

# **PROGRESSIVE ZIMBABWE – SUSTAINABLE GROWTH & TRANSFORMATION**

## **Macro-economic Paper for Zimbabwe Institute**

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### **Acknowledgments**

This background paper on the requirements for a future economic programme for Zimbabwe is prepared as a background document for a comprehensive programme being prepared under the sponsorship of the Zimbabwe Institute. It has been compiled on the basis of discussions with numerous individuals and has benefited from the critical comments of a number of colleagues. The environment is such that some of those consulted would not want to be formally acknowledged and to avoid giving a partial list, am not going to list others, but nonetheless thank all for their time and contributions. I am also indebted to the authors of many references consulted: so as not to clutter the paper that is not an academic tract, only a few of these are cited in the text.

## 1. From supposed rising star to failed state

When Zimbabwe grew by around 10% pa in 1980 and 1981, there was euphoria in some quarters about prospects for the newly independent state. Such high levels of expansion did not last, however, with an average GDP growth of only 4.3% pa being achieved in the first 11 years of independence, and an even lower rate of growth of 1.9% pa in formal employment (Table 1). Structural adjustment (in the form of ESAP and later ZIMPREST) was supposed to improve these growth rates, but as the figures in Table 1 make clear, the out-turn was far worse (0.9% pa GDP growth and 0.4% pa employment growth in the 1990s). By 2000, the proportion of the population in formal employment had slumped to what was then an all-time low of 10.9%.

As will be discussed in more detail later, the political justification given for the economic strategies pursued up to 1989 was a form of populist national development, with some equity orientation but no strong redistributive thrust. The associated policies were clearly inadequate to deal with the deep structural inequality inherited from the colonial era. The main issue over which the liberation war was ostensibly fought – access to agricultural land – was only half-heartedly addressed in the 1980s and hardly featured in the economic policies of the 1990s. The robust agricultural sector inherited at independence became stronger through the communal farmers becoming more involved in production for the market (particularly of maize and cotton), while the commercial sector became more diversified (notably in developing lucrative new export activities in the form of floriculture and horticulture).

**Table 1: Economic policy epochs**

Item	1980-1990	1991-2000	2001-2005
<b>National strategy</b>	Controlled growth	ESAP & start of crisis	National destruction
Average annual GDP growth	4.3%	0.9%	-5.5%
Employment growth	1.9%	0.4%	-7.5%
End year Population	9.744	11.350	11.951
Formal employment % pop	12.2%	10.9%	7.0%
Manufacturing VA an av growth	4.6%	-0.7%	-7.4%
Manuf employment growth	3.0%	-0.7%	-5.3%
Final year MVI	138.1	100.7	67.8
Final year annual av inflation	12%	56%	238%
Final year exports:GDP ratio	23%	43%	24%

**Source:** CSO & IMF various publications, estimates for recent years.  
MVI = manufacturing volume index, 1980 = 100.

There were hopes in the 1980s that Zimbabwe would be able to emulate the rapid growth in manufacturing output achieved by the 'newly industrialised' countries mainly in Asia and to a lesser extent Latin America. As can be seen from Table 1, manufacturing output and employment did initially grow more rapidly than the rest of the economy and by 1990 the manufacturing volume index was 38% above the level at independence. A decade later, however, the manufacturing sector had contracted back to the 1980 level. This result in the manufacturing sector was emblematic of the failures in both the design and implementation of the structural adjustment programme. The broad

picture at the end of ESAP, which ran from 1991 to 1995, was that the population had been made to bear a heavy social cost, with little to show in respect of international competitiveness.

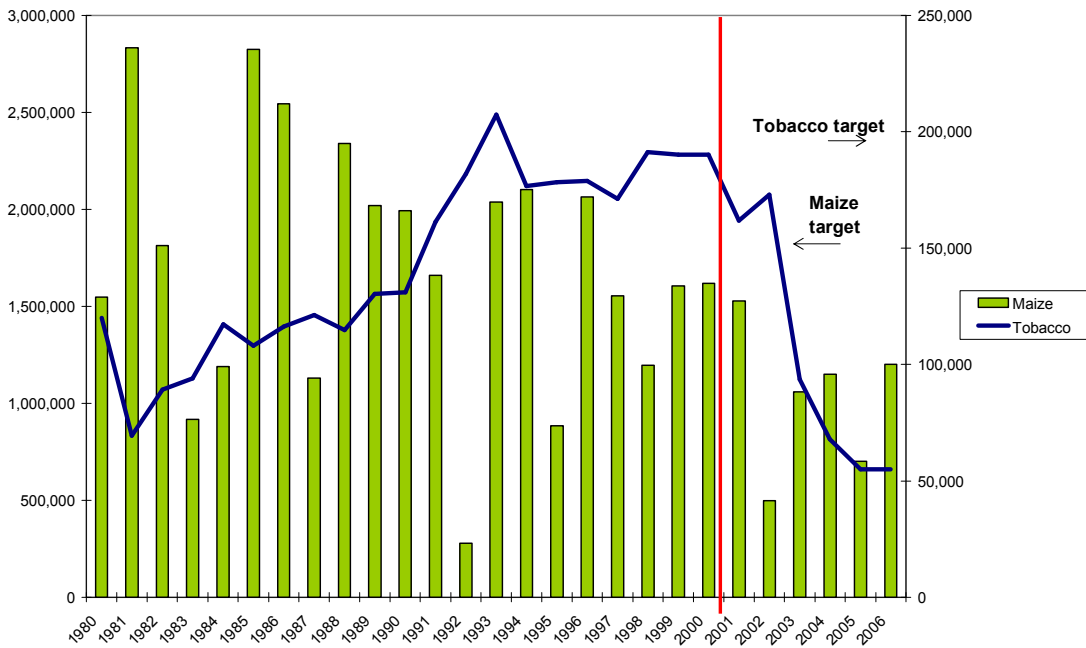
Even the World Bank, in its 'performance audit' of ESAP, is very critical of the outcome of Zimbabwe's first structural adjustment programme. The second programme, ZIMPREST, which was to be implemented over the period 1996-2000, was more home-grown and tried to accommodate the main lessons from ESAP. The programme was never really implemented, however. After high growth in 1996 (9.7%), inadequate macro-economic policies in 1997 set the stage for the black Friday crash in November 1997, when unbudgeted allocations to the war veterans convinced the markets of the unsustainability of the macro-economic framework. The reactions by government served only to exacerbate the deteriorating situation. In 1998, the government refused a rescue package from the donors, led by the World Bank, and macro-economic conditions continued to deteriorate through the end of the 1990s.

From February 2000, when the government lost a national referendum on the constitution, there was a definitive change in the orientation of economic policy. The chaotic 'fast track' land reform programme was accompanied by frequently changing but essentially pro-inflationary, anti-export macro-economic policies. The negative impact of the policies has been acknowledged to the extent of enormous subsidies being given supposedly to sustain production in key sectors, but the real effect of which is to exacerbate the distortions, providing huge opportunities for arbitrage profits. The degree of diversion is such that total subsidies to the agricultural sector at 19% of GDP in 2005, for example, were actually more than the total value added contribution of the agricultural sector to the economy that year (18% of GDP).

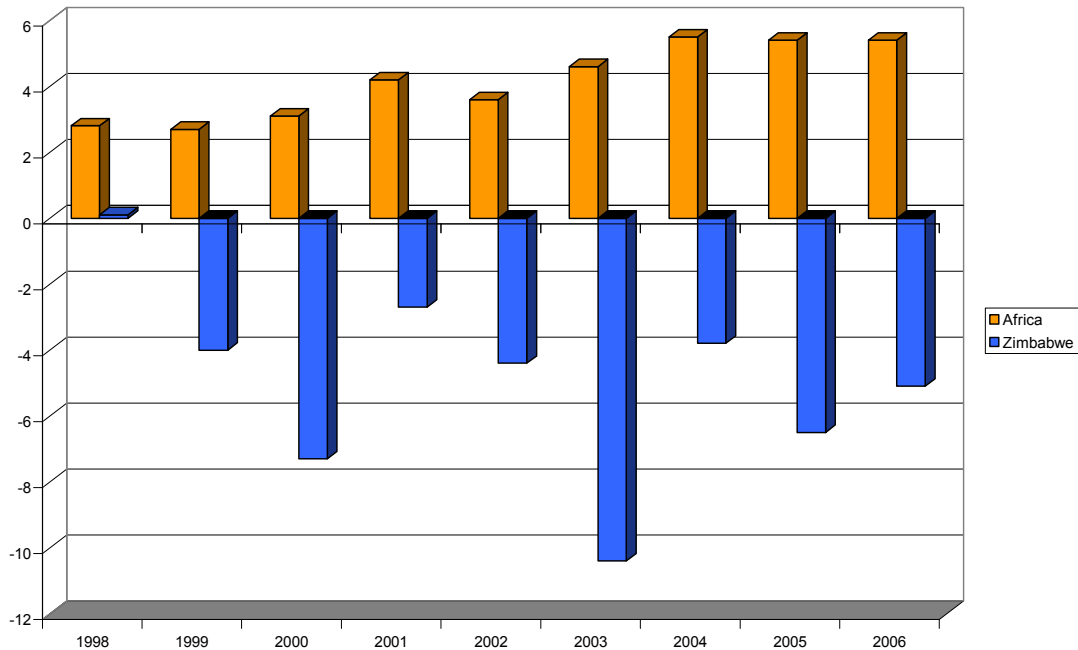
The economic performance of the country since 2000 can only be described as disastrous. Output of major crops collapsed, as can be seen from the graphs of maize and tobacco production since independence (Figure 1). There was massive de-industrialisation, with the volume of manufacturing in five years falling 33% to only two thirds the level which existed at independence (Table 1). Output also declined in other sectors, so that over 2001-2005, average annual GDP and employment growth collapsed to MINUS 5.5% and MINUS 7.5% pa respectively.

As though it were a country embroiled in war, Zimbabwe's GDP has declined every year since 1999. This has been at a time when other African countries began growing at reasonable rates of growth (see Figure 2). As compared with a cumulative gain elsewhere in Africa of +40% of GDP, the cumulative GDP decline in Zimbabwe between 1998 and 2006 is -37%. Within SADC, Zimbabwe has dropped from being second only to South Africa to having a GDP which places it at tenth in the rankings (as of 2004, only Madagascar, Swaziland, Malawi and Lesotho have smaller GDPs).

**Figure 1: Maize & tobacco production 1980-2006 (thousand tonnes)**

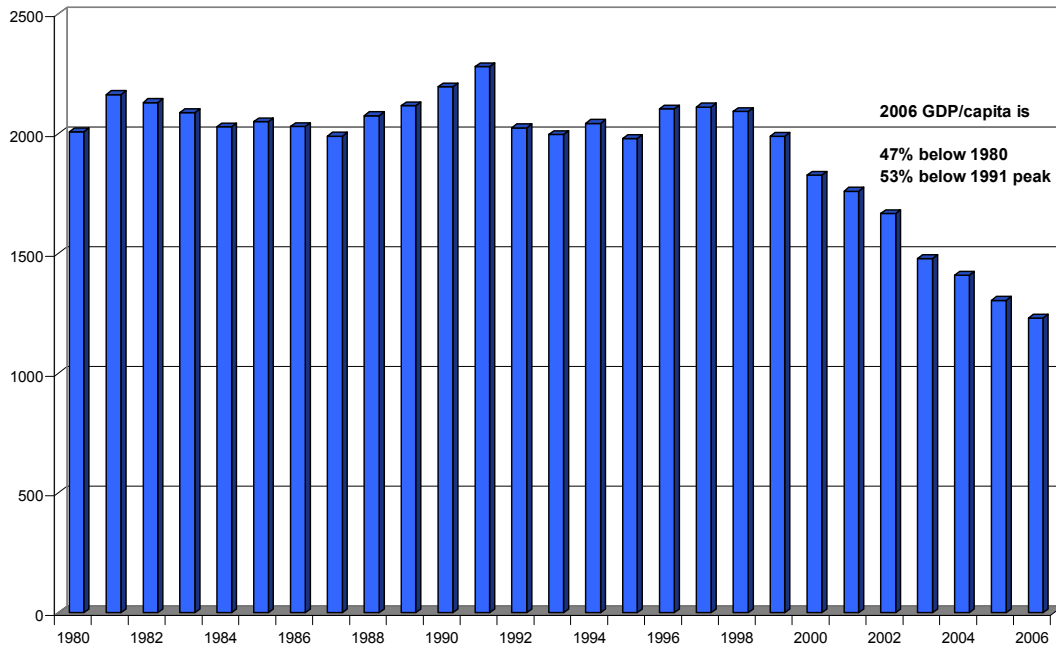


**Figure 2: GDP growth in Africa and Zimbabwe 1998-2006**



The effects of the poor performance since independence and of the disastrous policies since 2000 are vividly illustrated in the graph of real GDP per capita (Figure 3). After 1980, there was some growth in GDP per capita up to 1991, with continuous declines since then. By 2006, GDP per capita is 47% below the level at independence and 53% below the peak 1991 value.

