



**ZIMBABWE
INSTITUTE**
*Innovative Thinking for
a Sustainable Future*

**Progressive Zimbabwe: Sustainable Growth & Transformation
Discussion with Major Players**

September, 2007

THE ZIMBABWE INSTITUTE
CAPE TOWN, SOUTH AFRICA

EMAIL: mafela5@mweb.co.za

WEBSITE: www.zimbabweinstitute.org

Table of Contents

1 INTRODUCTION.....	2
2 GOVERNANCE (LEGAL, CONSTITUTIONAL, MEDIA, ETC)	3
2.1 Business Community	3
2.2 Civil Society	5
2.3 Political Activists (Politicians) and Academics	7
2.4 Role of Government in Public Policy	9
3. SOME PERSPECTIVES ON BROAD SOCIO- ECONOMIC ISSUES	10
3.1 Macro-economic & financing strategy - Views of Business and Civil Society.....	10
3.2 Way forward	11
4 SOCIAL AGENDA (HEALTH, EDUCATION, HOUSING, HIV/AIDS)	12
5 PRODUCTIVE SECTORS (MINING & MANUFACTURING), TRADE, SERVICES (ESPECIALLY TOURISM & BANKING)	13
5.1 The uncertain role of the private sector	13
5.2 Gushing with hope for a turnaround	14
5.2.1 Internal measures	14
5.2.2 External measures	15
5.3 Some prerequisites for the Economic Recovery Programme	16
5.4 Vision for economic transformation	16
6. INFRASTRUCTURE (INCL. ISSUES AROUND PEs and SMEs)	16
6.1 Deterioration of infrastructure.....	16
6.2 The case of Public Enterprises (PEs).....	18
6.3 The Small and Medium Enterprises (SMEs).....	19
7. DRIVERS OF THE ECONOMY RECOGNIZED BY ALL MAJOR PLAYERS	21
7.1 Public Policy, Regulation, and Supervision	21
7.2 Addressing poor growth performance through Stability/Macro-policy	21
7.3 Elements of Competitiveness and Growth Strategy	23
8. CONCLUSIONS	23
REFERENCES	25

DISCUSSION WITH MAJOR PLAYERS

“If Zimbabweans allow fear to continue to infiltrate their entire imagination, nothing will change during our lifetime. In crucial times, it takes much pain to gain one's freedom. And those who have the illusion to think that freedom will just be given on a silver plate have only themselves to blame when they do not get it. So many broken families, so many deaths, so many displaced citizens, so many millions forced out of their country by violence and economic neglect: we should be ashamed of ourselves, and we should publicly refuse the political abuse, not just mumbling purposelessly in the privacy of our houses.” Chenjerai Hove

1 INTRODUCTION

Zimbabwe's major players in the social and political arena encompass five main groups as follows: civic society, business community, trade unions, political parties, and the academic community. As development cooperating partners, donors will also play a major role in the country's changing socio-political fortunes. In an ideal situation and conducive environment, any blueprint for Zimbabwe's future should be developed as an inclusive process, in consultation with the country's many development actors, including representatives of government, civic society, the business sector, research and academic institutions, parliamentarians and the donor community.

In the discussions with selected members of these groups, there appears to be a seamless line in the broad understanding and perception of the country's socio-economic predicament. But it is not clear what the different groups' prescriptions are in terms of the prescriptive direction out of the current quagmire the country and its people find themselves in at this historic juncture. The task of this section is to enquire and assess the people's views and what they are prescribing their 'Progressive Zimbabwe' to be like for future generations. It is certainly not an easy task, but for posterity and the good of the country and its future generations – it is a road to be walked, though it might be a rough and long walk.

The report on the consultations will handle all the general concerns of the stakeholders and especially focus on the following:

- a) Governance (legal, constitutional, media, etc);
- b) perspectives on issues in papers 1-4;
- c) social agenda (health, education, housing, HIV/AIDS);
- d) Productive sectors (mining & manufacturing), trade, services (especially tourism & banking); and
- e) Infrastructure (incl. issues around main PEs involved).

2 GOVERNANCE (LEGAL, CONSTITUTIONAL, MEDIA, ETC)

In general the people are now acutely aware that the crisis facing Zimbabwe stems from governance, in the context of democratic rights of citizens, democratic political processes, accountability, legal framework, independence of judiciary, freedom of information, fiscal concerns, and an administration aimed at efficiency and effectiveness in the running of the socio-economic affairs of the nation.

The crisis has both political and socio-economic manifestations, with the economic aspects of the crisis inextricably linked to the political crisis. Virtually all the major players recognize that at the root of Zimbabwe's national problems are issues of governance (deliberate obfuscation and bending of legal, constitutional, media, administrative laws and procedures, etc), political legitimacy, dictatorship, economic mismanagement and the now entrenched corruption largely by members of the ZANU(PF) ruling party.

2.1 Business Community

However, despite these manifestations of the crisis, some groups, including the business leaders, remain largely apologetic, at least judging by some of their public pronouncements. Within the business community two groups emerge:

First group: By and large, the ordinary business persons who are struggling to survive, some barely enduring, are of the view that the current economic environment has been politicised to the extreme, virtually driving normal business activity underground in order to survive. The common view is that the environment faced by business is not intended to remove obstacles to enhance growth performance by companies and hence does not contribute to equity. Most of the business people interviewed in this category clearly admit that in order to maintain the value of their assets and savings they have to keep any available excess cash in whatever foreign currency they can get. The high and unsustainable levels of inflation, parallel market exchange rate tracking of prices largely driven by fuel prices has criminalised normal business activity.

Second group: This is the category of the large and more powerful business who ride roughshod over the storm. Some, benefiting immensely from the unbalanced policy environment, are ambivalent whether the current situation should remain or not. While most men are engaged in their business concerns, they are also fully involved in speculating business ventures with most spouses running expensive boutiques that benefit from imports of luxury items from overseas – China, UK, USA and other places. Besides some of them being company executives, this group of business people have benefited from the FTLRP, though the majority of them are part-time farmers. In terms of what future they want for Zimbabwe, they would prefer some maintenance of the status quo and a kind of reformed ZANU-PF, moving from the clearly repressive political regime characterised by political violence and the use of youth militia, soldiers, police and intelligence officers, to a regime that has the acceptance of the

international community without threatening the atmosphere of doing business they currently enjoy:

No clear property rights;
Large and pervasive role of government;
However, more supportive industrial policy; and
Improved and better infrastructure (electricity, water and rail and roads.)

