SUPPORTING ECONOMIC TRANSFORMATION

THE OUTLOOK FOR THE ZIMBABWEAN ECONOMY

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ACRONYMS

AfDB	African Development Bank
CZI	Confederation of Zimbabwe Industries
DRC	Democratic Republic of the Congo
ESAP	Economic Structural Adjustment Programme
FDI	Foreign direct investment
GDP	Gross domestic product
GNU	Government of National Unity
GPA	Global Political Agreement
IFI	International financial institution
IMF	International Monetary Fund
MDC	Movement for Democratic Change
MSMEs	Micro, small and medium enterprises
MTP	Medium Term Plan 2011-2015
ODA	Official Development Assistance
PFM	Public Finance Management
RBZ	Reserve Bank of Zimbabwe
SADC	Southern African Development Community
SOE	State-owned enterprise
SSA	Sub-Saharan Africa
STERP I	Short-term Emergency Recovery Programme
STERP II	Three Year Macro-Economic Policy and Budget Framework 2010-2012
ZANU-PF	Zimbabwe African National Union – Patriotic Front
ZAPU	Zimbabwe African People's Union
ZETDC	Zimbabwe Electricity Transmission and Distribution Company

EXECUTIVE SUMMARY

In the last decade, sub-Saharan Africa (SSA) has undergone a renaissance with broad-based economic growth including structural economic deepening and diversification and increasing political stability in many countries. An exception to this has been Zimbabwe. In the period from 1999 to 2008, Zimbabwe's GDP declined by 52%. This ended in 2008 in a period of hyperinflation and dollarisation of the economy. Subsequently, the economy experienced anaemic growth which averaged 2.9% from 2009 to 2016.

However, the Zimbabwean economy did more than simply underperform in relation to economic growth on a comparative basis with the region. It underwent a significant structural degeneration, which is characterised by a number of factors, and which is the subject of this paper. As discussed in detail in Section 3, the most important of these factors are;

- **An increased dependence on primary commodities**. Zimbabwe is rich in mineral resources including platinum, diamonds and gold. The economic performance was supported by the inflation of commodity prices and increased global demand which led to rapidly rising exports of these products. Indeed, without the commodity sector the performance of the Zimbabwean economy would have been significantly worse. However, it has left the Zimbabwean economy highly dependent on commodities including their international prices and demand.

- **Deindustrialisation and informalisation of the economy**. Positive structural transformation of a developing economy includes shifting resources from low to high productivity sectors and creation of mass formal employment. (McMillan et al, 2017) The Zimbabwean economy in the period under discussion has not only failed to achieve this, but these processes have gone into reverse with the economy suffering from deindustrialisation, with a shift in resources from high to low productivity sectors, and deepening informalisation of the economy. These changes have been accompanied by falls in wages and rising poverty levels. For example, the share of manufacturing fell from 26.9% in 1992 to 11.7% in 2014 (accompanied by declining levels of capacity utilisation and reductions in the number of formal sector firms) and the share of informal employment in total employment increased from 80.0% in 2004 to 94.5% in 2014.

- **Negative saving and depressed investment levels**. The structural regression in the economy has been underpinned by a collapse in savings and investment rates. Savings have been negative since 2000 and, by 2015, were a negative 11.0% of GDP. Domestic and foreign investment has been depressed, averaging 15.9% during the period from 2009 to 2014, and what investment has been made has been concentrated in the extractive sector. These trends have been particularly affected by the political economy where a lack of clarity and consistency in relation to land reform and indigenisation policy has undermined business confidence.

- **Weakening public institutions characterised by fiscal and debt mismanagement, corruption accompanied by infrastructure and public service degeneration**. Fiscal affairs in Zimbabwe have been grossly mismanaged over a long period. Fiscal deficits have been deepened by uncontrolled spending on government salaries and benefits, international debt has fallen into arrears resulting in an inability of the country to access external financing and there are low and falling levels of tax collection. The lack of fiscal prudence has resulted in critical aspects of public goods and services suffering from a lack of funds with a subsequent degeneration in basic infrastructure and in health and education services.