**Figure 3: GDP per capita 1980-2006**



The steep decline in GDP and employment, together with extremely high inflation (analysed in Section 3) and a sharp cut in real wages, have had a devastating effect on the welfare of the majority of Zimbabwe's population. At the time of the official Poverty Assessment Study in 1995, 75% of Zimbabweans were already found to be poor, relative to a modest total consumption poverty datum line. According to the government's data in the Zimbabwe MDG 2004 Progress Report, by 2002 the proportion below the total poverty line had risen to 80%, with 59% of the population also being below the food poverty line. The evidence on the ground suggests that these are underestimates, each year of economic decline condemning further cohorts of people. Poverty is continuously increasing in Zimbabwe both in extent and severity.

The collapse of social services and the unavailability of basic commodities, particularly food, have had a particularly adverse affect on the poor. Although the prevalence of HIV/AIDS amongst 15-49 year olds has apparently reduced (from 24% at the turn of the millennium to 20.1% in 2005 and 18.1% as at September 2006), it remains amongst the highest in the world (average for sub-Saharan Africa is 6.6%). Life expectancy at birth is a mere 36.6 years as compared with 46 years for sub-Saharan Africa and 65 years for developing countries as a whole. Zimbabwe is among only a handful of countries where the UNDP Human Development Index (which is a composite measure of health, education and income) has consistently declined since the start of the 1990s.

People's lives have been adversely affected not just by the sharply deteriorating economic conditions, but by the increasingly intolerant and repressive character of the state. Parliament and the judiciary have been severely undermined, freedom of expression and association has been curtailed, the opposition press has been suppressed and access to broadcast

media denied. The institutions of the state have been increasingly militarised. Para-military youth are used to carry out the will of the ruling party. People demonstrating against existing conditions are routinely arrested and may be subject to beatings and torture, practices which are not just condoned but acclaimed by the leadership.

How did Zimbabwe move from being a country of considerable promise to being what the development agencies euphemistically call a 'low income country under stress' or what more popularly is referred to as a 'failed state'? The cynical land reform which was launched by the incumbent government as a means of staying in power is certainly a major negative turning point, but the root causes of Zimbabwe's collapse go back at least to the 'black Friday' crash on 13<sup>th</sup> November 1997 that was mentioned earlier. The authorities panicked and closed all foreign currency accounts, a retrogressive move at a time when the stimulation of exports was a clear necessity. On the fiscal front, the government continued to run budget deficits, largely financed by domestic borrowing. The interest burden on rapidly growing debt at the end of the 1990s had grown to a level greater than expenditure on health and education combined and threatened to swamp all other expenditure items in the budget.

To counter the budget debt trap, from the start of 2001 government introduced a policy of suppressed interest rates, which was combined with a fixed exchange rate and a foreign currency surrender requirement on exporters. The deliberately suppressed interest rates succeeded (temporarily) in subduing interest payments on the national debt in the budget, but at huge cost to the economy as a whole. As basic economic theory would have anticipated, negative real interest rates encouraged over-consumption and speculation, particularly in the foreign exchange market. The parallel exchange rate depreciated rapidly, creating a lucrative wedge for the 'lucky few' able to access foreign currency at the official rate and trade it at its market value.

The entirely predictable result of these policies was the acceleration of inflation, from an already high level of 57% in December 1999 to just short of 600% in December 2003. At that point, a new RBZ Governor took over economic policy-making not just in the recognised areas of responsibility of a central bank (monetary and exchange rate policy) but across the spectrum of fiscal and sectoral policies. He precipitated a banking crisis and began a series of interventions which raised 'quasi-fiscal' expenditures to levels in excess of expenditures funded through the budget. In respect of monetary policy, frequent changes have resulted in real interest rates swinging wildly between positive and (more often) negative values. Inflation initially declined to a 'low' point of 124% pa in March 2005, but since then has increased to 4530% pa and 7251% pa in May and June 2007, respectively.

The problem in attempting any sort of conventional analysis of the policies underlying economic decline in Zimbabwe is that this approach implicitly assumes that the intention of the policies is to move the country forward in terms of economic development. In fact, since 2000, the opposite intention seems to have applied to the incumbent government. It is all too clear that the Zimbabwe crisis is not fundamentally economic, but rather political in its origins. The motivations behind the economic policy positions which have

been adopted often appear perverse from a developmental viewpoint, but serve the narrow political interests of an elite which has amassed huge wealth in a very few years precisely through the chosen minority being given privileged access to key resources in a highly distorted environment.

The abandonment of the rule of law, the most fundamental of tenets of a modern economy, is emblematic of the political character of the regime, while the execution of Operation Murambatsvina in the winter of 2005 provides the starkest example of the anti-developmental orientation, indeed of the purposefully destructive nature of the incumbent government. Operation Murambatsvina was a programme of forced removals and bulldozing of homes and properties owned primarily by marginalised people in the urban areas. The subsequent report by the head of UN-HABITAT, Anna Tibaijuka estimated that 3.1 million people had been adversely affected, 700,000 of them directly losing their homes and/or business premises or vending sites. The report states:

*Hundreds of thousands of women, men and children were made homeless, without access to food, water and sanitation, or health care. Education for thousands of school age children has been disrupted. Many of the sick, including those with HIV and AIDS, no longer have access to care. The vast majority of those directly and indirectly affected are the poor and disadvantaged segments of the population. They are, today, deeper in poverty, deprivation and destitution, and have been rendered more vulnerable<sup>1</sup>.*

A government which brutally implements such a programme is not one whose policies can be assumed to be aimed at improving the lot of the common person. Similarly, the piecemeal macro-economic measures to which the country has been subjected emerge as the hallmark of a government that is not committed to tackling the crisis in a manner which would produce any significant and sustainable improvements. What is needed for this would be first the establishment of fundamentals – notably the restoration of the rule of law – and then the formulation and committed implementation of a bold, comprehensive economic programme which coordinates fiscal and monetary interventions, and which wins the support of domestic and international economic actors.

Credibility is a vital component of a successful programme to rapidly reduce very high inflation and restore positive economic growth. Any vestige of credibility that the incumbent government may have had in the past has been dissipated through the explicit adoption of inconsistent macro-economic policies, the subsequent frequent policy reversals and the resulting business climate whose major characteristic is uncertainty. Propagandist efforts to blame the crisis on international sanctions only serve to further undermine the credibility of the incumbent government (see Box 1).

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<sup>1</sup> Anna Tibaijuka (2005): *Report of the Fact-Finding Mission to Zimbabwe to assess the Scope and Impact of Operation Murambatsvina*, Habitat, Nairobi

### **Box 1: Self-imposed isolation, not 'sanctions'**

There is always room for debate about the factors determining a country's rate of economic growth. In the 1990s, for example, to what extent was the poor rate of growth the result of drought (the 1992 drought being of once-in-a-century severity) or of the inappropriateness of the economic policies adopted? Or was it that there were coherent policies, but they were carried out in a half-hearted fashion because the government did not really believe in structural adjustment and thus did not pursue ESAP with the consistency required to make it succeed even within the limits of its design?

When it comes to the post 2000 period, however, the main argument for poor performance that is persistently cited by government – international sanctions – does not have any validity at all. This is because the measures adopted by the international community to display its disapproval of the gross human rights abuses being perpetrated against its own people by the Zimbabwe government are personal sanctions affecting a clearly defined list of individuals. General economic sanctions against Zimbabwe, which would adversely affect the welfare of the population, have been rejected as a tactic.

The fact that Zimbabwe does not have access to resources from multilateral and bilateral donor agencies (other than relatively small amounts earmarked for humanitarian purposes) and is unable to borrow from normal commercial sources is because of the poor economic policies which the country has adopted, not because of a decision to impose 'sanctions'. In the modern context of development finance, no donor agency is willing to give grants to a government when there is no assurance of the resources being properly used. This applies *a fortiori* to loans, especially from private sources, such as commercial banks. It is not that the country is being penalised on political grounds, but is being denied finance as long as the country, which is already in significant arrears on foreign payments, continues to adopt economic policies which are pro-inflationary and anti-developmental.

In the case of the United States, this thinking is formally laid out in the *Zimbabwe Democracy and Economic Recovery Act* (ZEDRA) which came into force in 2001. This Act has both sticks and carrots. While ZEDRA prevents US representatives on the Boards of the World Bank and the IMF from voting in favour of renewing allocations to Zimbabwe or cancelling debt in present circumstances, the Act also *requires* that positive actions be taken as soon as certification is received that certain conditions have been fulfilled. These are: (1) restoration of the rule of law (2) fulfilment of election and pre-election conditions (3) commitment to equitable, legal and transparent land reform (4) fulfilment of agreement ending war in DRC and (5) military and national police subordinate to civilian government. Once these conditions are fulfilled, the Act requires that Zimbabwe's sovereign debt with the US should be restructured, rescheduled or eliminated and that US representatives on international financial institutions should propose financial and technical support 'to promote Zimbabwe's economic recovery and development, the stabilisation of the Zimbabwean dollar and the viability of Zimbabwe's democratic institutions'.

While maintaining a vitriolic rhetoric in the state media, in its actual interactions with the international community the incumbent government sends out ambiguous signals. The most surprising event was the repayment in the third quarter of 2005 of arrears to the IMF ostensibly in the expectation that this would result in the immediate normalisation of relations with the Fund and hence with the rest of the donor community. It is more likely that it was a gesture of defiance towards South Africa which at the time had offered to settle the IMF arrears provided certain political conditions were met.

Either way, as the Reserve Bank knew only too well, to restore relations the IMF requires a coherent policy package to be put in place, which was far from what the Zimbabwe government had to offer. Repayment without a proper policy package to offer was a waste, with very high opportunity cost for an economy where the shortage of foreign currency had become the dominant constraint on output and provision of basic commodities (including food and fuel). In other cases similar to Zimbabwe the settlement of arrears has been carried out via a swap arrangement at the last moment so as to allow the legal resumption of lending – it is the policy aspect which is primary.

In the light of the above, it is not ‘sanctions’ which have cut Zimbabwe off from international assistance but an obstinate decision by the government to isolate itself from the donor community. The much vaunted ‘look East policy’ has failed to result in any significant inflows of finance or investments to bridge the gap.

## 2. What needs to be done?

In the economic realm, there are three main immediate tasks. These are briefly outlined below. As will be made clear in subsequent sections, to move ahead with these tasks would first require a number of political and other pre-requisites to be in place.