In between these two groups, the representatives of the business community, such as the CZI and ZNCC are clearly calling for a different Zimbabwe where the government's role is that of influencing and enhancing the development path and growth performance of the economy. In order to return to sustainable development, business is urgently calling for removal of obstacles to growth and equity, addressing the persistent weaknesses in infrastructure (including electricity, water, roads and railways), seriously tackling the scourge of inflation, not only focusing on price stability but also on real stability, growth and employment.

Financing development: Business has been particularly concerned with the central bank's overbearing management of the financial institutions, especially the tendency to lock up large proportions of the banks' assets by the Reserve Bank in the form of long-term (5 and 7 year) stocks. Under this practice, there is less room for financing even normal short-term activities, let alone medium to long-term demands of the economy. In order to promote economic and social development, stakeholders are calling for a wide range of the national financial architecture, which will cater for both short-term and long-term needs of economic actors and entities. Under a properly structured financial management system, Zimbabwe's domestic finance institutions should be able *inter-alia* to:

1. fulfil their loan obligations for all short-term operational and trade finance;
2. accompany investors over the long-run through long-term loans;
3. be able to attract investors by playing the role of catalyst for large financing operations; and
4. gear the financial products for the new objectives of social development – export promotion, support to SMEs and innovative credit and loan policies for the development of new functional activities.

For the medium to long-term finance requirements, what Zimbabwe needs is adherence to financing arrangements under the Monterrey Consensus¹, which since 2002 has become the major reference point for international development

¹ The Monterrey Consensus was the outcome of the 2002 Monterrey Conference, the United Nations International Conference on Financing for Development. It was adopted by Heads of State and Government on 22 March, 2002 with the participation of all the Heads of the United Nations, the IMF, the World Bank and the WTO, prominent business and civil society leaders and other stakeholders. Countries also reached agreements on other issues, including debt relief, fighting corruption, and policy coherence. Since its adoption the Monterrey Consensus has become the major reference point for international development cooperation and financing, rightly eclipsing and replacing the dictums of the Washington Consensus (See, United Nations / Nations Unies (2005), p. 2.

cooperation and financing. The document embraces six areas of Financing for Development:

1. mobilizing domestic financial resources for development
2. mobilizing international resources for development: foreign direct investment and other private flows
3. international trade as an engine for development
4. increasing international financial and technical cooperation for development
5. external debt
6. addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development.

The issues to be addressed in the Zimbabwean case, relevant under the “leading actions” of the Monterrey Consensus, include (i) mobilizing domestic financial resources for development, mainly through “the need to strengthen and develop the domestic financial sector, by encouraging the orderly development of capital markets through sound banking systems and other institutional arrangements aimed at addressing development financial needs” [para.17]; (ii) mobilizing international resources for development by supporting of “new public/private sector finance mechanisms, both debt and equity, for developing countries and countries with economies in transition, to benefit in particular small entrepreneurs and SMEs and infrastructure” [para.24]; (iii) addressing systemic issues – “the commitment to sound domestic financial sectors, which make a vital contribution to national development efforts, as an important component of an international financial architecture that is supportive of development” [para.53].

2.2 Civil Society

Zimbabwe’s civil society has been mainly concerned with the spread and proliferation of repressive legislation that litters the statute books resulting in an almost total closure of political space. Freedoms of assembly, association, expression and rights such as privacy and security of property have been completely trampled upon. Freedoms of expression, rights to protest are met with an iron fist as shown by the arrest and physical beatings of trade union, opposition and other leaders of civil society. Of late company directors and management have joined the ranks of those being arrested for increasing prices, though this would under normal circumstances be the right thing to do in order to safeguard their businesses from bankruptcy. Meanwhile the government appears to be in a self-imposed state of paralysis and has no discernible plan to extricate the country from its socio-economic and political crisis.

Leaders of civil society have helplessly watched the unprecedented, covert as well as overt and heavy presence of the military and other security forces in the management of the economy including parastatals. Members of the military have increasingly become active participants in government –

business dialogue e.g. in the NEDPP which is unsettling in the normal conduct of business. Though dubious and with little or no sound economic basis, the NEDPP has as its main purpose to focus on economic stabilisation and inflation reduction, foreign currency mobilisation and use, and increased co-ordination of agriculture in order to provide adequate supply of inputs and food security. The participation of the security forces raises eye-brows on the question of militarization of the economy or how extensive the role of the state will be in economic democratization. The military is quickly becoming so politically involved in the running of the economy that it now exhibits a potentially dangerous tendency of becoming a platform for seeking revenge or for making money through non-transparent economic deals and activities.

From the viewpoint of most Zimbabweans, the government has abdicated its traditional role of running the economy and largely handed over to others e.g. the Governor of the Reserve Bank and the military, with the former having assumed greater prominence, assuming up to the 2007 Budget Statement of 30 November 2006, quasi fiscal functions. The ending of the RBZ's quasi-fiscal operations was announced by the Minister of Finance in his budget statement, saying all resource allocations would now be made through the national budget, thus ending the hiding of the large budget deficit outturn, calculated to have been well over 60% by the IMF, instead of the government's official figure of 3% as presented in the 2006 Budget Statement. This concealed the major part of the deficit through the quasi-fiscal operations of the central bank. The disclosures appear to be an attempt to become more open about the deficit situation and avoid criticism by the IMF, rather than confronting inflationary problems caused by financing a recurrent expenditure of a huge and bloated government bureaucracy and murky deals of a non-transparent administration.

Views of Zimbabwe's civil society include the following:

1. That Zimbabweans should seek genuine dialogue among the civilians on one hand, and between them and the government and military on the other, about the potentially destabilizing impact of military intervention in politics and civilian affairs.
2. That Zimbabwe can learn some lessons from West Africa, where this has been tried and there is now retraction from the tendency, which could be helpful for Zimbabwe.
3. That the military should engage itself in its role in a democracy and possibly embark on internal re-organization to make intervention by its members in the running and management of civilian/socio-economic affairs difficult and unattractive.
4. That civilians should embark on and adhere to all the critical issues of governance:
 - in the context of fiscal concerns, development of a properly functioning economy (markets and mixed economic systems) and reiteration of democratic rights of citizens. The ideals of good governance reiterate transparent and democratic political processes, accountability, legal framework, independence of the judiciary, freedom of information, and an administration aimed at

efficiency and effectiveness. It also envisages cooperation among civil society organizations, private sector and the government in the hope that strong institutions and market based policies will bring about an appropriate discipline amongst all. Further, good governance recognizes the critical role of efficient resource allocations, elimination of corruption, protection of human rights, sustainability of the environment, equitable development, and the like among all institutions.

