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| 1. Project Data : |
| OEDID: C2527 |
| Project ID: P003322 |
| Project Name: Second Structural Adjustment Credit |
| Country: Zimbabwe |
| Sector: Economic Management |
| L/C Number: C2527 |
| Partners involved : ADB, EEC, UK, USAID, SIDA, Netherlands, Norway, Denmark |
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| Date Posted : 12/02/1998 |

2. Project Objectives, Financing, Costs and Components :
Objectives: (i) Help generate a more rapid supply response through further trade policy reforms to promote exports; investment de-regulation to facilitate an increase in private investment; transport deregulation; and agricultural marketing and price reform to broaden private sector involvement and competition; (ii) restore macro-economic stability; (iii) improve performance of public sector enterprises; and (iv) shield the vulnerable from adverse effects of adjustment. The project was follow-on to SAC I, completed in 1993. *IDA financing:* SDR88.3 million (US\$125m equivalent). *Costs and components:* Two tranche BOP support.

3. Achievement of Relevant Objectives :
 (i) Good progress was made in improving the business environment through further liberalization of the exchange and trade regimes, removal of investment restrictions, and liberalization of domestic markets . Commercial agriculture, tourism, and transport recorded higher growth rates; agricultural exports (particularly horticulture) expanded; foreign direct investment increased; savings and investment exceeded expectations . However, manufacturing growth was constrained by macro instability and high interest rates . (ii) Macroeconomic stability was not maintained. Poor fiscal management, a drought in 1995, slow progress in public sector reform, and lack of coordination of monetary and fiscal policies resulted in a high fiscal deficit, inflation, high interest rates, and an appreciating exchange rate (through 1997). (iii) Some progress was made in increasing the operational efficiency of public enterprises. The monopsony power of the Grain Marketing Board was removed, although its interventions still influence price levels. The overall return on public investments in parastatals remains low . The operation did not include privatization of these industries. (iv) Real expenditure on health and education declined . The Social Dimensions Fund has been excessively bureaucratic and ineffective in alleviating the impact of adjustment on target groups. Lowering real wages and growing corporate profits point to an unequal distribution of the short -term costs and benefits of adjustment, contributing to mounting social and political tensions .

4. Significant Achievements :
 Significant advances in liberalizing the trade and price regime, with resulting positive impact on investment, exports, and firm profitability.

5. Significant Shortcomings :
 Poor fiscal management is having a broad negative impact on the adjustment process . High domestic borrowing, interest rates and inflation are constraining the private sector response and adversely affecting the poor . Conditions on domestic borrowing and maintaining social expenditures should have been included in the project .

| 6. Ratings: | ICR | OED Review | Reason for Disagreement /Comments |
|-----------------------------|--------------|-------------------------|--|
| Outcome: | Satisfactory | Marginally Satisfactory | No difference. Marginally Sat. rating is not available in ICR. |
| Institutional Dev .: | Partial | Modest | |
| Sustainability: | Uncertain | Uncertain | |

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|---------------------------|--------------|----------------|---|
| Bank Performance : | Satisfactory | Satisfactory | |
| Borrower Perf .: | Satisfactory | Unsatisfactory | Poor fiscal management caused the 2nd tranche to be delayed by 2.5 years and remains a major factor behind high interest rates and inflation . Covenant compliance was deficient (as rated in the ICR). |
| Quality of ICR : | | Satisfactory | |

7. Lessons of Broad Applicability :

(i) An unstable macro-economic environment can override the effects of an improved business environment following liberalization; (ii) obtaining and maintaining broad support for a difficult adjustment program among the private sector and civil society is important to ensure its eventual success; (iii) systematic monitoring of and reporting on the impact of economic reforms on businesses and households should be built into the design of adjustment operations.

8. Audit Recommended? Yes No

Why? (1) The outcome of the operation is borderline satisfactory /unsatisfactory . An audit will confirm the appropriate rating. (2) Audit will feed into FY00 Zimbabwe CAN

9. Comments on Quality of ICR :

The Aide Memoire of the ICR mission is missing and there is no Borrower contribution to the ICR . The ICR should have contained a more detailed table of key economic indicators since 1993: sector composition of GDP, FDI levels, manufactured exports etc.