Structural Adjustment and Zimbabwe's Poor

Zimbabwe’s Economic and Structural Adjustment Program (ESAP) supported by the World Bank dismantled many of the controls confining the country’s economy. Implemented during a severe recession brought on by Zimbabwe’s worst drought in more than a century, the program made impressive strides in trade and domestic regulatory policy, creating the basis for self-sustaining growth. But according to OED’s recent audit,* the program did not reduce poverty and unemployment as its architects had hoped.

Critical fiscal reforms made slow and uncertain progress, keeping budget deficits high. This created uncertainty and shortages of capital for private producers, which delayed investment in new capacity and job creation. By focusing on the formal urban sector, the program restricted its ability to reach the majority of Zimbabweans, who work predominantly in the informal sector and in rural areas. Two basic lessons are that: (1) macroeconomic stabilization—particularly fiscal adjustment—is a prerequisite for sustainable growth in employment, output, and incomes, and (2) sound macroeconomic policies need to be accompanied by actions specifically designed to assist and protect people who do not directly benefit from formal sector growth. Zimbabwe’s ongoing Poverty Alleviation Action Plan incorporates many of the lessons drawn from the first phase of the ESAP.

Background

To reduce Zimbabwe’s deep socioeconomic disparities, the government that came to power at independence in 1980 invested heavily in health and education and, through parastatals, in rural development and the productive sectors. This led to an increase in public expenditures, which for most of the 1980s made up 45 percent of the GDP.

Although social indicators improved, particularly in health and education, per capita income stagnated. Large government spending crowded out private investment and fueled inflation, while shortages of imported goods constrained investment and growth. Population grew faster than job creation, widening the disparities in income levels. In 1991, the government proposed a policy agenda that formed the basis for the Economic and Structural Adjustment Program. The World Bank supported the ESAP with a $125 million structural adjustment loan (SAL) and a $50 million structural adjustment credit (SAC), both approved in 1992 and closed in 1993.

Goals

The ESAP sought to transform Zimbabwe’s tightly controlled economic system to a more open, market-driven economy. The restructuring sought to promote higher growth and to reduce poverty and unemployment by (1) reducing fiscal and parastatal deficits and instituting prudent monetary policy; (2) liberalizing trade policies and the foreign exchange system; (3) carrying out domestic deregulation; and (4) establishing social safety net and training programs for vulnerable groups. The focus was on the formal sector as the engine of growth.

Implementation and outcome

A severe drought in 1992 left Zimbabwe in its worst recession since independence. Despite the drought, the government continued the reforms, making considerable progress in trade liberalization and domestic deregulation. It dismantled the foreign exchange control system, freed all current account transactions from exchange con-

*Performance audit report, “Zimbabwe—Structural Adjustment Program,” Report No. 14751, June 1995. Performance audit reports are available to Bank executive directors and staff from the Internal Documents Unit and from Regional Information Service Centers.