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Report number 30

The Zimbabwe Economy

**How has it survived and
how will it recover?**

Dianna Games

SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS

Reports

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The Zimbabwe Economy: How has it survived and how will it recover?

Dianna Games¹

Executive Summary

Zimbabwe is facing probably its most testing time ever with the combined problems of a breakdown of law and order, an economy in crisis, international isolation and a government holding its people hostage to its ambition to stay in power. President Robert Mugabe has engineered an economic decline of increasingly drastic proportions in a record four years which is underpinned by a breakdown in the rule of law and an attack on property rights.

The loss of a referendum in February 2000 and the first serious challenge to Mugabe and his ruling ZANU–PF in an election four months later precipitated what many have described as a war against the nation. It kicked off with the revival of the land resettlement programme — used over the years as an election tool and discarded post election — which quickly emerged to be a lawless and often

¹ DIANNA GAMES is the former editor of *Business in Africa* and currently director of Africa @ Work, a pan-African publishing and conferencing company. Much of the information in this report was compiled from information gathered and interviews conducted during a research trip to Zimbabwe in September 2002. Most of those interviewed asked not to be identified in the report.

bloody vendetta against whites and the opposition Movement for Democratic Change. It has resulted in nearly 4,000 white-owned commercial farms (out of an estimated 4,500) being seized by the government to resettle landless black people and has seriously undermined the key agricultural sector, the biggest employer and largest foreign exchange earner. Most farmers have left their farms and now the government is battling to find the money to fund inputs for the new farmers. The situation has been exacerbated by drought and more than half the country is now facing famine. Despite this, the government is using food to buy votes in recent by-elections and is withholding it from the opposition.

The government has reintroduced the type of command economy it was forced to dispense with under the Structural Adjustment Programme of the early 1990s and has created in the process a number of unsustainable policies.

The economic situation at the end of October 2002 can be summarised as follows:

- The government has revised its official growth forecast downwards from a negative 5.3% in November 2001 to -11.1% by mid-2002;
- GDP has fallen 24%;
- official inflation has risen to 139.9%;
- the budget deficit is currently 11.5% of GDP;
- the value of the currency has dropped more than 120%;
- arrears on foreign debt of \$3.4 billion (£2.2 billion) have risen from 2% of GDP to 30%;
- tourism earnings have fallen 80%;
- annual gold production has been halved;
- agriculture is expected to shrink by 24.6% in 2002;

- official unemployment stands at 60%, although it is estimated to be much higher, particularly as a result of the situation on the farms;
- an estimated 35% of all adults are infected with the AIDS virus;
- exports are forecast to decline 14% this year while imports are rising sharply, particularly with the import of food; and
- the real interest rate stands at -125%, seriously undermining profits and investment.

The parallel foreign exchange market has become the country's biggest growth industry. While the official rate has been pegged at Z\$55 to \$1 since July 2001, the parallel rate has been rapidly declining, hitting Z\$2,100 to the dollar in mid-November 2002. A parallel market in price-controlled goods such as bread, maize meal, oil and sugar has also sprung up to counter the shortage of these same goods in the official market. Zimbabweans abroad — estimated at around 2 million of the official population of 12.5 million population — are helping to fuel the economy through remittances and property purchases. The high real interest rates and inflation are also fuelling a boom on the stock market and in imported goods.

Through all of this, Mugabe and his politburo remain seemingly untouched, bar limited international sanctions. In fact, those with connections to the ruling party appear to be richer than ever — conspicuous consumption by a new elite of government and private sector people is becoming commonplace. The collapse of the Zimbabwean economy has seemed imminent for several years but the more bleak things look from the outside, the more ways to survive are found in this resilient country. The 22-year-old government and its leader have survived serious challenges to both their legitimacy and popularity through the crushing of dissent, the undermining of key democratic institutions such as the judiciary and the independent press and the spread of fear throughout the society.

Mugabe remains unchallenged and largely uncriticised by his compatriots in the African Union and in the Southern African Development Community. Many have uncritically heralded his land reform plan, with apparent unconcern about its implementation or its spin-off into the broader economy, and supported his racial attacks and crushing of political dissent. Attempts to rein him in by the international community and bodies such as the Commonwealth have largely been ineffective, partly because African support has helped to cushion their actions. However, many feel that massive starvation coupled with the destruction of a viable agricultural sector and with it the rest of the economy may be the final straw for Zimbabweans and bring with it political change by a desperate population.

What is required to turn the situation around?

- returning to a full and unconditional rule of law;
- restoring a legitimate, democratic government which respects basic human, social and economic rights as well as the rights of freedom of expression and assembly;
- a constitutional review;
- creating a sound macroeconomic environment that encourages productive spending, fosters exports and is attractive to investment;
- introducing proper fiscal management to unravel the distortions in the economy;
- solving the country's debilitating debt, both domestic and external;
- adopting a land distribution programme that will address historical imbalances as well as development in agriculture to ensure food security and growth in related sectors;
- reviving relations with the multilateral institutions and donor countries;

- reducing government expenditure while simultaneously reprioritising existing resources to restore basic infrastructure and social services;
- creating public–private partnerships, particularly with regard to infrastructure;
- encouraging the export sector;
- capacity building;
- marketing the country abroad to turn around years of negative perceptions and in the process restoring the tourism industry; and
- addressing privatisation.

Background

In nearly half a century, Zimbabwe, in its various incarnations, has survived many economic and political setbacks. The manufacturing, industrial and agricultural base built up over the years of isolation following the Unilateral Declaration of Independence in 1965 has, to an extent, enabled the economy to be more resilient than it might otherwise have been.

Prior to 2000, the economy suffered two major phases of economic decline. The first was in the 1980s when the ZANU–PF government introduced a range of economic measures styled along Marxist-socialist lines. The second was in the early 1990s when the Economic Structural Adjustment Programme introduced by the World Bank and IMF began to bite and was subsequently abandoned.

The latest economic crisis really began in 1997 with massive unbudgeted increases for war veterans awarded by Mugabe. This not only had economic repercussions such as the single largest drop in the currency ever but also political undertones. The move marked a major turning point in Mugabe's previously hostile relationship with this group of both legitimate war veterans and pretenders who have subsequently, in one guise or another, become a paid 'army' to support Mugabe's political ambitions.

The overall economic decline is directly linked to the general election in mid 2000 and the presidential elections two years later in March 2002. As a result of his party's narrow win over the MDC in the 2000 election, Mugabe quickly went to work to ensure this close call did not affect his chances of victory in the 2002 presidential election. In addition, the country has been held hostage to his ambition to remain in power, backed by a cabinet compromised to the hilt by years, if not decades, of patronage, corruption and personal enrichment. In

addition, hundreds of Zimbabweans have died or been tortured, displaced, forced into exile and made jobless and homeless.

Mugabe's revival of the land reform programme as an election tool in 2000 ensured the support of many African countries, including South Africa, which fell for this political gambit. Since that year, the issue of Zimbabwe has caused deep divisions in the international community over how, or whether, to act. While these deliberations continue, Mugabe has stepped up his campaign of violence and economic instability and is quickly pushing his country to a point where recovery will be long and painful.

After the general election in 2000, hopes were high for an economic recovery. Business predicted that a turnaround could be effected quickly despite the fact that the economy was in the doldrums. The appointment of a new finance minister from the private sector, Simba Makoni, fuelled this optimism. One of his first acts as minister was to devalue the Zimbabwe dollar from its 20-month peg of Z\$38:\$1 to Z\$50 — something a strong private sector lobby had been unable to get the government to do. The currency subsequently drifted down to Z\$55:\$1 where it has stayed since October 2000 despite massive pressures on the economy.

Fears that Mugabe would not tolerate independent thinkers in his cabinet became a reality early on. It became clear that neither Makoni, nor the other technocrat appointed at the same time, then trade minister Nkosana Moyo, had the political clout to push through reforms, making economic recovery impossible. Makoni isolated himself by making public the parlous state of the economy shortly before the crucial 2002 presidential elections. The final nail in his coffin was his insistence shortly thereafter that the currency be devalued. Mugabe labelled him an enemy of the state and removed him in a cabinet reshuffle, replacing him with his ineffective predecessor,

Herbert Murerwa, in the new 'war cabinet'. Moyo left the country suddenly without explanation.

Again, after the disputed 2002 presidential election, in which Mugabe was officially the winner by a narrow margin, Zimbabwe hoped that the situation would normalise and economic recovery would be possible. However, the problem has, if anything, worsened since then. As a Harare businessman commented,²

The problem was the international interest created in the land situation before the election. It created expectations both inside and outside Zimbabwe and post election, Mugabe couldn't suddenly change his position. By then it had assumed a life of its own and he had to carry it through no matter what the cost. This was exacerbated by the fact that many people in the international community didn't accept the election result and there was the prospect of another election.

Since the presidential election, human rights violations have continued unabated. The Zimbabwe Human Rights NGO Forum noted 1,057 torture cases and 58 political deaths in the year ended September 2002.

Mugabe, despite being principally responsible for the mess his country is in, seems invincible. Many Zimbabweans are fearful of his 'spies' who head up many large organisations and parastatals. Cabinet ministers, reliant on his patronage for their survival, are too scared to publicly cross him although, in private, a number have voiced concern about his policies. The only criticism he hears is from the international community, the media and the private sector. He has vilified the first two and largely ignores the third. Ruling party officials are reported to be threatening and intimidating white-owned companies in Zimbabwe, looking to take over their assets at prices well below market value. This follows invasions of such companies last year by war veterans and government-led trade unionists. 'Everyone in the government is now

² Interview, Harare, September 2002.

enriching themselves. They are all looting like Mugabe himself,' says a Zimbabwean businessman.

The 2003 budget, released on 14 November 2002, showed little commitment by government to changing its spending priorities. While education and health were well catered for, defence came in with the second highest allocation. At Z\$76.4 billion, it was nearly double the amount allocated to lands, agriculture and rural resettlement (Z\$40.5 billion). And the president and cabinet (Z\$13.2 billion) fared better than foreign affairs, industry and international trade and environment and tourism, the latter being allocated only Z\$2.3 billion.

Business people say it is hard to know how long the economy will continue to function effectively. Some give it six months before the economic distortions currently supporting the economy collapse. Others say it may take two to three years.³ A dire lack of foreign currency, and government's short-sighted measures to address the problem, may hasten its demise. The longer the government fails to act to get the economy back on course, the greater the chance that change will be violent and the longer it will take to normalise the situation.

³ Economic assessments given during interviews in Harare, September 2002.

Economic Overview

'The economy is land, land is the economy'. This was one of ZANU-PF's electioneering refrains ahead of the 2000 election as the government prepared to move its fast-track land resettlement policy into full gear. But ironically, the parlous situation in the Zimbabwe agricultural sector that has resulted from the land programme could play a pivotal role in possible political outcomes. Land, and with it agriculture, has always been the backbone of the Zimbabwean economy. It has traditionally contributed more than half of total foreign currency earnings annually, most of it from commercial farming, and is the biggest employer together with the public service. In previous years, commercial agriculture alone contributed some 17% to GDP but this is now in decline.

There have always been strong linkages between agriculture, including both small-scale and commercial farming, and the rest of the economy. At least 60% of local agricultural output finds its way into the local manufacturing sector while 20% of manufacturing output is absorbed by agriculture.⁴ Financial institutions and the service industry are also strongly supportive of the agricultural sector. Latterly, stronger links to tourism have emerged through the creation of wildlife conservancies in marginal farmland. Current estimates are that more than 300,000 farm workers have been displaced by the resettlement programme — almost as many people as have benefited from it.

This indicates the degree to which turbulence in the agricultural sector spins off into the rest of the economy, a fact the government has either underestimated or ignored in its determination to push forward its chaotic programme.

⁴ Zimbabwe National Chamber of Commerce, Quarterly Sectoral Survey 2000.

Economic indicators (\$ millions)			
	1997	2000	2001
Population (million)	11.9	12.6	12.8
Population growth %	1.9	1.9	1.5
GDP (billion)	8.4	7.2	9.1
Real GDP % change	-1.3	-5.7	-7.4
Agric value added, % of GDP	18.9	18.5	17.6
Industry	25.5	25	24.4
Services	55.5	56.5	57.9
Exports of goods & services as % of GDP	37.6	29.4	21.8
Imports as % of GDP	44.6	27.2	20.7
Export revenue	2.42	1.78	1.57
Budget deficit as % of GDP	4.7	21.79	16
Sources: World Bank; Robertson Economic Information Services See Appendix Two for detailed economic statistics compiled by Robertson Economic Services in Zimbabwe.			