- After battling with systemic corruption at all levels of society and especially in state owned enterprises, the people of Zimbabwe require application of the key principles of governance relating to fairness, transparency, responsibility and accountability which should lead to achieving of the MDGs in order to effectively reduce poverty.
- The people are also demanding unqualified application of the principles of corporate governance not only to Public Enterprises, but also to other legal entities such as non-traded companies, body corporate, and non-profit organizations- whether privately controlled or state controlled.

2.3 Political Activists (Politicians) and Academics

From the viewpoint of political activists, the major issue revolves around Zimbabwe's deeply embroiled national crisis that started at the end of the 1990s and has persisted unabated into the second half of the first decade of this millennium. It is this political dimension of the crisis which has inevitably drawn the greater amount of attention, yet to the lives of the people a more profoundly and far-reaching crisis is the economic and social dimensions of the crisis. This is a far cry from the Zimbabwe of the early 1990s, which was viewed as a beacon of political stability and peace, in what was then a turbulent region wracked by conflict (in South Africa, Mozambique and Angola). However, by the beginning of 2000 Zimbabwe slid steeply towards turmoil which took the form of political violence as authoritarianism reared its ugly head.

In the view of the political activists, Progressive Zimbabwe should move away from denial of the internal causes of the crisis, giving the impression that the economy is under siege from external forces, such as economic sabotage by outsiders. As long as this stance is not revoked, the Zimbabwe crisis will continue to deepen. Political activists recognise the following as the causes of the crisis:

- sustained macro-economic mismanagement;
- absence of governance, including violent disruptions of normal economic activities, lack of commitment to transparency, accountability, respect for human rights and democratic processes;
- continued entrenchment of the politically connected elite who flagrantly engage in rent-seeking activities and arbitrage;

- relegation of most economic activity to the underground in the form of speculation, profiteering and corruption, much to the detriment of the ordinary Zimbabwean who has been reduced to crumbs of poverty;
- proliferation of massive asset stripping and corruption in state enterprises to the point of outright looting of state owned enterprises and assets.

People are also of the strong opinion that, only after the above conditions have been reversed, can there be instituted a sound macroeconomic policy framework conducive to both efficient public policy and private sector investment decisions as the drivers of the country's growth strategy. The macroeconomic policy framework that is being argued for by stakeholders emphasizes restoration of inflation to single digit level and thereafter inflation control, strong growth in private investment, fiscal consolidation and increased revenue generation as its main objectives.

In terms of this document and the way forward, the principal concern that should provide some yardstick of success of the program will depend on the following conditions:

- ownership and belief by Zimbabweans that the program will work, that is by its having credibility and political support that goes beyond mere rhetoric by political leadership;
- the orientation that whatever the size and depth of the initial donor aid provided, the program should win itself out of donor dependency;
- the program should be built on the premise of a vision that will get Zimbabwe out of the present socio-economic predicament through transforming the current embedded structure of the economy – the entrenched dualism - starting with tackling the immediate constraints that block development, namely (i) bringing back the viability of the agricultural sector, (ii) challenges caused by inflation, foreign exchange, lost expertise through the brain drain, (iii) fixing fundamentals – property rights, compensation of farmers whose land was taken over, bringing in confidence and compensatory justice, i.e. settling the issue of those who lost their life-time investments.

A major concern of this group of stakeholders is about the development model that will be adopted in the 'Progressive Zimbabwe'. Some sections of stakeholders contend that there will be no meaningful development without the three pillars that will guarantee non-reversal as has happened in the past, namely: democracy, human rights and good governance. This view contends that these three pillars are a guarantee of the program being embraced by people at the decentralized levels of society. Without grassroots support that is guaranteed by the widest participation of civil society, the program is doomed to sink beneath the quicksands of a credibility gap. Based on these pillars, development being embarked upon will encompass the transformation of production structures, industry and services and emphasize regional integration as one of the rock supports of building a strong economy.

Built upon solid democracy and human rights, Zimbabweans can together embark upon economic democratization which can be broadly defined to include: openness, transparency, freedom, equity, equality, empowerment and capacity building, and popular participation, all within the context of a market economy, however, with a major role of the government. The dialogue could centre around the following elements of the process of economic democratization:

Openness: This refers to de-regulation of the economy within the acceptable social and legal framework, subject to the operation of market forces, easy access to all information, and safe-guards for social justice.

Freedom: This comprises essentially the freedom of choice and the freedom to compete under conditions of transparency and fairness.

Equity: This refers to the balancing of the interests of the weak vis a vis those of the strong.

Equality: This refers to equal treatment among and between competitors and participants at all levels of access.

Empowerment and capacity building: This refers to the conscious effort to create and provide for the people at various levels all the necessary facilities and enabling environment for them to take advantage of available and potential opportunities.

Popular participation: This is the involvement of all citizens in the national and devolved regional and local economy levels, individually and privately, corporately and publicly.

2.4 Role of Government in Public Policy

While the role of government is recognized as vital in spearheading development, Progressive Zimbabwe must break with the ZANU-PF practice of micro-management of national projects at the highest level of government – with projects manipulated and approved at the level of the cabinet. The sole purpose of politicians and the connected getting involved in micro-managing projects is to have a slice of whatever pie there is in these projects. This lies at the heart of the stampede towards corruption and rent-seeking activities of the present government – juggling and sniffing of public projects and sharing the spoils even before the projects are appraised and approved. By this practice, the government has abandoned its pivotal role of acting as a public policy manager, with an obligation to instigate public deliberation rather than simply meddling in policy decisions/implementation, a process normally done at the sector ministries, with orderly involvement of governance management instruments – such as the Tender Board and the Public Procurement Board. Instead of directing public attention towards lofty and long-sighted ideas by broadening the range of possibilities for public action, the central government has its hands dirty in public project management and sharing of spoils. The

understanding is that, developing, translating and implementing of public policy into a successful practice is an art and a craft. To achieve this, public policy must be imbued with insight, creativity and imagination that help them to accurately identify societal problems, the clear articulation of these problems and proposed strategies to solve them.

