



# OSSREA BULLETIN

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## **NEWS**

### **OSSREA Hosts a Launching of NBRP Books**

A book launching ceremony was held at OSSREA Conference Hall on 22nd June 2010. In this occasion, five books that were published by the Nile Basin Research Programme (NBRP) were launched in the presence of invited guests from various countries and both governmental and non-governmental institutions, including ambassadors, researchers and academics.

The guests were welcomed by Professor Paschal Mihyo, the OSSREA Executive Director, who noted the importance of dissemination of research outputs in his opening remarks and complimented the team of researchers behind the books. He congratulated the NBRP team on their effort to disseminate their outputs which, he believed, would be helpful in easing existing anxieties and distrust on the Nile Basin and waters of the Nile among concerned countries. In stressing the relevance that dissemination of research findings holds, he remarked, “Research without dissemination is like laughing in darkness, in which no one can see the teeth, no matter how white they may be”.

The opening speech was given by Dr. Solomon Mebrie, Chairman of the Political Science and International Relations (PSIR) Department, Addis Ababa University. In his opening remarks, Dr. Mebrie explained about the background of

the project and the strong links it had with the Addis Ababa University in general and the Department of PSIR in particular. He mentioned the NBRP case as one form of such collaborations on issues in the Basin, and said that such collaborations should be encouraged and sustained. Talking about the newly launched books, he noted that those publications from the efforts of the NBRP would be a plus to existing knowledge about the Nile Basin Initiative and issues of the Nile water in general.

There were speeches given on the occasion by various people, including organisers, researchers and invited guests. The first presentation was made by Dr Tore Sætersdal, Director of the NBRP, which is based in the University of Bergen, Norway, who talked about the historical development of NBRP and its activities. He mentioned that the NBRP initiative was started by Professor Terje Tvedt and the then representative of the Egyptian Embassy, Mr Magdi Hefny. According to his briefing, the two



The NBRP Director and Regional Representative displaying their publications

founders had envisaged a programme whereby countries from the Nile Basin could get together and deliberate on issues that would be of use to all countries involved. He also mentioned that, researches were conducted by NBRP researchers, and guest researchers from each of the Nile Basin countries on themes encouraged by the University of Bergen and the NBRP. The activity areas and programmes of the NBRP were said to include: Research and publications, Best Researchers, Institutions and Networking, Dialogue, and Joint Curricula.

Dr Sætersdal said that about ten publications were in progress from the programme, and that the purpose of the book launch was to disseminate outputs of the NBRP to a range of stakeholders, including policymakers and the diplomatic community of the Basin countries.

The second speaker was Dr. Kassahun Berhanu, a researcher from the Political Science and International Relationships (PSIR) Department at Addis Ababa University, and former Resident Vice President of OSSREA. Dr Berhanu briefed participants on the NBRP research works in which he was involved as a researcher and/or editor of upcoming publications, and concluded by expressing his gratitude to Bergen University and all the people who had taken part in the programme.

Dr Semu Moges, also one of the guest researchers in the programme, presented a paper on the research he conducted entitled,

“Evaluation of the Spatial Variation of Climate Change in a couple of Nile Basin Countries”.

The launching ceremony of the five publications was carried out with the OSSREA and the NBRP Directors handing out copies of the publications to the ambassadors from the Nile Basin Initiative member countries to Ethiopia, and to representatives of the AU, COMESA, EAC, IGAD, and the Ministry of Foreign Affairs, the Federal Democratic Republic of Ethiopia.



Invited Guests at the Nile Basin Research Programme Book Launch

The newly introduced publications were:

- 1) Water, Culture and Identity in the Nile Basin, edited by Terje Tvedt;
- 2) The Neolithic of the Middle Nile Region, by Azhari Mustafa;
- 3) The River Nile in the Post-Colonial Age, edited by Terje Tvedt;
- 4) Trade and Water Wadis(s) in Muslim Sudan, by Intisar Soghayroun; and
- 5) Nile Issues, edited by Terje Tvedt.

The ceremony came to an end with the closing remarks made by H.E. Mr Salvator Matata, the



H.E. Mr. Salvador Matata, the COMESA Representative at the AU giving closing remarks

COMESA Representative to the AU. Mr. Matata stressed the need for such research and the value it would have for policymakers. In conclusion, he promised that members of the diplomatic community, representatives of concerned institutions, and policymakers would make use of the outputs to inform policy and practice. In addition to complimentary copies of the launched books, a film on DVD that was produced by Professor Terje Tvedt and titled, The Future of Water, was presented to the invited ambassadors and representatives.



OSSREA Director Prof. Paschal Mihyo handing over the books to Regional Representatives and Embassy Officials



Regional Economic Community, Embassy, and Government Officials during the Book Launch Ceremony



OSSREA Executive Director and NBRP Director Overseeing the Launching of the Books

## OSSREA Takes Part in the World Bank Country Consultation Workshop

A half-day country consultation workshop on the topic: Renewing the Strategy for Africa was held by the World Bank on the 23rd June 2010 at the Hilton Hotel in Addis Ababa, Ethiopia. Various stakeholders drawn from governmental ministries, nongovernmental and international organisations, including the UNDP, USAID, GTZ, and the private sector, took part in the workshop. OSSREA was represented by Dr Abiye Daniel, Director of the Publications and Dissemination Directorate.

The meeting was officially opened by Mr. Kenichi Ohashi the World Bank Country Director for Ethiopia and Sudan, Africa Region. In his opening speech, Mr Ohashi stated that many African countries were weathering the current financial crises in a more sound manner than the industrialised world. He also pointed out that the World Bank was in the process of changing its top-down approach and now handled issues from a bottom-up. Accordingly, he said, the present country consultation was designed in a way that each country would be consulted and a general strategy be drawn up. The Country Director concluded by underlining the fact that Africa was changing and it would thus be more appropriate to get over the challenges, seize the opportunities, and capitalise on existing situations.

The consultation was first conducted in a form of group discussions, which revolved around the following five major questions, which, in the process, contributed to the subsequent plenary session at the end:

1) What do you see as Africa's development challenges and what role do you see the World Bank playing in helping African countries,

especially post-conflict and fragile states, build more resilient and globally competitive economies in the 21st century?

- 2) How can the World Bank help build skills for African workers, promote job creation, especially for young people in post-conflict and fragile states, and empower African women to create and run successful businesses?
- 3) What do you think the World Bank should do to improve intra-African trade, foster regional solutions, especially for infrastructure such as energy, while ensuring that climate change issues are taken into account?
- 4) How can the World Bank foster social protection mechanisms that protect the most vulnerable Africans from economic and health shocks (HIV/AIDS, malaria, and maternal mortality, amongst others)?
- 5) What can the World Bank do to boost demand by citizens, by journalists, media outlets and civil society organisations for good governance and accountability?

At the end, a few thematic areas, such as the private sector, climate change, urbanisation and population growth, and education were identified for the future inclusions in the World Bank Strategy. There was also a general consensus that institutional weaknesses had led to higher transactional costs and that that was the cause for existing major differences between the developed and developing countries in the world.

## **A Workshop on Mapping of Peace and Security Studies in Africa Tertiary Institutions**

A workshop on “Mapping of Peace and Security Studies in Africa Tertiary Institutions and the Launch of the African Leadership Centre (ALC)” was conducted in Nairobi, Kenya from 23 – 29 June 2010. The workshop was organised by the African Leadership Centre (ALC), which is part of the Conflict, Security and Development Group (CSDG) of King’s College, London, and was supported by the Carnegie Corporation of New York. OSSREA was represented at the Workshop by Dr Lydia Wambugu, a Programme Specialist at OSSREA headquarters.

The African Leadership Centre had undertaken a comprehensive mapping out of tertiary institutions housing peace and security programmes on the continent between September 2009 and March 2010. The survey included those institutions focusing on the gender dimensions, as well as those with close association with civil society. The mapping workshop, then, brought together scholars from a number of African institutions and other partners in order to share the results of the mapping study. Furthermore, the workshop was aimed at creating an opportunity for participants to discuss and start developing plans of action for areas where gaps and opportunities existed. This was hoped to go a long way in promoting knowledge exchange in the area of peace and security among African universities, as well as other partners.

Equally important, the workshop explored the potential for more meaningful partnerships between academic institutions and organizations working on peace and security issues on the African continent. In this regard, Dr Wambugu briefed participants on OSSREA’s potentials and the advantages it offered as a regional research

and capacity building organization, its current research activities, its capacity to provide a platform for young faculty to meet and interact with Research Methods Institutes, Gender Institutes, regional seminars and conferences, as well as to get access to the African Union and UNECA. It was also mentioned that OSSREA was currently hosting one of ALC’s fellow, Ms. Shuvai Nyoni for a period of six month beginning from June 2010.

### ***A Meeting with the Government of Kenya and UNDP***

In parallel with the workshop, OSSREA also attended a meeting that was held between the Government of Kenya and UNDP. The meeting took place on 28 June 2010 at the office of the Permanent Secretary, Ministry of State for Public Service, Office of the Prime Minister at Harambee House in Nairobi.

The meeting was attended by representatives drawn from governmental and non-governmental groups, including the Permanent Secretary, Ministry of State for Public Service, Office of the Prime Minister, Mr. Titus Ndambuki, and the Director at the PS’s office, Mrs. Njoki Mwangi, among other staff members. The Director of the Kenya Southern Sudan Liaison Office (KESSULO), Ambassador Elijah Matibo, whose functions fall under the Presidency and Cabinet Affairs Office, Office of the President, and Mr. Charles Aloo, Deputy Director of KESSULO. The delegation from UNDP Mission in Southern Sudan was led by the head of Mission.

OSSREA was requested to attend this meeting based on its previous involvement in the IGAD project on Post Conflict Reconstruction and Development in 2009. In the recommendations submitted to IGAD, OSSREA proposed various means of engagement in Southern Sudan as the

way forward, and also developed a framework on how IGAD would move forward building on existing work that the Government of Kenya (GOK) had undertaken in Southern Sudan. With regard to avenues for possible partnerships and collaborations, Dr Wambugu reiterated OSSREA's advantage as a regional research and capacity building organization, with its 23 national chapters in Eastern and Southern Africa. As this meeting was a brainstorming and planning session, the parties are said to be in the process of considering various actors in the regions as partners to the proposed project before communicating on the way forward in terms of the project.

## OSSREA Launches a New Strategic Plan 2011-2015



Since its establishment in the 1980's, OSSREA has been striving to cultivate a distinctively African scholarship, promote a culture of excellence in scientific research on social development issues in Africa, foster policy dialogue, in crease the influence of research on

development planning and implementation, and build the capacity of higher learning institutions for research and publication. In order to properly implement such enormous tasks, OSSREA has developed two previous strategic plans: one in 1996 for the period 1996– 2000 and another in 2006 for the period 2006 –2010. As the application of the latter strategic plan will expire at the end of 2010, there was an urgent need to develop a new strategic plan for 2011-2015. The new plan was intended to be based on the lessons learnt from the past two plans and donors' evaluation reports, and to provides comprehensive analyses of external opportunities and threats, internal strengths and weaknesses, stakeholders' expectations and leverages. In order to map out OSSREA's future directions and activities, it was also found very critical to revisit OSSREA's vision, mission and objectives; to clearly set the strategic objectives and major activities; and to develop Result-based Management Log-frame and Research Program Matrix. In addition IDRC provided support to OSSREA to develop the new strategic plan for the years 2011 – 2015. From June 2009 to May 2011 The Netherlands Development has supported the employment of two programme



specialists to enable OSSREA to develop this plan and its research programme.

The project supported by IDRC had four objectives which are stated as follows:

- i) Enabling two members of the Secretariat to visit six national Chapters of OSSREA (Rwanda, Tanzania, Zimbabwe, Namibia, Zambia and Swaziland) to undertake a SWOT analysis, evaluation of OSSREA's activities in the chapters, identification of strategic issues and views on resource mobilization;
- ii) To support one consultant to work with the Secretariat on the development of a draft strategic plan, and finalize it with the Secretariat by using a results-based approach, and develop performance indicators;
- iii) Support OSSREA to strengthen ownership of the strategic plan through the re-sults-based activities that will involve OSSREA Executive Board members and Liaison Officers from national Chapters; and
- iv) Strengthen buy in for the new strategic plan by the Executive Committee members and National Chapter leaders.

