



ECONOMY IN TRANSITION

Presentations and Group Discussion

PRESENTATIONS

The economy in transition thematic group featured two presentations. The first was a paper prepared by Dr Godfrey Kanyenze of the Zimbabwe Congress of Trade Unions (ZCTU) and the second a paper by Davie Malungisa of the Zimbabwe Coalition on Debt and Development (ZIMCODD) and Deprose Muchena.

The presentation by Dr Kanyenze¹⁰ described the Zimbabwean economy as being in an unprecedented crisis, caused by acute shortages of foreign currency, basic commodities and cash (Zimbabwe dollars); unsustainable budget deficits and domestic debt; accumulation of repayment arrears on the foreign debt; hyperinflation; un- and under-employment; a burgeoning parallel market and rising poverty.

“The Zimbabwean economy is in an unprecedented crisis.”

Understanding the causes of the crisis was described as the first step towards identifying and implementing remedial measures to correct it.

The first explanation for the crisis was cited as the official (government) position, in which government continues to blame everyone else other than itself for the crisis. For example, the president continues to blame the current crisis on efforts by the west to recolonise Zimbabwe. This position also blames business for profiteering at the expense of the people. This position is articulated in government’s economic programmes, the Zanu PF manifesto, and has characterised most of the President’s speeches.

In contrast, there is the “progressive civil society” explanation which examines misguided policies adopted by government since 1997. This perspective explains that the descent to lawlessness and bad governance contributed to the current crisis. It further finds that efforts such as the Tripartite Negotiating Forum (TNF) have failed because of an absence of political will to implement agreements.

Given the second explanation to the crisis, the following economic principles should guide the transition period and beyond:

- Broad-based policy formulation, implementation, monitoring and evaluation;
- Pursuit of inclusive economic policies;
- Negotiated mandates to ensure the goals of stabilisation and recovery are pursued in a non-contradictory manner;
- Pursuit of alternative (human-based) development strategies that are pro-poor;
- Mainstreaming gender and the needs of disadvantaged groups such as children, youths, people with disabilities among others in all policy programmes; and
- Transparency and accountability.

Short term measures were recommended to address the shortages of foreign exchange and basic commodities, the parallel market and measures to restore confidence amongst stakeholders. These included:

- Restoration of Bureau de Change;
- Implementation of the Prices and Incomes Stabilisation Protocol;
- Implementation of the Kadoma Declaration;
- Negotiation of a Business Charter with quantifiable targets for earning and remitting foreign currency through official channels;
- Review of National Economic Recovery Programme (NERP¹¹) and prioritisation of measures accepted from it;
- Reconstitution of the National Economic Consultative Forum (NECF) and TNF to make them inclusive, decentralised and effective;
- Establishment of an Anti-Corruption Commission.

Economic stabilisation involves bringing to sustainable levels internal and external imbalances. Internal balances were described as measures to achieve sustainable levels of the budget deficit and inflation (single digit). Key aspects of the transition with respect to internal imbalances include:

- Adopting an ‘optimal’ structure of the State (including foreign embassies) based on its strategic developmental role and focus;

10 See Appendix 7 for a copy of Dr Kanyenze’s paper.

11 Which some suggested might also stand for “Now Everyone is Really Poor.”

- Enforcing fiscal discipline by adhering to Statutory borrowing limits and budgets;
- Reigning in on the parallel market for foreign exchange and commodities;
- Restructuring parastatals;
- Implementing a credible public reform programme to achieve effective delivery and strategic focus.

“External balance” refers to balancing transactions between Zimbabwe and her trading partners. The external balance is made up of two accounts, namely the current account, which records the balance between exports and imports, and the capital account, which reports inflows and outflows of capital. In this regard, immediate concerns of the transition will be:

- Negotiating a Business Charter with quantifiable targets for exporters as agreed under the TNF and remitting earned foreign currency through official channels;
- Restoration of Bureau de Change to normalise inflows of foreign currency through official channels;
- Normalising relations with development (co-operating partners);
- Negotiating for the rescheduling of debt (both domestic and external);
- Incentivising exporters (e.g. through retention of higher levels of foreign exchange earnings than the current 50%); and
- Grants from development partners (windfall from the normalisation of relations).

An immediate need of the transitional period will be the provision of relief assistance to distressed households. This should focus on:

- The Basic Educational Assistance Module (BEAM) Programme;
- Public Works Programme;
- Assistance for the procurement of essential drugs; and
- Supplementary Feeding Scheme.

In conclusion, the presentation recommended that the TNF be used to negotiate various protocols under the Social Contract including on Urban Transport, Health, Education, Housing, Public

Sector and Enterprise Reform, Empowerment, Economic Recovery and Development among others. A negotiated approach should ensure broad-based ownership of programmes and is the best way of dealing with policy conflicts (trade-offs).