### ***Stabilisation***<sup>2</sup>

- Successful stabilisation requires extremely disciplined and well co-ordinated fiscal and monetary policies.
- Inflationary expectations need to be overcome by establishing a credible anchor. The choice effectively lies between a monetary anchor (well defined targets for money supply growth) and a fixed exchange rate as an anchor (this is also known as exchange rate based stabilisation or ERBS).
- A monetary anchor typically requires much greater levels of economic contraction to operate effectively (a so-called ‘hard landing’), while the exchange rate approach, if carefully managed, can be associated with increased output (a ‘soft landing’).
- The exchange rate approach can only be considered where there are sufficient foreign currency reserves or other means with which to defend the fixed exchange rate. After a long period of inflation and associated currency depreciation, it is to be expected that there would be strong demand for foreign currency when the exchange rate peg is first established and it is only when the stabilisation programme gathers momentum that pressure on the foreign currency market is likely to abate.
- While the exchange rate approach is clearly preferable in the short-run, in the medium term ERBS programs have often been found to contain the seeds of their own destruction. If the fixed exchange rate peg is maintained for too long, and if inflation, while much lower than it was in the pre-

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<sup>2</sup> There is an extensive literature on this. See, for example, Calvo, Guillermo A & Carlos A Végh: *Inflation Stabilization and BOP Crises in Developing Countries*, National Bureau of Economic Research Working Paper 6925, Cambridge MA, February 1999.

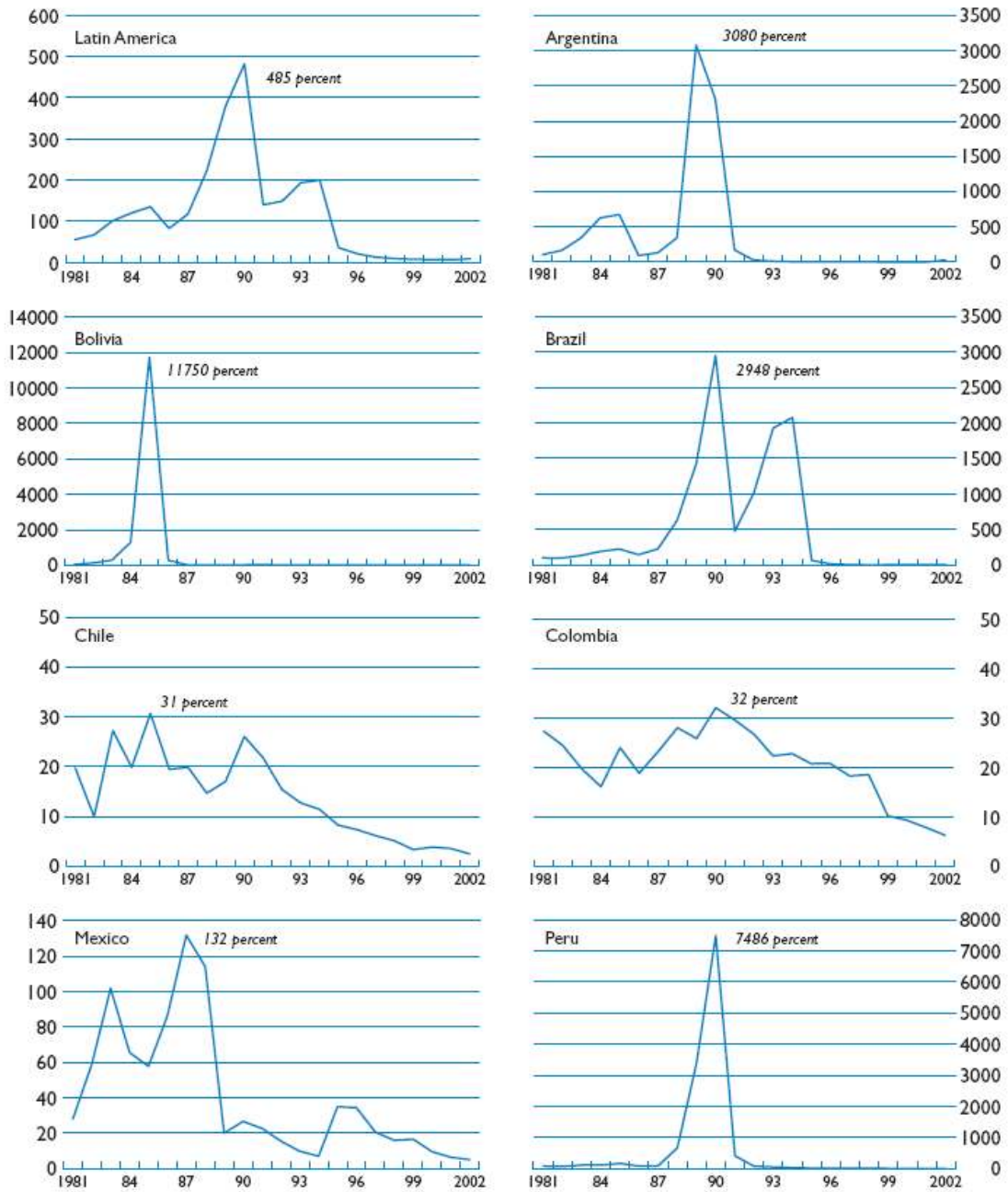
stabilisation period, is still higher than that of major trading partners, the exchange rate will become overvalued and balance of payments problems will arise. There will then be the threat of a new cycle of inflation and economic decline.

- Although more painful in the early stages, the sustainability of the monetary based approach may be more readily achieved.
- As illustrated for Latin America in Figure 4 (next page), both approaches can achieve quite rapid decreases in inflation, but often only after several previous stabilisation attempts. Monetary anchor approach: Colombia, Chile and Peru; other countries in Figure 4 adopted an exchange rate anchor approach.

### ***Restoration of growth through recovery and reconstruction***

- According to CZI surveys, capacity utilisation in the manufacturing sector in 2006 is about 40%. A similarly low level of capacity utilisation exists in other major sectors, including tourism and agriculture.
- A quick resurgence of growth is possible through taking up unused capacity, but thereafter massive investment will be required to restore sustainable economic growth.
- To offset the deterioration of infrastructure and restore the stock of capital throughout the economy, the levels of investment will initially have to be even higher than conventional growth models would predict.
- This implies increasing gross fixed capital formation from its present derisory levels of around 5% of GDP to around 30% of GDP. It is not just investment quantity, but quality that counts: in economist terms, the incremental capital output ratio or ICOR should be as low as possible.
- One of the ways in which the economy has survived on foreign currency receipts of less than half peak levels has been through the disastrous decline in investment. Increasing investment to the 30% of GDP target just mentioned will require a massive increase in the availability of foreign currency.
- This would involve more than doubling the present levels of imports to around US\$3,500 billion pa. In the short-run, this would not be possible through increasing exports, but could be facilitated by foreign financing.
- Not all of this need be in the form of grants from donors, but to restore flows of loans from commercial sources or of investment from private sources will require restoration of relations with the international institutions.
- The primary relationship to be restored is that with the International Monetary Fund. Bilateral and multilateral donors would be willing to provide resources for humanitarian and social programmes, but significant budget and balance of payments support requires the IMF stamp of approval.

**Figure 4: Selected Latin America Countries' Inflation Experience<sup>3</sup>**



Source: IMF, World Economic Outlook database.

- The challenges involved in restoring growth are elaborated further in Sections 5 and 6.

### ***Poverty reduction and the attainment of the MDGs***

- A major aim of any new developmental government would be to redress the gross inequalities which exist in Zimbabwe and which have been greatly exacerbated in the last few years (see Section 3).

<sup>3</sup> Singh, Anoop, Agnes Belaisch, Charles Collins, Paula de Masi, Reva Krieger, Guy Meredith & Robert Rennhack (2005) *Stabilisation and Reform in Latin America: A Macroeconomic Perspective on the Experience since the Early 1990s*, IMF, Washington DC.

- In the context of seeking international support for Zimbabwe's economic programme, the immediate aspect would be to focus on the achievement of the poverty-oriented Millennium Development Goals, which are at the centre of the agenda of the international development community at the present time.
- The first of the Millennium Development Goals is the halving of the rate of poverty by 2015. This is the primary or over-riding MDG.
- The six other goals are all complementary to the reduction of poverty, setting targets for improvements in health, education and basic services (such as water and sanitation) which are necessary but not sufficient for reducing poverty and creating more equal societies.
- The MDGs provide a benchmark for evaluating the 'social investment' requirements for Zimbabwe. The division between 'productive' and 'social' investment is an artificial one, however. The most efficient and effective way to overcome poverty and ensure sustainable provision of basic services to poor people is by assisting poor people to expand their productive capabilities.
- For example, giving people access to water for productive purposes would have the effect of raising their incomes thereby giving them the means and the motivation to pay for sustainable provision of clean water for drinking purposes.
- Given the large number of HIV/AIDS patients, financing requirements for the MDGs are sensitive to assumptions about the degree to which anti-retrovirals are made available<sup>4</sup>.
- In addition to government interventions, the agencies expected to deliver the MDGs include non-government, community-based and private sector institutions. In a situation of a failed state, the preference of the donors is to establish some form of 'independent service authority' through which funds can be channelled, thereby obviating the danger of engaging inappropriately with a corrupt, authoritarian government<sup>5</sup>.

Given the state to which the economy has been reduced there is a rather narrow range of options for tackling each of the above three elements (stabilisation, restoration of growth, and poverty reduction). Nonetheless, there is some room for manoeuvre in the design of a comprehensive Progressive Zimbabwe economic programme, and this needs to be exploited to reflect the ideological position of the new government designing the programme.

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<sup>4</sup> According to the Zimbabwe government's 2004 MDG Progress Report, annual financing requirements for Zimbabwe to meet the MDGs by 2015 are US\$38.4 million pa (US\$143.2 million pa if higher education standards are included and provision is made for anti-retrovirals for HIV/AIDS patients).

<sup>5</sup> See, for example, World Bank (2002): *Task Force Report on World Bank Work in Low income Countries Under Stress*, Washington DC.

The immediate programme has to lay the foundations for the long-term requirement for Zimbabwe of a profound **transformation** of the structural inequalities created under colonialism and perpetuated and worsened after independence (see Section 8).

### 3. The Zanu-PF legacy

It is clear from Section 1 that no sustained recovery will be possible until there is political change that restores the rule of law, ensures a commitment to sound governance and allows for a comprehensive package of macro-economic, social and sectoral strategies to be formulated and implemented.

At that point it will not be a question, however, of resuming where the economy left off at the start of the present crisis period in the year 2000. The legacy of Zanu-PF mis-rule is one which makes the task of stabilising the economy and restoring economic growth immensely more difficult than it was at the turn of the millennium. This legacy has many different facets, all of which will make recovery more difficult in the short term and many of which will have depressive effects in the long term as well:

- **Moral decay:** abuse of human rights, lack of respect for property rights and selective application of the rule of law have invited selective adherence to civic responsibilities and responsible business practices. The economic consequences of this are to be seen in capital flight, tax evasion and speculation replacing entrepreneurship that adds to national capital stock and productive capabilities. The ethos of compliance with foreign currency and tax obligations has so easily been destroyed and will take a very long time to restore.
- **Lack of investor commitment:** the unstable and unpredictable economic environment has led to a pre-occupation in the business sector with 'quick buck' opportunities. Longer-term investment is shunned. Hyperinflationary expectations are built into pricing policies, making the continued acceleration of inflation inevitable. It is only when a comprehensive, internally consistent macro-economic package is announced, which is sufficiently credible to break expectations that inflation will start to decline.
- **Structural retrogression:** the most obvious structural collapse is in the agricultural sector where long-established input supply, production, marketing and research systems that were the envy of neighbouring countries have to a significant extent been destroyed. Taking irrigation capacity as an example, about 50,000 hectares of national irrigation land of some 186,590 hectares existing prior to the fast track land reform has been made inoperable due to vandalism, theft and neglect. Tobacco used to play a pivotal role in the agricultural sector and indeed in the economy as a whole, but it will never regain its former status, as Zimbabwe has now lost its place in an exceptionally competitive world market.

The collapse of agriculture has been mirrored by retrogression in other sectors. As highlighted in Section 1, the pace of deindustrialisation has accelerated, and this is mirrored in many of the service sectors, notably

tourism. The very low level of aggregate investment in the economy (about 5% of GDP) implies that *net investment* is negative, that is investment is not sufficient to cover the depreciation of existing capital let alone augment capacity. This is what one businessman interviewed during this study referred to as the 'degradation of assets'.