The following methods were employed in developing the strategic plan:

- . **Document review:** consult relevant literature on developing strategic plans as well as collect background information about OSSREA (annual reports, evaluation reports, earlier strategic plans, financial documents, annual operating plans, reports to donors);
- . **Develop data collection instruments:** prepare formats to collect information on the internal and external environments of OSSREA. These include a) understanding the need for strategic planning at OSSREA, b)

diagnosing the internal functioning, c) the PEST analysis, d) stakeholders' analysis, and e) revisiting OSSREA's vision, mission and values.

- . **Conduct strategic planning workshops at the Headquarters:** actively involve members of OSSREA to perform SWOT analyses, identify stakeholder demands and leverages, identify strategic issues (objectives and activities) and revisit OSSREA's vision, mission and objectives;
- . **Conduct strategic planning workshop in eight OSSREA Chapters:** engage members of OSSREA Chapters to carry out OSSREA HQ's and Chapters' SWOT and stakeholders' analyses; revisit OSSREAs' vision, mission, and objectives; identify strategic objectives, activities and priorities;
- . **Collect information from the executive Committee Members of OSSREA:** send draft strategic planning document to members for additional inputs and comments;
- . **Analyze the information gathered from the above sources using content analysis; and**
- . **Writing out the strategic planning document.**

The following were the main project out comes:

- 1) OSSREA leadership and staff have committed to follow the activities and the programmes that are outlined in the document. The project output will bring change of management behaviour as it moves the leadership from haphazard way of doing things into a systematic and result-based management of the operation of OSSREA.

- 2) The project has contributed to the capacity building of OSSREA staff and involved the members of the Chapters and the executive committee involved in the strategic planning process. Those who took part in the process have benefited from the exercise. Some of the Chapters have already started to develop their strategic plans.
- 3) OSSREA has clarified its strengths, weaknesses, opportunities and challenges, as well as its visions, mission, and objectives. It clearly recognizes the research and capacity building activities that it should be carrying out in the coming five years.
- 4) The Strategic Plan is accepted by OSSREA's prominent donors and has helped to mobilize funding. Fully endorsing the research and the capacity building activities stated on the strategic planning document, the major leading donors of OSSREA have committed to finance part of the Strategic Plan.



Prof. Habtamu Wondimu handing over a complimentary copy of the Strategic Plan to Dr. Paulos Chaine, the Research Director



The OSSREA Secretariat staff during the launching ceremony of the strategic plan



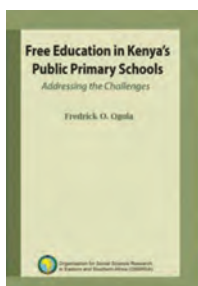
Prof. Habtamu Wondimu, Resident Vice President of OSSREA and Prof. Paschal Mihyo the Executive Director of OSSREA at the launch of the Strategic Plan

## **NEW PUBLICATIONS**

OSSREA published, co-published and disseminated five books on different issues. Summaries of the books with their covers are presented.

### **Free Education in Kenya's Public Primary Schools Addressing the Challenges**

*Fredrick O. Ogola*



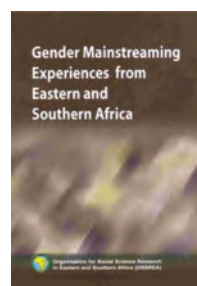
This study was designed to examine ways of overcoming the obstacles faced by FPE in Kenyan public schools. The study adopted ex -post facto research design. The target population of the study were the PPS pupils, teachers, parents, committee members, DEOs and PDEs in Nairobi, Nakuru, Eldoret, Busia, Bungoma, Rachuonyo, Kisumu, Embu, Kitui,, Mombasa, Kwale, Isiolo, Marsabit, Nyandarua, and Thika districts. This target population represented the entire population in over 18,000 primary schools. Fieldwork research involved a survey of the participants divided into two groups. Data was collected using observations with one group while questionnaires and interview schedule were used with the other group. Piloting was done in Kakamega district to refine the research instruments and to ensure the accuracy of the subsequent data.

### **Social Science Research Report Series No. 34**



This issue came out in early August 2010 and has three Young Scholar's research output. The selected papers are from Ethiopia, Uganda and Zimbabwe. The paper from Ethiopia deals with farmers' indigenous knowledge and takes the case study of the Dejen District in the Amhara Region. The Ugandan paper explores the potentials and challenges of decentralised environmental education and management for poverty reduction focusing on the Mbarara District. Lastly the Zimbabwean paper investigates knowledge, attitudes and sexual behaviour of migrant gold panners in the context of HIV/ AIDS with the case study of Shamva District.

### **Gender Mainstreaming Experiences from Eastern and Southern Africa**



Consisting of ten articles divided into two sections, this book presents experiences of embracing the concept of gender. It covers all areas of social and economic development in Eastern and Southern Africa.

It notes that the concept of mainstreaming gender issues into society was clearly established as a global strategy for promoting gender equality at the Platform for Action adopted at the United Nations Fourth World Conference on Women, held in Beijing (China) in 1995, which highlighted the necessity to ensure that gender equality is a primary goal in all areas of social and economic development.

The United Nations Economic and Social Council (ECOSOC) Agreed Conclusions 1997/2 on Gender Mainstreaming defined the concept of gender mainstreaming as follows:

Mainstreaming a gender perspective is the process of assessing the implications for women and men of any planned action, including legislation, policies or programmes, in any area and at all levels. It is a strategy for making the concerns and experiences of women as well as of men an integral part of the design, implementation, monitoring and evaluation of policies and programmes in all political, economic and societal spheres, so that women and men benefit equally, and inequality is not perpetuated. The ultimate goal of mainstreaming is to achieve gender equality.

This work focuses on and explores the experiences of Kenya, Tanzania, and Ethiopia from Eastern Africa; and of Malawi, Zambia, Zimbabwe, Botswana, and Swaziland from Southern Africa. All cases show the varied attempts to mainstream gender at national,

institutional, and civil society levels, including grassroots experiences.

It argues that the gender-mainstreaming struggle is not necessarily a new one in the Eastern and Southern African countries, especially when viewed from their historical backgrounds. Many African nations upon gaining independence (except for Ethiopia and Swaziland) immediately recognised that poverty, illiteracy, and poor health are a major obstacle to development and growth of the newly emerging nations/states. They also emphasised the need to involve women in the development agenda. This is an important aspect given the enormous contribution of women in the liberation struggle and in the reconstruction of the economy in their respective countries.

### **Adolescent Pregnancy Challenges in the Era of HIV and AIDS: A Case Study of a Selected Rural Area in Zimbabwe** *Naomi N. Wekwete*



This study explores the challenges that adolescent mothers face and why young women engage in risky sexual behaviour, despite the levels of awareness and prevalence rate of HIV and AIDS in the country. The study was conducted in Gutu District, Masvingo Province, among women

aged between 15-24 years who had ever given birth or were pregnant with their first child. Cross-generation sex was found prevalent among the participants, with extensive age mixing reported among women who experienced their first sexual encounter before the age of 18 years. The study also found that, although awareness of HIV and AIDS is widespread among women, ignorance and misconceptions still existed. Condom use among women was very low; a fifth of the women reported having had more than three sexual partners, and less than half of the women in the study perceived themselves as being at risk of HIV and AIDS. Furthermore, women who tested positive experienced a host of challenges, including stigma and discrimination. To address the issue of cross-generation sex, the study recommends introducing programmes that promote sexual and family responsibility among men; passing stiffer penalties for sexual offenders, and introduction of female-focused prevention strategies in order to reduce HIV infections among girls and young women. The study argues that this can be achieved by adopting strategies that empower young women and girls so that they will be able to take control of their lives economically and are not dependant on men. Such strategies include provision of education, information, and knowledge about sexuality, the ability to negotiate safe sex and the risks that can be prevented, among others.

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## **FEATURE ARTICLES**

### **Is the Adoption of Multicurrency System a Panacea to Urban Dwellers' Socio-Economic Challenges? Perceptions of Residents in Gweru, Zimbabwe**

*Thomas Marambanyika and  
Trish-Mae Muziti \**

#### **Abstract**

Zimbabwe experienced a crippling hyperinflationary economic environment which created a nation of poverty-stricken billionaires over the past decade until it adopted the multicurrency system (MCS) in January 2009. The paper explores the impact of the change in monetary regime on socio-economic conditions of urban dwellers, given their overreliance on the market economy and vulnerability to its fluctuations. A case study approach was adopted with Senga and Nehosho high density residential suburbs selected for study. Questionnaires, semi-structured interviews, and participatory observation were used targeting household heads, school heads, and nurses in charge of a local clinic. The research found that, although multicurrency system has generally improved the quality of life for the majority of people, they still remain in poverty if one considers quality of life indicators, like the national poverty datum line.

There was great change in nature and patterns of sources of income, particularly for informal traders, a sector which had become the backbone of almost all households' income in pre-MCS era.

MCS brought with it the inherent problem of inadequacy and, in some cases, unavailability of smaller denominations. The government must adopt a single currency to avoid exchange rate problems as well as reduce shortages of smaller denominations.

Keywords: Dollarization, multicurrency system, socio-economic indicators, urban people

#### **INTRODUCTION**

Money in various forms has existed since prehistoric times. It fulfils an essential role in development of societies since it is a tool used to facilitate trade in all global economies. In Zimbabwe, the economy has been crumbling on a very faster rate with inflation rising from 55, 8 per cent in year 2000 to 228 per cent in 2003, 622 per cent in 2004, 6 723 per cent in 2007, and to 231 million per cent in 2008 (Central Statistical Office 2009; Jayne et al. 2006). This has made the Zimbabwean Dollar a valueless tool unreliable for trade (Zimbabwe Independent 2009). Evidence shows that the country's Gross Domestic Product declined by approximately 40 per cent between 1999 and 2007 and a subsequent slump of 14 per cent in 2008 (The Financial Gazette 2009; Solidarity Peace Trust 2007).

The effectiveness of money comes from a set of economic policies by the government and will depend on the dynamism and efficiency of the productive sectors, the business environment, as well as specific political realities of a country (Pascal, Chumphrey, and Dolan 1998). Various explanations have been enlisted to account for the catastrophic economic meltdown in Zimbabwe.

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These include poor implementation of the Economic Structural Adjustment Programme (ESAP), lack of funding from the International Monetary Fund (IMF) and the World Bank, lack of support from bilateral and multilateral donors due to economic sanctions, the country's failure to keep up with its debt payment, contentious Fast Track Land Reform Programme, political crisis, high HIV and AIDS prevalence, subsequent failure of government policies, such as price controls and chronic shortage of foreign currency (Zimbabwe Position Paper 2008; Solidarity Peace Trust 2007; USAID 2007; Jayne et al. 2006; Reserve Bank of Zimbabwe 2005).

Depending on analysis of each school of thought, these factors were said to be separately or jointly or cascadingly responsible for food insecurity, closure of industry, decreased imports, ballooning external debts, unemployment, collapse of education and health systems, increased sprouting of the informal sector, increase in prices of basic commodities, energy and water cuts in urban as well as rural Zimbabwe over the past decade (Muza 2009; *The Zimbabwe Times*, 2009; Solidarity Peace Trust Report 2007; USAID 2007; Tagwireyi 2006). These changes made the lives of urban people, presumed to be at the hub of economic development, worse off. For instance, an estimated 64.2 per cent urban residents could not meet a minimum caloric requirement of 2100 Kcal/person/day (Zimbabwe National Vulnerability Assessment 2003). Unemployment was hovering around 80 per cent in 2007 (Solidarity Peace Trust 2007), meaning that most urban people who mainly rely on formal employment had their purchasing power heavily eroded.

Zimbabwe's poor economic performance was not a new phenomenon in the global village. At different times, economies in developing

countries worldwide have been experiencing negative economic growth due to hyperinflationary environments as a result of various factors at play (Berg and Borezenstein 2000). In order to improve their economies, some of the nations officially or unofficially adopted dual currency systems, multicurrency systems and/ or currency substitution with the US dollar. Ecuador, El Salvador, Panama, Puerto Rico and Mozambique are some of the nations that adopted change of currency systems (Schuler 2001).

In January 2009, the Zimbabwean government also adopted a multicurrency system (MCS) in order to bring its ruined economy back to normal levels. Under the new monetary system, the government made provision for the use of any foreign currency available for any transaction. However, the new monetary transformation is popularly known as dollarization since US dollar is made the de jure currency for government budgetary purpose. De jure dollarization means the adoption of the US dollar by government legislation as legal currency of a country (Dean and Hira 2004). Schuler (2002) also defines dollarization as "any case where a country has no locally issued currency and officially uses a foreign currency instead; the currency need not be the U.S. dollar". Therefore, in this research the terms dollarization and MCS will be used interchangeably.

