THE ZIMBABWE ECONOMY: WHAT PROSPECTS?

I am well aware that anything written more than a week before this meeting may be out of date by 20 June, and if you believe newspaper headlines you have probably lived in daily expectation of the final collapse for the past couple of months.

In this fluid situation, I can only say that we need real political change before any meaningful change in the economy can be expected. In support of that statement we can say:

1) under the “unity Government”, where the only significant ministry MDC controlled was Finance, we did see a retreat from the brink and three years of economic growth.

2) Under MDC control, government revenue collection improved. It collapsed again after the 2013 election.

These two facts show that

(a) ZANU-PF do not consider Finance a strategically important ministry in their plans to retain power and

(b) ZANU-PF members do not think in terms of being part of a nation, or they would have shown commitment to the restored ZANU-PF government by paying their taxes more readily than they did when Tendai Biti held that ministry. Loyal citizens and even loyal members of a political party, can be expected to pay the taxes needed. Not paying taxes because your party are in power conveys a very different message.

What that message is will become clearer if we examine the present situation and recent actions by government supporters.

THE PRESENT SITUATION

On April 8, 2015, the Management of the IMF completed the first review under the Staff-Monitored Program (SMP)1 with Zimbabwe. The 15-month SMP approved in October 2014 constitutes “the lynchpin of the authorities' roadmap for building a strong track record towards normalizing the relationship with Zimbabwe's creditors and mobilizing development partners' support.”

The main expressed objective of the programme is to strengthen Zimbabwe's external position as a prerequisite to arrears clearance, normalization of debt servicing, and restoring access to external financing. This will require further fiscal consolidation to rebuild the country's capacity to repay; restoring financial stability; and mobilizing international support for resolving the country's external debt situation.

The Zimbabwe government say they are intensifying their efforts to ensure successful implementation of the programme and to lay the ground for stronger, more inclusive, and lasting economic growth. They said that during 2015, their policy reform agenda will continue to focus on:

(a) reducing the primary fiscal deficit to raise Zimbabwe's capacity to repay;

(b) restoring confidence in the financial system;

(c) improving the business climate; and

(d) garnering support for an arrears clearance strategy.

Strong performance under the SMP would improve Zimbabwe's repayment capacity and demonstrate that it can implement reforms that could justify a Fund-financial arrangement, which could help tackle the country's deep-rooted problems.

The Zimbabwean authorities say they remain committed to implementing sound macroeconomic and structural policies and that they have stepped up their re-engagement with creditors, including by increasing payments to the World Bank and the African Development Bank. These re-engagement steps open the way for further dialogue to identify feasible options for clearing the arrears to these institutions - a key step towards seeking rescheduling of bilateral official debt under the umbrella of the Paris Club.

A few examples cited below raise questions whether the present regime can deliver on these promises.

Like the slogans on every ZANU-PF T-shirt during the 2013 election campaign, these statements are meant to sound good to the world's bankers, who are not likely to be distracted by humanitarian considerations if they can be persuaded that debt repayments will be resumed. Any increases in poverty or in income differentials such as were produced by ESAP in the 1990s are not their concern as long as there is a strong government to make the repayments and control any incidental civil unrest.

Emmerson Mnangagwa has been making approaches to the US government especially in an attempt to convince them that a government led by him could fill that role. He prides himself on his ability to keep order by force, and indeed by carefully calibrated use of just enough force to achieve the desired effect. However, there comes a time when any worm turns. If whatever government we may have in six months' or a years' time cannot satisfy the aspirations of the bulk of the people for an improvement in their personal and domestic economies, unrest could provoke a repressive reaction which the world could not turn a blind eye to. There is little chance that any kind of restructuring or rebranding of the present regime, which probably means a more or less camouflaged military dictatorship, can meet those popular aspirations.

Taking some of the points in the SMP review report above:

(1) Slimming government budget

This is a prime requirement. It cannot be met without cutting the inflated central government salary bill, which eats up 90% of the national budget, first of all by rooting out “ghost workers”

ZANU-PF don't like the findings of the 2009 audit by Ernst & Young (India), so they are calling for a new audit of the civil service. That audit showed that, out of a total 188,019 civil servants, 75,573 (40.0%) did not have the qualifications required for the posts they held, while for a further 29,317 (15.6%) there was insufficient or no information on either their job designation, qualifications or both. The total payroll included 10,000 “youth officers” placed in every district to prepare for the 2013 elections, presumably organising ZANU militias. One unnamed ministry employed 6,861 new workers in one day.

Since 2012 we have heard the then Minister of Finance, Tendai Biti, refuse to budget for a police force of more than a total 20,000 members; the Police Chief Commissioner announced he needed 50,000 and continued recruiting. We don't know how many were recruited, but it is now rare to see a police officer in uniform who looks more than 20 years old. They are, as far as we can see, mainly employed operating road blocks.

Presidential trips abroad add to the drain on the fiscus: his trip to the AU summit in South Africa this week was his 15th since he returned home from a one-month vacation in the Far East in January.His trips in the 5 months January – May cost the country $50 million[i]

On top of this, gestures such as Mugabe's announcement reversing Treasury's recent decision to suspend civil servants' bonuses[ii] could jeopardise ongoing re-engagement efforts with the IMF.

(2) Creating a favourable environment for business to grow

This is impossible if investors, local or foreign, cannot feel their investments are secure or opportunities to develop are restricted on a partisan basis and the application of any government or banking rules is transparent and even-handed, for operators on any scale.

The ongoing Telecel saga shows that ZANU support is still dependent on their unpredictable estimates of whether that support serves their primary aim, of maintaining political control.