Following the 2000 revival of Mugabe's plan to resettle people on land, nearly 4,000 commercial farms have been listed for seizure and even where they have not, many farmers have left because of illegal evictions by war veterans and harassment by government-backed forces. Mugabe has declared 'war' on white farmers refusing to leave their land voluntarily and has declared them enemies of the state. In its October 2002 assessment, the Commercial Farmers' Union (CFU) reckoned that only 600 white commercial farmers were still on their land. Scores of farm workers and more than a dozen farmers have been killed in violence in the farming areas. Nearly 300 farmers have been arrested for a variety of alleged violations.

Current situation

The Zimbabwean economy is currently propped up on several unsustainable pillars created by the distortions that have resulted from

the government's intervention in the economy. It is estimated that only a third of economic activity is being officially recorded at present.

A key factor keeping the economy afloat is the ballooning parallel foreign exchange market. In late 2002, it was rising rapidly, prompted by ever-worsening foreign currency shortages.

The exchange rate jumped from around Z\$800 to \$1 at the beginning of October 2002 to Z\$2,100 by mid-November. The government, in the 2003 budget released in November 2002, announced a crackdown on parallel trading. It announced that it would close all *bureaux de change* by the end of November in an attempt to stop 'abuse' and currency leakages. Thereafter, the buying of foreign currency would have to be done through registered banks. Analysts predict that this will only have the effect of driving the process underground which, in turn, is likely to weaken the currency further.

The foreign exchange shortage has been exacerbated by the end of the tobacco selling season in November 2002 and by the fact that the government has now had to divert funds to import food. This is being compounded by the worsening balance of payments situation, accelerating capital flight, emigration and a further easing of monetary policy to finance the 2002/03 crop season.

Despite the government's hard line on devaluation, it has contradicted itself by introducing a range of ad hoc sectoral and other agreements at more favourable exchange rates. In August 2002 former finance minister, Simba Makoni, called for the currency to be devalued and was immediately censured and labelled a saboteur by Mugabe. Just weeks later, the government introduced a new duty on luxury imports at Z\$300 to the US dollar, more than five times the official rate, and devalued the tobacco rate by 37.5% to Z\$158.5 to the US dollar. In the 2003 budget, it further weakened the parallel rate on luxury imports to Z\$500. There are currently nine different exchange rates in operation,

applied in a variety of ways. The government has even admitted that it is using the parallel market to finance the budget deficit. It is also buying money in the black market to pay for fuel.

Also fuelling both the parallel market and the broader economy is the stream of remittances sent by family and friends outside the country. More than a million Zimbabweans are estimated to have left the country for destinations such as the UK, South Africa, New Zealand, Australia and the US, many of them skilled workers. The Zimbabwe Chapter of the Association of Chartered Certified Accountants says at least 200 of its members have left Zimbabwe since the beginning of 2002. The Zimbabwe Medical Association and Zimbabwe Institution of Engineers have also reported a large exodus.⁵

Although it is almost impossible to quantify the money being sent back home to friends and family, economists reckon it could be worth millions of dollars and pounds a month. The opposition MDC's economic affairs committee estimates that at least R200 million is sent into Zimbabwe every month from South Africa alone.⁶ Statistics from the British Home Office in March this year showed that 775 Zimbabweans had applied for asylum in the UK between October and December 2001.

This money, which is traded through the lucrative parallel market, is mainly aimed at alleviating the hardships of relatives back home, and buying property at bargain prices in anticipation of an eventual recovery and even for payment of burial society subscriptions. Some local companies have asked recipients on their staff to have the foreign exchange diverted into offshore company accounts and the recipient is paid at a preferential parallel rate inside the country.

⁵ *Financial Gazette* (Zimbabwe), 1–6 August 2002.

⁶ *Ibid.*, 19–25 September 2002.

However, the government is also trying to bring this hard currency into the official market. In the 2003 budget, it announced the establishment of a new fund, to be administered by the central bank, to encourage hard currency to be remitted to the country. However, most Zimbabweans living abroad are there because of their opposition to the government and their mistrust, as well as that of the recipients, mean this fund is effectively dead in the water.

There is also a parallel market in price-controlled goods, many of which are in short supply in the formal market. Producers have had to find creative ways to get around price controls for at least part of their production as they cannot afford to produce only for the price-controlled market. Price controls have led to a shortage of basic goods such as milk, sugar, cooking oil, salt and bread and queues have become part of daily life. The same goods leaking into the black market are being sold at extortionate prices, further fuelling inflation.

Some companies producing price-controlled goods have been forced to close while others, such as seed and fertiliser producers have been able to stare down the government into increasing prices of controlled goods as they are key to the success of the agrarian reform programme.

In his delivery of the 2003 budget, Finance Minister Herbert Murerwa admitted the failure of price controls. However, the following day the government gazetted a six-month price freeze on a wide range of goods from toilet paper to television sets.

An estimated 80% of the population now barely subsists at below the poverty datum line. The situation is further worsened by the decline in social services, particularly health with HIV rates standing at more than 35% among the adult population. The government announced recently that the Z\$1 billion raised through an AIDS levy introduced two years ago would go towards funding a supplementary budget approved in August 2002 to pay for food imports and land inputs, among other

things, indicating that it had not been used for the purpose for which it was introduced. However, the AIDS levy was dropped in the 2003 budget.

Growth projections

The government has revised its official growth forecast downwards from -5.3% in November last year to -11.1% in mid-2002.

Zimbabwe's agriculture sector alone is expected to shrink by 24.6% in 2002 — a massive increase on the 6.9% projected at the end of 2001. The CFU says the decline is likely to be much greater given that the drop in commercial agriculture alone was around 40% due to the inability of farmers to plant or harvest. Manufacturing output shrunk by more than 11% in the first half of 2002 after a foreign exchange shortage prevented the import of the machinery and inputs needed to keep factories operating. It is forecast to drop almost 20% for 2002.

According to the Finance Ministry's latest quarterly report, tourism receipts dropped by 48% over the same period and mining was down 7.1% in the first half compared with the same period the previous year. Unemployment stands at 60% officially although it is estimated to be much higher, particularly given the situation in the farming areas.

Exports are forecast to decline 14% this year while imports are rising sharply, particularly with the import of food. And a new requirement introduced in the 2003 budget may mean the crippling of the export sector. Exporters have already been hit hard by the requirement that they sell 40% of export earnings to the central bank at the official rate (the proceeds are used primarily to buy fuel and electricity supplies). However, in November 2002, this was raised to 50% despite appeals to have the 40% reduced. In addition, exporters can no longer expect to keep the remainder of the proceeds. The government will decide how

it will be allocated and to whom, depending on unstated Reserve Bank requirements.

Appeals for relief have mostly fallen on deaf ears. There have been a few exceptions. One is the gold mining sector, which has benefited from a support price introduced to stave off the collapse of mining operations. Another is Wankie Colliery which is now allowed to keep 100% of export earnings because of its difficulties and yet another is the tobacco industry which has been allowed a devaluation of Z\$158.5 to the US dollar.

The government is also faced with the daunting task of recovering the massive Z\$100 billion it spent on the four-year war in the Democratic Republic of Congo (DRC), a misguided foreign adventure that has seriously undermined the Zimbabwe economy. Although the DRC is expected to foot some of the bill, a large chunk still falls to the Zimbabwe government. The size of the debt is almost a third of the 2002 national budget.

<i>Revised official growth forecast (% change)</i>		
<i>Sector</i>	<i>November 2001</i>	<i>July 2002</i>
Agriculture	-6.9	-24.6
Mining	2.2	-4.1
Manufacturing	-7	-11.9
Construction	-5	-10
Distribution & hotels	-8.6	-12
GDP	-5.3	-11.1
Source	Government	

Macroeconomic indicators

None of the macroeconomic fundamentals looks good.

- As at November 2002, inflation stood at 144%. The IMF expects inflation to surge to 200% by year-end and is forecasting 522.2% inflation next year.
- Interest rates are around 20%, pushed down artificially through the use of Treasury Bills (TBs) to reduce massive domestic debt (although the government announced in the 2003 budget that it would increase rates). The real interest rate is a negative 120%.
- Foreign investment has dropped by 80% since 2000.
- At least 60% of government spending goes on servicing debt.
- Spiralling inflation is being driven mainly by high money supply growth (which peaked in April at 114%), cost-push effects of the depreciating parallel currency market and salary and wage increases not backed by increased productivity.
- The gap between interest rates and the inflation rate is expected to widen further in the coming months as the government looks for ways to cushion the Treasury against the cost of borrowing more than \$300 million to pay for food imports.
- Domestic debt, which stood at Z\$205 billion in December 2001, ballooned to Z\$303 billion at the end of June 2002 — around a third of GDP — and is rising by Z\$3 billion a week. The government has made some strides to restructure the debt. Almost two-thirds of the Z\$287 billion TBs outstanding at 20 June now have a maturity of two years.⁷
- The budget deficit for 2003 is projected to be 11.5% of GDP which, although down on the past few years, is still too high.

The government has raised some money for inputs and food imports through a Z\$37.2 billion supplementary budget in July whilst in August

⁷ NMBZ Holdings Chairman's statement for the first half of 2002.

2002 it announced plans to launch an agricultural bond to raise a further Z\$30 billion. It is putting pressure on the pension funds to buy into it and the funds have been given until year-end to increase their prescribed asset ratios to 45%. However, the pension funds themselves are going through hard times. Apart from being raided by government, the purchasing power of pensions has been eroded to the extent that most people receiving pensions now will not be able to live off them. One of the major pension funds, the National Social Security Authority, has lost out on payments of at least Z\$387.6 million in unremitted pension contributions from the commercial farming sector. Figures from the CFU show that it will continue to lose around Z\$129.2 million a month in unremitted agricultural pensions.

The government has also put pressure on the banks to help fund the land programme. Although banks say they realise the need to raise money for the new farmers, they cannot issue funds without collateral. Already the government has slapped a 5% levy on the profits of banks and discount houses because of the perceived 'super profits' they are making. Although the banks have made handsome profits from the various distortions in the economy, their profits, like everyone else's, are currently being undermined by the high real interest rates.

The banks say the government must use the proceeds from the levy, which was ostensibly to be used for empowerment, to help fund the land programme. They estimate that more than Z\$5 billion has been raised from the levy. They have also indicated to the government that they will buy government-guaranteed paper and Treasury Bills towards further financing the programme. However, many banks are in deep default over outstanding loans to departing farmers. An estimated Z\$12 billion is owed by the evicted farmers and banks are insisting that the government should first address these outstanding loans before guaranteeing loans to the new settlers.⁸ Banks also say that they need a third party to guarantee government's guarantee because

⁸ *Financial Gazette* (Zimbabwe), 8–14 August 2002.

of previous failures by government to honour its pledges. Given Zimbabwe's relations with the international community, this could be difficult.

The private sector has pledged Z\$35 billion to kick-start land reform while government has contributed only Z\$8.5 billion for inputs. The government estimates that Z\$76 billion will be required to finance the 2002/03 crop alone. Another \$76 billion is needed to restock the depleting cattle herd and provide infrastructural facilities to the newly-resettled farmers.⁹ However, much of the private sector money has conditions attached to it.

The statutory reserves of the banking system, including excess reserves, fell by almost 80% (approximately Z\$30 billion) from their February peak, according to the August monthly report of a leading Zimbabwe bank.¹⁰ The bank's report said this reflected two developments:

- the relative slowdown in government borrowing from the banks (Z\$39 billion in the first five months of 2002); and
- the take-off in private sector borrowing which trebled from 41% a year ago to 127% by April this year.

Private sector borrowing now accounts for 55% of total domestic credit, up from 49% a year ago. The resulting ratio of reserves to domestic credit is currently less than 2.5% which shows that there is little elasticity in the banking system to lend to the agricultural programme. This situation also has negative implications for inflation as it means the government will have to pump additional liquidity into the system over the next few months to prevent a credit crunch and a further increase in interest rates.