The question which has been posed in different circles of the Zimbabwean society is: in what ways and to what extent has the adoption of multicurrency system affected human livelihoods? Some authorities in government, in particular the ZANU PF, are campaigning for the return of Zimbabwe dollar, claiming that use of foreign currency has negatively impacted on most people's livelihood as the cost of living is rising. This position is pressed for notwithstanding the fact that inflation has been

falling concomitantly since the introduction of the MCS (Madzimore 2009; The Zimbabwe Times 2009). The other reason pursued against dollarization is lack of currency sovereignty as there is no central bank for independent monetary policy to moderate recession as recipient country's economy is regulated by that of the United States of America (Berg and Borezenstein 2000), a view held by most critics of dollarization worldwide.

Yang (2000) further noted that dollarization may have negative impacts on the overall macro economy of the recipient country due to the differences in macroeconomic policies and as the recipient country loses economic sovereignty. In Mozambique, the new monetary system has benefited formally employed people, while resulting in the urban majority remaining poor and resorting to informal activities (Schuler 2009; World Bank 2000). However, in Ecuador, Panama, El Salvador and Mozambique, inception of dollarization is highly credited for higher Foreign Direct Investment (FDI) inflows, decreased transaction costs in international trade, price stability, and higher economic growth rate (Schuler 2009; Beckerman and Solimano 2002). In light of these situational outcomes, this paper calls for an investigation into how the new monetary regime in Zimbabwe has impacted on the lives of low-income urbanites in its first year (2009) of implementation.

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## METHODS AND DATA

### Study Area

Gweru is the third largest city of Zimbabwe and provincial capital of Midlands Province. It is located about 275 km from Harare and 164 km from Bulawayo. The city was founded by Dr. Leander Starr Jameson in 1894 (Viriri 2007). Gweru is regarded as Zimbabwe's main road and railway central junction, networking all major national cities and most importantly connecting the country to all its neighbouring countries. Senga and Nehosho are located in Ward 5 on the southeastern part of the city of Gweru (see Figure 1).

Senga consists of two sections, that is, Senga Area 1 and Senga Area 2. Senga and Nehosho have a total of 1987 houses, of which 900 are found in Senga and 1087 in Nehosho. The average size of stands is 300 and 150 square metres for Senga and Nehosho respectively. Main source of potable water in Senga and Nehosho is municipal supplied piped water. Senga has education facilities which include two primary schools and one secondary school. There is also a polyclinic in Senga, which is the study area's only health facility (CSO 2002). The average household size in both residential areas is 4.14 (CSO 2002). Senga and Nehosho also house students from Midlands State University (MSU)



which is located about 3 km from the two high density suburbs. Viriri (2007) observed that during the MSU semester periods, the number of persons per household in the residential areas increases from 4.14 to about 15 persons per house.

### Data Collection and Analysis

A case study approach was used with Senga and Nehosho high density residential suburbs of Gweru urban as the area of study. The rationale for the selection of study area is that it is composed of very old suburbs like Senga 1, established in 1967, and new suburbs like Senga 2 and Nehosho, established in 1986 and 2000 respectively. These suburbs represent a wide array of people with different demographic characteristics. Moreover, the area represents people of diverse socio-cultural backgrounds, mainly shonas, ndebeles and some foreigners

mainly of Malawi origin. These tribes represent a cross-section of the characteristic population found in different towns and cities of Zimbabwe.

Data collection methods employed in this research included interviews, questionnaires and participatory observations. Three semi-structured interviews were conducted with two school heads and a Sister-in-Charge at the local Polyclinic. The purpose of interviews was to acquire detailed information about the performance of these crucial sectors (education and health) which had collapsed during the premulticurrency system era. Questionnaires were targeted to household heads assumed to have concrete information on daily survival activities of their households. Information solicited for included income levels, assets, food access and availability as well as affordability of monthly rentals and rates since the start of the multicurrency system. Information on challenges as well as adopted and adapted

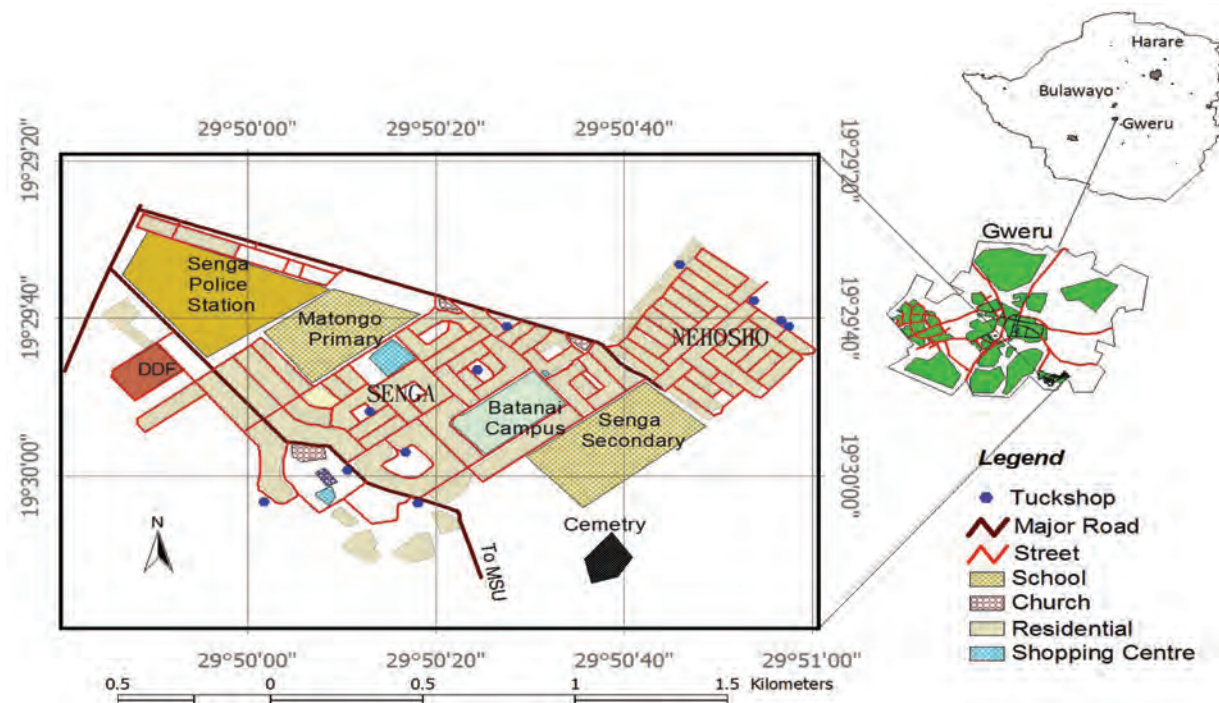


Figure 1: Study Area Map

coping strategies were also solicited for.

A pilot survey was conducted in order to ascertain the feasibility of designed questionnaires. Basing on a total of 1987 houses registered with the local authority, 200 respondents, which constitute slightly over 10 per cent of all residential households in both Senga and Nehosho, were randomly selected for the questionnaires. The ten per cent sample size is believed to be free from errors in classification, more representative of the population and without bias and prejudice (Nyariki 2009). The researchers stayed and participated in almost all social activities in the area of study in order to have an in depth understanding of how people were coping under the new monetary regime. This was achieved easily since one of the researchers resided in the study area.

## RESULTS AND DISCUSSION

### Demographic Characteristics of Respondents

Males and females constitute thirty-seven per cent and sixty-three per cent of the respondents. This is attributed to male absenteeism during daytime as they will be involved in different income generating activities or working outside of the country. Moreover, most women are culturally confined to household chores. Fifty-seven per cent of respondents were above 46 years of age since Senga 1 suburb accommodates the oldest residential area in the city. Women above 60 years, constituting nine per cent of the respondents, had at most primary education. This is because they could not advance to higher levels of education due to culturally influenced early marriages, perceived minor role of women in household development, cultural oppression of women in the pre-independence era and disruptions by the 1966-1979 liberation struggle in Zimbabwe. However, ninety-one per cent of

respondents reached secondary education level due to the government's post-independence socialist policy of "growth with equity" which encouraged free and affordable education for all people irrespective of gender, age or race.

### Economic Indicators

#### *Income Source and Levels*

Income figures depicted (Figure 2) for premulticurrency period are for year 2008 only as socio-economic conditions of that period made the government to change the monetary system. The increase to eighty-seven per cent of households in 2009 with monthly earnings of above US\$100 is mainly determined by the respondents' major source of income. Sixty-six per cent of the residents are landowners and their income is generated through leasing rooms to MSU students for monthly rentals of between US\$30 to US\$35 per head. On average, each room accommodates three students and this translates to an average monthly income of between US\$90 and US\$105 per room. Before multicurrency system, students' monthly rentals per head ranged between US\$10 and US\$15. This accounts for why nearly a third of households' monthly earnings were below US\$100 in pre-MCS era. Figure 2 shows variations in levels of income in the pre- and post-MCS period.

Moreover, MSU students provide a large market for informal activities, such as green grocery vending since an estimated 7000 students reside in the suburbs each semester (Viriri 2007). On the other hand, the number of households with monthly earnings of above US\$500 dropped by three per cent from seven per cent to four per cent. The Consumer Council of Zimbabwe also unveiled that in March 2009 the Poverty Datum Line (PDL) was US\$552.00 (The Financial Gazette 2009). This indicates that life was

difficult and unbearable for most households, considering that most workers had no salaries but were only given allowances. For civil servants these allowances were fixed at US\$100, until September 2009 when they were raised to an average of US\$140. Most private companies remain closed due to political uncertainty which made investors skeptical. Lack of industrial capacity utilization was also due to the change over from local to foreign currency use. Most companies lacked and still lack the foreign currency liquidity to pay workers, procure raw materials and replace or rehabilitate dilapidated equipment. Some companies, especially those in the banking sector, started to retrench workers as it was easier to transact with foreign currency since volume of amounts of money being handled became low. Given, the above PDL, it means more than ninety-six per cent of Senga and Nehosho residents were poor because they engaged in foreign currency dealings since MCS.

The first reason for this trend is that commercial banks are now offering competitive exchange rates due to liberalization of foreign currency trading market. Secondly, there was a decrease in customers as all money in circulation is now foreign currency and changing it from one currency to another is no longer exorbitantly profitable as before. Another reason for the general earned below US\$500.

Increased levels of poverty were mainly attributed to the collapse of the informal market, especially foreign currency dealings, which earned people unrealistic profits. Sixty per cent of the respondents were involved in informal employment in year 2008 and forty-nine per cent of these were in foreign currency dealings. Only two per cent of the respondents are still decrease of people’s participation in informal sector from sixty per cent to twenty-two per cent was the quick restoration of the retail sector, with the food

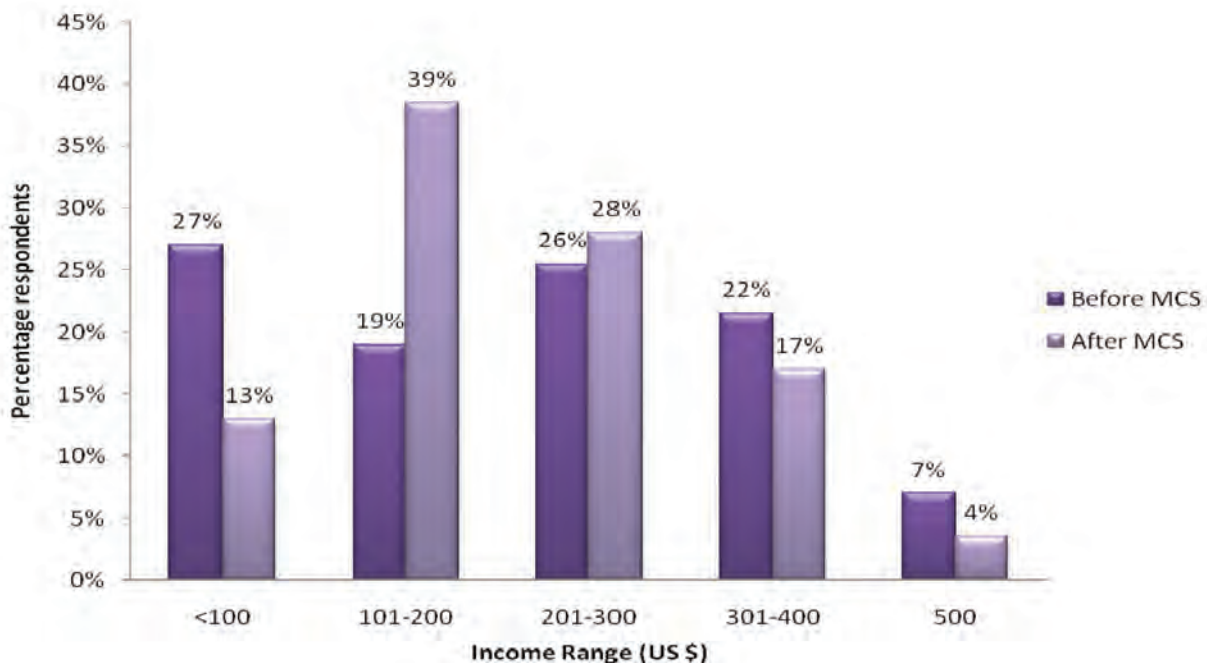


Fig 2: Household Income Level Before and After the Multicurrency System, Per Month

market being flooded with relatively cheap imported goods and later with local products as price controls were scrapped. Forty-six per cent of respondents are now formally employed compared to the nine per cent in year 2008. Since salaries are now offered in foreign currency, they are, although low, relatively stable and hence have enabled people to budget and save.