In its management of development, the central role of a Progressive Zimbabwe government should be that of addressing private sector oversight in areas of public policy, such as market failure and policies governing the private sector playing field. This requires a mix of state and market interactions that covers the entire development agenda: investment, finance, human capital development, technology acquisition, and promotion of policy and institutional reforms.

3. SOME PERSPECTIVES ON BROAD SOCIO- ECONOMIC ISSUES

After over six years of predatory central government policies, compounded by 25 years of adverse legacies from long periods of economic decline and mismanagement, the major stakeholders agree that the changed stance of government policy should be on the maintenance of:

- macroeconomic stability;
- poverty reduction;
- functioning local government system;
- improved inclusiveness;
- transparency and accountability of public resource management at all levels of government; and
- addressing development issues for long-term economic growth.

3.1 Macro-economic & financing strategy - Views of Business and Civil Society

There is some consensus that it will not be possible for Zimbabwe to address any macro-economic & financing strategy before the country deals with the governance issues, especially the current climate of violence and lack of respect for property rights which are behind the drastically eroded domestic and international investor confidence and have led to the complete meltdown of the economy. The most frequently expressed view of business leaders is that a Progressive Zimbabwe has to look introspectively into itself and deal with the following issues:

- 1) The continued stance of the chaotic land redistribution and several cases of fresh farm invasions which continue to be reported, six years after the first farm invasions which dealt the first blow to private property rights.

- 2) The continued economic mismanagement, a dominant factor in economic meltdown, which is behind the decline of manufacturing and agricultural production.
- 3) Hyperinflation conditions of over 7000%, massive unemployment of about 80% and frequent occurrence of shortages of basic commodities like maize, sugar, fuel and foreign exchange.
- 4) The continued disintegration of public infrastructure, with frequent outages of power and water supplies.
- 5) The Grain Marketing Board, the country's major grain storage facility, has been completely mismanaged to the extent that it has operated without a Board for over four years; it continues to be stripped of assets and cannot accurately account for the nation's grain reserves and requirements.

At the regional level, Zimbabwe is completely out of step with the economic value system that is being built up by partner countries. Such a dysfunctional economic system as is currently pursued by Zimbabwe cannot be properly integrated into SADC or COMESA, with regional inflation benchmarked at 20% against over 1000% inflation for Zimbabwe. There are also the significant negative social impacts from mass migration of Zimbabweans into some of these countries, especially Botswana and South Africa.

In terms of trading arrangements, Zimbabwe now exports less to the region, including South Africa and imports much less, as a result of an unfavourable exchange rate that has made nonsense of any export business, to the extent that most export companies have shut down.

3.2 Way forward

- 1) In the words of one stakeholder the sentiment is summarized as follows:

“It will not be possible for Zimbabwe to overcome its current problems without some national consensus on how to resolve the current crisis. It is only the combined strength and force of Zimbabwean stakeholder groups acting in unity that will force the Zanu-PF government to the table or to succumb to the will of the people. The challenge is who will be the lead group to take on the role of organizing the stakeholder consensus.”
- 2) In the view of some stakeholders, the consensus should be built around the initiative already started by the church, but the fear is that some of the major stakeholders may stay away in the hope they will only come in when they see an opportunity to steal the limelight. However, this will be a

selfish motive which dilutes the powerful force of a people united in the fight against an entrenched dictatorship.

- 3) The other recognised weakness for the voice against tyranny is the position taken by SADC/AU leadership which fails to realize that Zimbabwe's failure both in the political and economic sense leads to the demise of the sub-region / African region. Under globalization there is no country that can prosper and stay competitive without effective regional integration. For many of the weak African states, including Zimbabwe, the global survival paradigm may lie in regional economic integration predicated upon regional sovereignty that supersedes national sovereignty.

4 SOCIAL AGENDA (HEALTH, EDUCATION, HOUSING, HIV/AIDS)

Zimbabwe has experienced a complete breakdown in social services with disastrous consequences for health care, education and other social support systems, including housing affecting urban and peri-urban dwellers. As Alois Mlambo wrote "By 2002, the country's health delivery system was a poor shadow of its former self, as the brain drain, foreign currency shortages, cost recovery measures, and deepening poverty reversed all the achievements of the earlier years... hospitals are fast becoming places where you go to die. There are no drugs, no food and very soon you will have to bring your linen from home" (Mlambo, 2003: p. 208).

From a country that was once envied for its high quality education and health delivery system, Zimbabwe has in the post-2000 period deteriorated to the point at which the health and education systems have collapsed due to shortage of manpower as professionals left for greener pastures elsewhere. The shortage of resources due to the weakening of the Zimbabwe dollar in foreign exchange markets has made it difficult for the government to import necessary inputs. All these factors have been compounded in the aftermath of the Operation Murambatsvina, which has worsened the situation immensely.

A healthy and well-educated population is both a necessary condition for development and one of the central objectives of development. The status of health and education also affects the overall rate of economic growth. Some studies have found a very dramatic impact of health on economic growth. One study has found more than half of Africa's growth shortfall vis a vis that of East Asia was explained in terms of disease burden, demography and geography, rather than by the more traditional macroeconomic variables.² Another study found that AIDS reduces per capita growth by an effect of 0.7% on average.³ Yet other studies have found evidence that the level of secondary education in particular influences the growth rate.

² Bloom, D.E. & Sachs, J.D. (1998): 207-295.

³ R. Bonnel (2000).

Brain drain and labour migration: The huge exodus from the country of skilled professionals such as doctors and nurses has further worsened the situation. A massive number of people continue to migrate to other countries to seek employment. It is estimated that at least **3.5 million** Zimbabweans have left the country and are living abroad. Many people have re-located to countries such as South Africa. Many of these refugees have illegally settled in other countries. Possibly half of the economically active people are now based outside the country.