⁹ *Zimbabwe Independent*, 1 November 2002.

¹⁰ The bank did not wish to be named.

The balance of payments position remains precarious, driven mainly by the continued decline in export receipts, as well as the lack of offshore lines of credit and multilateral and bilateral support.

Balance of payments (\$ millions)		
	<i>2001 (estimate)</i>	<i>2002 (forecast)</i>
Exports	1715	1500
Imports	1545	1750
Trade balance	170	-450
Current a/c	-113	-750
Capital a/c	-387	-350
Overall balance	-500	-1100
Arrears	700	1800
Source: Government		

The budget deficit in the second half of 2002 was at 18% of GDP, down from a high of 22%, as a result of higher tax revenues due to inflation. Says economist John Robertson: 'The government has raised money it wasn't expecting as it is benefiting from the high inflation. As the CPI rises, tax goes up, inflation is pushing wages up and many people are being pushed into higher tax brackets. But this extra revenue is simply because of inflation not because of growth in the economy.'¹¹

Parts of the Zimbabwean economy are booming, mostly as a result of the economic distortions. The Zimbabwe Stock Exchange, for example, has surged 130% in the past seven months. This is in addition to eight new listings last year alone, bringing to 74 the total number of companies listed. A real interest rate of -120% has attracted money to the ZSE as a hedge, with institutions investing in large companies. Many listed companies have shown good results, but this has been undermined by high inflation.

¹¹ Interview, Harare, September 2002.

The negative real interest rate has also created an 'asset bubble'. Consumers, reluctant to hold on to their rapidly devaluing money, are pouring it into imported goods, property, vehicles and tangible assets, giving aspects of the economy a superficial appearance of normality. Retail outlets are parting with expensive imported goods faster than they can bring them in.¹² One large retail chain said its profits were well ahead of inflation and exported goods were selling well.

The property market is also booming. Property prices both in Zimbabwe dollars and in international terms have increased dramatically — 400% since January 2001 in the case of residential property. The collapse of the local currency on the parallel market effectively halved the price of all property in US dollar terms. A large proportion of buyers are those in 'economic exile'.

The resistance by sellers to sell on these terms in a very volatile market, and the bonanza for buyers with access to foreign currency, have fuelled the increases.¹³ Rentals have also been fuelled by increasing numbers of displaced farmers moving into the cities.

But whatever the good news, the overall situation is unsustainable. The combination of severely reduced agricultural production for the foreseeable future coupled with a drastic foreign exchange shortage, fuel shortages, drought and mass starvation have pushed the government into a corner. It is running the economy on a series of ad hoc, mostly panic-driven decisions. Business chambers, while they still engage the government, have been largely ignored in terms of suggestions on economic recovery.

¹² Interview, Harare, September 2002.

¹³ Gainsborough Seeff Zimbabwe report, 3rd Quarter, 2002.

'The government knows what it has to do, but the political costs are too high,' says a Zimbabwean economist.¹⁴ He points to short voting cycles in the drawn-out election schedule, which mean the economy is held ransom to vote buying, a situation which particularly affects the land issue.

The land resettlement programme in its current form started off as a handy political tool for Mugabe. It has now become a major headache as he is forced to deal with the logistical issues in its wake.

The MDC says that in global terms the decline in quality of life and general economic welfare must be the fastest in any country that is not at war. 'Similar declines in economic activity and human welfare in other countries have taken a decade or more. In Zimbabwe this has happened in the short space of four years.'¹⁵ Its outlook for 2003 is premised on the assumption that there will be no significant changes in the political situation or national leadership and sets out a worst-case scenario. This includes falling output across the economic landscape, a further decline in skills, the possible collapse of financial institutions and equity markets, ongoing food shortages and the decline in overall economic output for the fifth year in a row.

External factors

The role played by Libyan leader Muammar Gaddafi in propping up the Zimbabwe economy has been considerable but not without its cost. Libya has been supplying 70% of Zimbabwe's fuel needs to the tune of about 800,000 barrels a month through the Libyan state-owned oil company Tamoil. In return, it is being paid through a combination of cash and barter deals with Mugabe. Gaddafi is reported to have secured

¹⁴ James Jowa, senior economist at the Zimbabwe National Chamber of Commerce, interview, Harare, September 2002.

¹⁵ MDC Economic Outlook, August 2002.

land in prime farming areas, an interest in local bank Jewel Bank, a significant shareholding in state-owned energy company NOCZIM, an interest in the Zimbabwe–Mozambique oil pipeline and in a refinery. Beef quotas are also part of the deal.

Newspaper reports in September 2002 said the Libyan leader was also stepping up pressure on the government to offer more assets of greater value as a guarantee for sustained fuel supplies. However, the relationship has soured and is reported to have now ended. Local newspapers reported at the beginning of November 2002 that the fuel deal with Libya had fallen apart and that no fuel had been delivered in the six weeks up to 1 November despite the payment made at the end of October of \$9 million by Commercial Bank of Zimbabwe as part payment of the \$65 million debt. Zimbabwe is now sourcing a large part of its fuel requirements from the Independent Petroleum Group of Kuwait.

However, the government has also backtracked on its refusal to allow petrol companies to import fuel directly rather than through the National Oil Company of Zimbabwe (NOCZIM) monopoly and announced the deregulation of the sector on 1 November 2002.

While this is likely to ensure fewer shortages, it will be at a huge cost to the economy and inflation as it could push up prices by as much as 600%. International oil companies have said they would have to buy hard currency at inflated rates to remain viable.

South Africa has also supplied fuel to Zimbabwe — around 30% of its requirements come from Sasol and major credit terms have been extended. The government parastatal Eskom is also playing a pivotal role in providing Zimbabwe with power. The Botswana government also extended a hand by providing 10 million litres of diesel fuel and five million litres of aviation fuel following an acute three-month fuel shortage. However, the Botswana government is still trying to recover

payment for a 20 million litre fuel credit line extended to Zimbabwe in 2000.

In the latter part of 2002, Botswana broke ranks with the SADC leadership in criticising Zimbabwe, particularly over the impact the negative perceptions of the country were having on its own tourism sector. After a high-level meeting between the two governments, Botswana officials said Mugabe had lost control of the land redistribution process.¹⁶

Botswana is not the only country dealing with the fallout from Zimbabwe. There is a brewing trade battle with Zambia over the flooding of the Zambian market with underpriced goods from Zimbabwe which are undermining its own market. Malawi and Mozambique recently made the same complaint. In addition, these countries, and particularly South Africa, have a growing refugee problem as Zimbabweans flee across the borders. This is leading to a growing xenophobia, already quite pronounced in South Africa, which has the potential for conflict among communities.

In 2000, SADC appointed a task team to deal with the Zimbabwe crisis. However, it put in charge the Malawian president, Bakili Muluzi, who is among those presidents who seems unwilling to criticise his neighbours, presumably to keep the spotlight off events in his own country. In the event, the team has made little tangible progress. In fact, Mugabe is so confident of its support for him that he recently invited it back to Zimbabwe to see for itself the situation on the ground.¹⁷ Each time the issue of Zimbabwe has been raised at SADC meetings, Mugabe has been given another chance to keep his promises to, variously, restore law and order, allow free and fair elections, implement an

¹⁶ *Zimbabwe Independent*, 27 September–3 October 2002.

¹⁷ President Thabo Mbeki mentioned Mugabe's invitation in an interview with the *Sunday Times* (South Africa), 13 October 2002.

orderly land reform programme and so on. Each time he has broken them and the SADC countries have failed to act.

The UK and the US have harshly criticised Zimbabwe but their response has served only to give Mugabe the moral high ground in the Third World, which tends to side against these superpowers no matter what the issues. The European Union and the US have both introduced sanctions against high-ranking government officials and Mugabe but have failed to implement them effectively.¹⁸

The EU, for example, moved the SADC–EU meeting scheduled for Copenhagen on 7 and 8 November to Mozambique to allow Zimbabwe to attend. The move was a response to threats by several African countries that they would boycott the meeting if Zimbabwe was not allowed to attend. The move flouted the European Parliament’s resolution in September that Zimbabwe Foreign Minister Stan Mudenge be banned from the meeting.

The sanctions have also been compromised by the fact that Zimbabwean officials have freely entered these countries for conferences held under the auspices of other international bodies such as the United Nations.

The Commonwealth proposal to introduce further sanctions against Zimbabwe was blocked in September 2002 by two of the three members in its leadership troika — Olusegun Obasanjo of Nigeria and Thabo Mbeki of South Africa, who defeated the motion for further sanctions which was backed by Australian Prime Minister John Howard. In October 2002, Australia introduced its own sanctions on Zimbabwe’s leaders. It also cut all humanitarian aid to the country, suspended

¹⁸ Baroness Amos, UK Foreign Office minister, confirmed in a debate on Zimbabwe in the House of Lords on 1 November 2002 that a total of 28 bank accounts, containing £513 000, have so far been frozen in the UK and Crown dependencies under targeted sanctions measures against ZANU–PF and government officials.

defence links, banned arms sales to the government and suspended contact between the two countries' governments.

South Africa, on the other hand, remains ambiguous in its approach to Zimbabwe. It is still pursuing its as-yet-unsuccessful quiet diplomacy with Mugabe but its public statements indicate an underlying support for the ruling party. In October 2002, SA Foreign Minister Nkosazana Zuma went to Zimbabwe for talks with Mugabe and came back praising the land reform process. Under growing pressure to act as the situation on its northern border becomes increasingly critical, Mbeki recently said South Africa would not overthrow Mugabe.¹⁹ He said while Zimbabwe was a tragedy, it was not the worst tragedy in the world and his government would continue its process of engagement.

His deputy foreign minister, Aziz Pahad, similarly said South Africa would not be pushed into going to war with Zimbabwe and asked what the government was supposed to do. Both have abdicated responsibility by avoiding acknowledgement that a simple public statement condemning Mugabe's actions would go a long way towards addressing the problem. Mugabe's one fear is to be criticised by his fellow Africans, given the emphasis he places on scapegoats such as whites, the international community and other parties that he knows many Africans will support.

South Africa, along with other countries in the region, has been hit by the fallout of the Zimbabwe crisis. Foreign direct investment declined in 1998 and has been flat since then; the currency has been affected and general investor perception of the whole region has been negative. South Africa says it does not want to drive Mugabe away from future engagement by criticising him. However, the reasons for not doing so seem to be more about Mbeki's own back yard. These include the fear of a populist backlash from his own party, many of whom support Mugabe's actions, and the fact that South Africa's own land distribution

¹⁹ *Sunday Times* (South Africa), 13 October 2002.

problem is becoming more urgent. Some have voiced the theory that South Africa's perceived anti-MDC bias stems from its own fears of being unseated by its tripartite alliance partner, trade union federation Cosatu, given the MDC's trade union roots. ZANU-PF and the ANC also both have struggle backgrounds, both from fighting white regimes, and this has ensured a bond between them that supersedes any subsequent political events.

However, South Africa's refusal to demand that Zimbabwe uphold, at the very least, the same human rights principles it has enshrined in its own constitution has not done it any favours in terms of international perceptions. Its failure to speak out has also negatively affected foreign perceptions of the New Partnership for Africa's Development (NEPAD), given South Africa's leadership role in selling the programme. In fact, the African Union's silence on the matter has similarly affected Western commitment to NEPAD.

Other external players in the Zimbabwe picture are the multilateral institutions — the World Bank, IMF and International Finance Corporation. All three have suspended project finance and balance of payments support as a result of Zimbabwe's payment arrears and its refusal to adhere to the principles required for the resumption of lending such as good governance. The World Bank has five active projects in Zimbabwe with commitments totalling \$206 million. These funds support projects in the financial, agricultural and environmental sectors as well as community development. It suspended disbursement on 15 May 2000.²⁰

The IFC, the Bank's private sector lending arm, has a \$53.5 million portfolio in the tourism, manufacturing and financial sectors. However, its portfolio has declined by more than 60% since 2000 and Zimbabwe is one of 13 African countries in which it has not invested in the past two years. It has shifted its focus to other Southern African countries.

²⁰ See <http://www.worldbank.org/af/ZW2.htm>.