This study revealed an increase in the number of cross-border traders from thirty-nine per cent to forty-one per cent since the introduction of MCS. Therefore, MCS did not put a halt to cross-order trading. Instead it led to a shift in the range of products, from low order to high order goods 2008 was dominated by selling of basic consumables as food but 2009 shifted to purchase of luxury commodities as cars, beds, electrical gadgets, among others, since currency stability allowed for savings. Moreover, there was a sharp decline in amounts and value of remittances as basis of people's welfare. The number of households relying on remittances declined by nearly half from thirty-one per cent to sixteen per cent over the first year of the currency reform. This was partly attributed to global economic recession resulting in financial incapacitation of people in the diaspora to fend for their relatives back home. Secondly, value of foreign currency was heavily eroded through disbandment of the black market where it used to gain unrealistic value. For instance, the value of US\$10 in 2008 was more than US\$45 after MCS in terms of purchasing power. It could pay for all monthly rentals such as telephone, water and electricity bills.

Other sources of income were specified as selling dry maize from farms, peanut butter projects, selling fresh and dried fish, gardening (vegetables and onions for sale), hair plaiting, selling kitchen-cleaning detergent, e.g. scouring powder, sewing, tuck shops, poultry projects and car and cell

phone and accessories sales. Both working and non-working women and housewives confirmed that having 'home-street markets' was a significant source of income in their households. More than twenty percent of women indicated that they have these home-based micro-markets for selling fruits, vegetables, egg, sweets and snacks. Pensioners now earn on monthly basis between US\$20 and US\$50 from both private and public sectors. During pre-MCS, their income had dropped to an insignificant amount (less than US\$0.01 per month). It is now worthwhile to work as maids, gardeners and do piece jobs because all jobs are now paid in foreign currency.

### **Household Income Expenditure**

Since dollarization, utility bills swallowed at least US\$65 of each household's monthly income. Moreover, high bills have seen five percent of households owing at least US\$500 to both Zimbabwe Electricity Supply Authority (ZESA) and the landline telephone provider, Telone. Six point five per cent of respondents indicated that their electricity supply had been disconnected for non-payment. Before MCS, a household used to fork out an equivalent of US\$10 for all utility bills. Since the introduction of MCS, utility bills constitute more than fifty per cent of salary expenditure for formally employed people. This is considering that the government (being the major employer) was paying an allowance of US\$100 until September 2009.

Water supply has marginally improved although electricity supply remains erratic with long hours of load shedding, amid reports that the country is exporting to Namibia to meet its bilateral energy agreement requirements. Therefore, utility bills consume the bulk of the household budget compared to food products.

Food access and consumption improved as money's buying power improved because of a more realistic pricing regime. Food scarcity before MCS had resulted in high expenditure as people could spend an equivalent of more than US\$100 per month at black market rates. For example, a 12.5kg of mealie-meal as local staple food used to cost ZAR100 or US\$12 before MCS, but it now costs US\$5 or less. In comparison, the post-MCS period resulted in sixty-four per cent of households with a monthly monetary expenditure on food of between US\$40 and US\$70. Retail shops in the study area are now well stocked with a wide range of both imported and locally produced food products. Improvement in food stocks and supply was also due to extended relaxed import regulations, which allowed for free importation of basic foodstuffs. Competition has resulted in low prices for various food products, sometimes identical to those obtained in other countries in the region. For example, a standard loaf of bread is sold at US\$1 which is equivalent to R8 in South Africa. Research confirmed that seventy per cent of households now consume at least three meals a day composed of different essential nutrients, a remarkable improvement from the only forty-two per cent who consumed, at most, one decent meal before MCS. For example, meat, which had almost disappeared from the market, resurfaced at relatively affordable prices of US\$3.50 per kg after adoption of MCS.

## **SOCIAL INDICATORS**

### **Education Provision**

Dollarization resulted in all schools in the study area reopening after a lengthy period of frequent disruptions on school curricula due to either striking teachers, resigning staff or staff simply opting to stay at home due to low remuneration. This is evidenced by the fact that at both Senga and Matongo Primary Schools, last year's

attendance registers and payment records were erratically updated. This shows loss of education time for pupils of school-going age. Seventy-eight per cent of households confirmed that although fees were affordable in pre-MCS period, they were contributing very little towards school development operations, such as purchasing of teaching material, infrastructure refurbishment and new projects. This was due to the hyperinflationary environment which quickly and gradually eroded institutions' budget. However, fees were affordable due to money "burning", whereby residents were realizing daily-adjusted high exchange rates for small sums of USD.

The introduction of MCS resulted in the introduction of tuition and ancillary fees for primary schools ranging between US\$20 and US\$30, for secondary schools US\$65, and at least US\$300 for tertiary institutions per term. Examination classes students were supposed to fork out an additional US\$10 and US\$ 15 per subject for ordinary and advanced levels examination fees respectively. This translated into US\$80 for an average of 8 ordinary level subjects for examination fees alone. The introduction of MCS has seen 78 per cent of parents' and guardians' capacity to pay for the education of their children being compromised due to the scarce and elusive nature of the USD. This has resulted in some pupils' dropping out of school, a feature which was uncommon in the pre-MCS era. At Senga primary school, the enrolment rate has declined by more than twenty per cent since the introduction of the MCS. Poor circulation of foreign currency is attributed to limited production in agricultural and manufacturing sectors, which are the pillars of Zimbabwe's economy.

Meanwhile, intervention by government resulted in laxity on fees payment regulations as schools were directed to recover fees arrears through debt

collectors whilst pupils were in class. This was a paradigm shift from the pre-MCS fees policy which emphasized paying first before the service was rendered. However, the post-MCS government fees position left eighty-eight per cent of parents and guardians doubtful as they fear to lose their hard earned valuables as newly instituted debt collectors charge double the debt for services rendered. On the other hand, only twelve per cent of respondents indicated that they were not facing problems in fees payment as they had the liquidity muscle. Learning is now taking place in schools for pupils whose parents are comfortable with the new fee- payment plan.

### **Health Delivery System**

Adoption of MCS has brought about improvement in the health delivery system. Pre-MCS period was characterized by medical staff exodus and severe shortage of drugs. At the local polyclinic in the study area, three of the five nurses manning the clinic had resigned for greener pastures in neighbouring countries as salary and conditions of service prevailing were unconvincing. One respondent preferred to call clinics and hospitals in the pre-MCS period “death camps” since patients were merely admitted to die outside of their homes. In 2009, the introduction of MCS resulted in donors pouring in resources for medical staff, monetary incentives and drugs which were sold to patients at subsidised prices. For instance, at Senga Polyclinic admission fee is now pegged at US\$1 and US\$1.50 for children and adults respectively. A full course of any medication is now US\$1. In appreciation of the positive change, twenty-eight per cent of the respondents concluded that MCS has been beneficial to health delivery system. However, seventy-two per cent of respondents indicated that specialist services, such as surgical and radiography, were still expensive and beyond the reach of the majority. For example birth through caesarian service costs US\$1 500.

### **Public Transport and Communication**

The transport sector was not spared by the economic meltdown as fuel became scarce. Commuter omnibuses were charging Zimbabwean dollar equivalent to US\$1 for one way trip to or from town as a measure to cushion themselves from hyperinflation. The fares charged became unaffordable to people as they were increasing daily and could swipe out each individual’s daily cash withdrawal from banks. People had to resort to walking to town for work or services provision. Inception of MCS resulted in a trip being charged US\$0.50 as fuel and spare parts became available on the market. The only challenge is non-availability of coins for change. Transporters developed a token system whereby each ticket issued as change has a value of US\$0.50. Tokens were restricted to commuters plying the same route so that they would reconcile their books at the end of each business day and pay what they owe each other. This was done to guard against fraud and cheating from members of the public.

However, people were complaining that some commuters were inconveniencing them by not accepting some tokens as they claim not to be aware of the source of issue. This means the public was being prejudiced of their hard-earned cash, a scenario which was not known during the Z\$ era. Former foreign currency dealers were now using their cars for illegal commuting, competing with conventional operators. This posed another challenge in that tickets issued by illegal transporters could not be used in commuter omnibuses, a situation which complicates passengers’ flexibility in movement. Seventy per cent of respondents acknowledged that despite the coins change problem, the tickets are sometimes too small, torn and difficult to keep.

Communication is now expensive with a landline or mobile call of less than one minute costing US\$0.20 to US\$0.30 depending on the service provider. Fifty-two per cent of respondents indicated that social and economic networking has been compromised in the process as they cannot afford charges for airtime. On a positive note, however, high tariffs decongested mobile communication networks as low tariffs in pre-MCS allowed people to spend unnecessarily long hours on their phones. MCS also resulted in expansion of service provision by mobile service providers, resulting in eighty-seven per cent of respondents each owning a cell phone compared to forty-three per cent before MCS.

### **Public Entertainment**

In 2008, Senga Shopping Centre was almost dormant and dysfunctional with shops, bottle stores, and bars being deserted as liquor consumers could not afford the high prices charged. The year 2009 saw the rejuvenation of the shopping centre. This was evidenced by the large numbers of customers visiting the shops on daily basis, increased number of caterers whose clientele base is sustained by liquor consumers and passers-by consumption of fast foods that had significantly increased. Less than five per cent of respondents could afford food from fast food outlets, such as Chicken Inn, Pizza Inn, Waldorf, Dutch Oven and Food Express, but the number increased to seventeen per cent. To some degree, this is proof that life is improving for urban dwellers.

### **Strategies to Cope with Dollarization Induced Changes**

Music pirating has suddenly become a thriving sector, with six per cent of respondents getting a livelihood from this sector as each musical or video compact disc costs US\$1 compared to at least US\$5 in officially licensed outlets. Demand in music and video devices stemmed from an

increased number of people buying entertainment gadgets, such as TV sets, digital video decoders and a rise in the number of people in search of cheaper entertainment devices. Post-MCS has not also stopped emigration of economically active labour force to neighbouring countries. It has rather witnessed a departure of five per cent of household heads, especially male, former foreign currency dealers. Their migrations were in as much a response to non-viability of the sector as their fear of living lower than their previous flamboyant lifestyles.

People are also surviving from illegal cell phones and accessories sales. Eight per cent of respondents are involved in this form of trade. Volume of trade and profits were however low in early months of MCS as people were prioritizing purchase of food products. However, decrease in prices for cell phone lines to as low as US\$5 resulted in most people buying cell phone products. Selling of illegal drug, such as marijuana, has cropped up, with two per cent of respondents earning profits of at least US\$150 per week. This has been engendered by the big market provided by the MSU students when the university is open. To some extent, MCS has seen an increase in illegal activities as people strive to earn valuable foreign currency for survival.

### **Challenges Associated with Use of Multiple Currencies**

There is scarcity of foreign currency especially for people who are not formally employed and not in business ventures. This is a result of low investment in small business enterprises by banks as consumer loans obtained are low with 3 months repayment period and interest rates as high as 18 per cent per annum. Therefore it has been difficult for most people to start their own cash generating projects as available amounts of foreign currency in the country dictate national fiscal policy or pace of economic recovery.