In the face of this onslaught on citizen's rights, the major stakeholders, and especially members of the business community, are characterized by apathy even in the defence of their own right to exist as business persons. When the government meted out police violence against vendors (the few that resisted risked spending a night in police cells), the business community just looked on. Probably this was viewed as being far from affecting them. But the business community had forgotten a simple rule, that if you don't sweep your own backyard, the whole town will be filthy. Before long, business executives were being dragged to police cells, jails and courts for increasing prices.

Instead of taking isolated individual actions or slowly closing their business, the business community should see that time has long since come for the major firms to either stand up to government and demand that this harassment stop, or they should take the State to Court to establish the grounds for this action by the State and to determine their own positions. As individuals, most business persons support this view, even if the Courts may end up supporting the State in its position. The latter situation will make it extremely difficult for the private sector to continue to be involved in the production and distribution of controlled products through formal sector enterprises.

5 PRODUCTIVE SECTORS (MINING & MANUFACTURING), TRADE, SERVICES (ESPECIALLY TOURISM & BANKING)

5.1 The uncertain role of the private sector

Most business leaders hold the view that, after over two decades of independence, Zimbabwe has never clearly defined whether the private sector will play a central and decisive role in the economy, or if it is the state sector that must play that role. With the emergence of the Fast Track Land Reform Programme (FTLFP), which in many ways sounded the death knell of respect for property rights, the issue of the security of the private sector is no longer guaranteed by the country's constitution and laws. While less than 500 LSCF landowners remained on the land by the end of 2005, continued tensions are the order of the day on these settled farms, where in "many cases new settlers insist on obtaining the residences and core infrastructure, shunning underdeveloped land" (World Bank, 2006: 20).

The potential for strife and insecurity of property rights has become a permanent feature of Zimbabwe's commercial farming sector, especially with regard to LSCF

farms. However, insecurity of property rights is not only limited to farm properties, but has spread to other sectors, large estate and conservancy sectors, tourism and mining.

In this context most Zimbabweans easily see that the roots of Zimbabwe's economic crisis is politically embedded and yet in order for the country to come out of the crisis, Progressive Zimbabwe must, while addressing the political question, also and urgently think in economic terms. Right up to the Land Conference in 1998, Zimbabwe was awfully slow in solving the land problem and the blame falls squarely on the ZANU-PF government.

When a country that is a member of the international community breaks the legal laws protecting property rights, it cannot expect the support of local and foreign merchants operating within that territory. When this loss of confidence begins to be felt, there is only one outcome – collapse of investment. In the case of Zimbabwe we have seen this investment collapse with the construction industry virtually closing down, architects and engineers having no project pipeline, with knock-on effects on other sectors of the economy. Over the past six years, the consequences have been severe, with employment losses in virtually every economic sector: agriculture, mining, tourism, transport and industry. In the view of many, the basis for thriving investment growth was removed.

When asked what are the consequences of the devastating break with normal economic behaviour, most rational people simply wish and hope that a more favourable milieu will soon return, bringing creative social and economic environments. However, why is it that the authorities seem to understand the issue differently? This is perhaps the reason they continue to regard the management of the economy as business as usual, when in fact every passing day the economy sinks further into the abyss.

5.2 Gushing with hope for a turnaround

The available knowledge of other African economies that trod this path tells us that the turnaround surgery takes a long time. Whatever steps should be taken by the government to reverse the economy from the current state of collapse, a Progressive Zimbabwe government must focus on certain political pre-requisites that must be met before the resumption of both external support and domestic investment. In other words the country must be seen by Zimbabweans and external investors as having categorically restored the rule of law and placed its land reform onto a national basis which respects property rights and addresses the poverty concerns of the people.

Further the new government must formulate an economic stabilisation programme that addresses all the economic fundamentals with sufficient credibility to attract broad domestic and international support. Armed with these prerequisites the country can then seek to correct the ills affecting the state of the economy. The other-way round is a classic case where it can be argued that knowledge has no specific value until it is used.

The sentiment is that a “Progressive Zimbabwe” must institute the creation of the necessary climate that the investor, both domestic and foreign, will find attractive. Business is also aware that the economies of the world have become inextricably interdependent as the process of globalisation takes root. Therefore, no economy, including that of Zimbabwe can develop separately from the economies of other countries of the world, starting with those of the region.

The dominant view expressed by both business and the broad civil society is that given the extent of the economic damage that has been experienced, Zimbabwe’s economic recovery will require a whole range of internal measures together with large scale external financial and technical assistance.

5.2.1 Internal measures

- 1) Proper economic recovery can only take place if there is respect for property rights, the rule of law and constitutionalism.
- 2) The main impetus for the national economic recovery should come from within Zimbabwe itself – with the driving force dependent on the domestic groups willing to reconcile and organize to rebuild Zimbabwe.
- 3) Without fixing all the economic fundamentals, it does not matter how much money is poured in, things will not change for the better.
- 4) The conduct of the RBZ to randomly issue compulsory instruments to banking institutions to raise money represents a dangerous practice that should never be part of normal monetary policy.
- 5) Measures should be instituted 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.

5.2.2 External measures

- 1) The extreme conditions of Zimbabwe’s economic plight suggest that the revitalization of the economy will require many of the elements typically associated with a strategy of post-conflict reconstruction.
- 2) Recognition of Zimbabwe’s fortunate position in having South Africa, a large and relatively stronger neighbour in economic terms, the SADC and the African Union, all of which can be used as springboards to drum up regional and international support.

- 3) Framework for international support for Zimbabwe's economic recovery to involve addressing the heavy indebtedness to the IMF and other multilateral institutions.
- 4) Initially this process will require an injection of funds from the international donors – the World Bank, the IMF, UN agencies, the British and American governments and other key players who will need to play an active role in shepherding and supporting the locally-owned recovery strategy.

But the recent experience with mounting such recovery programmes demonstrates the need to be buttressed by certain broad priority tasks including:

- i. Establishing security and the rule of law;
- ii. Fostering political reconciliation and legitimate institutions of government;
- iii. Rebuilding the institutional capacities of the state and non-state actors;
- iv. Encouraging a comprehensive and inclusive economic recovery, including timely normalization of economic relations with the international community and rapid support for debt relief comprised of aid, debt relief and private finance.

5.3 Some prerequisites for the Economic Recovery Programme

- 1) Improved business confidence which should stimulate economic activity in all sectors including agriculture, mining, tourism, and service sectors.
- 2) The foundation of the economic stabilization policies should be based on government's consistency in emphasising macro-economic stability, poverty reduction and addressing development issues for long term economic growth.
- 3) The stabilization programme would involve various multilateral and bilateral co-operating partners, such as the World Bank, the African Development Bank (AfDB) as well as certain key bilaterals.