The IMF has had a long-running battle with Zimbabwe since the imposition of the Structural Adjustment Programme in 1991. The agreement to follow the SAP was broken at the first hurdle when a drought in 1992 prevented Zimbabwe from keeping to the IMF's economic targets. It happened again in 1993, and in 1994 Zimbabwe was taken off the programme. Relations resumed in 1998 when the IMF agreed to give Zimbabwe a \$193 million loan. In 1999, the first tranche of the loan was released but mounting problems of governance, mismanaged land reform and false accounting of expenditures related to the DRC war resulted in the suspension of the remainder. In June 2002, the IMF adopted a declaration of non-cooperation regarding Zimbabwe's overdue financial obligations and suspended technical assistance to the country. The first arrears were incurred in February 2001. In September 2001 it was removed from the list of countries eligible to borrow resources under the Poverty Reduction and Growth Facility.²¹ In 2002, the process began to suspend Zimbabwe's voting and related rights in the IMF.

Most other donor money outside humanitarian aid has also been stopped although several donor-funded programmes are still running their course.

²¹ See <http://www.imf.org>.

Breakdown of Four Key Sectors

This section will examine in greater detail four key sectors of the Zimbabwean economy: agriculture, mining, tourism and manufacturing.

Agriculture

As at May 2002, around 2,900 farmers had been served with eviction orders from their farms, according to the CFU. Since then more orders have been served but as many farmers are not on their land, it has proved difficult to ascertain exactly what the situation is.

Many more have been chased off their farms by 'war vets' and other government militias while still others have left voluntarily because of the troubles.²² Official reports put the figure at around 4,000 of the estimated 4,500 commercial farms in the second half of 2002. The total land area under compulsory acquisition is 10.5 million hectares — 97% of the total commercial farmland. Only 300–400 commercial farms, covering an area of about 700,000 hectares, are not listed for any sort of acquisition. The CFU says that as of October 2002, there were around 1,000 farmers still on their land and 600 of these were still actively farming.

About 30% of the 2,900 farmers issued with eviction notices have left the country to explore farming opportunities in countries such as Zambia, Mozambique, Uganda, Botswana, New Zealand, Canada and Australia.

To date, about 120 farmers have been paid compensation. A few of the earlier payments included payment for land as well as improvements. A number of legal challenges to the process have been mounted by

²² Interview, October 2002.

farmers. The government's response has been to ignore the resulting court orders or to change legislation to circumvent the rulings.

The Farm Community Trust of Zimbabwe estimates that 250,000 farmworkers — about 50% of the 2000 total — have become unemployed since the onset of the land resettlement programme.²³ Close to two million people are direct dependants of the farmworker community. While some commercial farmers who have left the country have retrenched all their workers, those who have decided to stay have reduced their workforce in line with their reduced activities.

The resettlement programme has been broadly divided into Category 1 and Category 2 farmers. The former comprises peasant farmers and the latter small-scale commercial farmers. In October 2002 it was reported that only about half of the confiscated land had been occupied by new settlers in Mashonaland East, one of the country's most productive farming areas, close to a month after the expiry of the first deadline for them to do so. A survey of the other nine provinces is yet to be completed. CFU spokesman Gerry Davidson says the real rate of occupation countrywide is likely to be much lower, going by reports from local farmers' associations.

Some of the settlers are being evicted by ministers and other top officials who have laid claim to seized farms in prime agricultural areas. Mugabe's wife Grace is reported to be among them. In one incident, it emerged that produce from a farm seized by Jocelyn Chiwenga between June and September 2002, has been sold by Sainsbury's supermarkets in the UK. Chiwenga is a senior figure in ZANU-PF. Her husband, Lt-General Constantine Chiwenga, the commander of the Zimbabwean army, is on the trade sanctions lists of the European Union and Bank of England. British companies may not deal with him, but his wife is not affected by the sanctions. The farm was taken at gunpoint in April. A month after the takeover Hortico, Sainsbury's

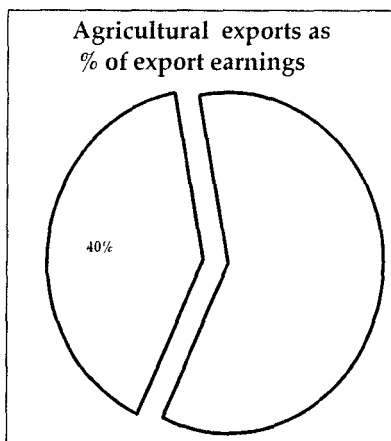
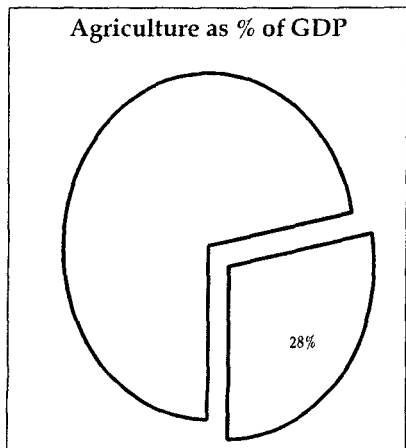
²³ *Daily News* (Zimbabwe), 18 October 2002.

Zimbabwean supplier, signed a deal worth more than £500,000 to buy Chiwenga's produce. Sainsbury's stopped buying the produce only last month when Chiwenga was ordered by the Zimbabwean high court to stop selling the farm's crops because it had been illegally occupied.²⁴

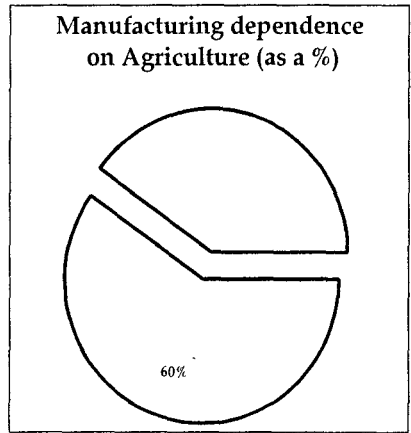
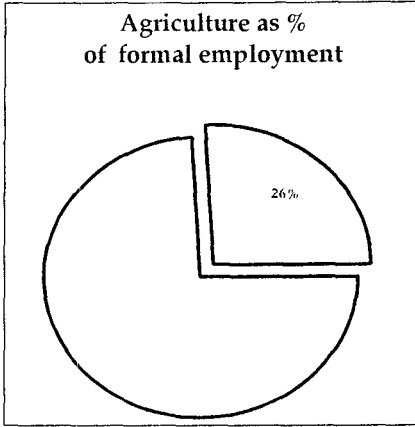
As a result of the chaos and violence in the farming areas as well as the uncertainty created by the government's harsh rhetoric and ad hoc announcements, there has been a sharp decline in agricultural production in 2001 and 2002. The situation is expected to worsen markedly in 2003.

Many of the new farmers do not have the inputs or the skills to grow food for more than their own consumption. Farming implements and inputs that were on the seized farms have been destroyed in the violence that accompanied many of the occupations.

Impact of agriculture on the economy, 2000



²⁴ *Sunday Times* (UK). The court case was covered in the Zimbabwe press.



The combination of a lack of ownership and the lack of skills and funding under the current programme is likely to lead to the destruction of prime farming land as happened in the communal lands where more than one million small-scale farmers eke out a living on land which is mostly infertile through years of bad farming techniques. Says economist John Robertson:²⁵

The land is badly farmed because of the way it is owned. It is allocated by chiefs. There is no security of tenure, no title deeds. These areas of the country are isolated from the banks because they have no collateral [and] therefore there is no investment in the land. They have become a dustbowl.

Robertson maintains the government's handling of the land reform process has landed the new farmers in a poverty trap. Robertson, along with a number of other analysts, believes that the only way to empower people is to give them ownership of the land, thereby returning its value and providing collateral for development.

²⁵ Interview, Harare, September 2002.

The settlers are entirely reliant on the government for their next move and the government is running out of options. The reality may be that when the inputs arrive, they will be sold for money to buy food. One of the consequences of the disruption in the farming areas has been the breakdown of the traditional support network found in the communal areas.

Despite all evidence to the contrary, the government still claims that agricultural production will be up to its normal levels in a short time. However, even as the 2003 farming season started in October–November 2002, the government is still trying to find funding for inputs. Its attention — and the finance it has managed to raise thus far — has had to be diverted to importing food to avert massive looming starvation.

The government allowed controlled retail prices of maize seed, sorghum and millet to go up by 120% in September to allow seed companies to remain viable. Prices for groundnuts and sunflower seeds have been increased by 150%, sugar beans by 300% and soya beans by 375%. The same battle is being fought on the fertiliser front. While this is necessary to keep these companies going, it is also pushing up the cost of inputs. Production of most crops is down. Commercial wheat producers have slashed their hectareage by nearly 50%. The 2002 wheat harvest is 160,000 tonnes compared to last year's crop of 320,000 tonnes and is expected to at least halve again in 2003. Wheat production is reliant on commercial farmers who have the infrastructure to irrigate this crop in winter, the prime growing season. Production of maize has fallen by 66% while the national output of major crops such as cotton and soya beans has dropped by between 33% and 59%.²⁶ The government's interference in maize pricing policy has led many farmers to move into other crops.

²⁶ CFU President Colin Cloete quoted in the *Financial Gazette* (Zimbabwe), 1–6 August 2002.

The share of production contributed by small-scale and communal farmers has been steadily rising, from 9% in 1983 to 50% in 1990 and 60% in 1999.²⁷ However, their share of production is also shrinking for a variety of reasons, particularly drought. The national beef herd — which provides one of the country's key exports — is also dwindling as farmers sell off their herds. The herd declined from about 1.25 million in 2000 to 200,000 by October 2002, most of which are expected to be slaughtered.²⁸

The agricultural situation is likely to worsen further with the advent of the El Niño-induced drought which is hitting Southern Africa in 2002.

The CFU says the absolute minimum timeframe to revive commercial farming to its former levels is five years. Production centres on a five-year cycle, it says, also taking into account drought or bad years. It says while it is critical that the newly settled farmers receive training in order to built up productivity, this is not a short-term programme. The process is likely to take several years even if maximum resources are put into the effort

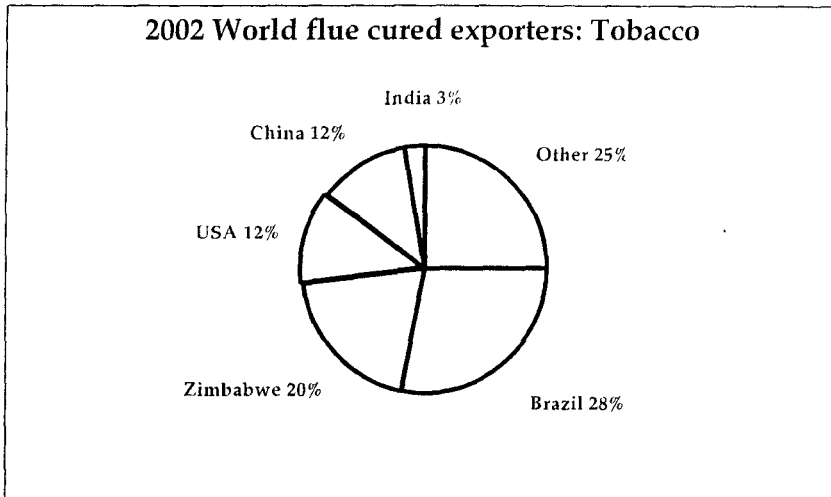
Zimbabwe's reputation as a reliable and consistent source of high quality premium tobacco is under threat. Major tobacco merchants globally have acknowledged the deteriorating political and economic situation in Zimbabwe and the threat this represents to their investments valued at more than \$100 million. Many are now encouraging expansion in other supply markets and finding new sources as they do not see an early return to stable production in Zimbabwe in the short term and have little confidence in the country's ability to recover to desired levels in the foreseeable future.²⁹

²⁷ *Africa South of the Sahara 2002*, 31st edition England Europa Publications, 2002

²⁸ Dnk Odendaal, chairman of the Cattle Producers' Association

²⁹ Zimbabwe Tobacco Association Flue Cured Report for *International Tobacco Courier*, September 2002

Net earnings from tobacco, which traditionally accounts for more than 30% of total foreign exchange income, are set to drop to \$105 million next year from \$400 million in 2000, according to the Zimbabwe Tobacco Association.³⁰ Estimates for next year's crop are 80 million kgs in a best-case scenario and 60 million kgs in a worst-case scenario, down from 165 million kgs in 2002. Although prices for the current selling season have remained firm, producers are only likely to recover historical costs and there is little incentive for growers to put in another crop.