Secondly, there is scarcity of low denominations, especially coins, for USD which has flooded the market. Seventy per cent of respondents highlighted that they were compelled to buy unbudgeted items, such as sweets, candles, biscuits among others, as a replacement for unavailable coins. The situation is even more complex in service institutions like health as there is nothing to exchange for and, instead, people leave their monies where coins are required. A good example is the local clinic where a notice has been put for adult patients charged US\$1.50 to bring the actual sum. This has resulted in clients in need of services losing in the process since, if they do not have coins, as they will have to pay US\$2. Despite communication by the US embassy that a US currency that is at least 50 per cent intact should be allowed for transactions, business communities still reject bills torn or defaced. As mentioned earlier, this is because of their fear that the note can be rejected elsewhere, resulting in loss on the part of the trader, unlike during the Z\$ era where it was returned to Reserve Bank of Zimbabwe through banks at face value.

Respondents complained about exchange rates used by most retailers in response to inflation of foreign currency of different countries. This is mainly because of the fact that they normally confuse and prejudice clients especially where prices are marked in South African rand (ZAR). This was acknowledged by Schuler (2005,117) when he said, "exchange rate arrangements frequently neglect exchange controls ..." In Zimbabwe there is no uniformity of exchange rates as they are self-regulated. For example, if a trader's exchange rate is 1 USD for ZAR8, and if a client with US\$10 wants to buy a product which costs ZAR50, the money is first changed to ZAR80 before any transaction takes place, and the change amounting to ZAR30 will be given to the client afterwards. Instead, retailers should deduct an equivalent of ZAR50 from US\$10,

which is US\$6, and the client remains with US\$4. In this way, accumulative loss for high value transactions becomes higher if one buys large quantities in both USD and ZAR at different outlets. In some transactions, the exchange rate is as low as US\$1 is equivalent to ZAR10. This implies that if one wants to use his or her change from a shop with a high exchange rate in a shop with low exchange rate, the person would have lost US\$1 in the process.

### **Conclusion and Recommendations**

Change by its nature has both gains and losses. Whilst MCS appear to have transformed livelihoods of urban dwellers, on average, income levels reflect that majority of people are still trapped in abject poverty as they live below the PDL of US\$500. Sources of income for the greater part of people who are not formally employed increasingly dwindle, hence leading to an increase in criminal activities as people fight for survival. However, goods and services provision has remarkably improved, although with some hiccups, as cash flow in the domestic economy remains low due to political uncertainty scaring investors away and macroeconomic policies largely at the mercy of foreign economies' performance. On the whole, MCS has improved lives compared to pre-MCS period although adoption of a single currency will lessen exchange rate challenges. Responsible government authority, in this case Ministry of Education, must remove debt collectors in fees recovery as their service charges surpass the amount of initial debt, resulting in overburdening of already poor households, and consequently, increased school drop-outs.



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## The Volatility of the Lilangeni Exchange Rate in Swaziland

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### Abstract

This study determines the volatility of the Lilangeni exchange rate and the extent of the volatility. It study uses quarterly time series data ranging from 1995Q1 to 2005Q4 to assess the exchange rate volatility in Swaziland. Two measures of exchange rate volatility being the moving average standard deviation (MASD) and generalised autoregressive conditional heteroscedasticity (GARCH) are applied as proxies for exchange rate volatility. The findings of the study suggest that there is exchange rate volatility in Swaziland.

## I. INTRODUCTION

There has been a high degree of volatility of exchange rates for developing and developed countries since the move towards floating exchange rates after the collapse of the Bretton-Woods system in 1973. The Lilangeni<sup>1</sup> is directly linked to the South African Rand<sup>2</sup> under the Common Monetary Area (CMA) agreement with South Africa, Lesotho and Namibia. Under the CMA agreement, the currencies of Lesotho, Namibia and Swaziland are linked on a one-to-one basis with the South African Rand. Monetary policy in the CMA reflects those of the South African Reserve Bank (SARB) by virtue of South Africa having a large economy and a sound financial system, compared to the other member countries. Though the other three smaller members have representatives in a commission that was established to reconcile different interests in the formulation and implementation of monetary and exchange rate policies, their inputs have little impact due to the sizes of their economies (BIS3 2003). So the implications of the CMA union means that the other three smaller members have no control of their exchange rate movements, but are purely determined by economic forces in South Africa.

Swaziland runs a fixed peg exchange rate regime whereby the Lilangeni is fixed on a one- to- one basis with the South African Rand under the CMA arrangement. Swaziland, as an export- led, economy always strives for competitiveness in international markets hence the reason that monetary authorities always favour inflation targeting policies. In 2007, the real effective exchange rate appreciated by 1.77 % despite the fact that the nominal effective exchange rate had depreciated by 4.2% (CBS 2007). The reason was that the inflation of major trading partners was increasing at a slower pace relative to domestic inflation. Due to the real appreciation of the domestic currency in 2007, imports became more

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competitive than domestic exports, putting pressure on the current account as reserves were drawn down to an import cover level of about 3.5 months.

The paper proceeds as follows. Section II presents measures of exchange rate volatility. Study findings are given in section III, while conclusions of the survey are in the last section.

## II. MEASURES OF EXCHANGE RATE VOLATILITY

The methods of measuring volatility have evolved over time to reflect new advances in econometric techniques. Nonetheless, there has not yet emerged a clearly dominant approximation for uncertainty (Bahmani-Oskooee and Hegerty 2007). One method that has been extensively used in early literature is some measure of the variance, whose construction differs from one study to the other. The volatility variable may be modelled as a standard deviation of a rate of change or as a moving standard deviation. Some studies use the nominal exchange rate, whilst others use the real exchange rate in computing volatility.

Using the real exchange rate captures the true relative price of a traded good, since it incorporates the price levels of the trading countries. Its disadvantage is that it captures volatility on these price levels as well. Therefore, early studies, like that of Akhtar and Hilton (1984) used nominal exchange rates to measure the effects of uncertainty in exchange rates. They measured the standard deviation of daily observations of the exchange rate in a three month-period. Later papers like that of Kenen and Dani (1986) used the moving standard deviation of the monthly change in the exchange rate. This method had the advantage of using stationary data and this was a desirable property

before the advent of cointegration analysis (Bahmani-Oskooee and Hegerty 2007).

With time some researchers introduced other methods of measuring exchange rate volatility, which took advantage of newer time-series methods. One of the popular measures is the Autoregressive Conditional Heteroscedasticity (ARCH), which was developed by Engle and Granger (1987) as a measure of volatility in time-series errors. The ARCH model considers the variance of the current error term to be a function of the variances of the previous time period's error terms.

This paper adopted the method used by Weliwita, Ekanayake and Tsujii (1999) in measuring exchange rate volatility in Swaziland. The two different measures for the real exchange rate volatility are as follows:

- 1) 1. The moving standard deviation of the growth rate of the real exchange rate volatility; and
- 2) 2. Generalised Autoregressive Conditional Heteroscedasticity (GARCH) process.

### 2.1 Moving Standard Deviation Measure (MASD)

This measure is capable of capturing the temporal variation in the absolute magnitude of real exchange rate changes and hence exchanges rate volatility over time (Koray and Lastrapes 1989). It is defined as

$$v_t = \left[ \frac{1}{m} \sum_{i=t}^m (\ln R_{t+i-1} - \ln R_{t+i-2})^2 \right]^{1/2} \quad (2.1)$$

where:

$m$  - is the order of the moving average.

$R_t$  - real effective exchange rate between

Swaziland and the importing countries.  
 $V_t$ —proxy for exchange rate volatility.

**2.2 Real Exchange Rate as a GARCH Process**

The generalised autoregressive conditional heteroscedasticity (GARCH) model by Bollerslev (1986) is an extension of Engle’s (1982) auto-regressive conditional heteroscedasticity (ARCH) model. The ARCH model considers the variance of the current error term to be a function of the variances of the previous time period’s error terms. ARCH relates the error variance to the square of a previous period’s error.

The ARCH process has been widely used for modelling the exchange rate volatility because of its ability to capture what is known as the “volatility clustering” phenomenon. This is the tendency that large changes in real exchange rate follow large changes, while small changes tend to follow small changes, thus, leading to periods of persistently high or low volatility (Pozo 1992).

An ARCH (q) process is modelled as:

$$\sigma^2(\epsilon_t) = a_0 + a_1 \epsilon_{t-1}^2 + \dots + a_p \epsilon_{t-q}^2 \quad (2.2)$$

Then the extension of the ARCH (q) to a GARCH (p, q) model is specified as:

$$\sigma_t^2 = a_0 + a_1 \epsilon_{t-1}^2 + \dots + a_q \epsilon_{t-q}^2 + \beta_1 \sigma_{t-1}^2 + \dots + \beta_p \sigma_{t-p}^2 \quad (2.3)$$

Where p is the order of the GARCH  $\sigma^2$  and q is the order of the ARCH terms  $\epsilon^2$ .

This study uses a simple GARCH (1, 1) model outlined as follows:

$$\sigma_t^2 = a_0 + a \epsilon_{t-1}^2 + \beta \sigma_{t-1}^2 \quad (2.4)$$

The autoregressive root that reveals the persistence of volatility shocks is the sum of  $\alpha$  and  $\beta$ . The rule of thumb as laid out in Chowdhury (2005) is that if:

1.  $\alpha + \beta$  is close to unity (1), it indicates that volatility is present and persistent.
2.  $\alpha + \beta < 0.5$ , it indicates that there is no volatility.
3.  $\alpha + \beta > 1$ , it indicates a case of exchange rate overshooting.

The optimal lag lengths p and q in equations (2.3) are determined using the Akaike Information Criterion (AIC) and Schwartz Information Criterion (SIC).

**III. EXCHANGE RATE VOLATILITY IN SWAZILAND**

**3.1 Moving Sample Standard Deviation (MASD)**

$$v_t = \left[ \frac{1}{m} \sum_{i=t}^m (\ln R_{t+i-1} - \ln R_{t+i-2})^2 \right]^{1/2} \quad (3.1)$$

Figure 1 depicts the volatility computed from the real effective exchange rate (REER), where the order of the moving average (m) equals three (3). Other moving average orders were used and were found to exhibit the same trend as in Figure 1. As can be seen from the graph, the REER has been volatile throughout the period 1995Q1 to 2005Q4.

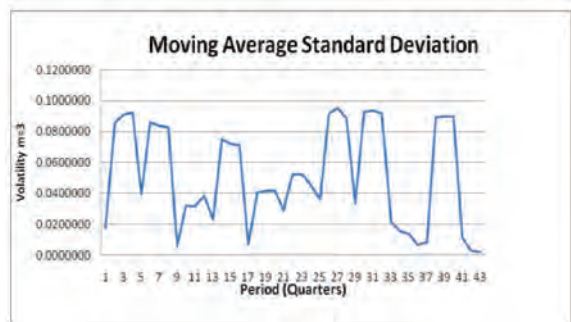


Figure 1. Moving Average Standard Deviation

### 3.2 GARCH Model

Figure 2 shows the movement of the real effective exchange rate (REER) using the GARCH model for measuring volatility. Visual inspection of Figure 2 shows that the REER has been volatile for the period 1995Q1 to 2005Q4.

Table 1 presents results of the GARCH (1,1) model fitted to the first difference of log quarterly of the Lilangeni real effective exchange rate (REER). These results are used to test whether the Lilangeni exchange rate is volatile or not.

- 1)  $\alpha + \beta$  is close to unity (1), it indicates that volatility is present and persistent;
- 2)  $\alpha + \beta < 0.5$ , it indicates that there is no volatility; and
- 3)  $\alpha + \beta > 1$ , it indicates a case of exchange rate overshooting.

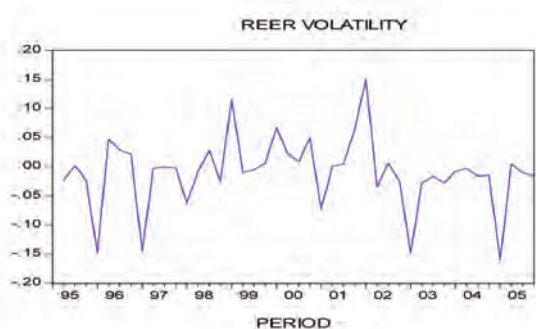


Figure 2. GARCH Process Measure for REER Volatility

The sum of the ARCH and GARCH terms ( $\alpha + \beta$ ) is the one that shows the presence or absence of persistent volatility shocks. The study adopted the same rule of thumb followed by Chowdhury (2005) and Yinusa and Akinlo (2008), whereby if:

From our results  $\alpha + \beta = 0.857247$ , which suggests that the Lilangeni exchange rate has been persistently volatile against the major trading partners.