This is particularly evident in the infrastructure sectors, where persistent underinvestment threatens to bring entire supply systems to a halt. The problem is most acute in NRZ and ZESA. At Hwange power station, for example, a maximum of 480 MW is available from the 920 MW of installed capacity. At any time, the long overdue major maintenance of the units could severely compromise the remaining generation capacity.

- **Loss of physical and human capital:** there has been a huge brain drain to neighbouring countries and further afield as a result of the crisis. Young professionals have left the country to live in democratic countries where their skills can be put to good use. The public sector has also been adversely affected by deliberate sacking of people thought to be supporters of the opposition. Zimbabwe's civil service is a poor shadow of what it once was. The country's universities and technical colleges have lost a large proportion of their academic staff and no longer have the stature they once enjoyed in the world community.
- **Macro-economic catastrophe:** while average inflation post-2000 declined to below 10% pa in Africa as a whole, in Zimbabwe inflation has been driven up to above 1000% pa (Figure 3, left hand scale). It is not just the domestic value of the currency which has been destroyed; the external value has all but evaporated. The Zimbabwe dollar, which bought more than one US dollar at independence, by 1998 had a purchasing power of only 4.1 US cents. By the end of 2006, one Zimbabwe dollar will only buy 0.00003 US cents on the parallel market (Figure 3, right hand scale). Even in the denomination of the new bearer cheques, which are 1000 times the old ones, one Zimbabwe dollar will purchase only 0.03 US cents.
- **Highly unequal society:** As John Maynard Keynes pointed out 'Lenin was right. There is no subtler, **no** surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose'<sup>6</sup>.

Those whose lives are destroyed by hyperinflation<sup>7</sup> are the most vulnerable: the old, the ill, the poor, the unemployed and those in precarious forms of employment. Even formal sector employees are vulnerable. During periods of high inflation, when wage increases do not keep pace with price increases, wealth is transferred from wage earners to wage payers, as evidenced in Zimbabwe's case by a dramatic fall in wages as a share of

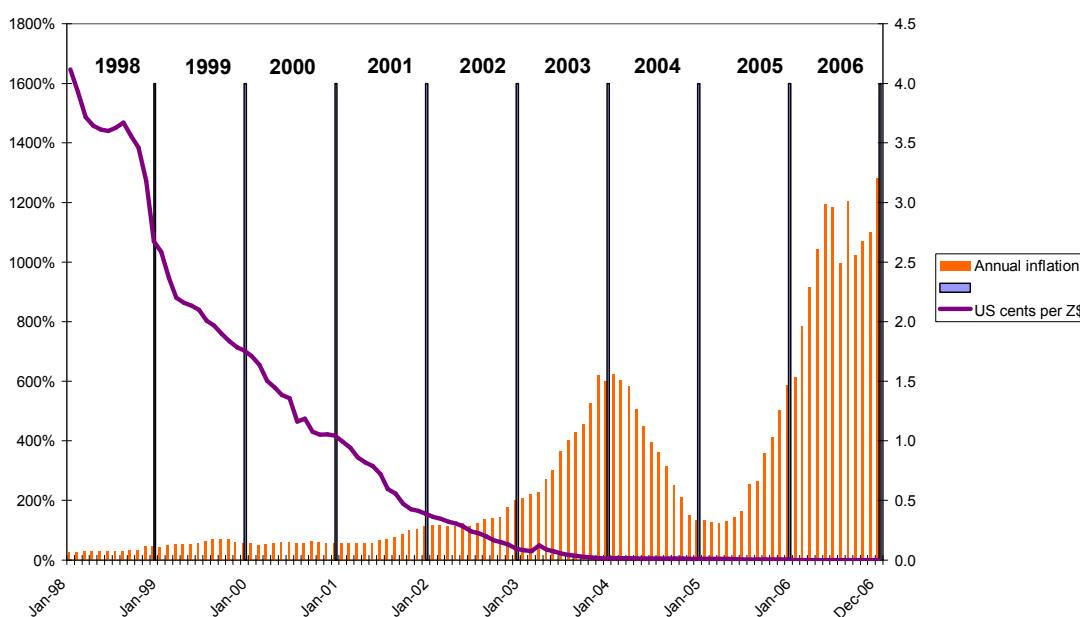
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<sup>6</sup> John Maynard Keynes (1919): *The Economic Consequences of the Peace*, Cambridge UK

<sup>7</sup> 'Hyperinflation' is used here in its colloquial sense. The strict economic definition of hyperinflation is based on a month-to-month criterion: hyperinflation sets in when the increase in the price index is in excess of 50% per month on a continued basis. Zimbabwe is yet to reach 50% per month but came close (47%) in July 2005.

GDP<sup>8</sup>. In addition, the affluent have means at their disposal to preserve their wealth (buying real assets, playing the stock market, transferring money abroad and so on).

**Figure 5: Annual consumer price inflation and Z\$ depreciation 1998-2006**



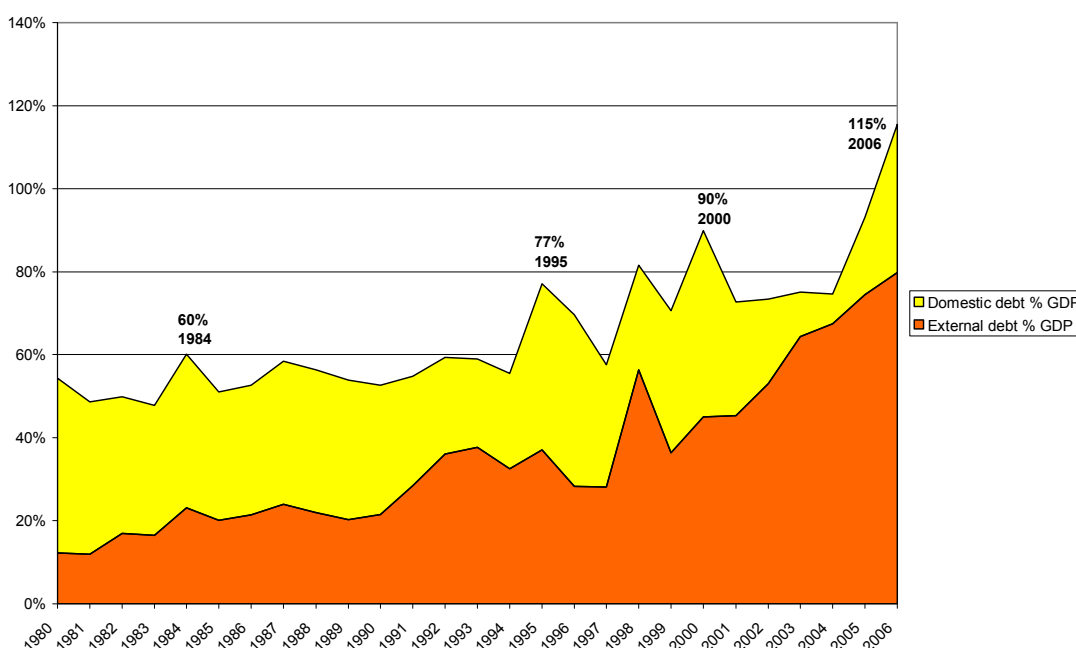
Hyperinflation is thus notorious for concentrating incomes in the hands of the rich while further impoverishing the poor, often making already highly unequal societies even more divided. In Zimbabwe's case, this undesirable process has been magnified through being accompanied by high levels of political patronage. Key resources in a highly distorted environment (such as cheap credit and foreign currency at the official exchange rate) have been allocated to selected individuals and groups, enabling them to amass enormous levels of wealth in a very short space of time. Those with political clout have borrowed heavily from the banks and then declined to pay, waiting for inflation to remove the burden of the original debt and claiming the '*in duplum*' rule to evade paying interest. The small depositors bear the cost, in effect subsidising the rich.

- **Debt burden:** public debt in Zimbabwe has been relatively high ever since independence. Persistent budget deficits have added to borrowing requirements each year, but with the deficits being incurred primarily to support excessive recurrent expenditure rather than investments in infrastructure or productive assets, the burden of debt has tended to grow. Up to 1994, total debt was nonetheless less than 60% of GDP, but from 1995 debt has escalated sharply, reaching 90% of GDP in 2000. As mentioned previously, concern about a looming debt trap, in which interest swamps all other expenditures in the budget, led to the deliberate suppression of interest rates, which thereby heralded the start of much higher inflation than the economy had ever previously experienced.

<sup>8</sup> Full details are given in the accompanying paper by Godfrey Kanyenze.

Deliberately creating inflation to reduce outstanding debt is symptomatic of weak, irresponsible governments and forms part of the story for most of the episodes of hyperinflation described in the literature. As can be seen from the graph, the short-term result of this 'cheaters' approach is to reduce the domestic debt burden but at the expense of the foreign debt becoming more significant in local currency terms as the exchange rate devalues sharply in line with the increased inflation. Since Zimbabwe began to default on foreign payments in 2000, the foreign debt stock has not increased significantly and the increased foreign debt as a proportion of GDP is because of the relative price changes and declining GDP. By the end of 2006, total debt is expected to be about 115% of GDP (foreign debt being 80% of GDP). Reported foreign exchange reserves are at extremely low levels, with net effective reserves (taking account of contingent liabilities) being deemed by the IMF to be negative.

**Figure 6: Zimbabwe's public debt as proportion of GDP (1980-2006)**



#### 4. 'Sovereignty' creating dependence

Policy-induced economic decline has been accompanied by insistent calls by the government about maintaining sovereignty. If by this is meant the achievement of independent decision-making by the Zimbabwe state, there is a sharp irony in this position. The dire situation into which the country has been plunged under 'sovereignty' has made the country much more dependent than it has ever been in the past on external assistance. To begin to recover in any reasonable timeframe from the Zanu-PF legacy will require a rapprochement with the international community that inevitably narrows the policy-making space within which a future progressive government will have to manoeuvre.

The scale of the country's dependence as a result of this period of 'sovereignty' can readily be illustrated by comparing a theoretical 'go-it-alone'

strategy with one in which foreign assistance is used to facilitate stabilisation and recovery. In Table 2, the comparison is drawn in relation to the principal options for macro-economic stabilisation (inflation below 10% pa, interest rates a few percentage points higher than inflation and a stable exchange rate), restoration of positive economic growth (which, after taking up the present unused capacity, entails significant levels of investment) and the achievement of the MDGs (halving of the proportion of the population living in poverty and attainment of various social targets by 2015).

**Table 2: 'Go-it-alone' vs 'External assistance' Strategies**

Economic Tasks	Options	"Go it alone"	"External assistance"
<b>Stabilisation</b>	Monetary anchor	Sharp reduction in public sector spending	Monetary anchor feasible - contraction required less severe because partly financed from external sources
	Exchange rate anchor	Not feasible - no reserves to back an exchange rate anchor	Exchange rate based stabilisation with positive GDP growth may be feasible if sufficient backing for the currency peg
<b>Restoration of growth (productive investment)</b>	Domestic investment	Only option - pace and scale severely limited	Domestic investment intentions can be met because forex available for capital goods imports
	Foreign investment	Political compromise necessary	Foreign investment plays complementary role
<b>Poverty reduction &amp; attainment of MDGs (social investment)</b>	Public sector	Severely limited due to the requirements for stabilisation	Significant donor support
	Non-state channels (NGOs, CBOs, private sector)	Limited foreign funding as long as isolationist position is maintained	Significant support via the big agencies and NGO channels

The following background applies to the strategies and options in Table 2:

**'Go-it-alone' strategy (coherent version)**

- The present situation of the incumbent government could be dubbed 'go-it-alone', but there is no stabilisation strategy (in sharp contrast, fiscal and monetary policies announced in mid-2006 were unambiguously pro-inflationary) and the attempts to address restoration of economic growth, such as the NEDPP, have been characterised by poor economics, inconsistency and indecision. The economy has thus continued to have negative GDP growth every year since 1999.
- The 'go-it-alone' strategy in the table is assumed to have a comprehensive and consistent macro-economic base. This counterfactual scenario is admittedly a theoretical one, as it is hard to think of a government which would pursue this line. It is nonetheless useful to explore this scenario in order to illustrate the degree to which the country is now dependent on external assistance.
- To illustrate what a proper macro-economic base implies: a monetary policy in which positive real interest rates are consistently maintained, an exchange rate policy which allows exporters to be competitive on a consistent and predictable basis, and a fiscal policy in which there is a primary surplus and an overall budget deficit of less than say 5% of GDP.

