic policy reform lending. The Bank engaged in considerable investment lending on IBRD terms, which was not oriented to reducing inequality and was not effective in reducing the drain on the budget from the parastatals. Instead, it contributed to severe net financial transfer problems between the Bank and Zimbabwe. Furthermore, the analytical work shied away from land reform issues.

During 1990-96, the Bank did engage in policy reform lending and accomplished important reforms such as trade liberalization, domestic deregulation of investment, and agricultural marketing reforms. But no progress was made in areas such as macroeconomic stabilization and land and expenditure reform. Fiscal deficits averaged 8.5 percent per annum in 1991-99. One reason was the unwillingness of the highest political leadership to make critical adjustments. A second important reason was that financial liberalization and tax reduction were sequenced to come before, rather than after, reductions in expenditures. Financial liberalization and tax reductions proved to be fiscally costly and led to a domestic debt trap.

While many AAA activities were completed in the 1990s, substantive analytical work on some key issues either was not undertaken or was not timely. The public expenditure review in end-1995 came too late to highlight sequencing issues in the Government's fiscal program or to inform the design of adjustment lending. No substantive analytical work on poverty has been completed. Furthermore, land reform was addressed only sporadically, and not treated as a priority area until late in 1998. While the Bank's inability to finance land acquisition was a constraint to an effective dialogue and experimentation with approaches, the Bank could have disseminated findings from elsewhere showing that only in exceptional cases are large farms more efficient than small farms, and pushed for the relaxation of rules for subdivision of land. During 1998-00, when there were clear warning signs that the Bank's strategy was not working, it should not have negotiated a SAC III.

Bank actions, which largely determine Bank performance, are one contributor to outcome of the Bank's assistance strategy. Outcomes are also determined by the Borrower's performance and other factors. The Borrower showed little commitment to macroeconomic stability and poverty alleviation. It abandoned the rule of law and respect for property rights by forcibly acquiring land. Controversial and unexpected policy decisions by the Government in 1998-2000 (e.g., on civil service wage increases and land redistribution) make sustainability of outcomes unlikely.

Recommendations

The Bank cannot lend to Zimbabwe even for a narrowly defined social agenda; the Government has been in arrears to the Bank since May 2000. The Bank should focus AAA in four critical areas:

- An assessment of poverty and inequality, and the impact of economic policies on these issues
- An analysis of the political economy factors that have impeded reforms in the past (e.g., parastatal reform)
- Learning from pilots on land reform launched in other countries
- A public expenditure review focused on fiscal sustainability and the required rationalization and reallocation of public expenditures.

When normal Bank lending can be resumed it should be conditioned on credible and upfront measures to achieve macroeconomic stability, fundamental governance reforms, a pro-poor reallocation of expenditures, parastatal reforms, and the formulation and credible initial steps in the implementation of an action plan on land issues.

Government and Management Response

The report was sent to the Government in January 2003. No comments have been received. According to Management, OED's recommendations on the focus of Bank activities and on conditions for resumption of lending are in line with the Region's strategy for Zimbabwe. The analytical work consists of preparing watching briefs, and finalizing and disseminating a Public Enterprise Sector Report and a Social Sector Expenditure Review.