According to Chowdhury (2005), the half life of a volatility shock measures the period of time over which a shock to volatility reduces to fifty per cent of its original size. The half life is given by the following formula:

$$\text{Half life} = -1 / [\log 2 / \log(\alpha + \beta)]$$

In our results, the half life of a volatility shock was calculated and found to be six quarters, which means that it takes approximately one and a half years for the exchange rate to adjust by fifty per cent after a shock.

### IV. CONCLUSIONS

This short paper examined the exchange rate volatility in Swaziland. Two measures of exchange rate volatility were used in this study. These are the moving average standard deviation (MASD) and generalized autoregressive conditional heteroscedasticity (GARCH) process. The paper used the real effective exchange rate (REER) to determine whether the Lilangeni exchange rate has been volatile over the years and the extent of the volatility. The results revealed that the Lilangeni has been persistently volatile. Furthermore, a volatility shock takes about six quarters (i.e. one and a half years) to adjust by 50%.

Table 1. GARCH Model results for Swaziland's Real Effective Exchange Rate (REER)

	Coefficient	Std Errors	Z-Statistics	Prob.
Constant (c)	0.00055	0.000208	2.640372	0.0083**
ARCH ( $\alpha$ )	-0.188685	0.039888	-4.730310	0.0000**
GARCH ( $\beta$ )	1.045932	0.111062	9.417587	0.0000**
$\alpha + \beta$	0.857247			
R2	-0.013941			
DW - statistic	1.999650			

\*\*indicates significance at the 1% level

## Endnotes

<sup>1</sup> Lilangeni is Swaziland's currency. The plural form is Emalangeni.

<sup>2</sup> Rand is Republic of South Africa's currency.

<sup>3</sup> BIS – Bank for International Settlements.

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## **The Politics of Donor Aid in Zimbabwe, 1980 – 2010: Challenges and Prospects**

*Astute Taurai Murashiki \**

### **Abstract**

Zimbabwe attained independence in 1980 following a protracted and bloody liberation struggle that saw majority rule shifting to the once oppressed and marginalized black population. Zimbabwe's independence was thus greeted with great apprehension from the Capitalist West in particular, who feared the establishment of a Communist State. The war had drained the economy of the Ian Smith regime, shattered the infrastructure, killed and displaced thousands of people within and without the country. This meant donor support in the form of financial aid, foreign direct investment and technical support were urgently required to revive the country's economy.

Post-independence Zimbabwe enjoyed massive injections of donor aid whose fundamental objective was to boost economic growth and, most importantly, alleviate poverty and assist in reconstruction.

The 1990s saw socio-economic and political changes sweeping across the globe in the form of a democratic wave, following the collapse of the West's erstwhile nemesis, the former Soviet Union. African countries, Zimbabwe included, were not spared either; authoritarian regimes made way for pluralistic systems that has culminated in Donor countries shifting their

policies as they attempted to assert their control over and stranglehold on recipient countries. The Unipolar system of the 1990s has, to the present, seen Donor aid tied to privatization and liberalization of economies, taking centre stage, as well as shaping societies and economies the world over.

The world's capitalist gladiators spearheaded by the IMF and World Bank have had varied measures of successes and largely failures in their role as chief donors on developing countries. Other players in Donor politics such as the European Union (EU), the Development Assistance Committee (DAC) and China have pursued varied approaches which could be conveniently exploited by Zimbabwe and other developing countries.

Interestingly, aid from Japan and China (as the paper shall articulate) has been well embraced in Zimbabwe since it has not interfered with the internal politics of the recipient state. In fact, Zimbabwe will benefit much from the programme, designed under the Tokyo International Conference on Development in Africa (TICAD), initiated by the government of Japan.

This paper explores four dimensions and, supported by statistical data where necessary in the form of tables, figures and graphs, attempts to show the impact of aid in Zimbabwe during the prescribed time period.

The first part will look at Zimbabwe after attaining its independence, focusing on the periods 1980-1989, and Zimbabwe's relations with the donor community. The second and third

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parts investigate the situation of aid to Zimbabwe between 1990 and 1999, and 2000 and 2009, respectively, the forms it took, challenges the country faced, and its relations with the Donor community. The period 2000-2009 is interesting in that the country had a referendum, watershed elections, the Land Reform and the 2009 Government of National Unity. These developments were received with mixed feelings by members of the international community. This paper will essentially enlighten scholars, policymakers and other stakeholders about the influence of donor aid on the development processes in Zimbabwe over the 1980-2010 periods. It further comes up with the alternatives to aid and how best to exploit the opportunities deriving from donor aid.

## 1. INTRODUCTION

### Zimbabwe at Independence

Zimbabwe attained its independence in 1980 following a protracted and bloody independence war that spanned more than a decade. The Liberation Struggle was waged to address socio-economic and political imbalances that had seen the white minority settler government maintain a lengthy grip on power.

According to Chimaniire (2001,2), “Blacks were settled on poor quality and small portions of land whilst whites occupied vast tracts of fertile land. Blacks were denied equal education and employment opportunities and even salaries for the same job differed with race. These policies introduced great inequalities and also perpetuated poverty among blacks”. Thus, on attaining independence, the new government was faced with the daunting task of redressing these inequalities. Post-independence populist policies such as “Growth with Equity” coincided with an economic boom that culminated in a remarkable

but short-lived growth. As Killick, Carlsson and Kierkegaard (1998, 10) articulated:

This boom was accompanied by major distributional advances, particularly in the extension of social services to an indigenous population which had received little attention from the preceding colonial and Unilateral Declaration of Independence regimes. The boom soon ended, however, so that by the mid-1980s the economy had slowed, there was increasing concern with macro-economic imbalances and a probable worsening in the already large inequalities of wealth and income.

The marked slowdown was attributed to the nature of the economy the new government inherited, as it still maintained its rigid traits of controls and regulations, further compounded by its monopolistic nature. The Zimbabwean economy began to experience an unprecedented downturn during the mid- to late-1980s. This was attributed to two main factors, the ‘administrative management of the economy inherited from the UDI period’ and interventionist policies that were inclined towards Socialism.

The Southern African country later engaged the donor community in vain attempts to revive its economy, as shall be revealed in greater detail shortly.

## 2. RESEARCH METHODOLOGY

Due to the nature of state of affairs Zimbabwe has been under, a wide-ranging sources have been consulted in preparation of this article. These include, among others, journals, the internet, magazines, newspapers, books and conference materials.

## 2.1 Justification

Foreign aid, although widely debated, has been hailed as the panacea for both development and democratization. In essence, the paper is important in that it will help all stakeholders in understanding the functions of aid, why developing countries need it and, most important of all, the relations between Donor and Recipient nations.

The research topic is very critical because it raises more questions than answers, such as: if there is no aid in the next ten-fifteen years what needs to be done? What room does reform in the form of democratization give to the political process? Do we have any choices if there are no alternatives? Should reform be imposed by the donor on the recipient or initiated from within? And lastly, what effect do relations between donor and recipient countries have on development?

Finally, the paper analyses the topic in the context of the period 1980–2010 in order to adequately address the changing impact of donor-recipient relations in the past, present and the future. Such an approach is believed to lay the basis for the recommendations that the paper will generate at the end.

### 2.1.1 Objectives

The objectives of the research are to investigate the relations between the Donor Community and Zimbabwe from 1980 – 2010. Accordingly, the following specific objectives (questions) are looked into:

- Should Zimbabwe entirely depend on aid in order to develop and democratize? Or rather, should the initiative to develop and democratize be internal and not external?
- What effects (socially, economically and

politically) did the relations between Zimbabwe and the Donor Community have in the former?

- Has aid influenced the running of Zimbabwe politically? Were there any strings attached to aid, for example to reform politically, institute respect for the rule of law, freedom of the press, and to hold and periodic elections deemed free and fair?

## 3. LITERATURE REVIEW

Post-independence Africa and Zimbabwe enjoyed massive injections of donor aid whose fundamental objective was to boost economic growth and, most importantly, alleviate poverty. The success story of the genesis of donor aid can be traced back to the post-Second World War period and to the programme pursued by a resurgent USA. This programme, known as the Marshall Plan, was primarily designed to help revive the war-shattered economies of Europe and Japan. As well, it gave the donors a fresh impetus to explore newly independent African nations whose colonial legacy had left socioeconomic and political imbalances that urgently needed revamping.

Of importance, the paper needs to firstly examine what aid is, looking at Western and Eastern type of aid, along with its objectives, role of donors, degree of dependency on aid, as well as identifying the major donors.

### 3.1. Objectives of Aid

According to Cassen and Associates (1986,2), “Aid is simply the transfer of money, goods and technical assistance from a donor to a recipient. The fundamental idea of aid is transfer of resources on concessional terms-on terms, that is, more generous or ‘softer’ than loans attainable in the world’s capital markets”. Aid may take a bilateral or multilateral form, and in both cases, it

is largely the major powers in international relations that effectively manipulate foreign aid to their advantage in pursuance of their diplomatic, ideological, economic and cultural dominance.

Aid, as aptly summed up by Kifle, Olukoshi and Wohlegemuth (1997,40), is “part and parcel of the foreign policy of a donor and country and it is primarily given for the purpose of furthering the donor’s specific interests. There are a variety of factors which have determined the interests of donors throughout the history of the aid relationship. These include commercial, ideological, humanitarian and other factors”.

There are three types of aid. These are humanitarian or emergency aid, charity based aid, and payments made directly to governments, which could be government-to-government (bilateral), or money transferred via institutions, for example the World Bank (multilateral aid).

Donors have argued that the major objective of aid is combating poverty through supporting economic growth and development in the developing countries in general, and Zimbabwe in particular. Aid is often used for the immediate relief of poverty in emergencies of food for work programmes and natural disasters. But it can also help relieve poverty in five other ways. Cassen and Associates (1986,45) highlight this when they say:

Firstly, by contributing to growth, it can create the conditions for raising the incomes and consumption of the poor. Secondly, it can achieve those results more directly, through specific projects or sectoral activities. Thirdly, it can improve poor people’s welfare through basic services such as education, health, nutrition, housing and family planning programmes. Fourthly, it can assist processes of social change which give assets to the poor. Finally, it can support policy reforms that benefit the poor.

Aid’s objectives have sparked fierce debates, as Africa remains economically stagnant despite huge aid inflows since the turn of the millennium. As Carlsson, Somolokae and Van de Walle (1997, 7) reiterate, “The region has fallen behind the rest of the developing world by virtually any measure. The gap between Africa and the rest of the developing world continues to grow”. Since the end of the Cold War, the objectives of donor aid have deviated to encompass issues of governance, human rights, accountability and rule of law as the paper will articulate.

Donors have had mixed responses from recipient countries due to their contradictory roles in post-independence Africa. Highly oppressive regimes benefited and continued to do so from donor support. A notable example in this regard is the former Zaire’s (now Democratic Republic of Congo) dictator, the late Mobutu Sese Seko. A review of the post –colonial African experience clear shows that donor aid has played both negative and positive roles in enhancing the legitimacy of a state at any given time. Some donors have persistently backed states that have lost credibility and legitimacy both at home and outside. Kifle, Olukoshi and Wohlegemuth (1997, 43), succinctly capture this phenomena when they argued that, “Most (military) dictatorships in Africa exist in part because Donors have been supporting illegitimate states which would have been otherwise hard-pressed to survive. The apartheid regime of South Africa survived for so long because of the support given to it by different external agencies or powers”.

On the positive side, donor assistance has been used to enhance the legitimacy of the recipient state. This has been accomplished through directing support to forces of democracy in the civil society that are empowered to demand for accountability from public officials. With support of the media by donors, the former has been

instrumental in unearthing and exposure of corrupt practices and inefficiencies in the system.

But most important of all, it should be noted that aid does not necessarily contribute to the development of a country, as evidenced by Angola and Mozambique which have enjoyed unprecedented economic growth but no development, and continued to live in abject poverty to this day. As such, poverty remains a major socio-economic challenge, together with lack of infrastructural development as only few hospitals, schools, roads and bridges have been built since the end of the Cold War. In the former Zaire (now D. R. Congo), the late dictator Mobutu Sese Seko enjoyed Western aid at the height of the Cold War, and at the same time presided over a corrupt ruling elite that deprived the country of vital aid through plunder, pillage and Kleptocracy.