- The *primary deficit* (that is revenue less non-interest expenditure) is estimated for 2006 at 9.7%, rising to 18.3% of GDP in 2007 and probably even higher than this in reality if off-budget amounts were to be brought to account. For a go-it-alone stabilisation strategy to be credible, this situation would have to be turned to a *primary surplus* of between say +1% to +3% of GDP. In relation to the current situation, this would imply an enormous fiscal adjustment.
- As regards the total budget deficit, the official figure (for 2006) is 24% of GDP, while the total public sector deficit (as per estimates made by the IMF) is in excess of 60% of GDP. The problem is not so much on the revenue side (total revenues is budgeted at 29.8% of GDP), but reflect massive excess expenditure that is crowding out private sector activity and, being financed by money creation, is resulting in inflation rates of over 1200% pa.
- Without any external budget support, reducing expenditure sufficiently for the overall deficit to be below 5% of GDP would clearly require an enormous adjustment, with the burden falling on the military and the civil service (which would have to contract), social programmes and investment. This would imply further contraction of GDP and employment and even more widespread hunger and poverty during the stabilisation phase.
- The monetary requirement of positive real interest rates would also be a tough policy for the groups which have grown used to highly subsidised credit being provided by the Reserve Bank. High interest rates would also tend to dampen economic activity, adding to the contractionary effects of rapid expenditure reduction.
- When it comes to productive investment, the go-it-alone strategy has to rely purely on reviving domestic investment. This is difficult to achieve when the demands of stabilisation preclude significant public sector investment, and private sector investment intentions would be curtailed by the lack of availability of foreign currency to cover the imported part of investment goods and by constraints such as limited electricity, poor telecommunications and inefficient transport systems.
- Similarly, the pace of social investment is limited under the go-it-alone strategy because of necessary restrictions on public sector budget allocations and the fact that non-state activities will be minimal.

### ***External assistance strategy***

- The availability of external assistance holds the possibility of dramatically changing the prospects for swift stabilisation and resumption of economic growth, with a strong emphasis on poverty reduction and equity.
- Depending on how the change process is managed and the stabilisation programme is designed, it should be possible to achieve low inflation and a stable currency much more rapidly while at the same time restoring positive GDP growth (a 'soft landing').

- Experience from other countries clearly indicates that successful stabilisation programmes work not just because they are well designed but because they are seen to deliver the sort of quick results which are made possible by external support. Immediate improvements help to puncture inflationary expectations, change pricing behaviour, shift incentives from speculative to productive activities and hence build the momentum necessary for the programme to succeed.
- The additional 'breathing space' afforded by external resources makes it possible to maintain higher levels of public sector investment, which help to 'crowd in' private sector investment, and to enable higher levels of resources to be devoted to meeting the MDGs and other aspects of poverty reduction.
- In an environment where there are strong relations with the international community, there would also be a high level of support for non-state institutions involved in poverty reduction activities.

The implications of the above are that even the most well planned and rigorously implemented go-it-alone strategy would involve much greater hardships and a much longer period of stabilisation and recovery than a strategy which has external backing.

To quantify the difference requires assumptions to be made about various economic parameters at the time that a definitive new economic strategy is introduced, including the level of external assistance that would be forthcoming under reasonable expectations about the external assistance strategy. Illustrative results are given in Figure 7.

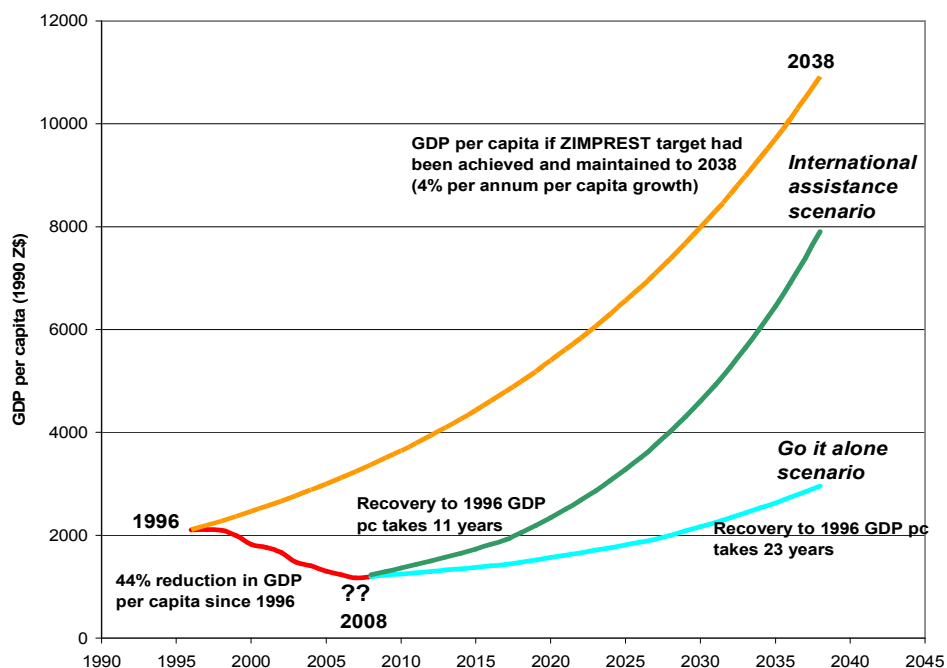
Like any economic calculations of this type, the results depend on the assumptions made. Those used in Figure 7 might well be considered to err on the side of optimism. In the wake of the painful structural changes which had been made in the early 1990s, the ZIMPREST target of 4% pa GDP per capita growth seemed ambitious but feasible. It would have required Zimbabwe to emulate the high performing Asian economies, diversifying its export base and becoming less subject to downturns due to drought.

Since independence, the highest five year moving average growth in GDP per capita is a mere 2.4% (achieved over 1987-1991). Against this background the assumptions used for recovery, starting at an assumed date of 2008, may seem high (2% for the first 10 years then 3% and 4% pa in the go-it-alone strategy and 5% rising to 7% pa in 2018 for the external assistance scenario)<sup>9</sup>. The country would be burdened by all of the negative factors discussed in Section 3, but against this it can be argued that starting from such a low base should make possible much higher rates of economic growth than have been achieved in the past.

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<sup>9</sup> Population growth of 1% pa is assumed, augmented by inflows in the early years as diaspora Zimbabweans return.  $\text{GDP per capita growth} = (1 + \text{GDP growth}) / (1 + \text{pop growth}) - 1$

**Figure 7: Growth of GDP/capita**



Even if one started with more pessimistic assumptions, so that all of the curves would be lower, it is clear that to significantly narrow the performance gap between the strategies would require implausibly optimistic assumptions to be made about the go-it-alone scenario and unnecessarily pessimistic assumptions about the external assistance strategy. The conclusion that thus emerges is that Zimbabwe's future is heavily dependent on restoring relations with the international community and being able to pursue a stabilisation and recovery strategy which enjoys significant external support.

The longer the current situation continues, with perverse policies further destabilising the macro-economy and destroying the productive and social base of the country, the more urgent it will become to restore Zimbabwe's relations with the donors. Undoubtedly this will have costs as well as benefits, the most obvious being that policies will have to be shaped within the parameters acceptable to the international community. Hence the irony identified at the start of this section – the more that 'sovereignty' is pursued by the incumbent government, the more dependent any future government will be on external assistance.

## 5. Ideology

At the moment of its creation, Zimbabwe was an archetypal post-colonial state, which has no tradition or experience of democracy. The colonial epoch was characterised by an anti-democratic, authoritarian regime preserving the rights and promoting the economic interests of a racially defined minority. This reality produced a liberation movement which espoused high ideals but which in practice also operated on authoritarian lines. With the assumption of state power by the liberation movement in 1980, the specifically 'socialist'

ideology of the liberation war period gave way to an agenda of national development, with some emphasis on redistribution of resources to redress the racially defined inequalities of the past. The orientation was to redistribute existing resources, rather than to generate new ones through promoting rapid economic growth – in short an emphasis on consumption rather than production. In the political realm, the aim was to consolidate state power in the hands of the ruling party. After the brutal Gukuruhundi campaign in the mid-1980s in Matabeleland, by 1987 a de facto one party state had been created and the constitution amended to give almost unlimited powers to the executive president.

The ill-defined populist ideology of the ruling party became even more opaque during the 1990s when structural adjustment was poorly designed and implemented, with scant attention to the implications of becoming market-oriented without any measures to address the structural inequalities. In the face of deteriorating socio-economic conditions in the country, there were attempts by various politicians to form opposition parties. These were readily thwarted, but with growing dissatisfaction over the lack of political freedom and worsening living standards for the majority of the population, by the end of the 1990s the ruling party found itself faced by a strong civic society movement, unified around the need for constitutional reform. A powerful and effective opposition party with a wide popular base – the Movement for Democratic Change – was formed in 1999. When these new political forces in February 2000 produced a defeat for the government in the constitutional referendum, it was evident that the monopolisation of power which had existed since independence was under real threat.

The ruling party responded by returning to its authoritarian roots. This involved Zanu-PF reinventing itself by reinvoking the anti-imperialist rhetoric of the liberation struggle, while simultaneously deconstructing the MDC. The ruling party's ideology came to be reduced to unidimensional focus on the land (as encapsulated in the slogan 'the economy is land and land is the economy') and a selective use of history to justify exclusion of those defined as outsiders and/or sell-outs<sup>10</sup>. By carefully reading the mood in African and international fora, Zanu-PF has been surprisingly successful in portraying its sparse but aggressively portrayed ideological position as valid, and the associated suppression of the opposition and the wilful destruction of the economy as therefore being legitimate.

Within Zimbabwe, Zanu-PF's current ideological stance is seen as being one of unbridled opportunism, its purpose being purely to serve the interests of a small elite which is ever more dependent for its existence on the retention of political power. The gross economic and political distortions and abuse of human rights are part of the means of retaining power and continuing the gross appropriation of resources by the elite. Nonetheless, this ideological position cannot simply be dismissed on the basis of its insincerity and illegitimate use of violence, as it at the same time creates difficulties for any

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<sup>10</sup> For a rich exposition of these ideas, see for example chapter by Raftopolous in Amanda Hammar, Brian Raftopolous & Stig Jensen eds (2003) *Zimbabwe's Unfinished Business – Rethinking Land, State and Nation in the Context of Crisis* and Muponde in Brian Raftopolous & Tyrone Savage eds (2004) *Zimbabwe- Injustice and Political Reconciliation*, both published by Weaver Press, Harare.

future government intent on addressing the economic crisis that Zanu-PF has inflicted on the country. A new government with a new orientation is required to unlock the foreign support that is so urgently needed for stabilisation and recovery, but in so doing it will all too easily be tarred with the brush of embracing neo-liberalism and accused of imposing the Washington consensus policies which are widely regarded as having been so damaging to Zimbabwe during the 1990s. Unless there is extensive consultation to forge agreement on the way ahead, simplistic views about the options as both facilitated and constrained by external support could create disunity over the programme. This would severely undermine any chance of its being successfully implemented.