Small-scale growers have bought nearly double the amount of seed over last year and their input is expected to grow. However, their average yields are around 1,000kg/ha while large-scale growers average yields of at least 2,700kg/ha with irrigated yields above 3,100kg/ha. Over 6,000 small-scale farmers produced 25 million kgs this season but

³⁰ Zimbabwe Tobacco Representative Oliver Gawe addressing parliament in October 2002.

they rely heavily on large-scale commercial growers for assistance with seedlings and curing.

A poor tobacco crop has serious ramifications for Zimbabwe's economy. The chief executive of ZTA, Chris Molam, says³¹

If it's 70 million kg, we feel that the auction sale value of the tobacco will be about \$105 million, down from close to \$400 million [in the previous year]. That's pretty dire, it's chopping hugely our ability to pay for imports like fuel. The total national fuel bill is about \$360 million, the value of auction tobacco was at least covering our fuel bill previously.

Mining

Zimbabwe currently produces more than 40 different minerals, key among them gold, platinum, nickel, asbestos, and coal. Mining's contribution to GDP in Zimbabwe has declined to less than 3% from around 8% in the 1980s. Employment figures are down to 38-40,000 from 55,000 in the mid-1990s. Many of those who have lost jobs due to closures have been absorbed in other parts of the industry so the job losses do not necessarily reflect the situation on the ground in the mining sector which has been a difficult one resulting in many mine closures.

The reasons that the mining sector has been a declining contributor to GDP in Zimbabwe are myriad but they include mine closures and significantly reduced production for reasons related to the difficult macroeconomic climate. Key problems are: rampant inflation, scarcity of foreign currency which is costing gold producers almost 20% of their revenue, and an associated drop in production, power outages, political violence, interruptions of mine production due to fuel shortages and

³¹ UN news agency *IRIN*, 23 October 2002.

high production costs. In 1999, the cost of production in the industry increased by 61.9% on top of a 33.9% increase the previous year.³²

Other problems include low commodity prices for some minerals, no new investment into exploration and development due to budgetary constraints and investor nervousness as well as the introduction of ring fencing, the re-introduction of royalties and a new charge termed surface rentals for use of state land.³³ Royalties will be charged as a percentage of the gross fair market value of minerals produced and sold as follows: precious stones (10%), precious metals (3%), base metals (2%), industrial metals (2%), coal bed methane gas (2%) and coal (1%). Ring fencing — the separate treatment of each mine site for tax purposes should the overall company be in a tax loss situation — has been described as being potentially very damaging to the industry. 'There is ample conclusive evidence that at least 25% of our industry will disappear if this legislation is enacted without a balancing or exemption mechanism,' said Ian Saunders, chairman of the Chamber of Mines' gold producers' committee.³⁴ No implementation date has been given for these measures but they are contained in the latest list of fiscal incentives for mining in Zimbabwe.

The value of total mineral production for 2001 was up on 2000, Z\$27.46 billion compared with Z\$16.66 billion. However, of the 20 major minerals produced during 2001, only seven recorded increases in volumes over 2000. These include coal (6.7%), limestone (97.05%), nickel (14.36%), palladium (1.34%), platinum (2.77%), pyrite (33.5%) and rhodium (5%).

³² Zimbabwe National Chamber of Commerce, Quarterly Sectorial Survey, September 2000.

³³ Fiscal Incentives for Mining in Zimbabwe released by government in 2002.

³⁴ Speech made to Zimbabwe Chamber of Mines AGM on 11 May 2001. Nyanga, Zimbabwe.

Platinum production is still in its early stages and in 2001 recorded only a modest increase.³⁵ Gold production dropped sharply to 22.07 tonnes in 2000 compared with 27.67 tonnes produced in 1999 — a decline of 22%. This represented the first decline in gold production in 20 years, a development which cost the economy nearly \$50 million.³⁶ Production is set to decline further, particularly at the medium- and small-scale levels.

Reduced manpower levels are also likely through natural attrition as producers are unable to afford retrenchment packages.

Gold is the primary source of revenue in the mining sector and accounted for just over half of total export sales by value in 2000. It still accounts for around 52% of total mineral production in Zimbabwe but the figure has been declining since 1999. Because of its use as a national reserve and its potential to produce instant currency, gold has been treated differently from other mining and export sectors. While other minerals are marketed through the Minerals Marketing Board, gold producers are obliged by law to sell directly to the Reserve Bank. This resulted in a problem which nearly closed down the industry. Because of the technicality of selling to the Bank, they were not considered direct exporters and thus not allowed to retain foreign currency accounts, unlike the rest of the industry. This despite the fact that 60–70% of their inputs are imported. In August 2000, after many appeals from the industry, the government allowed gold producers to hold 20% of their hard currency in foreign currency accounts (FCAs), which, while a lifesaver, falls far short of their requirements.

The government has introduced several other support measures for the industry to prevent the wholesale closure of gold mines:

³⁵ Zimbabwe Chamber of Mines AGM, 23–24 May 2002, Nyanga, Zimbabwe.

³⁶ Zimbabwe Chamber of Mines, Annual Report, 2000.

- In April 2001, the government, through the central bank, introduced a gold price support scheme. The scheme, denominated in Zimbabwean dollars, was designed to provide producers with break-even revenue plus an additional \$25 to cater for capital expenditure to maintain production.
- After numerous representations by the chamber, in March 2000 the Reserve Bank authorised Stanbic Bank to retain a percentage of its forex collections and to accumulate a pool of forex from which suppliers to the gold mines could pay for imports of consumables such as explosives, cyanide, drilling equipment and critical spares. However, allocations made to the fund from the Reserve Bank were inadequate and erratic and producers were forced to source their requirements on the parallel market which at the end of 2001 was around Z\$380: \$1 and as at November 2002 had jumped to Z\$1,500 to the US currency. The facility was suspended in July 2001 and was replaced by a similar facility administered by the Reserve Bank which has failed to impress.
- From 1 December 2001, the government provided gold producers with a further 20% foreign currency allowance from gold lodged with a local refinery.

But while these measures have been helpful, they are only so in the context of a distorted economy. 'Gold producers want to be treated just like any other export sector,' said one producer.³⁷

Platinum holds significant revenue potential and substantial reserves are located in the Great Dyke belt in central Zimbabwe. The government's focus is currently on the platinum industry and many incentives are geared to its growth. These include allowing offshore foreign currency accounts and new incentives to encourage exploration and the development of new mines. Platinum represents 15% of total mineral production, excluding Zimplats. The company began

³⁷ Interview, September 2002.

production late in 2001 and is not yet included in the figures but it is likely to push platinum's contribution up to between 18–20% and overtake gold in a year or two, say mining officials. Zimbabwe has 15% of the world's known reserves while South Africa has 17%.³⁸ Platinum production was crippled by the closure of BHP in 1998 but new owner, Australian-listed company Zimplats, has already identified areas of potential expansion which it says could see it trebling production from current levels of 200,000/oz of platinum, palladium, rhodium and gold annually to 600,000/oz.

The industry lobbies the government on an ongoing basis and although the latter has made some concessions, it is tantamount to plugging holes in the dyke. Long-term solutions are required but because these are located in fundamental changes in the macroeconomic climate, they are dependent on political change. The government defends its inaction on the basis of serious foreign exchange revenues which have to be shared many ways. A top mining executive said³⁹

[I]t is difficult to feel sympathy for the government when it is the very reason that the foreign exchange problems exist...And if the government relies on gold to the extent that it does, it should treat gold producers better.

Tourism

In Zimbabwe, tourism was ranked among the three top foreign currency earners before its performance declined markedly two years ago. In 1999, it was responsible for 12.4% of GDP and 8.5% of employment.

However, this in turn has been one of the sectors hardest hit by the political turbulence in Zimbabwe since 2000 and the accompanying

³⁸ Zimbabwe Chamber of Mines.

³⁹ Interview, Harare, September 2002.

negative press. The downturn started post-1994 following South Africa's acceptance back into the international fold, which shifted the pivotal destination for a visit to the region from Harare to Johannesburg. There was a decline in tourism business to Zimbabwe of between 10–15% up to 2000.⁴⁰

The government has said it is committed to the growth of tourism but the several efforts it has made to counter the negative perceptions of Zimbabwe and draw tourists in are just as quickly dashed by the actions of the head of state and a coterie of his top ministers. The World Travel and Tourism Council has forecast that annual growth in tourism in the SADC region should be 5.9% over the next decade, assuming appropriate policy frameworks and implementation.

However, the problems in Zimbabwe have undermined tourism growth in the whole region because of associated perception problems spilling over into neighbouring states and because of the interrelatedness of tourism initiatives in the region. Already disruptions caused by the land resettlement programme have delayed the launch of the Gaza-Kruger-Gonarezhou Transfrontier National Park.

In 1998, Zimbabwe was ranked fourth among African countries in the number of tourist arrivals behind South Africa, Tunisia and Morocco. However, not only has it lost this ranking, it has dragged its neighbours down with it, particularly Zambia and Botswana. Fuel shortages have put off self-drive tourists from South Africa, which comprised a large part of the market, and goods and services have become prohibitively expensive with the pegged exchange rate. The decline was compounded by the 2000 elections and the fact that the expected millennium boom did not happen. The government then launched the Tourism Recovery Plan in July 2000. However, this has struggled to get off the ground because of funding problems and continued negative

⁴⁰ Interview with Steve Mangadze, former head of the National Economic Consultative Forum task force in Zimbabwe, July 2000.

international publicity. And the government, despite its assertion in the August 2000 Zimbabwe Millennium Economic Recovery Programme that tourism is a key sector for economic recovery, has not funded it adequately. In the 2003 budget, tourism and environment are low down on the list of spending priorities.

The 2002 presidential elections were a low point for Zimbabwe's tourism sector. Ten key travel markets, including the US, Canada, Australia, and some European countries, issued travel warnings to their citizens. These have now been withdrawn. The market in the past two years has been mostly reliant on domestic tourism. In September 2002, Environment and Tourism Minister Francis Nhema announced that the government was revising the pricing in the tourism sector to stimulate domestic tourism and cushion domestic tourists from inflationary pressures. Meikles Africa reports bookings of between 50–60% in its Victoria Falls Hotel and between 35–40% in Meikles Hotel in Harare, both roughly in line with the same period last year. Zimbabwe's biggest tourism company, The Rainbow Tourism Group — in which Libya has a stake — says its bookings for the second half of 2002 are holding at 75% ahead of the solar eclipse in the west of the country and the Miss Malaika beauty competition in Victoria Falls and are looking solid into the first part of next year, partly attributable to the Cricket World Cup in February 2003.

However, much of the country's natural heritage, in the form of conservancies and wildlife areas, has effectively been spoiled for tourism by its inclusion in the land resettlement programme. The parliamentary portfolio committee on environment and tourism has suggested that the government suspend resettlement in these areas until there is a proper framework to ensure sustainability. In a report, it said as a result of the resettlement of people under the fast-track land programme in conservancies and game areas, there had been massive

destruction of trees and killing of wild animals which would take many years to replace.⁴¹

Victoria Falls, the only international tourism destination in Zimbabwe currently, has experienced stiff competition from Livingstone in Zambia. The resort's competitiveness has been hit by the high tariffs charged by the Department of National Parks (now run by a senior ZANU–PF military man) to view the Falls — \$20 compared to Zambia's \$10. Visa fees in Zimbabwe are higher than those in Botswana, Zambia and Namibia, and are difficult to secure, which has discouraged tourists from day trips to Victoria Falls. Customs officials are also often obstructive. A regional univisa has long been mooted but has yet to see the light of day. Air fares on local airline Air Zimbabwe have become more expensive than the tariffs of other regional players. In addition, the services offered by the state-owned monopoly airline are unsatisfactory with flights often being cancelled at the last minute. Flights between Johannesburg and Victoria Falls are at least double the price of the fare between Johannesburg and Livingstone.