Post-independence Zimbabwe had its fair share of donor-funded reconstruction which came in the form of The Zimbabwe Conference on Reconstruction and Development (ZIMCORD). The ZIMCORD held in Harare in 1981, and its main objectives, which were to ensure post-war rehabilitation and development programmes, were carried out with the assistance of donor support. Chimombe (1986, 124) says:

Although smaller than had been expected, funds raised at the Zimbabwe Conference on Reconstruction and Development (ZIMCORD) and from direct private foreign investment further added to the already high level of foreign capital in the economy. In addition, Zimbabwe became a member of the International Monetary Fund, and received some funds for balance of payments adjustment. It also became a member of the World Bank whereby it could obtain loans for infrastructural development.

The thrust of ZIMCORD was mobilization of international community support in socioeconomic transformation of rural Zimbabwe which bore the brunt of the liberation war. The major players in ZIMCORD at the time were the then European Economic Community (now European Union), with the United Kingdom being the biggest donor within the European body.

As Chimombe (1986,131) further reiterated, The World Bank (IBRD) was the biggest donor (new pledges made totaled Z\$287.5million). Its funds were advanced for the typical IBRD-funded projects, that is, infrastructural development. These included some of the following:

- . Transport rehabilitation;
- . Imports of vehicles and spare parts (US\$42 million);
- . The Power Projects at Hwange (US\$105 million);
- . Manufacturing industry import and export programme (US\$50.6 million);
- . Railway development project (US\$43 million);
- . Small-scale enterprise project assistance (US\$5 million);
- . Rural afforestation (US\$7.3 million); and
- . Petroleum fuels (US\$12 million).

The inception of ZIMCORD marked a turning point in Zimbabwe's relations with the donor community, as it gradually pursued a vigorous socio-economic transformation, following years of international isolation during the UDI era from 1965 to 1979.

### 3.2 Who are the Donors?

Who are the donors? The Donor Community comprises the developed countries that mostly occupy the Northern Hemisphere; and these are the European Union (EU), who also forms the Development Assistance Committee (DAC). The latter is also made up of the United States of America (USA), The Netherlands, Norway, Canada, Denmark, Germany, Japan, Belgium, New Zealand, Australia and China. The World Bank and International Monetary Fund (IMF) are other key players in the donor community.

According to the 2004 statistics, the biggest donor was Norway, followed by Denmark, Sweden, Netherlands, France, UK, Germany, Japan, USA and Italy as illustrated in Fig.1 below.

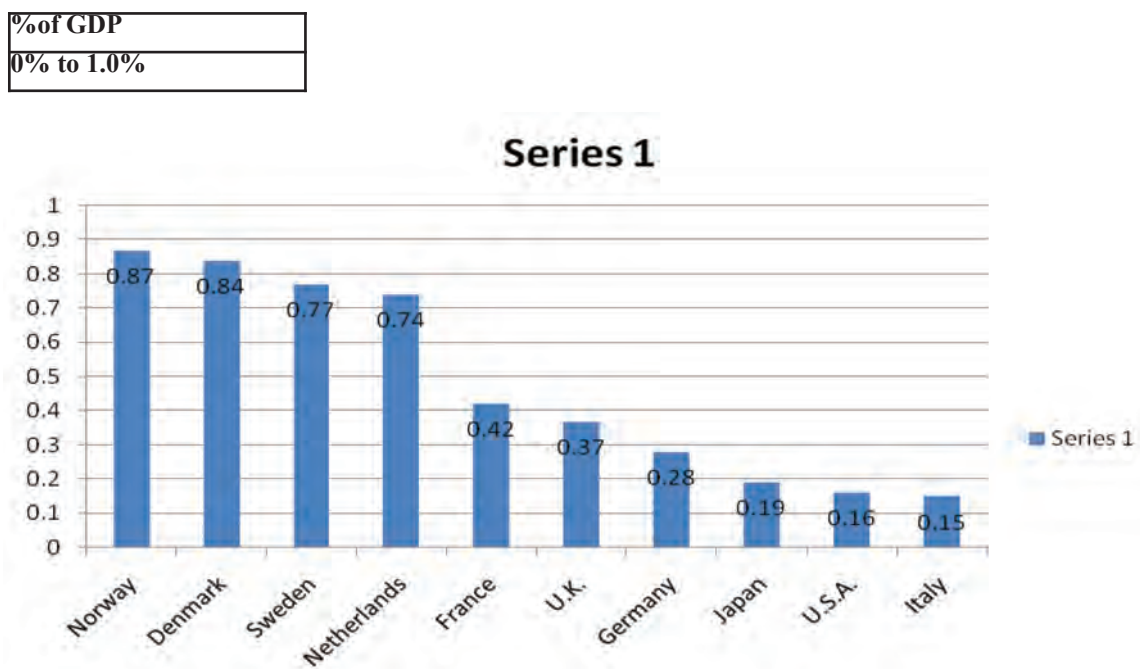


Figure 1: Distribution of Donor Countries, by Size of Aid

Source: OECD (2004)

### 3.3 Who is the most dependent on aid?

The developing countries are the major recipients of aid, with Sub-Saharan Africa being the most prominent. However, despite large capital injections from the Northern to the Southern Hemisphere, the latter remains mired in economic stagnation and poverty. The Table below presents countries that received the most aid in 2002.

Table 1. Distribution of aid recipients in Sub-Saharan Africa countries in 2002, by percentage

D. R.	Congo 21.3%
Ethiopia	21.7%
Burundi	24.2%
Mauritania	30.6%
Eritrea	30.8%
Sierra Leone	47.1%
Mozambique	60.2%

Source: OECD (2002)

Thus, aid can be categorized into two distinct types: the Western type and the Eastern type. Aid from the West is premised on a set of three guiding principles, and these are Neo-liberal in nature. The first one looks at the role of market forces and governments whose ‘hands’ are tied. According to Chalker (1991,13), “Governments should not take on tasks best left to others. Greater prosperity should enable poverty, illiteracy and disease to be tackled and opportunities to be created for popular participation”.

The second fundamental principle, as articulated by Chalker (Ibid.), is that for aid to succeed there should be undoubted competence and accountability. Because, “Ineffective policies and corruption can only be weeded out if

governments are accountable through the ballot box and a free press. Bad governance can result from inexperience as well as evil intent”. Finally, as argued by Chalker (Ibid.), “... key aspect of good government must be respect for human rights and the rule of law. Entrepreneurs will not start businesses, nor do outsiders invest, if there is no redress against arbitrary confiscation or corruption”.

Aid from the East, China and Japan, has tended to be conditional, but at the same time aimed at winning the hearts and minds of recipient countries. China in particular, has religiously adhered to non-interference in domestic issues of recipient countries as shall be examined in greater detail here.

## 4. POST-COLD WAR ZIMBABWE DONOR RELATIONS

The 1990s witnessed the end of the Cold War that saw donor aid to developing countries and to Zimbabwe in particular, taking a more robust neo-liberal approach whose effects left a mark on the socio-economic and political landscape. The donors devised a new approach in aid to Zimbabwe and the rest of the developing countries, with the World Bank and IMF taking centre-stage. This new form of aid, Economic Structural Adjustment Programme (ESAP), was formulated thousands of miles away at the Bretton Woods Institute and prescribed without due consideration of realities in the socio-economic and political field of the recipient(s).

### 4.1 Aid to Zimbabwe between 1990 and 1999 and its Forms

The aid [during this period] was designed by the World Bank to curtail the role of the state, and the Zimbabwean government was advised to privatize those enterprises it had acquired through nationalization because they were perceived to operate at losses too costly to

sustain. This had been advocated for in the desire to cut government expenditure in the face of dwindling rent-seeking capabilities of most governments. This neo-liberal approach in donor aid, as encapsulated in the SAPs, was aimed at leaving most, if not all, of the economy at the mercy of the market mechanism. Previously government expenditure had been aimed at the provision of health-care facilities, education, social welfare, the servicing of a large civil service and enormous army.

Mhone (1993,44) argues that, “The privatization that ensued the implementation of Donor initiated SAPs, culminated in massive retrenchments. Existing evidence is replete with the reality that trimming the civil service has not made it any more efficient, in fact bureaucratic delays, incompetence and corruption has upped.” Furthermore, donor aid to Zimbabwe through SAPs called for the removal of import and export controls that were once used by the government to protect undeveloped industries from aggressive competition ushered in by free trade policies. The IMF and World Bank saw these controls as unacceptable and Zimbabwe was ‘ordered’ to abandon protectionist tariff systems of import substitution – a parlance for open door policies which were amenable to the promotion of foreign investment. Massive de-industrialization ensued as the helpless Zimbabwean government watched such textile companies as Cone Textiles folding and relocating.

This led to the diminishing of the state’s role in the economy, resulting in the deterioration and crumbling of many state structures. The resultant hardships experienced in Zimbabwe which transfigured themselves into protests against corruption, authoritarianism and violence politicized SAPs so much that the dirigisme became invariably necessary. The purveyors of

SAPs, the IMF and World Bank, hardly recognized this need for Zimbabwe to provide safety valves for victims of SAPs, as they insisted on democracy and good governance as key conditionality for getting donor aid. The state eventually took control of economic and social matters to ‘avoid’ further collapse. Table 2 shows the flow of aid to Zimbabwe from 1990-1994.

Table 2: Aid dependency indicators for Zimbabwe and S.S Africa, 1990-1994

	Zimbabwe	Sub-Saharan Africa average
Aid per capita (US\$)	1990	35
	1994	52
Aid as % GNP	1990	5
	1994	10
Aid as % investment	1990	21
	1994	39a
Aid as % imports	1990	15
	1994	20

Source: World Bank (1997, Table 6.10)

Note: Author’s estimate



The Table reflects that most indicators of aid dependency do not show Zimbabwe's present-day reliance on aid to [being] lesser than that of the average African country. In a survey conducted, Zimbabwe was described as less dependent on aid than most African countries. This was confirmed by Killick, Carlsson, and Kiekegaard (1998, 28) who stated, "The government of Zimbabwe can take a more independent view in the formulation of its policies, keeping donors at arm's length". But this was to change at the turn of the millennium and as donor politics became more pronounced in Zimbabwean affairs as the paper shall reveal.

The main donor prerequisite in the 1990s was 'reform', thus "First 'reform' and then you get aid – No 'reform', then no aid". One important factor here is that the greatest challenge of modern times, poverty, has not been addressed by foreign aid as a colonially-generated socioeconomic phenomena. Thus, a sticking point emerges when both IMF and the World Bank offer 'reforming' countries one alternative, such as Economic Structural Adjustment Programme (ESAP). Indeed, this raises fundamental questions such as: What room does this give to the political process? Do we have any choices if there are no alternatives? Fundamentally, reform should not be prescribed on the recipient(s) but be initiated from within, and it is only then that democratic change and development will become sustainable.<sup>1</sup>

#### ***4.2 Aid from China and Japan***

In the 1990s Zimbabwe received aid from the East, particularly from China and Japan, and to some extent, the former Soviet Union. The Zimbabwe-China relations date back to early 1960's during the Rhodesian Independence war. To this day, Zimbabwe continues to enjoy cordial relations with the Asian giant. The only issue has been the investment inflows that were few and

far between. However, foreign investment was to pick up in the new millennium as shall be discussed shortly.

In terms of donor politics, Japan's case is unique. As African Business (1998, 25) states, "... the country was destroyed, literally and metaphorically after the Second World War. But the country amazingly rebuilt itself in less than 50 years and is undoubtedly the second strongest economy in the world". But as of recently (2009-2010) China has squeezed past Japan as the second biggest and strongest economy in the world. Nonetheless, Japan has managed to extend its helping hand to Africa and Zimbabwe in particular. In contrast to the West, Japanese aid is not perceived as a political or economic leverage or as a means of increasing the donor's influence in the recipient country or the world. Japan, instead, believes that its prosperity and security is a culmination of a more prosperous and less conflict-laden world. Japan's aid to Zimbabwe was thus aimed at exporting or transferring skills, technology and organizational methods that Africans can use and assume control of their destiny later on.

Although donors have taken some of the blame for interferences in internal politics of recipient countries and Zimbabwe in particular, lack of political will to address post-ESAP shortcomings, for instance, should be placed squarely on African leaders. The leadership had benefitted immensely from the massive aid that flowed into the continent during the Cold War. This aid was largely appropriated or misused by the elite bourgeoisie at the expense of the poverty of general population.