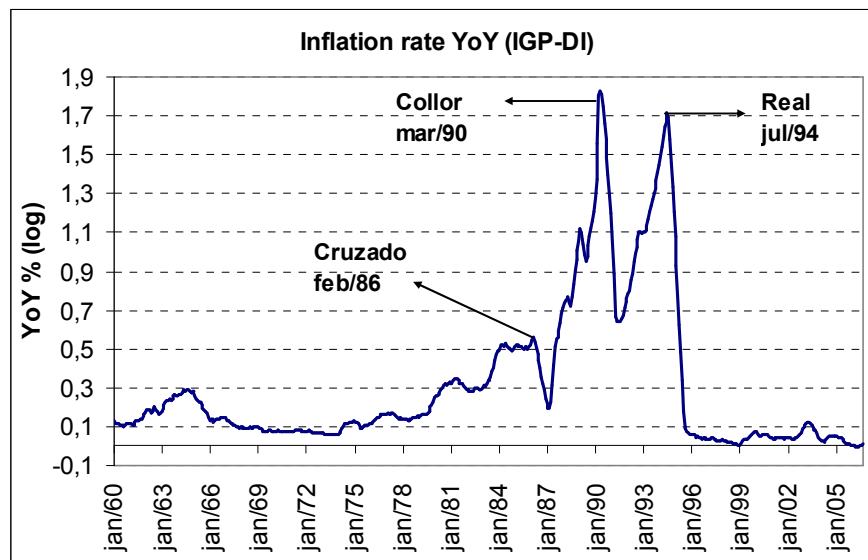
For a new government to succeed in its economic programme, it is thus critically important that the programme be based around a clearly articulated ideological position, which is the result of extensive discussions and consensus-building. It is evident that there is already a broad consensus in Zimbabwe around an ideological position of “social democracy”, but this would not in itself be sufficient to rescue a new government from accusations of neo-liberalism. There are dangers in this realm in the stabilisation phase – see lessons from Brasil in Box 2.

A central theme for all social democratic parties is the pursuit of **social justice**, which involves improving the distribution of economic resources at the same time as growing the economy. These concepts have wide appeal but leave a great deal to be determined in their detailed application. In the context of contemporary Zimbabwe, it is important that change be built upon ideological principles that draw the best from the liberation struggle goals of independence and autonomy and the aspirations of the people for greater prosperity in a more equal, participatory society.

#### **Box 2 – Lessons from Brasil’s Plano Real**

From 1980 to 1994, average annual rates of inflation in Brazil varied between 65% and over 2700% per annum. As can be seen from the inflation graph (plotted on a logarithmic basis), a number of different stabilisation plans were attempted during this period, notably the Cruzado and Collor plans, but it was only when the Plano Real was launched in July 1994 that inflation was finally conquered. Stabilisation plans that are not sufficiently focussed on reducing inflation, or which lack credibility and discipline at best bring only temporary relief.

In an interesting paper presented in Harare in October 2006, Brazilian economist Caio Megale highlighted the fact that the major cost of inflation in poor countries is its power to concentrate incomes. “Inflation tends to redistribute income in favour of the debtor and thus against the creditor (since it corrodes the value of the debt). This means that inflation transfers income from wage-earners to wage payers. More than this, the richest classes, with access to the systems of monetary correction (bank accounts, money and stock markets etc) are able to protect their savings from inflationary corrosion, while the poorest classes cannot”. High inflation also impacts negatively on the economically vulnerable by undermining growth in GDP and employment.



In the face of recent worsening of income distribution, stabilisation programmes often try to correct this at the same time that inflation is reduced. Megale cautions that this is the wrong way to go – it raises the probability of the programme failing, high inflation resuming and income disparities widening further. Disinflation plans inevitably involve social costs. The political problem that arises is that any plan that is going to be effective in reducing inflation will also, in the short run, further undermine the well-being of the majority of the population. An “important lesson from the Brazilian experience is that one should not succumb to the temptation of carrying out social justice during the implementation of the stabilization plan”.

Stabilising prices and the exchange rate is just a start. Economic policies have to be geared to capitalise on a stable macro-economic environment to attain high rates of economic growth while also reversing the income and wealth disparities recently worsened during the inflationary period. In the face of the threat of a resurgence in inflation, the challenges are considerable. “The most difficult part of the stabilisation plan is not to bring inflation down but to keep inflation low in subsequent years”.

Fiscal reform is an essential component of any successful stabilisation programme. In Brazil’s case, there was a broad revision of the role of the State in the economy. The Cardoso government proposed social security, tax, labour and administrative reforms. The national privatisation programme started under Collor was extended “through public service sectors (such as telephone and transport) and various federal government monopolies were broken”. These reforms were driven not by a specifically pro-privatisation stance but “because of accounting issues: given the government’s delicate fiscal situation, the State had lost its investment capacity and the economy began to present a series of bottlenecks that impeded economic growth. Thus, the only solution was to seize upon private capital – both domestic and external – to move forward on the infrastructure projects so needed by the country”.

**Source:** Caio Megale & Cassiana Fernandez (2006) *The Brazilian Experience in the Fight Against Inflation* Paper presented at ABAZ Economic Forum on *Private Sector Perspectives on the Foundations for Economic Turnaround and Investment Attractiveness in Zimbabwe*, Harare, October.

Making these principles operational in the economic sphere will require further debate and agreement on four inter-related areas that are particularly contentious. These are:

- **The role of the State:** How purposeful and intrusive should the state be in countering the effects of unequal access to economic resources and of the income disparities accentuated by the operation of economic markets? How can state intervention be designed to ensure that it does not result in 'killing the goose that lays the golden egg'?
- **Privatisation:** To what extent does it make sense to privatise functions, such as the provision of social services (health, education) and infrastructure services (transport, electricity, telecommunications) which historically have been carried out by the state? Can regulatory structures be established which give confidence to private companies to invest and provide services efficiently, while simultaneously ensuring that prices and service standards reflect the interests of consumers?
- **Labour flexibility:** Can mechanisms be designed to protect workers without at the same time biasing investment decisions against labour-intensive methods of production? Should there be statutory minimum wages?
- **External relations:** Can trade-offs be avoided between obtaining economic assistance from donors and curtailing social or other priority programmes? To what extent do openness to trade, foreign investment and foreign workers enhance economic growth and the attainment of social objectives?

These are not new questions, and have been debated and satisfactorily resolved in the past. For example, as regards the economic role of the state, the ZCTU position articulated in *Beyond ESAP*, that the state should provide an enabling environment for the private sector and intervene only to correct market failures, is one which would surely be almost identical to any similar statement which might be prepared by business. Nonetheless, on these contentious issues there is need for continuous review and the re-establishment of consensus between different social partners.

Some of the sting of different positions is also being removed by the grim realities of the situation the country now faces. In respect of privatisation, for example, as was the case in Brazil social needs and financing constraints are such that the public resources that are available must go into education, health, housing and rural infrastructure and not into covering parastatal losses. To ensure that they do not need state funding, most of the existing parastatals should be privatised and many of the functions presently carried out by inefficient state structures out-sourced to the private sector. This does not mean massive foreign investment – most of the opportunities would not attract foreign investors anyway. It means providing opportunities for Zimbabwean entrepreneurship to be channelled in public service provision, much of this through small and medium scaled enterprises. For this strategy to be pursued effectively and fairly, what is required on the government side is the establishment of 'light handed' regulatory structures which balance the interests of consumers and providers of services.

The issue of donor influence over policies is bound to be contentious, but the best way to handle this is to hoist the donor community on its current petard. This is that all donor assistance must contribute to poverty reduction and that the poverty reduction strategy being pursued by government with international

financial support must be the result of a consultative and participatory process. The focus for this is the so-called Poverty Reduction Strategy Paper (PRSP). Initiating a process on participation in the formulation of a PRSP, and framing poverty reduction strategies within the concepts and language of the MDGs, would be the most expedient way of unlocking donor support for objectives which a new Zimbabwe government would surely wish to pursue. These issues are discussed further in Section 7.

## 6. Getting onto a Development High Road

The *Progressive Zimbabwe* economic strategy has to incorporate both stabilisation and recovery (as defined in Sections 2 & 4) and has to lay the ground for transformation (discussed further in Section 8). As previously highlighted, the whole project depends on a radically changed political environment. The detailed design of the programme will crucially depend on the precise conditions which exist at the moment of political change. For example, the level of inflation, accumulated domestic debt and the interest rates payable on existing debt will be major factors constraining fiscal policy at the start of the programme. However, the basic elements of the macro-economic framework should be based on the values and principles of social democracy and hence employment growth and poverty reduction are to be at its core.

For the reasons spelt out in Section 4 the level, type and phasing of foreign financing will be of particular importance. This section attempts to lay out some basic principles for the design of the economic programme and to establish orders of magnitude for external support and debt relief. The importance of the programme being rooted in a home-grown consensus and of the other pre-requisites for it to succeed are discussed in Section 7.

In considering the design of the economic programme, the starting point has to be **fiscal policy**, as this lies at the core of any successful stabilisation programme and, for that matter, of any successful socio-economic development programme. Table 3 presents an appropriate structure of revenues and expenditures for a social democratic government in Zimbabwe to work towards in the first few years. Over time, as the economy grows, the aim should be to shrink the level of government involvement (from 30% to perhaps 25% of GDP), thereby freeing up resources and providing greater incentives for private investment and growth. At a higher level of national income, this would still leave social expenditures at adequate per capita levels.

The initial 'model' budget structure in Table 3 incorporates the following elements:

- a relatively high level of revenue collection (30% of GDP) consistent with making possible an active role for government in addressing socio-economic priorities;
- levels of expenditure on health (4% of GDP) and education (6% of GDP) which are high in relative terms and which (once GDP has recovered) would give per capita levels of health and education expenditure above

international norms (allowing some scaling back of the social expenditures in relative terms once the economy grows);

- health and education expenditure together are 10% of GDP and one third of the budget;
- low levels of expenditure on the military (15% of health and education);

**Table 3: Initial 'model' social democratic budget structure**

Item	%GDP	Other	Health	Educ	Military
Revenue	30				
Wages & salaries	12	4.9	1.9	4.2	1.0
Recurrent expenditure	9	5.2	1.9	1.5	0.4
Capital expenditure & net lending	6	5.4	0.2	0.3	0.1
Interest expenditure	3	3.0			
Primary surplus / deficit	3				
Overall budget deficit	0				
% GDP	30	18.5	4.0	6.0	1.5
% Total budget		61.7	13.3	20.0	5.0
% Non-interest expenditure		68.5	14.8	14.1	3.2
% Recurrent non-interest		48.1	18.1	27.1	6.7
% Capital		90.0	3.3	5.0	1.7

- relatively high proportion of expenditure on capital investment, with most going to infrastructure, land reform and agricultural recovery investments, these expenditures being oriented to 'crowding in' private sector investment;
- the infrastructure investment expenditure would in part be effected through lending to parastatals and municipalities; work also to strengthen sub-national financing and infrastructural regulatory structures so as to encourage off-budget public and private sector infrastructural investment in future years;
- limited expenditure on interest on accumulated debt matching a small primary surplus to give a balanced budget overall.

As mentioned, over time this initial model structure could give way to a lower level of taxation, lower expenditure as a percentage of GDP on health and education (but higher in absolute terms) and a higher proportion of public goods investments being financed outside of the national budget. Once the debt situation has been stabilised, consideration could also be given to running small budget deficits (2% to 3% of GDP).

Table 4 puts the proposed indicative figures for health, education and military expenditure as a percentage of GDP into an international context. In the high income countries, health expenditures are extremely high, in most cases exceeding education. The developing countries in Asia and Latin America identified in the table place more emphasis on education than on health,

except for the case of Costa Rica which has the important distinction of being the only country in the world without an army (military expenditure = zero). Within SADC, the proposed 4% of GDP expenditure in health is exceeded in two countries (Namibia and Lesotho) and 6% of GDP expenditure in education in four countries (Lesotho, Namibia, Swaziland and Malawi).