5.4 Vision for economic transformation

The key question to be answered is what will be new in the 'Progressive Zimbabwe'? In essence Progressive Zimbabwe must be driven and guided by the following nuts and bolts:

1. Development driven by a guiding vision and national ethos;
2. Policies informed and inspired by inclusive social dialogue;

3. Endogenous and auto-centric economic growth, taking seriously:
 - a. The destruction of the dualistic economy inherited from the colonial period and deepened during the post independence economic melt down (In the colonial period the dualism divide was synonymous with race as whites had more access to resources than the blacks). The dualism has been entrenched by the post independence black government.
 - b. The imperative of transforming Zimbabwe's economy into an integrated globally competitive economy in both production and service sectors.
 - c. An agrarian reform that goes beyond land reform.
 - d. An expansion of urban economic activities that creates employment and enhances skills.
 - e. Special focus on addressing the needs of women and gender balance and issues.

6. INFRASTRUCTURE (INCL. ISSUES AROUND PEs and SMEs)

6.1 Deterioration of infrastructure

Zimbabwe's public infrastructure continues to disintegrate. This is invariably the case in the country's four major sectors of infrastructure: roads, railways, electricity and water. There are frequent outages of power and water supplies and many parastatals are in deep difficulties caused by both external and internal conditions in the respective sectors, as shown by the case of the National Railways of Zimbabwe. From a modest sustained level of 12 million tons per annum, the NRZ tonnage declined sharply in 2000 to 9 million tons and continued to decline in subsequent years reaching its lowest level of 4.9 million tons, mainly due to elements beyond the control of the railways internal capacity, "such as a sharp decline in production, hyper inflation, and an acute shortage of foreign exchange, but partly also due to NRZ's inadequate response to the progressively deteriorating business and economic environment." (World Bank, 2006, p. 32-33).

Though there are prospects to increase freight traffic capacity to 9 million, the future development of the railways' capacity will depend on the implementation of sector policies and institutional reforms in the development of an interim railways sector strategy under the three top priority areas identified by the recent World Bank (2006) study: (a) improving operational efficiency (b) promoting railways concessions (c) reducing the financial deficit of NRZ and commissioning the studies recommended in the report.

The other major infrastructural sectors - electricity, water, and roads - have declined in output and delivery terms, with later having continued to deteriorate significantly since 1995 (World Bank, 2006, p.3). It is reported that for the past decade Zimbabwe has experienced lack of growth in water and sanitation coverage in both the urban and rural sectors. The capacity of water

and sanitation infrastructure is estimated to be 30% below requirements in the urban areas. A significant section of the rural sector primary water supply infrastructure has broken down, mainly due to the collapse of institutional structures from the NAC down to the village level as a result of inadequate funding (World Bank, Ibid. p.51). As in all other sectors distressed by the national crisis, the challenges of the water and sanitation sector policies in the medium term are all interlocked in the national crisis, namely:

- Shortages of foreign currency, associated with weak domestic currency and poor balance of payments;
- Significantly high unemployment, now reported to be in the region of 80%;
- Low and deteriorating industrial production, with many companies closing down or scaling down operations;
- Decreasing agricultural production;
- Decreasing fiscal revenues;
- Increasing brain drain.

It is clear that delivery of water or any other infrastructural deficits facing the economy requires the above challenges to be addressed. But Zimbabwe's challenges are not limited to any one sector or group of sectors. E.g. besides infrastructural concerns, there has been a complete breakdown in social services with disastrous consequences for health care, education and other social support systems. The brain drain challenge listed above manifests itself in the huge exodus out of the country of skilled professionals such as doctors and nurses, further worsening every sector of the economy.

6.2 The case of Public Enterprises (PEs)

Zimbabwe's experience with PEs is characterised by rent-seeking by the political elite and well-connected individuals who continue to plunder the resources of PEs like the Cold Storage Company, ZESA, ZISCO, to mention but a few. The recent bizarre revelations on the stripping of assets of ZISCO by all sorts of top government officials led by ministers clearly show that when governance goes out of the window, like vultures those with unrestricted political power descend on state assets. Pillage and rampant rent-seeking activities become the core business of state officials.

In practice there were no lessons derived from the successful privatisations of the mid 1990s, when the Cotton Marketing Board (now Cottco) and the Dairy Marketing Board (now Dairiboard Zimbabwe Limited) were commercialised and then privatised. The ruling party and people with vested interests stood in the way of further commercialization, privatisation of PEs which would have benefited from the exercise and grew the business as well as expanded employment opportunities.

Of significance to the understanding of Zimbabwe's experience with privatisation is that while Zimbabwe has about one hundred and forty PEs, the

proposed public enterprise reform programme that was announced under ESAP in 1991 has until recently only successfully privatised five parastatals. The slow, bureaucratic and highly politicised privatisation process continues to drag on, despite the rapid accumulation of parastatal losses and debt. High levels of corruption, asset stripping, managerial incompetence and the prevalence of an unstable political environment further exacerbate the situation.

Overall, the analysis reflects the fact that ZESA, NOCZIM and GMB have been the largest contributors to cumulative parastatal losses, which represents an unsustainable situation that calls for urgent restoration of macroeconomic and political fundamentals if efficiency and cost-effectiveness are to be restored in Zimbabwe's parastatals. There will be need for a transparent and robust supportive macroeconomic, institutional, political, and legal framework.

Both international and Zimbabwe's own experience with privatisation, the cumulative debt burden of parastatals, the political, legal and institutional frameworks for privatisation with the aim of formulating effective transparent policies on privatisation that will take into account the interests of all stakeholders. Related and dynamic interactions and changes include the following:

- 1) Fundamental changes across the board in notions of *public goods* and services, and the role of the state in providing these goods and services;
- 2) Dramatically reduced reliance on public and development financing accompanied by a concomitant increase in the role of private equity and debt for infrastructure.