Political commentator Alex Magaisa said following the ouster of Mujuru from government and Zanu PF, it the way was cleared for some hawks in the ruling party to make cash by allowing another new player into the telecommunications industry. "And through all this, some big boys will be eating. Some big people may have been eating through Telecel. Now they are being elbowed out and some more big people are sensing their opportunity. It's their turn to eat," he said. "If you ask them, they will tell you it's the law. It is the law, alright. But it is more than that," added Magaisa.

He said government will not completely shut down Telecel's operations, but will form a joint venture with a new partner. "Rather, in what has now become a familiar pattern, the bad news of its closure is only a precursor to good news of its rescue," he said writing, on his blog, newzimbabweconstitution. "Because for sure, there is a White Knight waiting in the wings to `rescue' the business, the workers and the customers. And this White Knight is set to gain Telecel's business on the cheap, now that Telecel does not have a licence and its value has consequently been reduced," added Magaisa. "Now, instead of the government forking out cash for shares, they will simply pay by way of a set-off or a debt-equity swap, with the debt owed on the licence fee being used to pay for the shares taken up by Government. This will have the added benefit of relieving the new entity from having to pay a large part if not all of the licence fee," said Magaisa.[iii]

As infighting within ZANU-PF continues, possession of a party card gives no security; perceived loyalty to a particular faction now carries more weight in their view, and several party officials who havefallen out of favour, including Bhasikiti, Gomwe and Mutasa have been deprived of farms or other enterprises.

Both vice-presidents have repeated warnings during the recent season of by-elections that government resources will be used for ZANU-PF voters only. The defeated faction are “no longer ZANU-PF”. Whether this affects business opportunities for well-placed individuals, assistance to villagers' development projects or access to food, farm inputs and social services for voters, nobody can plan anything when they could be ruined by the next change in the political wind.

(3) Transparency

is lacking in “indigenisation”.

After Sino-Zim bought up much of the 2010 cotton crop, apparently with the help of Minister for indigenisation Saviour Kasukuwere, leaving growers' loans to Cottco unpaid so that many could not afford inputs for the new season and could not return to CottCo without repaying these loans. Cotton exports dropped sharply, from $233,226,238 in 2012 to $79,414,154 in 2014, a drop of 66%. Chinese cotton no doubt fills the gap this leaves in the international market.

In other areas, lack of transparency leaves the future in doubt:

Recorded production of precious metals, especially gold, continues to exceed recorded exports by a wide margin. In 2013, the last year for which ZimStats has records, the total value of gold and platinum produced was recorded as $1,176 million, which is 121% of all exports of "precious metals, precious or semi-precious stones . .". Diamond production does not appear anywhere in the records and government's plan to merge all the diamond mining companies into one, in which government would hold 50% of the shares, hit difficulties. With the high-quality alluvial diamonds apparently exhausted, it is not clear that anyone involved in Marange can afford the larger investment required to extract the industrial-grade diamonds that apparently remain.

Diamond exports fell by 34% to 5.9 million carats last year from the Marange region[iv].

Defence Minister Emmerson Mnangagwa in 2012 confirmed fears of ongoing military involvement in the country's diamond industry, which human rights campaigners have for years linked to abuses in the Chiadzwa diamonds fields. Mnangagwa reportedly told an audience at Midlands State University in Gweru that army deals were struck with diamond companies from China, Russia and other nations as part of efforts to counter Western targeted sanctions. He said the trade deals `to a large extent, stabilise industry and eliminate chances of internal economic sabotage.'[v] Diamond sales continue to be held under conditions which by-pass international conventions and bring some 20% less than the prices paid in accordance with those conventions.

Mutoko black granite also does not appear in official statistics, although it was still one of the country's most noticeable exports a couple of years ago.

Many more examples of corrupt practices could be cited, for example the murky business of the dispute between BAT (who are not angels) and Savannah Tobacco, a firm claiming Mugabe's protection, over the level of cigarette smuggling into neighbouring countries.

In conclusion

Average real wages have dropped from US$2,953.99 in 1980 to $801.66, a decrease of 72.9% in constant 1980 dollars[vi]. Making allowance for the fall in purchasing power of the US dollar since 1980, this probably makes the current average wage no more than 10% in real terms of what it was at independence. One reason for this drop is the destruction of manufacturing industry since 1990. Wage levels cannot rise significantly without a revival of manufacturing and mineral processing industry. These are complex operations which cannot develop without the rule of law.

Zimbabwe's overall rule of law performance places it last among18 countries in the Sub-Saharan Africa region according to the World Justice Project's (WJP.) Rule of Law Index 2015 released early in June 2015. This placed Zimbabwe 14th out of 15 among low income countries, and 100th out of 102 countries surveyed worldwide[vii].

Nobody, local or foreign, will invest in a country where their efforts could be wiped out at any time at the whim of any ambitious politician whose position may be less secure than that of a Somali warlord or where the leading servants of the state (as far as one can say the state still exists) disregard the conventions that attempt to regulate international trade by agreement between all parties.

We must look outside the current ruling clique for solutions. At this moment, they have the power to keep anybody else out of the debate by force, but the question is "How long can they hold up the leaking dam?

i Nehanda Radio May 10 2015

ii *https://www.newsday.co.zw/2015/04/21/mugabe-endangers-imf-talks/*

iii *http://www.dailynews.co.zw/articles/2015/05/11/telecel-closure-zanu-pf-double-standards-exposed*

iv *http://www.southerneye.co.zw/2015/05/13/zimbabwe-diamond-exports-fell-34-in-2014/*

v *http://www.swradioafrica.com* Alex Bell 25 April 2012

vi Figures from LEDRIZ, 2012

vii The Zimbabwean 5 June 2015: *http://www.thezimbabwean.co/news/zimbabwe-news/76040/zim-bottom-in-rule-of.html*