The airport tax, at \$30, is also higher than Zambia's \$20, and tourists are also required to pay a 2.5% tourism levy which is added to hospitality bills, including restaurants. The proceeds are supposed to be used by the Zimbabwe Tourism Authority to market the country but the tourism sector feels the money is not being well spent.⁴² For example, say operators, the ZTA is only represented at the World Travel Market in the UK because of private sector efforts. It nearly lost its stand through non-payment. Overall, it costs a tourist \$100 in numerous taxes before they even arrive in Zimbabwe which is a disincentive to come when many other places nearby are cheaper.

⁴¹ *Zimbabwe Independent*, 25 October 2002

⁴² Interviews over September and October 2002.

After investigating the unsatisfactory situation in the tourism sector, the parliamentary portfolio committee on tourism in October 2002 recommended that an inter-ministerial team be set up to formulate a proper tourism plan.⁴³ However, in September the government put out a policy paper which outlines broad policy goals and specific objectives for tourism development. The plan commits Zimbabwe to regional integration in tourism in line with the SADC tourism protocol and the protocol on wildlife conservation and law enforcement, both of which the government has signed.

It also emphasises:

- marketing of the country;
- creating an enabling environment for investment and private sector growth through appropriate incentives on taxation, customs duties on tourism-related goods, registration and licensing requirements, foreign exchange banking and other factors affecting tourism operators;
- encouraging tourism product diversification;
- ensuring competitiveness which includes researching appropriate pricing, reducing the number of exclusivity agreements and other anti-competitive practices of large operators and ensuring that foreign companies do not eliminate local competition;
- meeting labour and skills demands of the sector through training policies for workers directly working in the sector and associated service providers such as customs officers;
- making visa and customs procedures as efficient as possible;
- ensuring proper infrastructure and transport provision including the introduction of air transport strategies to provide incentives for airlines to use Zimbabwe; and

⁴³ *Zimbabwe Independent*, 25 October 2002.

- ensuring social sustainability of the sector, particularly through the involvement of communities in tourism projects and indigenisation.

However, it has been criticised for lacking detail and for lacking an implementation plan or timetable.

The private sector has recommended, among other things, the establishment of tourism investment zones covering recognised established tourist resorts and approved new resort locations.

Tourism bookings are picking up but the tourism sector, dependent as it is on perception, cannot really recover until positive political change is reflected by the world's media. One operator said the perception was changing from a concern about safety to a moral element about taking a holiday in a country in which millions of people were experiencing major human rights abuse and starvation.⁴⁴

Manufacturing

The manufacturing sector, and with it exports, has been hard hit by Zimbabwe's political and economic problems, particularly with regard to foreign exchange. Exporters have been suffering from the mandatory requirement to sell 40% of their export earnings to the government at the official exchange rate. They have been forced to source spare parts and other inputs at the rapidly deteriorating parallel rate which has sharply affected performance. After appeals from the sector, the government has agreed to offer relief on a case-by-case basis. However, the 2003 budget introduced foreign currency requirements that are going to further undermine, if not ruin altogether, the export sector. Not only has the 40% requirement been increased to 50%, but it is no longer a given that exporters will be entitled to retain the remainder. This decision will now be made by the government after analysing what the exporter plans to use it for.

⁴⁴ Interview, Harare, October 2002.

The 40% requirement, which has been in place since 2000, has funded the government's hard currency requirements for power and fuel. The Zimbabwe Electricity Supply Authority (ZESA) requires about \$208.8 million annually to pay for power imports, service its external debt and buy spare parts while the National Oil Company of Zimbabwe needs a minimum of \$40 million a month to import fuel. However, this will now be reduced given that oil companies are allowed to import fuel.

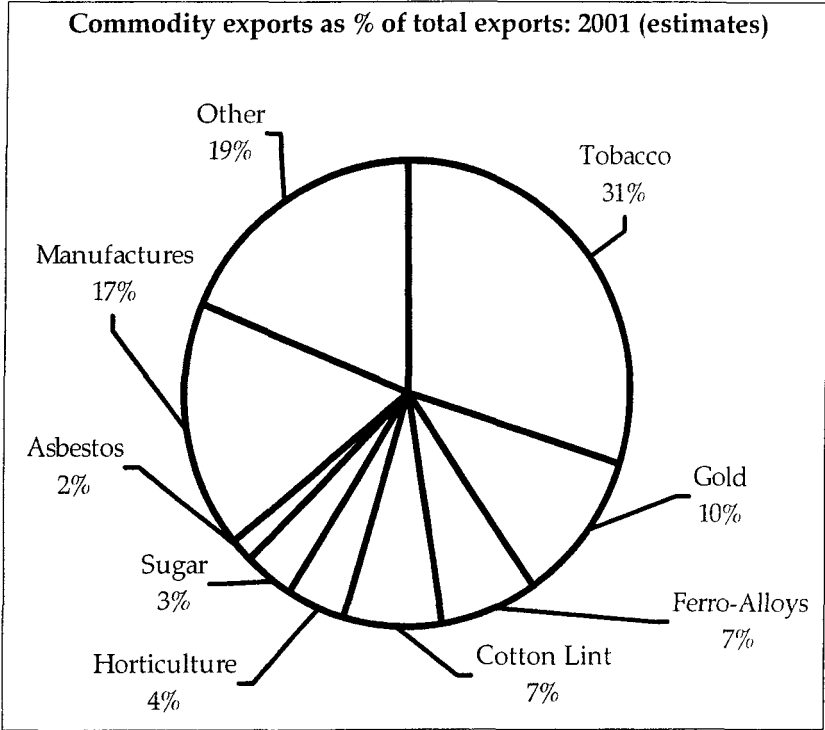
The manufacturing sector's contribution to GDP has plunged from 25.8% in 1998 to less than 15% in 2002. The president of the Confederation of Zimbabwe Industries (CZI), Jacob Dube, said recently that on average, manufacturing volumes in 2001 were down 11.5% from the levels achieved in 1995.

Thousands of companies have either shut down, downsized operations or retrenched employees to cut costs. In 1999, 85 companies in 12 sectors went into liquidation while in 2000, at least 400 companies, involved in trade, farming, manufacturing, tourism and construction, had closed.⁴⁵ In 2001, a total of 92 companies in the sector closed and filed for formal liquidation. As not all companies that close file for liquidation, the total number of closures is expected to have been much higher. The worst-hit sectors were the motor industry, engineering, iron and steel as well as printing. Up to June 2002, 242 companies closed their doors, a big increase. The CZI says most of these are small-to medium-sized companies.

The major challenges facing the sector are the shortage of foreign currency, high inflation, price controls, declining demand for products due to declining disposable incomes and the general contraction of the economy, loss of export competitiveness and high wage demands by workers in the face of massive inflation. The sector, in cumulative terms, declined by 25% between 1998 and 2002. Manufacturing production capacity declined by 5.2% in 1999 and a further 4.5% year-

⁴⁵ *Africa South of the Sahara 2002, op. cit.*

on-year in the first quarter of 2000 alone. At March 2000, the average cost of production year-on-year in the sector increased by 35%, with the highest average increase experienced in paper and printing (90.7%), beverages and tobacco (81.8%) and non-metal mineral products (48.3%). The rest of the subsectors experienced a 10.6% increase in production costs in that period.



The decline has inflicted great damage on the rest of the economy because of the shortage of locally made inputs that followed and particularly because of the massive decline in foreign exchange revenues it precipitated. Even though the manufacturing sector produces for local consumption, the market is too small to make

manufacturing viable without export. In turn, even most exports have a high level of imported content.

The creation of export processing zones (EPZs) in the mid-1990s has had a role to play in sustaining export-orientated companies through these hard times even though it, too, has been hit by the economic downturn. Among the benefits are no tax for five years and thereafter a lower tax rate, no duty to be paid on imported inputs and exemption from withholding tax and sales tax. In the late 1990s, it was flourishing. As of August 1998, 28 companies had been established, creating 6,242 jobs and generating Z\$2,000 million in export revenue. The CZI has now asked the government to extend the qualification for companies wanting to be part of an EPZ.

In January 2002, the CZI did a study to determine the extent of the impact of the economic situation on the manufacturing sector. The main results of the study, released in August, were:

- capacity utilisation in the sector was reduced by an average of 58%;
- a total of 4,307 workers were retrenched according to statistics at the Ministry of Public Service, Labour and Social Welfare. Of these, 1,170 were from the manufacturing sector. The actual number of retrenchments is likely to have been at least double this figure given that the government is not notified of all retrenchments;
- 48% of respondents indicated that the interest rate regime had had a positive impact on their businesses while 26% indicated that it had had a negative impact;
- 77% of respondents indicated that the fixed exchange rate had had a negative impact on their business while 23% indicated that it had no effect; and
- 24% of respondents indicated that price controls had a negative effect on production and 22% indicated a very negative effect while 23% said the impact of price controls on wages was negative and 13% said the impact was very negative.

The CZI has called for the urgent return to good governance and the rule of law. Manufacturers say that statements and actions of the government have had a major destabilising effect on the business environment and no organisation was willing to risk further investment in Zimbabwe at this point.

It has also called for :

- direction on fiscal and monetary policy from the government;
- a reduction of the requirement for 40% of export earnings to be paid to the government as it is a major disincentive to exports. This is particularly so given that most companies have to source part of their foreign exchange requirements from the rapidly depreciating parallel market; and
- the adoption of floating exchange rates. The maintenance of a fixed exchange rate has helped to reduce export competitiveness.

Recovery Scenario

African governments are never bankrupt until the pantry in the state house is empty.

Zimbabwean novelist, Chenjerai Hove.

Why change is unlikely

Zimbabwe is ailing, but not yet a failed, state and therefore it will still react positively and rapidly to significant political change. But what will be the catalyst for change?

Effective change from within seems unlikely for several reasons.

- Mugabe's strength inside the country is considerable through his network of high-ranking agents and his well-tested ability to quash opposition — not just the MDC but the judiciary, civil society and other organs supporting democracy.
- There is not likely to be a challenge from within the party. The politburo of the ruling party comprises a group of highly compromised individuals who have benefited from years of patronage dispensed by the president, from the proceeds of corruption and from the land seizures. But there is also a high level of fear. Mugabe has shown how ruthlessly he deals with anyone who challenges him.
- Mugabe's ability to sideline the international community and to stir up anti-Western revolutionary fervour through fiery rhetoric has won him support from many disaffected communities and countries in the Third World.
- The government continues to find ways to fund itself internally either by printing money or putting pressure on financial institutions and pension funds to lend the government money. As long as the government has access to resources, it can maintain its power base.

- Zimbabwean businesses, although suffering in the current economic climate, are in an ambivalent situation. Many companies have flourished in the past few years and have invested a lot of money into the local market. Although the bankruptcy of the current government would be positive for the long-term macroeconomic environment, it will be accompanied by economic pain of an undetermined timeframe which many companies may not want to ride out.
- The opposition has been significantly weakened by its electoral defeat, and has been outmanoeuvred by Mugabe at every turn as he becomes increasingly repressive. MDC members are still being attacked and murdered, and rallies have been all but forbidden.
- The passivity of the Zimbabwean population is a drawback for internal change. Political comment in the independent press reflects this. Writes one:⁴⁶

If Zimbabweans have to starve to death for them to know they are being misgoverned, so be it. Zimbabweans should learn to take responsibility for their own lives, including making people who lead them to be accountable for their official actions. Until we learn to do that, we should continue to suffer and live in abject poverty because that is what we deserve. The same sentiments are reflected week after week in the independent media but no action is taken.

- About 11,000 troops who have returned from the Democratic Republic of Congo are likely to be pulled into service inside the country to prop up Mugabe's regime. He is already trying to keep them on the side by offering them seized farmland.
- The solidarity with Mugabe by SADC leaders, and with it a lack of criticism, has strengthened his hand to do what he likes.
- The ambivalent stand taken by South Africa, Zimbabwe's biggest trading partner and powerful neighbour, has also allowed Mugabe to act unchecked. Its response to Mugabe amounts to tacit support

⁴⁶ Sydney Masamvu, *Financial Gazette* (Zimbabwe), 8–14 August 2002.

for ZANU–PF at worst and at best, quiet diplomacy which effectively maintains the status quo. The reaction of the broader international community has been more about harsh rhetoric and a handful of symbolic gestures than about real, effective action. Even EU and US sanctions have had little effect on the ruling party.