6.3 The Small and Medium Enterprises (SMEs)

Quite unlike the experience of Europe and Asia, in most African countries including Zimbabwe, the SME policy is an add-on appendage, and not a central national policy for the integration of the country's non-formal sectors into the formal sector, or the modern economy. Far from narrowing the existing biases against the non-formal sector economy, it actually undermines the prospects of creating synergies to close the missing links and subsequently create robust value chains between SMEs and formal sector firms.

In essence, the SMEs have always attracted the Government's attention mainly because of their capacity to absorb the bulk of the unemployed or dropouts from the formal sector, rather than their export potential or development trajectory. A number of attempts to evolve SME industrial clusters in different areas of the country have not succeeded.

Even more fundamentally, like in other African countries, Zimbabwe has never had a national policy, whether partial or comprehensive, designed to bring the large and ever-growing non-formal sector of the economy into the mainstream though 'narrow' modern formal sector. The SME policy remains an add-on or 'sort of an appendage', and not a central national policy for the integration of the

country's non-formal sector into the present formal sector. This then leaves intact the existing biases against the non-formal sector economy and in fact reproduces them, as its peculiar mode of production. It also undermines the prospects of creating synergies to close the missing links and subsequently creating robust value chains between SMEs and formal sector firms. Whilst examples of proactive firm strategies between large firms and SMEs, as well as those of SME clusters have existed in Zimbabwe, these often fall by the way-side as they are not central to the government's development policies. They therefore, cannot be packaged and replicated in sufficient quantum by the majority of enterprises and become dominant firm strategies.

The Zimbabwe government has always been ambivalent in how to deal with the informal economy. This could have stemmed from the realisation that while on the one hand the informal economy is underground or 'hidden', on the other hand it is resilient as it has grown to become the largest employing 'sector' in the economy. This ambivalence has also characterised government's approach to the 'sector,' officially acknowledging and sanctioning it at times (e.g. under ESAP and ZIMPREST), while sporadically attacking it at other times. However, no past attacks were as extensive and indiscriminate as the recent "Operation Murambatsvina" or "Restore Order" campaign.

Operation Murambatsvina, started by the Government of Zimbabwe on May 26, 2005 obliterated the livelihood of the import driven traders by destroying their flea markets. From independence, Zimbabwe's policy support for SMEs and informal cross-border activities has at best been ambivalent and indifferent but it had suddenly turned out to be outright hostile as shown by the sudden demolishing of informal sector business structures including all previously unregistered but tolerated dwellings. All informal sector trading points including in some cases licensed stands, like flea-markets, were destroyed and continue to come under the state's ruthless hammer.

Against this background the current challenges facing SMEs are of a recurrent nature, as listed below:

- i. Lack of implementation of past government policies for the development of this sector;
- ii. Lack of skilled manpower for quality exportable products has resulted in most SMEs not being able to penetrate the formal export market;
- iii. Lack of market information;
- iv. High and unaffordable interest rates;
- v. Lack of collateral security prevents them from having access to capital; and
- vi. Inadequate financing for quality raw materials has often caused SMEs to resort to cheap but sub-standard raw materials, which makes their end products sub-standard for exporting.

As shown in this section, historically and currently the SMEs continue to be treated as an appendage enclave chunk of activities, largely and conveniently illegalised, performing the role of an absorber of displaced labour from the

shrinking formal sector. However, as a way forward, there is both a latent and growing consensus among stakeholders that in 'Progressive Zimbabwe' there should be a major development policy intervention by the government, in the form of earmarking new resources for investment in the country's non-formal sector, particularly through the SMEs.

There are two institutional ways for domestic institutions to promote and support SMEs. The first is to enhance the capacity of the existing National Development Banks (NDBs) and to create development banks specifically focusing on SMEs. This is the case for example in India, where the Small Industries Development Bank (SIDB) was created in 1990 as a specialized financial institution of the Central Government. But whatever the institutional choice is made by the government, the aim regarding SMEs is similar: the promotion, financing and development of SMEs. This is usually conducted through the supply of low interest funds directly to SMEs or through financial institutions, which in turn finance them under a refinancing system, and through medium and long-term lending.

Under 'Progressive Zimbabwe', the objective should be to review the strategy or strategies for adopting clear-client oriented approaches with SMEs, e.g. working capital loans, leasing or foreign currency loans and equity assistance. Other examples on the financing of SMEs include the creation of equity funds schemes for small projects, of venture capital funds, guarantee funds for SME loans that often lack collateral, venture capital mechanisms by development banks, equity arrangements in place of providing loans to SMEs, NDBs taking equity or shares in the enterprise.

7. DRIVERS OF THE ECONOMY RECOGNIZED BY ALL MAJOR PLAYERS

7.1 Public Policy, Regulation, and Supervision

Most of best practices of good governance which have resurfaced particularly from the 80's onwards in the context of fiscal concerns, development of market economies and reiteration of democratic rights of citizens, include principles of corporate governance with both comprehensive and universally applicable guidelines⁴, as follows:

- A sound financial system – Banking and Non-Banking Institutions, National Development Banks and their relationships with regional development banks and MFIs;
- Transparency of financing and budgetary mechanisms;
- Role of public, private capital markets, institutions;
- Regulatory architecture, capacity and issues of regulatory arbitrage;
- Investor confidence, which assumes market economy trickle effects/benefits – as well as eventual linkages to socio-economic development & contribution to meeting the MDGs, etc.

⁴ See - YRK Reddy (2006).

7.2 Addressing poor growth performance through Stability/Macro-policy

The issue of whether Progressive Zimbabwe can sustain poverty reduction / inequality reduction under conditions of conventional macro- cum stabilisation policies was raised by a number of stakeholders. The contention is how to ensure more vigorous growth:

- Inflation control, not only focused on price stability, but on real stability, growth and employment;
- Management of macroeconomic policy and sequencing of opening of capital markets;
- Careful management of exchange rate and interest rates so as not to hurt growth and employment.

Other constraints to growth and poverty reduction hinge on the fact that fiscal policies can impose severe limits to transfer policies. This is because other factors become exhausted or reach their limits (minimum wages, stability, consumer credit, exchange rates). This is particularly the case in Zimbabwe as the acute structural inequality will initially become a constraint, as true improvement of the poor will require reduction of the informal sector, most of which consists of survivalist trading activities, and creation of new job opportunities. Innovative strategies for removing obstacles to enhance growth performance with equity will have to deal with the issue of structural poverty.