**Table 4: Structure of public expenditure in selected countries (% GDP)**

HDI	Country	Health	Education	Military
1	Norway	8.6	7.7	2.0
15	Denmark	7.5	8.4	1.5
5	Sweden	8.0	7.0	1.6
16	France	7.7	6.0	2.6
21	Germany	8.7	4.8	1.4
8	United States	6.8	5.9	4.0
18	United kingdom	6.9	5.5	2.8
3	Australia	6.4	4.8	1.9
61	Malaysia	2.2	8.0	2.3
26	Korea	2.8	4.6	2.4
74	Thailand	2.0	4.2	1.2
48	Costa Rica	5.8	4.9	0.0
69	Brazil	3.4	4.1	1.5
38	Chile	3.0	3.7	3.9
149	Lesotho	4.1	9.0	2.3
125	Namibia	4.5	7.2	3.1
146	Swaziland	3.3	6.2	
166	Malawi	3.3	6.0	
121	South Africa	3.2	5.4	1.4
151	Zimbabwe	2.8	4.7	2.1
63	Mauritius	2.2	4.7	0.2
165	Zambia	2.8	2.8	
131	Botswana	3.3	2.2	3.8
168	Mozambique	2.9	2.4	1.3
161	Angola	2.4	2.8	4.2
143	Madagascar	1.7	3.3	
162	Tanzania	2.4		1.1
167	DRC	0.7		3.0

**Source:** UNDP Human Development Report (2006), Table 19.  
Data mostly 2004. Ordering by total health & educ exp.

The inherited budgetary starting point is likely to be very different from the structure shown in Table 3 and it will not be possible to shift expenditures immediately. However, the programme should announce and stick to ambitious targets because the sooner the budget is brought into a coherent shape the better. A five year **medium term budgetary expenditure framework (MTEF)** would be an essential component of the economic programme, not primarily because this would be a requirement for donor support but because the new government should be committed to transparently revealing its expenditure intentions to the Zimbabwe public.

The analysis so far has been couched in terms of the appropriate levels of expenditure as a percentage of GDP, but an even more important factor is HOW government makes use of the resources allocated. In many areas of public sector responsibility, there is currently massive inefficiency. The proliferation of ministries in recent years (there are now 25 ministries) seems

to have to do with the creation of additional ministerial posts, and has caused disruption, lack of clarity in responsibilities and even greater overlap than in the past. There is a similar pattern of post-creation within various sectors. Higher education, for example, now has to support a proliferation of so-called universities of dubious academic standing, while even the main universities in Harare and Bulawayo are starved of the resources and the autonomy to be effective. As a result, most of Zimbabwe's academics are to be found working in universities abroad and in the region.

When the change comes, Zimbabwe will in effect be in the position of a post-conflict state. Received wisdom in such circumstances is for external assistance to be given with a degree of caution at the outset, so as not to derail the necessary changes. In the sphere of macro-economic policy, having external assistance too readily available would make it easy for the difficult choices to be avoided. For the productive sectors, massive foreign exchange inflows would overvalue the exchange rate, making it difficult for exporters to be competitive and thus suppressing the supply response so urgently needed at the start of the process to kick-start GDP growth (this phenomenon is known as 'Dutch disease').

Against this background, what are the required and likely amounts of foreign assistance for Progressive Zimbabwe? To address urgent social needs during the stabilisation phase, donors are likely to be willing to finance an emergency programme embracing food, health, and education as well as governance and the restructuring process itself (local government development and central civil service reform). In the tables that follow, the emergency programme in the first five years is assumed to be funded entirely by grants, with the infrastructure component thereafter being mainly loans. Budgetary/balance of payments support would be in addition to the Emergency Programme, but most of this could from the start be in the form of loans. A low average loan component of 25% is assumed as Zimbabwe's GDP per capita reduction makes it eligible to be treated as an LDC, and within an institution such as the World Bank as a 'pure IDA' country.

Indicative levels of external assistance for the *Progressive Zimbabwe* programme are presented in Table 5. Including a standby facility equivalent to three months of imports in the first year of the programme, the total level of assistance is **US\$8 billion**. The standby facility will be needed because of the total lack of international reserves<sup>11</sup>. As explained in detail below, an additional **US\$2 billion** of debt relief is also programmed. The total amount required to put Zimbabwe on a secure growth path is thus estimated to be **US\$10 billion**.

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<sup>11</sup> Net reserves (gross reserves less short-term liabilities) are actually negative (see IMF Statistical Annex 2005, Table 37)

**Table 5: Progressive Zimbabwe External Assistance (US\$ millions)****Table 5: Progressive Zimbabwe External Assistance**

<b>US\$ millions</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Yrs 6-10</b>	<b>Total</b>
Food	125	25					150
Governance	100	100	75	75	75	225	650
Land/agrarian reform	50	100	100	100	100	300	750
Health & Education	100	100	100	100	100	300	800
Other MDGs	75	75	75	75	75	225	600
Infrastructure	50	100	200	200	200	1,600	2350
<b>Emergency</b>	<b>500</b>	<b>500</b>	<b>550</b>	<b>550</b>	<b>550</b>	<b>2650</b>	<b>5,300</b>
Debt Relief /BOP support	350	400	450	550	600	1,850	4,200
<b>Total</b>	<b>850</b>	<b>900</b>	<b>1,000</b>	<b>1,100</b>	<b>1,150</b>	<b>4,500</b>	<b>9,500</b>
Standby facility	500						500

The next table (Table 6) shows macro-economic balances over the first five years. Over this period, external assistance, together with some measure of debt relief (39% of inherited debt stock), complements rapidly rising exports (12% pa) and GDP growth (7% pa) to eliminate arrears and achieve a sustainable external debt position. The current account deficit remains large in the fifth year (-8.5% of GDP), and further assistance will be needed to put the country onto an unambiguous sustainable growth path. As shown in Table 5, the emphasis after year 5 will be on helping finance the enormous infrastructure investments (in electricity, telecommunications, water and transport) which will be needed to maintain the growth of exports and GDP over the medium term.

Key assumptions underlying Table 6 are:

- Starting situation ('year 0') in which exports and imports are roughly in balance (at around US\$1,700 million) and net services/investment income outflows are partly funded by NGO/private transfers. The negative balance on the current account is largely interest on debt, which is transferred to arrears.
- At the start of the programme, an immediate response is expected from the export sector, and an even bigger increase in imports, particularly of capital goods. Interest payable is assumed to be reduced due to debt relief or re-scheduling, while NGO and diaspora transfers are assumed to increase significantly.
- Thereafter, exports grow strongly each year, feeding into GDP growth of 7% pa (possibly higher, considering the very low starting point, but 7% is assumed as an average to allow for at least one drought during the period and to take account of all the negative inherited factors).
- To sustain high growth of exports and GDP, the rate of investment would have to increase markedly, this requiring a commensurate increase in importation of investment goods. The annual average increase in capital goods imports (calculated with a logarithmic regression formula) is 53%. After year 5, however, the dramatic increase in imports will stabilise. Assuming export growth will continue to be strong; this will allow the balance

of payments to move towards a sound position anticipating the withdrawal of large-scale donor inflows.

- The external assistance will make it possible to cover the current account deficit and leave a balance which can be used to reduce arrears, a capital account item. Other aspects of the capital account of the balance of payments are not considered in detail, but the presumption is that there will be significant inflows (eg of portfolio and direct investment) in response to the new economic environment. In the first instance, these will be used to build external reserves, thereby also obviating unwanted upward pressure on the exchange rate.
- With other elements being in balance, external debt will be reduced by the amount of arrears payments and increased by the debt component of the budget/BOP support.
- The starting value of GDP is assumed to be US\$6,300 million. This is the GDP 'at world prices', a concept deployed by the IMF. With 1996 as base, GDP in US dollars is adjusted for real growth and international inflation.

**Table 6: Progressive Zimbabwe Forex Flows & External Debt (US\$ m)**

US\$ millions	AAG	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Exports	12.4%	1,700	1,950	2,184	2,446	2,740	3,070
Imports	16.8%	-1,700	-2,625	-2,928	-3,459	-3,768	-3,931
- of which recurrent	6.9%	-1,550	-1,950	-2,028	-2,109	-2,193	-2,281
- of which capital	53.2%	-150	-675	-900	-1,350	-1,575	-1,650
Services & inv income	3.6%	-400	-322	-348	-376	-406	-438
NGO & private transfers	19.9%	200	450	486	525	567	612
Current account before grants		-200	-547	-606	-864	-868	-687
External assistance			850	900	1000	1100	1150
Available for arrears payments			303	294	136	232	463
External debt		5,700	5,610	5,540	3,642	3,672	3,483
- of which arrears		3,600	3,297	3,003	696	463	0
GDP at world prices	5.0%	6,300	6,615	6,946	7,293	7,658	8,041
GDP per capita % 1996 value	(Fig 7)	56%	58%	60%	63%	65%	68%
Exp + imp % GDP		54%	69%	74%	81%	85%	87%
Capital imp % total imports		9%	26%	31%	39%	42%	42%
CAD % GDP (before grants)		-3.2%	-8.3%	-8.7%	-11.8%	-11.3%	-8.5%
Ext assistance %GDP			12.8%	13.0%	13.7%	14.4%	14.3%
Ext debt % GDP		90%	85%	80%	50%	48%	43%
Ext debt % exports		335%	288%	254%	149%	134%	113%

**Note:** In 3rd year 36% debt relief (equiv to \$2 billion), including 64% of year 2 arrears (Naples terms).

- External debt (including arrears) is assumed to start at around 90% of GDP and 335% of exports. With no debt relief (not illustrated in the table), by the end of the first five years external debt would have fallen to 68% of GDP and 179% of annual exports. With a discount rate higher than the low average interest rate, the net present value (NPV) of the debt would be somewhat higher than these values, implying on the conventional HIPC and related criteria a lack of debt sustainability (various benchmarks are used, most

often that the NPV of debt should be less than 50% of GDP and less than 150% of annual exports).

- The scenario in Table 6 is one in which it is assumed that debt negotiations result in a **US\$2 billion** or 36% reduction in the level of inherited debt at the start of the third year<sup>12</sup>. This could be an outright cancellation, or a rescheduling on extended terms which would have the effect of reducing the NPV by a commensurate amount. It is further assumed that about 60% of the arrears directly benefit from the debt reduction or rescheduling. This allows arrears to be eliminated by the end of the first five years.
- The effect of including debt relief (the scenario that is shown in the table) is to allow external debt to be reduced to 43% of GDP and 113% of annual exports by year 5. These levels are not yet firmly within the sustainability range, but continued assistance beyond year 5, coupled with continued strong growth of net exports and of GDP, should allow the external debt situation to be continuously improved.

Post-conflict societies which have had periods of support of only a few years have tended to relapse into slow growth and renewed political instability. In Progressive Zimbabwe's case, it is envisaged that assistance would continue beyond the first five years, with the emphasis being on infrastructure and supply-side support for the rebuilding of competitive agriculture, mining, manufacturing and service industries.

The calculations reflect the idea of a once-off round of budget/balance-of-payments support together with debt relief which sets the country on a sustainable growth path. Without such external assistance GDP growth of at most 3% pa might be achievable. The consequences for GDP per capita of being reduced to a lower growth trajectory were highlighted previously (see Figure 7).

In the post-programme period, external assistance would drop down to around 3% of GDP, a level consistent with the objective of self-sufficient growth. The avoidance of aid dependency is discussed further in the remaining two sections.

## 7. Prerequisites and Risks

The focus in the last section on estimating orders of magnitude of external assistance may have given the impression that the programme has to be designed first and foremost for an international audience. On the contrary, unless the programme represents an agreed position of the main domestic economic actors and has widespread support throughout the society at large, it would be doomed to fail, almost no matter how large the external support. Furthermore, strenuous efforts have to be made to ensure that the programme is **not** a pre-cursor to a habit of donor dependence, a theme that is taken up again in the concluding section.

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<sup>12</sup> This would likely involve a mix of multilateral debt relief and Paris Club concessions on Naples terms for the roughly 50% of Zimbabwe's public debt which falls under the ambit of the Paris Club.