How change might happen

Despite the above, many Zimbabweans still believe change can come from within, particularly if it is accompanied by effective external intervention. 'The economy will jettison Mugabe. He is going to find that if you don't manage the economy, it will manage you. Eventually all these unsustainable policies will converge in the collapse of the economy,' predicts one Zimbabwean businessman.⁴⁷

As the country runs out of food and the new farmers wait on their land for assistance, months away from any prospect of new crops, scapegoats are coming into short supply. Mugabe has blamed the whites, the international community, NGOs, and unnamed saboteurs, and so far he has got away with it. 'But when the people have no food, who will they blame? When they see aid organisations bringing them food, they will start asking why the government is not doing it. Even people in the rural areas know there is a problem. The question is what will it take to make them act?' asked another businessman.⁴⁸

The government, clearly mindful of this and desperate to keep its rural voters on side, is now manipulating the provision of food, including food assistance, particularly in areas where by-elections are looming. It is desperate to keep up the charade in the rural areas that it is the sole food provider of the nation. In line with this, the government has drawn up the Voluntary Organisation Act which plans to make it a

⁴⁷ Interview, Johannesburg, September 2002.

⁴⁸ Interview, Harare, September 2002.

crime to undertake any act of organised charity. Attempts by the MDC and the private sector to import emergency food supplies have been blocked by the government. Relief agencies have also been harassed and, in many cases, prevented from distributing food, including two major international charities — Save the Children and Oxfam. ZANU–PF militants are seizing food aid and giving it out or selling it to people able to prove they are party members. ZANU–PF has even taken its food ‘campaign’ to the MDC strongholds of Chitungwiza (a large town on the outskirts of Harare) and Harare itself in an attempt to win over urban voters.

But ultimately the aid agencies will lose patience with the government. Some have already threatened to stop supplies. As the government itself is running out of options of how to provide food, starvation will spread. ZANU–PF’s attempts to present itself as the only organisation able to provide food could also be undermined by the recent announcement by the US government at the beginning of November 2002 that it was considering delivering aid directly to millions of starving Zimbabweans in defiance of Mugabe’s intransigent policy of non-intervention.

Although food riots in 1998 followed by industrial unrest did not unseat the government, the situation is now a lot more serious. The population, although more vulnerable, has now seen the possibility of change. In addition, the government has now played its main card — the land issue — and has little else to offer.

If this fails, and there will be no one to blame but the government, its settler support base may turn on it. There is also likely to be a backlash by an already angry urban population to the stranglehold ZANU–PF is putting on scarce food supplies which increases the likelihood of Zimbabwe looking at a Milošević or Leipzig option of spontaneous, widespread and angry revolt.

The potential for civil unrest is likely to be heightened by the government's decision on 1 November 2002 to deregulate the fuel industry, allowing private fuel companies to import fuel directly. This is set to push up fuel prices, currently the cheapest in the region, by around 600%. Civil unrest erupted last year when bus and commuter fares were raised by 30%. Commuters boycotted transport firms and vehicles were stoned until fares were reduced on government orders. Should this happen, the troops returning from the DRC may support it, as much as they might not. Many of them are disillusioned with the government, angry about the treatment they received in the DRC and looking for a better life.

No new donor support or external financing is likely and the economy will have to continue to keep afloat by relying on internal sources, which is unsustainable in the long term.

What seems likely in the interim is what is already happening. Many poor Zimbabweans will keep crossing into neighbouring countries in search of food and relief from political pressures and the business elites will continue to profit from the economy as it is currently configured. But in the longer term, the spin-off and increasing impoverishment of the whole region is most likely to be a catalyst for change together with increasing disillusionment with the government by not only the general population, but more importantly, Mugabe's voting base.

All these elements working in tandem may provide the platform for change in the near term.

External factors

South Africa has a key role to play in change in Zimbabwe. Sanctions by South Africa could be a catalyst for change although it is unlikely the government will have the stomach for it and may suffer a populist backlash for trying. It is unlikely the South African government would allow a Leipzig option and it would move quickly to bale out Mugabe if this seemed to be a real possibility. In November 2002, the South African government was reported to be considering a request for fuel supplies for Zimbabwe.⁴⁹ Complying with this request could give South Africa leverage over Zimbabwe and bite to its policy of quiet diplomacy.

To prevent further regional destabilisation, the ANC government seems anxious not to create real space for a labour-led government, as in the MDC, across its border which might heighten tensions between itself and its own labour movement.

However, business in South Africa, frustrated by the government's inaction, has considered sanctions as a tool to precipitate change.

It has suggested 'smart' sanctions against key officials including the freezing of bank accounts, restrictions on travel, seizure of property and the imposition of selective physical sanctions (such as on arms and spares) to curb the Zimbabwean state's coercive capability.

It would, importantly, involve curtailing credit from South African parastatals Sasol, Eskom, Telkom and Transnet on their sales of oil, electricity, telecommunications and transport services, all of which are critical to the country's survival.

However, the difficulty of this would be the lack of support likely to be shown by the ANC in South Africa and the SADC in implementing such measures, the current situation of humanitarian aid into

⁴⁹ *Business Day* (South Africa), 12 November 2002.

Zimbabwe, the fact that Mugabe remains unmoved by damage to the economy and the harm that would also be done to the Zimbabwean people.

But there are indications of some movement by South Africa. In mid-October 2002 Mbeki, addressing parliament, hinted at a tougher line, saying South Africa had to ensure the situation in Zimbabwe changed. No detail, as usual, was provided in the South African press following the remarks of whether this was a sea change, a shift in emphasis or business as usual. However, Zimbabwe's independent *Financial Gazette*⁵⁰ ran a lead story a week later reporting that Mbeki had crafted a compromise deal which would allow Mugabe to make a smooth exit from office, failing which he would be publicly criticised by his regional allies.

He will be asked to drop the treason charges against MDC leader Morgan Tsvangirai and in return the MDC will be asked to drop its legal election challenge, the report said.

The proposal also includes a government of national unity — something South Africa has proposed before — which will facilitate the holding of elections in three years' time. The deal, it says, will include a constitutional amendment which will see the life of parliament running concurrently with that of the presidency. The plan would be spearheaded by UN Secretary-General Kofi Annan but guaranteed by South Africa.

The other key to change in Zimbabwe is held by the collective SADC leadership. It, too, has indicated a change in approach.

At the SADC summit in Angola in September 2002, Tanzania was elected deputy chair of the organisation with a view to taking over the chair in 12 months' time, despite the fact that Zimbabwe was widely

⁵⁰ *Financial Gazette*, (Zimbabwe) 24–30 October 2002.

expected to get the post. SADC, led by Botswana, also suspended the signing of a Zimbabwe-supported Mutual Defence Pact which would make it mandatory for SADC states to intervene militarily in the event of any of its members being attacked.⁵¹

Zimbabwe was dealt yet another blow at the summit when Mozambican president Joaquim Chissano was re-elected as head of the Organ — a post held by Mugabe for several years during a vacuum over the structure of the body — for another one-year term. Diplomats said this was part of a wider plan to deny Mugabe any key positions within the SADC for fear of compromising the region's relations with international bodies. However, the shift could also partly be attributed to Angola's new rapprochement with South Africa which has changed the balance of power in the organisation and the onset of peace in the DRC, largely brokered by South Africa.

There may be a third reason — that as 2002 was drawing to a close, SADC's solidarity from the struggle era was slowly being overtaken by economic realities as problems with refugees, dumping, declining regional investment and a drop in tourism began to take their toll.

Key points for recovery

Should change happen sooner rather than later, there is still a chance that the economy can be revived fairly rapidly.

The key elements for recovery have been identified as follows:⁵²

- A full and unconditional return to the rule of law. As Mugabe has, via his handpicked judiciary for the most part, changed a number of

⁵¹ *Zimbabwe Independent*, 18 October 2002.

⁵² Drawn from submissions by the private sector to the government, the MDC, the multilateral institutions, chambers of commerce and industry, economists and other stakeholders.

laws to circumvent court rulings not in his favour, all legislation passed since the beginning of 2000 needs to be reviewed.

- The restoration of a legitimate, democratic government which respects basic human, social and economic rights as well as the rights of freedom of expression and assembly.
- A constitutional review. The government has tampered with the country's constitution over the years, in a process that dates back to 1987. Many of the provisions introduced by Mugabe have progressively reduced the protection of people's rights and included other measures that support the government's increasingly repressive tendencies. A national debate involving civil society, government and other appropriate stakeholders needs to be held to review the constitution.
- The creation of a sound macroeconomic environment that allows the market to determine key indicators, with some benign intervention by government, where necessary. Measures to be undertaken include:
 - ▶ Managing a clear exchange rate policy through supply and demand. Both the Zimbabwe National Chamber of Commerce and the Confederation of Zimbabwe Industries have called for the adoption of a dual exchange rate system in terms of which official transactions are conducted at an official, lower, rate while commercial activities are conducted at a higher, also official, rate. This will help to bring the parallel market into the formal economy while the gap between the two rates is reduced over time.
 - ▶ Reducing the budget deficit through a range of complementary economic policies, coupled with new foreign exchange input from donors and other foreign lenders, to address the distortions in the economy.
 - ▶ Reducing money supply growth. This could be done partly by limiting government access to the central bank's overdraft

facility and encouraging the government to seek finance in the domestic market, thereby progressively driving up interest rates to real levels.

- ▶ Reviewing the current interest rate policy and introducing a package of measures to deal with negative interest rates. The hidden cost of the low interest regime has been directly borne by pension funds and other savers whose wealth has been steadily eroded.
 - ▶ Announcing positive interest rates to help control inflation.
 - ▶ Reprioritising the government expenditure towards productive, rather than recurrent, spending.
 - ▶ Restoring confidence in the budget process and with it the maintenance of a predictable operating environment with clear policies and direction.
 - ▶ Reducing government expenditure and the size of the civil service. This would include a full review of the budgets of all ministries as well as the usefulness of having, for example, deputy ministers.
 - ▶ Freeing pension funds from government interference in terms of prescribed assets and in terms of where they can invest. Currently, they are not allowed to invest outside Zimbabwe despite the fact that the high real inflation is seriously eroding member benefits. The Zimbabwe Association of Pension Funds has called for at least 15% of their investments to be invested outside the country as a hedge.
- Encouraging the export sector. As well as the reduction of inflation and several other macroeconomic measures, requirements for revival of the sector include:
 - ▶ an increase in business confidence;
 - ▶ a more outward-focused economic approach;

- ▶ a broadening of the definition of companies allowed to operate in the EPZs;
 - ▶ more foreign exchange concessions made to exporters for the import of inputs for the manufacture of exports;
 - ▶ encouraging the local production of inputs; and
 - ▶ providing targeted incentives for industry to foster and diversify the export base as well as to encourage value-added manufacturing.
- Restoring relations with the multilateral lending institutions and donor countries. It is critical that relations with the IMF are restored as soon as possible. Adherence to its conditions is a precursor to the resumption of aid and balance of payments support by other lenders and donors. The renewed foreign exchange flows will help to restore stability to the foreign exchange markets.
 - Dealing with the country's massive debt problem, both domestic and external. While domestic debt was at Z\$303 billion in mid-2000 and rising weekly, the external debt currently stands at \$3.3 billion, down from \$4.9 billion in 1997. The government's arrears exceeded \$1.1 billion at year-end 2001. The World Bank, IMF and African Development Bank account for more than half of the debt. There have been some arguments put forward for debt relief on the basis of joint liability with the Bretton Woods institutions for the failure of SAP and other failed loans and loan procedures. But it is more likely that the debt will be restructured through the use of grants and concessionary loans to allow a sufficient breathing space for the economy to grow out of the debt trap. Complementary policies will in time restore growth in export revenues to rebuild foreign currency reserves and reduce the burden of debt servicing to sustainable levels.
 - Adopting a land redistribution programme that will address historical imbalances and support equitable access to productive assets while enhancing the sectors dependent on agriculture,

creating food security and ensuring sound management of land and water resources. While the current land programme cannot be reversed in its entirety, it can be made more workable. Ways to do this include:

- ▶ the reintroduction of property rights;
- ▶ payment for newly acquired land by its occupants to root out the genuine farmers who are prepared to go the distance (this could be a phased-in process starting with a lease with an option to buy);
- ▶ the restriction of ownership to one person, one farm;
- ▶ the removal of all racial issues from land ownership;
- ▶ value subdivisions of large properties;
- ▶ the awarding of security of tenure to farmers on the communal lands to enable them to borrow money for the proper development of their land and to help decentralise development from the main urban areas (the reform of the tenure system in communal areas is one of the MDC's agrarian reform proposals);
- ▶ the execution and design of any new agrarian reform programme in line with the goal of sustainable development;
- ▶ the establishment of a fund for small-scale farmers so that they can borrow long-term capital to buy land and equipment and short-term working capital to buy seed, fertiliser and other inputs (such a fund could be created initially by banks with the support of international institutions with donors being invited to subscribe in time); and
- ▶ the introduction of massive extension services educating farmers on how to grow crops with input and marketing support both from the government and the private sector with the longer-term view of producing for export (this would include a land inspection service to check for erosion and other bad farming practices and then advise on how to address such problems).