Some of the envisaged key issues / drivers that will increase Progressive Zimbabwe's economic growth will include:

Key issue # 1: Distribution of roles: government versus market

- There will be need for a balanced role for government:
 - The market should be at the centre of the economy.
 - But as in every successful economy the government will have a large role to play
- It will make sense for the government of Progressive Zimbabwe to focus on those areas where markets, by themselves, fail to produce desirable outcomes:
 - In externalities like pollution - markets produce too little abatement
 - In externalities and public goods like research and social safety nets – markets produce too little
 - On income distribution – even if markets are efficient, there may be excessive and run-away poverty and inequality.

Key issue # 2: Increase in public savings, premised on:

- Overcoming the fiscal constraint (current expenses).

- Reduction of real interest rate.
- The combined effect of the two would allow cuts in tax burden and expansion of public investment.

Key issue # 3: Increase in public investment

- Concerns were raised on the state of Health and Education and what measures will be taken under Progressive Zimbabwe
- Science and Technology – recognition of the key role and importance of knowledge and technology:
 - Progressive Zimbabwe must recognise that what separates developed from less developed countries is not just a gap in resources, but a gap in knowledge.
 - Though high savings rate helps speeding the process, closing the gap can occur at a very rapid rate (the case of investment in people and research in Malaysia).
 - Public Investments in Infrastructure:
 1. Roads
 2. Rail
 3. Energy.
 - Private Investment in infrastructure will depend on:
 - Sectoral institutional model, policies and regulatory framework
 - Tariff rules
 - Access to long-term finance
 - Caution/restraint over giving preference to foreign investors
 - Short-term capital flows usually do not result in higher growth or investment, but can lead to instability
 - Need for regulation and guarantees for PPPs as an alternative.

7.3 Elements of Competitiveness and Growth Strategy

1. Enhancing competition - strong regulation of natural monopolies
2. Strengthening the public sector (reinventing government)
 - Strengthening of progressive taxation (less reliance on VAT, more taxation of oligopolies, monopolies, etc)
 - Increasing of transparency
 - Benchmarking efficiency
3. Putting people first
 - Equitable investments in education and health
 - Investments in higher education and research
 - Completion of the land reform programme
 - Strengthened safety nets, transfer policies
4. Pro-growth policies

- Expanding credit to various sectors of the economy
- Maintaining pro-growth macro-policies
- Industrial/export promotion policies at national and provincial, district and ward/local village levels

5. Credit, long-term financing and growth:

- Improvement of access to credit (including SMEs)
- Review of cost of credit, volatility of credit supply - leading to improvement of credit/GDP ratio in order to improve allocative effects: impacts on productivity and competitiveness
- Correct negative effects of “banking exclusion” where rural folk are in most cases virtually excluded from banking, a condition that leads to “social exclusion”
- Progressive Zimbabwe’s credit policy should address the widespread and intrinsic nature of market failure, imperfect information, imperfect competition - realising that increased investment, long-term and diversified, is generally not provided by private financial system, especially in developing countries like Zimbabwe
- Role of development finance institutions and mechanisms
- Realization that SMEs create more employment if given a conducive environment – drivers, infrastructure, governance and human element/skills formation and nurturing.

8. CONCLUSIONS

One of the principal objectives of this ‘Progressive Zimbabwe’ project has been the mobilisation of the Zimbabwean people to think about a positive future for their country. As shown above the discussion with the country’s major players centred around the following topics: governance, macro-economic stabilisation & recovery, social agenda (health, education, housing and labour issues), land and agriculture, mining, manufacturing, services, infrastructure, trade and foreign investment. In soliciting the views of the major players around the theme of how to break with the past and shape the future, the following two outcomes can be discerned:

- The coming together of major players in a conducive environment to develop an inclusive process of the country’s development actors (government, civil society, business, research and academic institutions, and parliamentarians);
- The soliciting the views of the donors and/or cooperating partners was also found to be important.

On the key issues of governance, the economic aspects of the crisis were found to be inextricably linked to the political crisis which centred around the following three issues:

- repressive legislation, no freedoms of assembly, association, expression and rights such as privacy and security of property;

- wanton trampling on people's rights, such as frequent arrests of political activists, civil society leaders, and more recently company directors / executives and
- unprecedented presence of military/security forces in economic management including in PEs.

Also behind the economic crisis of Zimbabwe's economy were the following:

- macro-economic mismanagement;
- absence of governance – both governance at the national level of the socio-economy and corporate governance, especially at the level of both state owned enterprises and private sector companies;
- proliferation of massive asset stripping and corruption in PEs; and
- entrenchment of politically connected elite who flagrantly engage in rent-seeking activities and arbitrage.

Finally the present paper concluded that what will be new in 'Progressive Zimbabwe' are the following strands of thinking: (i) development driven by a guiding vision and national ethos; (ii) policies informed and inspired by inclusive social dialogue; (iii) endogenous or auto-centric economic growth - taking seriously the destruction of dualism, agrarian reform that goes beyond land reform, expansion of urban economic activities that creates employment and enhances skills, special focus on addressing the needs of women.

REFERENCES

Bloom, D.E. & Sachs, J.D. (1998) ***Geography and Economic Growth in Africa***, Brookings Papers on Economic Activity 2: 207-295.

Bonnel, R. (2000), ***“Economic Analysis of HIV/AIDS”***, ADF Background paper, World Bank.

Mlambo, A. 2003, ***“The Social Costs of the Zimbabwe Crisis Since 2000”***, in *The Unfinished Business: The Land Crisis in Southern Africa*, edited by Margaret C. Lee and Karen Colvard, Africa Institute of South Africa.

United Nations, (2005): ***“Rethinking the Role of National Development Banks – Revised background paper”***, Department of Economic and Social Affairs – Financing for Development Office of UN-DESA, New York, 1-2 December.

World Bank (2006), ***“Infrastructure Assessment Note for Roads, Railways, and Water Sectors, Africa Transport Sector (AFTTR)”***, Document of the World Bank, Report No. 36978-ZW.

YRK Reddy, 2006: ***“Corporate Governance & Regulatory / Supervisory Framework - Good Governance and, Prudential Regulation and Supervision”***, paper presented at the Third Regional Consultation on Rethinking the Role of National Development Finance Institutions in Africa, Johannesburg, 22-23rd November, DBSA and IDC South Africa, websites.