As part of the Social Contract, the multipartite social partners need to negotiate a medium to long-term development strategy for the country. This strategy should be different from those in the past that were narrowly focussed on the formal sector (dual and enclave – separate and isolated development).

“Social partners need to negotiate a development strategy for the country.”

A second paper was presented to the economics small group by Davie Malungisa and Deprose Muchena¹². This paper observed that “Zimbabwe is stuck in a mutually reinforcing political and economic crisis that requires urgent, practical and far-reaching solutions.” A transition in Zimbabwe will be defined as part of a negotiated, political solution, will imply constitutional and electoral reforms and a new governmental dispensation. Before this new government is inducted, there is also a need to develop a new framework of economic management. The economy must be treated as a priority concern, lest it collapse during the period of transition.

Whether the period is officially defined as such, Zimbabwe is already in an economic transition. This began in 1997 when economic mismanagement combined with such events as the DRC intervention, the collapse of the Zimbabwe dollar and following the imposition of the War Veteran levy. The economic crisis has precipitated the current political crisis by exposing mismanagement and poor governance. Historically, transitions have tended to emphasise political questions at the expense of fundamental economic concerns, and with disastrous long term implications.

The paper provides a situation analysis through which they examine some of the fundamental economic concerns facing Zimbabwe, and the

12 See Appendix 8 for a full copy of this paper.

implications of these issues on the country's future prospects. The factors discussed include:

- Severe Isolation and Pariah Status
- Economic Collapse
- Dangers and Realities of an Elitist Transition
- Deindustrialisation
- Declining Trade and Exports
- Commodity Shortage
- "The Debt Albatross" (including Foreign and Domestic Debt)
- The Energy Crisis
- Securing adequate supplies of fuel and power (electricity)
- Food supplies. Currently Zimbabwe needs about US\$300 million to meet its food needs.
- Drugs needed for the health particularly to deal with the HIV/AIDS pandemic
- Funding for constitutional and electoral reforms needed for the conduct of new elections
- Salaries for the civil service and the uniformed forces
- Infrastructure and maintenance
- Funding for all transitional committees, functionaries and structures

The extent of "real transition" will be measured by the capacity of Zimbabwe to move out of the humanitarian crisis it is

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currently experiencing. This will imply a focussed attempt to not only expand the economy, but to achieve real human development, so that poverty and inequality are no longer key features of Zimbabwe's economic and social landscape.

Factors which must be addressed in order to deliver Zimbabwe from its current decline include:

- Poverty and inequality
- Humanitarian Crisis
- Growing inequality
- HIV/AIDS

Several bodies and mechanisms should be adopted and developed in order to see it out of the present crisis and effectively manage the transition phase. These included:

Transitional Economic Council

The TEC be charged with managing the key economic decisions over a defined period, for example 12 months. The TEC would "be charged with developing an innovative and responsive macroeconomic policy framework, which will guide implementation of the transitional economic policy package." Further, the TEC should develop a *time bound transitional budget* to be implemented for key and specific economic programs that are critical and that would facilitate the transition. The key issues to be dealt with by the transitional budget include:

Land Audit and All-Stakeholder Land Commission

The land question must be settled by the transitional government. They therefore proposed a Land Audit to inform deliberations of an All-Stakeholders Land Commission. The land commission should develop the broader framework for agrarian sector reform, which could link into the overall economic recovery plan.

Private Sector

The private sector should support the transitional budget requirements and assist with the importation of fuel and general economic management. The private sector should develop a recovery strategy supported by labour and the transitional state so that it can increase its export earning capacity and ensure the provision of essential goods and services at affordable cost to ordinary Zimbabweans.

The Role of Donors

In order to effectively address the key concerns of the economy in transition, Zimbabwe would have to re-engage the international donor community to assist with bi-lateral agreements. Therefore, a donor conference should be convened to approach and identify key funders. The terms of the Transitional donor initiative should include:

- The channelling of donor funds to priority areas;
- The development of conditions of re-engagement which ensure that principles of socio-economic justice are upheld;

- Ensuring food security through developing support for agrarian reforms and developing the viability of agro-industries.

Donor aid would be essential for funding the fuel and food requirements, drugs and infrastructural maintenance costs of the transition period

The Role of the Region

The region can also assist the transition by temporarily relieving the debts which Zimbabwe owes to regional governments and companies, particularly in Botswana and South Africa. South Africa might somewhat redeem its questionable track record by advocating for the temporary relief of Zimbabwe's regional debt in the region, or by suspending the payment requirements for electricity during the transition period.

“Transition must ensure the autonomy of both civil society and the politic players.”