Similar suggestions were made in the 1998 blueprint on land reform drawn up for the land conference of that year. In terms of this scheme, land ownership was broken down into workable areas: 6ha for families in village schemes, 40ha for small-scale farmers and 300-400ha for small-scale commercial farmers.

- Improving social services. Funds must be found to address deteriorating services, particularly in health as the AIDS epidemic continues to spread. Funding for AIDS programmes needs to be raised from donors and other private institutions. Although an AIDS Levy Fund has been drawing worker contributions for nearly three years, there is little clarity about its current financial situation due to a lack of public accountability and transparency.
- The redevelopment of skills and capacity building to fill the gap left by the brain drain in both the private and public sectors. Towards this, the government and private sector need to put their heads together to find a way of luring back those many thousands of Zimbabweans in the diaspora.
- Looking at developing efficient public-private partnerships, particularly with regard to infrastructure. The private sector has repeatedly lobbied the government to put in place the legal and institutional framework for private sector participation in infrastructure development but nothing has been done to date.
- A review of the privatisation process with a view to speedily disposing of loss-making parastatals, where appropriate. To date only a handful of entities have been privatised and the process has got caught up in the indigenisation programme and government patronage. In 2001, the government generated Z\$7.1 billion from the disposal of parastatals against a target of Z\$22 billion. Parastatal debt in March 2001 stood at Z\$93 billion and the process of turning most of them around would be massive. Therefore the government would have to assume their debt prior to investors coming in. However, despite the temptation to raise quick funds from privatisation, the

process must be carefully handled given the long period of economic crisis the country has gone through.

- Marketing the country abroad to counter years of negative perceptions and, in the process, increasing business confidence and investment, and rebuilding tourism. The tourism sector itself needs to make itself more price friendly and harmonise better with regional tourism initiatives.

Fundamentally, all of the above is, in turn, dependent on political change. There are two Zimbabwean futures: one with Mugabe and one without, with various permutations in the latter for the role of the opposition, either as the government, part of a government of national unity or as an effective parliamentary opposition force.

The external community is unlikely to be a catalyst for change but it has a critical role to play in creating the environment in which change is possible and supporting the outcomes.

Ultimately, potential change will be the responsibility of Zimbabweans. Without a new political order they can expect radical economic decline, not recovery.

Appendix One

Land — The sequence of events

Before independence, land was divided into five grades. The most productive crop land was classified as Grade I, the least productive Grade V. Whites were allocated 78% of all Grade I and II land. Grade IV and V, deemed fit only for livestock grazing, accounted for 75% of land allocated to smallholders in what are known as communal areas. At 1 January 2000 some 11 million black Zimbabweans were still living on unproductive communal lands while 4,500 principally white farmers owned 11 million ha of productive land.

Under the 1980 Constitution, the government was, until 1990, permitted to acquire land compulsorily for resettlement if it was under-utilised. After independence, the government announced its intention to resettle landless people on commercial farmland acquired from white farmers on a willing seller/buyer basis. By 1990, about 52,000 people had been resettled on 2.7 million ha. However, this constituted only 32% of the target set in the 1982-85 Transitional National Development Plan which envisaged the resettlement of 162,000 families by 1985.

In 1992, the Land Acquisition Act was passed which permitted the compulsory acquisition of land by the state, paving the way for the compulsory purchase of 5.5 million ha of the 11 million ha of land owned by white farmers to resettle small-scale farmers. The issue of compensation remained unresolved.

By 1997 — 17 years after independence — only 3.4 million ha of land had been acquired. Later that year, Mugabe published a list of 1,471 commercial farms designated for compulsory acquisition.

In 1998, an international donors' conference on land was held in Harare at which 24 countries and seven international organisations were represented. The conference established a set of guidelines for reform. Two months later, in November 1998, the government announced compulsory acquisition orders for 841 farms.

In May 1999, an agreement was reached with donors on a land reform programme based on 800 uncontested farms for compulsory purchase to be partially funded by the World Bank. In September of the same year, the MDC was formed. Later that year, international aid was suspended over reform targets and military expenditures.

In February 2000, a referendum on the revised constitution was held, which was rejected by voters. At around the same time, armed squatters calling themselves war veterans began illegally occupying farms. By April, nearly 1,000 farms had been occupied, four people had been killed, homes were burned and several hundred farmworkers had been attacked and beaten.

In September 2000, the IMF made a last attempt to persuade the Mugabe government to honour the 1998 Inception Phase plan but by then the land programme had a momentum of its own, backed by the government, the police, the judiciary and the so-called war veterans.

By October 2002, 97% of formerly white-owned commercial farmland had been seized by the government and only 600 of the 4,500 commercial farmers were still left on their land.

Appendix Two

Economic indicators										
	1980	1985	1990	1995	1997	1999	2000	2001	Estimates 2002	
GDP at market price (Z\$ millions)	3,441	9,097	21,494	66,551	108,284	221,677	325,700	518,447	1,043,477	
GDP at factor cost (Z\$ millions)	3,224	8,316	19,349	54,471	89,097	199,509	293,130	466,603	939,129	
GDP at market prices at official exchange rate (\$ millions)	5,457	5,543	8,155	7,148	5,819	5,841	5,922	9,426	18,972	Exaggerated GDP growth caused by fixed exchange rate
GDP at market price (\$ millions)	5,281	5,788	8,763	7,111	8,420	5,515	5,200	4,815	4,281	Disparities between these figures display developing exchange rate stress
GDP at constant Z\$, market prices (1980)	3,441	4,235	6,260	5,782	6,524	6,398	6,029	5,583	4,964	
Real GDP (market prices, % change)	10.6	6.9	26.9	-3.3	6.5	-4.6	-5.8	-7.4	-11.1	Disparities between these figures are also evidence of exchange rate stress
Real GDP (\$, % change)	9	17.8	5.4	4.0	-1.3	-6.3	-5.7	-7.4	-11.1	

Economic indicators (continued)

	1980	1985	1990	1995	1997	1999	2000	2001	Estimates 2002	
Per capita GDP at official exchange rate (\$ millions)	740.2	648.0	826.4	633.4	489.4	466.6	461.1	715.4	1403.3	Exaggerated GDP growth caused by fixed exchange rate
Per capita GDP (\$)	770.5	703.3	1,101.1	592.0	735.7	408.9	371.0	328.9	273.2	Disparities between these figures also reflect developing exchange rate stress
Per capita GDP at 1980 prices (Z\$)	468	497.2	641.3	514.5	551.8	513.1	470.2	423.2	365.2	
Per capita GDP (% change) (\$)		25.1	24.4	-9.7	-3.2	-15.4	-9.2	11.4	16.9	Disparities between these figures also show developing exchange rate stress
Per capita GDP (% change)	2.9	3.9	24.0	-6.0	3.9	-7.2	-8.4	10.0	-13.7	
Consumer price index average cumulative index	100	193.8	343.3	1,150.9	1,659.9	3,464.9	5,401.8	9,285.7	21,022.9	
Consumer price index annual percentage change	8.5	10.0	15.5	22.6	18.8	58.5	55.9	71.9	126.4	
Exchange rate (end period) (Z\$/ \$)	0.63	1.64	2.64	9.31	18.61	37.95	55.00	55.00	55.00	
Exchange rate (period average) (Z\$/ \$)	0.65	1.57	2.45	8.67	12.23	38.14	44.47	55.00	55.00	These figures indicate the extent of developing exchange rate stress

Economic indicators (continued)

	1980	1985	1990	1995	1997	1999	2000	2001	Estimates 2002	
Logical exchange rate (period average) (Z\$ per \$)	0.6516	1.5718	2.4529	9.3589	12.8603	40.1952	62.6346	107.6689	243.7624	These figures indicate the extent of developing exchange rate stress
Interest rates (negotiable certificates of deposit) (%)	5.0	10.0	15.0	32.0	35.0	48.0	60.0	15.0	33.0	
Interest rates, commercial bank overdraft rate (%)	7.5	13.0	12.0	38.5	37.9	76.0	78.0	52.0	50.0	
Budget deficit (\$ millions)	375.0	710.7	1,137.7	5,791.6	5,076.8	18,930.9	70,968.1	83,190.2	138,327.0	
Budget deficit (% of GDP)	10.9	7.8	5.3	8.7	4.7	8.5	21.79	16.0	13.3	
Total government debt (\$ millions, year-end)	1,840.2	4,638.6	11,318.4	47,503.2	59,303	150,000	207,000	194,068		
Total external debt (\$ millions) (government, private & parastatal)			4,419.0	4,966.0	3,816.0	3,462.0	3,369			
Total external debt (\$ millions) (government, private & parastatal)	637.5	3,662.4	6,651.0	38,292.4	60,734.2	145,532.7	153,957.9	185,295.0		

Economic indicators (continued)

	<i>1980</i>	<i>1985</i>	<i>1990</i>	<i>1995</i>	<i>1997</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>Estimates 2002</i>	
Total external debt (as % of GDP)	18.5	40.3	30.9	57.5	56.1	65.7	47.3	35.7		
External debt service (\$ millions)				534.0	548.0	612.0	614.0	600.0		
External debt service (\$' millions)	90.0	582.7	1,143.2	4,627.3	6,702.0	23,340.2	27,305.1	33000		
External debt service arrears (\$'millions, year-end)					109	471	1161			
Export revenue (\$' millions)				2,216	2,424	1,924	1,781	1,574		
Import expenditure (\$'millions)				2,128	2,654	1,675	1,520	1,409		
Implied exchange rate (Z\$ per \$, exports)				8.4	12.5	42.6	53.3	55.0		
Implied exchange rate (Z\$ per \$, imports)				10.8	13.8	49.8	54.6	55.0		
Export revenue (\$' millions)	909.2	1,795.5	4,231.4	18,529.0	30,208.3	81,944.7	94,998.3	86,570		
Debt service ratio (% of export revenue)	9.9	32.5	27	25.0	22.2	28.5	28.7	38.1		

Economic indicators (continued)

	1980	1985	1990	1995	1997	1999	2000	2001	Estimates 2002	
Import expenditure (\$ millions)	809.4	1,446.5	4,528.2	23048.1	36,555.7	83,407.3	83,030.5	77,495		
Population (millions)	7.4	8.6	9.9	11.3	11.9	12.5	12.8	13.2	13.5	
Population growth (%)	3.0	3.0	2.9	2.7	2.6	2.6	2.6	2.6	2.6	

Compiled by Robertson Economic Information Services (Pvt) Limited, Zimbabwe. Online at www.economic.co.zw.

Sources: *Central Statistical Office Quarterly Digests of Statistics; Reserve Bank Quarterly Economic and Statistical Reviews; Budget Estimates of Expenditure; Socio-Economic Review 1980-1985; Statistical Yearbook 1997; Reserve Bank Monthly Reviews; Reserve Bank Weekly Economic Highlights.*

Select Glossary

CFU	Commercial Farmer's Union
CZI	Confederation of Zimbabwe Industries
EPZ	Export Processing Zones
FCA	Foreign Currency Account
GDP	Gross Domestic Product
NEPAD	New Partnership for Africa's Development
NOCZIM	National Oil Company of Zimbabwe
TB	Treasury Bill
ZESA	Zimbabwe Electricity Supply Authority

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