## 5. AID TO ZIMBABWE: 2000-2007

The new millennium opened with a flurry of socio-economic and political events that were to see relations, referendum, punctuated by violence among political groupings, the Land Reform and 2002 Presidential polls that attracted the interests of donors in Zimbabwe's internal affairs. In 2001, the IMF cut aid to Zimbabwe citing failure by the latter to pay debts. According to *The Daily News* (2002), "The Bretton Woods Institution cut its financial aid in 2001. It also adopted a declaration of non-cooperation with Zimbabwe early this year and suspended its technical assistance after Harare failed to settle its overdue financial obligations". Interestingly, the souring of relations coincided with the polarization that gripped the country as Zimbabwe embarked on correcting the colonial imbalances that had seen a minority group of whites owning vast tracts of fertile land.

### 5.1 Zimbabwe-Donor Relations and Subsequent Withdrawal of Aid

Zimbabwe's relations with donors, particularly with the West, took a turn for the worst as the European Union cut its aid to Zimbabwe following the watershed Presidential elections, often marred by violence, further plunged the relations between the two, and the donors became more entangled in Zimbabwean politics. The USA drafted the Zimbabwe Democracy and Economic Recovery Act (ZIDERA). The enactment empowered the US President to instruct US representatives on the multilateral lending agencies, such as the IMF, World Bank and Africa Development Bank (ADB), among others, to vote against credit facilities to Zimbabwe. This was on condition that Zimbabwe improved its human rights record, observance of the rule of law and the country continues to hold free and fair elections.

ZIDERA was thus designed to introduce sanctions against Zimbabwe. The enactment allows the US to prevent Zimbabwe from accessing finance from certain multilateral lending institutions. Following the promulgation of ZIDERA, any Zimbabwe foreign currency loan application made to the IMF, World Bank and African Development Bank, among others, stood to be stifled by the US directly through its vote. This could be indirectly through its influence within the institutions; Zimbabwe would be unable to re-schedule payments of its debts due to the multilateral lending agencies.

To compound Zimbabwe's woes, the drought ravaged much of the country and donors seized upon the opportunity to mix aid with politics. Below are classic cases of incidents that blighted Donor-Zimbabwe relations:

- (a) The United Nations World Food Programme (WFP) abruptly suspended all food distribution in Insiza district, after 'rowdy' ZANU-PF supporters seized three metric tonnes of food aid and distributed it to their supporters, leaving thousands of people at risk of starvation (*The Daily News* 2002,1).
- (b) Not to be outdone, the Danish government issued an order to the Red Cross not to channel funds sourced through the Danish International Development Agency (DANIDA), to its sister organization in Zimbabwe, because the local branch of the International human body was headed by a Cabinet Minister. The Minister at the centre of the controversial decision was the late Dr. Swithun Mombeshora and had been placed on the blacklist of the European Union. Denmark is a member of the EU, which slapped President Mugabe, his Ministers, Mombeshora included, top government and

ZANU-PF officials with travel bans over alleged human rights abuses during the 2002 presidential elections (The Daily News 2002,1)

(c) In the Health sector, the scenario was equally disturbing as the Global Fund to fight AIDS, Tuberculosis and Malaria, snubbed Zimbabwe. According to The New York Times (2004,1), "Donors such as Global Fund to fight AIDS, Tuberculosis and Malaria, the World Bank, United States of America and Britain are skirting Zimbabwe or giving it a trickle of aid compared with the torrent they are unleashing on governments deem more reliable. That many here say, poses a wrenching question: Is it right to manipulate that aid for political ends or worse steal it?"

(d) The European Union has blatantly accused the Zimbabwean government of misplacing priorities when dealing with money for aid. Other countries have instead benefited whilst Zimbabwe, because of the acrimony with the donor community at the turn of the millennium, lags behind. The New York Times (Ibid., 2) aptly summed it up when it reported:

The US is spending just \$20million a year to battle AIDS in Zimbabwe, one-third less than it has devoted to Botswana, a nation with less than one-sixth Zimbabwe's population. The British government gives about \$11million a year and would give more, a spokesman suggested, if Mr. Mugabe made political and economic changes. The World Bank, which has granted more than \$1billion to other African countries to fight AIDS, pulled out of Zimbabwe four years ago after the government defaulted on its debts. So did the IMF and the Danes who

had given millions every year to humanitarian and development projects in Zimbabwe.

Zimbabwe bore the brunt of continued isolation from the Global Fund whose actions were viewed as politically motivated, thus dealing the country a 'death sentence.' Bernard Mokam, Programme Director for United Nations Development Agency raised his concerns on the actions of the donors as innocent people continued to suffer following the politicization of humanitarian aid to Zimbabwe. The New York Times (Ibid.,3), went on to reiterate that, "After United Nations and Zimbabwean officials failed in negotiations to agree on an assessment of the country's situation, including the government's attitude towards human rights, UN officials decided to extend development assistance for just two years, rather than the five year programme that is standard for most developing nations".

On a grim note, the AIDS pandemic continues to ravage the country decimating the key human resources vital for development.

## 6. POST-MILLENNIUM AID FROM THE EAST

Japan remains one of the world's largest aid donors. As stated by the African Business (1998, 250), "Despite their current severe financial difficulties, The Japanese are still the world's largest donors. However, they are re-evaluating their aid strategy and have decided to lope 10% off the budget every year. Notwithstanding Japan's total bilateral aid to Africa in 1996 was \$1.06billion from a total of \$8.3billion worldwide." Japan wants more access to Africa and Zimbabwe in particular, as it competes with countries like China and India. Japan has lived in the shadows of its fellow Developed partners such as the United States of America (USA),

Britain, France and Germany, the latter three's economies are smaller than that of Japan's.

As the pace gathers momentum for countries scrambling for Africa's resources, Japan has pledged to boost investment and aid on the African continent and Zimbabwe. The BBC News Africa (2008), reports that,

At a conference on climate change held in Yokohama, the Prime Minister, Mr. Fukuda, pledged that by 2010 Japan would double its aid to Africa, currently \$1.7billion (850 million Pounds), increasing it gradually year by year to meet the target." Nevertheless, donor aid, to Zimbabwe together with fellow Sub-Saharan countries remains behind required demand, this according to a finding from a report by the Organization for Economic Cooperation and Development (OECD). According to the BBC News Africa (2008), "The report goes on to state that the Group of Eight (8) wealthiest countries (G8), donors are haunted by a 'massive' challenge to meet their pledge to double aid to Sub-Saharan Africa and Zimbabwe by 2010.

Following the acrimonious break-up in relations between Zimbabwe and the West, the former adopted a "Look East" policy, with China as the prime target for donor funds. But investment inflows from China have been few and far between. Zimbabwe has been hoping for unconditional aid this time from the East. Nonetheless, the sporadic aid from China has seen state owned companies as China Aero-technology Import and Export (CATIC) entering into investment deals with Zimbabwe Electricity Supply Authority (ZESA Holdings) for the refurbishment of power plants although the financial commitment remains elusive. CATIC in 2005 had pledged to make an investment of US\$400million in the mining sector; it remains to be seen whether this will materialize.

Although Zimbabwe's main foreign currency earner, tobacco, has benefited from Chinese funding, much more needs to be done in other sectors such as mining and manufacturing. China's economy has seen its interests rise in countries with oil refineries and plants such as Angola, Nigeria and Sudan.

China's relations with the African continent and Zimbabwe date back to the Liberation war days. China has maintained what could best be termed as 'strategically cordial' relations. This is manifested by China's policy of adherence to non-interference in domestic issues of recipient countries when it gives aid<sup>2</sup>. At the turn of the millennium, there has been a marked shift in the 'balance of economic power' as China has emerged as the biggest trading partner on the African continent. Whilst the US and some powerful EU member states are bogged down in deadly conflicts in Afghanistan and Iraq, China has seized the opportunity to engage the African continent in trade matters.

To show its seriousness, the Chinese government hosted a China-Africa summit in Beijing in 2007 where it pledged financial, technical and other forms of aid. China has made it clear that it does not prefer interfering in internal matters of recipient countries as it aims to entrench relations with Africa that will see economic development benefiting the latter. On that basis, all African governments that have diplomatic ties with China were invited to the Beijing Summit, no matter what their records on democracy or human rights. Thus, on the Beijing Summit, China pledged to fulfill the following:

- . Double aid to Africa by 2009 to about \$1billion;
- . Set up a \$5billion China-Africa development fund to encourage Chinese companies to invest in Africa;

- . Cancel all debt stemming from Chinese interest free government loans that matured by the end of 2005, for the 31 highly indebted and least developed countries (LDCs) that have relations with China (an amount estimated at \$1.4billion);
- . Further open China's markets exports from African LDCs by increasing from 190 to 440 the number of products receiving zero-tariff treatment;
- . Train 15000 African professionals, double the number of Chinese government scholarships given annually to Africans (to 4000) and send 100 senior agricultural experts and 300 youth volunteers; and
- . Build 30 hospitals, 30 malaria treatment centers and 100 rural schools.

Thus, the abundant mineral resources in the Democratic Republic of Congo (DRC) have also resulted in China eyeing mining rights there. The onus is on the emerging economic powerhouse to pour donor aid funds to boost Zimbabwe's diverse economy as well.

## 7. PROSPECTS IN THE NEW MILLENNIUM 2008-2010

Prospects for Zimbabwe hinge on several developments that will see a paradigm shift in donor attitude towards the former. This will be manifested by positive political developments at home, as the International Community monitors the performance of the Government of National Unity that came to life in 2009. Zimbabwe's socio-economic and political experiences would firmly place it in the category of 'fragile' states and this has drawn the interest of the European Union (EU) through the Lisbon Treaty to assist Sub-Saharan countries.

It is envisaged that European States in the EU will be in a much stronger position to deal with 'fragile states'. Fragile states are mostly in Africa where attaining the Millennium Development Goals remains a pipe dream. Thus, it has been argued in European Union (2009) as follows:

This is good news for Europe's ability to take effective action in the world arena, and the EU's foreign policy arm is set to be strengthened by a European External Action Service (EEAS) and consolidated under a High Representative with the rank of a Vice-President in the EU Commission. In this context, approaches to dealing with those countries that have in recent years come to figure prominently in the media as 'fragile states' stand to benefit most from Europe's new foreign policy configuration.<sup>2</sup>

As the EU moves towards entrenching economic relations with Africa, plans are afoot to implement 'specialized roles in giving aid to developing countries and Zimbabwe with effect from April 2010.' According to Abdallah (2010), "This is in line with the Lisbon Treaty that came into force on December 1 last year (2009). The Treaty seeks to streamline the functions of EU institutions so that the bloc of over 20 states operates more effectively. Consequently, each donor country will now offer assistance that it has comparative advantage in."

The EU has promised an improved coordination of aid, but adhering to the fundamental principles of Neo-Liberal approach. These entail poverty reduction, promotion of core values such as human rights and good governance.

The Transitional government of the two MDC formations and Zanu-PF is thus tasked with restoring donor aid and investment through financial support from the IMF, World Bank, the USA and EU. The donor's role should ensure legitimacy of the State through directing support

to forces of democracy in the civil society, empowered to demand for accountability from public officials. The disastrous failure of ESAP should serve as a reminder to the donors that a repeat of the programme in Zimbabwe and other developing countries will not augur well for any meaningful development prospects. Future cordial relations between Zimbabwe and donors should be epitomized by respect for a country's sovereignty by the latter and vice-versa.

## 8. CONCLUSION

Much is expected from the GNU as it tackles an economy that reeled from an unprecedented downturn, largely attributed to lack of foreign currency, following the abrupt suspension of aid by the IMF and World Bank, aid embargo from the USA and EU, companies relocating or closing down and mass exodus of skilled personnel to other countries as the economic meltdown gained momentum. Donors have had mixed support from recipient countries due to their contradictory role in post-independence Africa and Zimbabwe in particular. One pertinent question though remains, for how long should a country continue to receive aid?

Aid is not the only salvation developing countries and Zimbabwe need for growth and development; but it does remain key for internal initiatives for development and growth that will be ably fuelled by inroads attained, aimed at encouraging Foreign Direct Investment (FDI) with minimal conditionalities to ensure the entrenchment of cordial relations between donor and recipient.

In the final analysis, Zimbabwe needs to restore its relations with donors from the West and vice-versa in order to progress socio-economically in the medium to long term. Aid should just fuel growth that comes from within, thus, Zimbabwe

requires foreign direct investment policies not targeted at specific international markets, if economic growth, poverty alleviation and development are to become a reality and not to remain a myth.

## Notes

- <sup>1</sup> The State eventually controlled economic and social matters to 'avoid' further collapse.
- <sup>2</sup> China has vetoed the imposition of sanctions on Iran and Sudan as interference in domestic matters.

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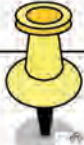
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