Conclusion

Any transition must ensure the autonomy of both individual interest groups in civil society and the political players. In addition, the development of a social contract, based on principles of social justice and human rights should be a priority.

Further, the transition process should enable popular participation in the economic models, policies and packages that are developed. Otherwise, whoever comes to power next will also abuse their political office to achieve personal economic gain.

Therefore civil society should:

- Engage in a national consultative process to define the economy Zimbabweans want;
- Develop empirical studies to conceptualise transition economics in Zimbabwe;
- Share experiences with countries that have gone through conflict and transformation.

GROUP DISCUSSION

The group debated the root cause of Zimbabwe's economic problems¹³, and possible solutions. The section below reflects contributions made in this discussion.

While the government claims the roots are in imperialism, there has also been a domestic factor. Therefore, there is a need to balance external and internal causes.

“The structure and strategic role of the state should be redefined.”

Specifically, the the immediate cause of the crisis was identified as related to the impact of the Structural Adjustment Programmes. In 1997, trade unions and civil society witnessed the turning point in Zimbabwe's economic history, with the bread riots. The settlement for war veterans in 2000 and the involvement in the DRC war (\$33 mill per month) were contributing factors to the present economic crisis. The rejection of the constitutional referendum in February 2000 brought the land issue to the fore when the economy was already in decline. Governance issues and the current siege situation contributed to the context of the crisis.

The global context was noted, including current trade negotiations with the World Trade Organisation and the European Union, the question over debt repayment or relief, and issues of NEPAD and regional integration.

In discussing the global context participants also agreed on the need to present a balanced view of both external and internal causes of economic decline. The international community should be reminded of its role and responsibilities – both through historical policies and current policies.

Issues to be discussed at a global level included trade negotiations, debt relief, the impact of HIV/AIDS on the entire economy (particularly employment, food security, health, education, social stability, etc.)

Regarding economic prospects for Zimbabwe, a focus on formal sector development is not enough; the trickle down policies of ESAP have not worked. Civil society needs to be clear about human-centred and decentralised frameworks.

Macro-economic factors such as inflation must be addressed in order to develop mechanisms that lead to stabilisation in a way that balances both the external and internal environment.

Government should be reduced in a way that does not compromise social services. The structure and strategic role of the state should be redefined, and social safety nets should be developed so that immediate needs and abject poverty could be addressed even during the transitional period

The ZCTU is developing an alternative critique which includes:

- negotiation/dialogue with transitional govt/council – transitional economic council
- humanitarian resources
- understanding the frame work and allocation of Zimbabwe's resources from 1890 to present.

A key difference was found between Kanyenze's paper, which discussed the current crisis, and the Muchena/Malungisa paper which described the economy in transition. It was agreed that the current situation can be accurately described as a crisis, and that the period Zimbabwe needs to go through, in order to achieve stability, should be called the transition period.

“Business, community groups and donors should be involved in the budget making process.”

There is a need to address possible asset stripping, particularly within parastatals. Asset registration should take stock of and audit current government agreements. Further proposals such as the suspension of promotional arrangements, and the development of mechanisms for the recovery of national assets and the dismantling of government business cartels were also discussed.

13 This discussion was minuted by Rutendo Kambarami of MWENGO.

The 12-18 months budget needs to address deliverables, including food supply, medical equipment and medication (particularly for HIV/AIDS), salaries for civil servants, fuel and energy supplies, infrastructure stability and the funding of transitional process such as the new elections.

Different players, including business, community groups and donors should be involved in the budget making process. Economic development programmes should prioritise community empowerment and should understand the structures and values of communities so that future development does not perpetuate a dominant system.

RESOLUTIONS

In proposing the way forward, the group made several concrete recommendations:

- Crisis and other civil society organisations should convene a national economic consultation that comes up with concrete measures to define the economy that Zimbabwe wants. This should include developing a framework to engage with donors during the transitional phase on the basis of poverty eradication goals.
- Conduct empirical studies to further define the extent and nature of the economic crisis.
- Develop values and an ethos that underpins and informs a new economy.
- Zimbabweans should share with and learn from other countries' experiences (beyond just South Africa), especially those emerging from conflict/crisis. This could include studying Kenya's engagement with the IMF/World Bank.
- The understanding of the crisis should be broadened to include issues relating to globalisation and NEPAD.
- Ensure broader civil society participation at a national level through existing mechanisms such as the tri-partite forum.
- Recognise the current global context/negotiations and the impact it has on the Zimbabwean economy
- The common person must be empowered on issues of development and by development in local communities
- The IMF and World Bank PRPS must be redefined.
- Issues of shortages of basic commodities and foreign currency must be urgently addressed
- The mapping out of strategies on how to transform the informal grey economy to a more formal economy.
- Develop a transitional economic authority and conduct critical restructuring of certain institutions such as the NECF.