The following list of **pre-requisites** gives prominence to domestic roots for the programme:

- 1) **Ownership:** The main impetus for the national economic recovery should start and come from within Zimbabwe itself – with the driving force dependent on the domestic groups willing to reconcile and organize to rebuild Zimbabwe. Key economic actors should be properly consulted and involved in the implementation of the programme.
- 2) **Governance:** A serious economic recovery programme can only be launched when the governance fundamentals have been restored, as embodied in respect for property rights, the rule of law and constitutionalism. This needs to include the re-building of a professional and independent police force and judiciary. Immediate repeal of the repressive legislation introduced in recent years would be an essential pre-cursor to radical improvement in the governance environment<sup>13</sup>.
- 3) **Land:** There needs to be a clear commitment to resolving the many problems associated with the current allocation and use of land, which even in terms of equity of ownership is less satisfactory than the pre-fast track situation<sup>14</sup>. Achieving a final resolution of the land question in Zimbabwe requires achieving an equitable, transparent, just, lawful and economically efficient distribution and use of land.
- 4) **Macro-economic Institutions:** Within the sphere of macro-economic management, good governance requires reverting to the proper roles and functions of key institutions. The Ministry of Finance must be solely responsible for the budget. The Reserve Bank must be clearly independent of government, but strictly limited in its operations to monetary and exchange rate policy.
- 5) **State structures:** Corruption within state structures needs to be tackled and the de-professionalisation and militarization of state structures reversed and replaced by appointments on the basis of ability and experience with no regard to political affiliation. The army and police need to exhibit professionalism and loyalty to the people, not to a political party.
- 6) **Reverse brain drain:** The programme needs to include a component to attract back Zimbabweans with skills that can be used to restart the economy and to retain within the country people who have important skills.

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<sup>13</sup> For more on ownership and governance, see accompanying background paper by Daniel Ndelela (2007) *Progressive Zimbabwe – Discussion with Major Players*.

<sup>14</sup> The World Bank's September 2006 report on *Agricultural Growth and Land Reform in Zimbabwe: Assessment and Recovery Options* is seriously misleading in this regard. Implementation of the report's recommendations would not merely be an acceptance but an entrenchment of the highly politicised and inequitable results of the fast track land reform programme. The need for final closure on Zimbabwe's land issue is analysed in detail in Dale Dore (2007) *Bringing the Land Question to Closure*.

- 7) **External support:** Before the programme is launched, there needs to be agreement of external support and sufficient debt forgiveness to avoid debt overhang, even if some of the details remain to be worked out subsequently.

Box 3: Content of a Poverty Reduction Strategy Paper (PRSP)	
Content of a PRS paper	
Macroeconomic and structural issues	Private sector
Growth and employment	Enabling environment for business
Economic framework	Informal economy
Fiscal and monetary policies	Cooperatives
Trade policy and markets	Credit/banking
Privatization	Information and communication technology
	Natural resources for production
Poverty status	Infrastructure
Rural and urban poverty diagnostic	Energy
Inequality, social welfare, ethnicity, youth, gender	Transport
Agriculture and land reform	Water and sanitation
	Utilities
The consultative process	Poverty monitoring and analysis
(The who, how, where, and when of wide ranging social dialogue)	Institutional arrangements for poverty monitoring
Process to date	PRSP indicators, targets and MDGs
Future commitments	Strengthening statistical systems
Good governance	Cross-cutting issues
(Sometimes treated as a cross-cutting issue)	Gender
Legal/regulatory/judicial reform	HIV/AIDS
Civil-service reform	Environment
Local-government reform/decentralization	Strategic communication in PRS paper
Public financial management	Community-driven development
Corruption	Policy matrix
Human development/capability	Objectives, progress to date, planned actions
Health/nutrition	Costing, financing, budgeting, and medium-term expenditure frameworks
Education	Country specific topics
Human rights	Child labour
Social protection/ social inclusion/ vulnerability/safety nets	Migration
Labour market	Conflict/security/disaster preparedness
	Human trafficking
	Food security

**Source:** International Labour Organisation (2005): *Decent Work & Poverty Reduction Strategies* ILO, Geneva

As explained in Section 5, the establishment of a national consensus around an economic programme can usefully be carried out in the context of formulating a Poverty Reduction Strategy Paper. A PRSP that has been formulated through a participatory process would at the same time fulfil one of the main requirements for the large-scale donor support that Zimbabwe will require.

Box 3 lays out some of the main components of a PRSP. As can be seen from this, there is plenty of scope for a Zimbabwe-specific strategy to be formulated that domestic economic actors believe is relevant and will work. One particular focus is to strengthen the employment content of each element

of the PRSP<sup>15</sup>. The sensitive ideological issues listed in Section 5 may best be resolved by a mix of discussion around the specifics of the economic programme and by reflection at a more abstract level of principle and belief.

The **phasing** of the programme will be particularly difficult. There will be need to have something in place before the moment of political change and then to consolidate as rapidly as possible once a new political authority with a progressive outlook is in place. The steps could be as follows:

- **Interim PRSP** – in anticipation of a programme, an initial document based on a preliminary round of consultations without the opportunity for a full-scale participatory process (I-PRSPs are normally purely government documents, but this would not apply to Zimbabwe in present circumstances).
- **IMF Staff Monitored Program (SMP):** before relations with the IMF can be renewed, a so-called staff monitored program would have to be agreed and successfully implemented over a period of probably 9-12 months. It is only after demonstration of successful performance that the Board of the Fund could consider Zimbabwe's full re-admission to membership and eligibility for new loans.
- **Other multilateral and bilateral donors:** In normal circumstances, other donors would only provide significant budgetary and/or balance-of-payments support when there is an IMF programme in place. Given Zimbabwe's particular circumstances, they may be willing to provide, in addition to financing for emergency relief, budget and balance-of-payments support as soon as a IMF Staff Monitored Program (SMP) has been agreed.
- **The Paris Club:** similarly the Paris Club normally requires a full IMF programme to be in place, but may be willing to negotiate on the basis of a SMP being implemented. Position papers and negotiations should proceed as soon as possible so as to be able to take advantage of any debt relief that could be offered as early as possible.
- **Stabilisation, recovery and income distribution:** as already repeatedly emphasized, the immediate objective of stabilisation can easily be derailed by attempting at the same time to pursue other objectives, in particular redressing the extreme inequalities that hyperinflation has introduced. At the same time, this perception should not be used as an excuse to procrastinate any longer than necessary in pursuing these other objectives.

Of the many **risks** associated with the sort of comprehensive economic programme which has been outlined in this paper, the following inter-related issues warrant particular attention:

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<sup>15</sup> See ILO document referenced for Box 3 and ch 3 of Economic Commission for Africa (2005): *Economic Report on Africa 2005 – Meeting the Challenges of Unemployment and Poverty in Africa*, Addis Ababa.

- 1) **Credibility** – a major challenge will be to maintain the credibility of the programme even in the face of difficulties which will inevitably arise during its execution. The new government cannot rely on the coherence of the programme to carry the day – it needs also to have a continuous public relations effort, led from the top, to keep explaining the purpose and logic of various policies. As noted in Section 3, credibility is the single most important ingredient, particularly for the stabilisation phase. An important part of achieving credibility would be to stick to the Brazilian Plano Real rule “announce only what will be implemented and do only what has been announced”.
- 2) **Discipline** – in the face of high expectations from a new government, early successes will be difficult to achieve. The ordinary person will not experience much by way of immediate, tangible improvements. There will be immense political pressure to soften the harshness of the programme, but populist gestures need to be assiduously avoided if the programme is to succeed.
- 3) **Sustained export growth** – the programme that is envisaged is based on achieving at least 5% pa GDP growth, with the key dynamic element being rapid and sustained growth in exports (11% pa in Table 6). This will be a big challenge. Factors such as drought, adverse changes in commodity prices<sup>16</sup>, infrastructure bottlenecks could make the achievement of this target very difficult. Great care will be needed not to add policy-induced problems for exporters, in particular not to let the exchange rate become overvalued as part of the effort to reduce inflation and maintain it at a low level.

Under-achievement in export performance would not only cut the rate of GDP and employment growth, but would worsen the balance of payments and reduce the country's ability to meet external obligations. Less visible but nonetheless important is the idea that making exports the leading sector in the recovery phase will help to raise total factor productivity throughout the economy. Raising productivity is an important aspect of maintaining low inflation and high growth over the medium term. From all of these perspectives, the whole programme would start to unravel if export growth targets are not met.

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<sup>16</sup> Collapse of high prices for gold and platinum would be sufficient to reduce export growth to 8% pa and GDP growth to 3.5% pa.

## 8. Transformation

The economy which the majority government inherited at independence bore the deep imprint of the racial segregation of the colonial period. The economy was characterised by **dualism**, with a modern, high technology sector co-existing with a backward sector confined to low levels of productivity using traditional methods of production and little access to credit and other resources through which to break out of the cycle of poverty. Dualism was particularly pronounced in the agricultural sector, but in an insidious way pervaded the whole fabric of the economy. The 'tribal trust lands', or what are now called the communal areas, were repositories for the people not required to work in the modern economy.

More than a quarter of a century of independence has brought little change to the fundamental structural imbalances in the economy. In many respects the Zanu-PF government has worsened income and asset distribution in a manner that has further entrenched dualism. Around 90% of the population are outside of the formal sector which is where the focus of economic activity lies. A new government committed to an egalitarian and sustainable form of growth has to pursue an agenda of **transformation** that would involve integrating the mass of the population into the mainstream modern economy<sup>17</sup>.

The obvious starting point is to launch a process of **agrarian reform** of which a comprehensive solution to the land issue would be a part, but which would also involve a diversification of productive activities and a significant increase in productivity in the communal areas. However, eliminating dualism and laying the foundation for Zimbabwe to be a prosperous, egalitarian state is not simply a matter of transforming the rural economy, or of developing the potential of other natural resource-intensive sectors (such as mining and tourism). Attention also needs to be given to creating an integrated globally competitive economy, across the spectrum of production and service sectors. In particular, Zimbabwe needs to recover the momentum it had in the 1990s in respect of developing value chains in the manufacturing sector to enhance exports of manufactured goods. This is important not just as a contribution to export revenues, but because of the enhancement of technological capabilities and employment benefits which arise from growth in competitive manufacturing. A recent analysis of the slow growth and high unemployment in South Africa identifies the relative decline of manufacturing as a prime cause<sup>18</sup>.

Transformation is **not** an ambition to be put on the back burner while the economy is stabilised and positive economic growth is restored. Transformation is a philosophy and commitment which needs to be built into the way things are done from the start of a new government. Transformation

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<sup>17</sup> The transformation agenda is explored in detail in Godfrey Kanyenze, Timothy Kondo and Jos Martens (eds) (2007) *ANSA: Alternatives to Neo-liberalism in Southern Africa*. See also accompanying background paper by Godfrey Kanyenze (2007) *The Labour Market, Sustainable Growth and Transformation in Zimbabwe*, which starts with an excellent review of the present state of the development discourse.

<sup>18</sup> "The health and vitality of the formal manufacturing sector has to be at the core of any strategy of *shared growth*". Dani Rodrik (2006): *Understanding South Africa's Economic Puzzles*, CID Working Paper No. 130, Harvard, Cambridge, Ma.

should be reflected in the new constitution and should be an integral part of the development ethos and practice. Once transformation gathers momentum, it will greatly add to the pace of economic growth and the attainment of the goal of the population being fully employed in remunerative economic activities.

Transformation also requires adherence to the principles of true sovereignty – that is independence and autonomy. With this in view, it is important for the new government to ensure from the start that the initial dependence of the *Progressive Zimbabwe* programme on financing from donors does not become addictive. Once the inherited debt position has been written down to a sustainable level and sufficient assistance has been provided to enable the economy to stabilise and recover, there will not be need for substantial levels of donor assistance. In a relatively short time, the country can get back onto a path of sustainable growth and transformation. Once there, Zimbabwe will have the capacity to finance its investment and social needs from its own tax revenues and financial resources.