These economic events have been predominantly driven by the political economy of Zimbabwe. As discussed in section 4, the political environment has been dominated by political goals taking precedence over inclusive economic prosperity. This has been accompanied by high levels of political instability and corruption (reflected in Zimbabwe ranking 154 out of 176 countries in the 2016 Transparency-International Corruption Perception Index). The economic policy environment has also been unstable with repeated inconsistency and reversals and, even when policy has been reasonable, weak execution.

By 2016, these issues had accumulated into what was effectively a crisis with the economy suffering from a severe liquidity squeeze in the currency system, repeated failure to address (and hence to finance externally) the ballooning fiscal deficit and increasing tensions relating to the 2018 elections. Many observers see the situation as unsustainable.

In section 4 and 5 of the paper, there is a discussion of the reforms that are needed to address these problems. There is an urgent need for wide-ranging and deep reforms at both the political and economic levels. Such reforms require a radical reshaping of, not only the economic, but the political and social conditions in Zimbabwe.

Unfortunately, there is pessimism that such reforms will be possible in the existing political economic environment in Zimbabwe. Because of this pessimism - particularly for short-term reform - the accompanying sister paper to this paper, "Zimbabwe – A Roadmap for Economic Transformation", proposes a more limited but possibly more effective path to change based on the comparative experiences of other fragile and conflict affected states. (Tyson, 2017) This can be found of the website for the Supporting Economic Transformation programme, to which this paper contributes.

1. INTRODUCTION

In what has become known as the ‘lost decade’ of development, the Zimbabwean economy lost 52% of its gross domestic product (GDP) between 1999 and 2008. This period was characterised by negative economic indicators following the economic decline that was triggered by the decision by the authorities to pay each of the estimated 50,000 liberation war veterans a once-off gratuity of Z$50,000 by 31 December 1997 and a monthly pension of Z$2,000 from January 1998, which had not been budgeted for. As a result, external investors lost confidence in the currency, the Zimbabwe dollar lost 71.5% of its value against the US dollar on 14 November 1997 (Black Friday), and the stock market crashed, wiping 46% from the value of shares.

Zimbabwe’s economy was set on a downward spiral by a number of factors: the country’s entry into the Democratic Republic of the Congo (DRC) war in August 1998, recourse to populist policies such as: setting prices at levels below viability; unsustainable budget deficits and unmanageable public sector debt; fixing of the exchange rate, resulting in vvolatile and unpredictable exchange-rate systems (multiple exchange rates); fiscal indiscipline; failure to meet its debt obligations that resulted in the loss of support from the international financial institutions (IFIs) in 1999 and the accumulation of arrears thereafter; the results in the referendum of 13 February 2000, which was followed by the invasion of white-owned farms and the chaotic fast-track land reform; and uncontrolled monetary expansion driven by quasi-fiscal activities. This culminated in hyperinflation, starting in February 2007, and the economic paralysis of 2008, when capacity utilisation dipped below 10% and widespread commodity shortages occurred. At the last official count, Zimbabwe’s hyperinflation reached 231 million % in July 2008.

In what turned out to be the country’s *annus horribilis,* the presidential elections of March 2008 saw the incumbent, Robert Mugabe, losing to his nemesis Morgan Tsvangirai, but by a margin that necessitated a run-off to determine the ultimate winner. Following the escalation of violence that accompanied the presidential run-off, the opposition leader withdrew from the race and took refuge in Botswana. In the meantime, no teaching and learning took place in 2008 – a result of the presidential election and run-off and, in the last quarter of 2008, a teachers’ strike.

An outbreak of cholera triggered a health crisis, worsened by the failure of health-care workers to turn out for work as salaries could not cover transport costs. That period was also characterised by serious and rapidly increasing social distress and chronic food insecurity. Currency debauching as a consequence of hyperinflation resulted in the Central Bank failing to keep pace with printing money, resulting in Zimbabweans losing confidence in the local currency and instead demanding to be paid in foreign currency. In rural areas, barter trading emerged, as the populace sought to protect value the crisis came to a head with rioting and looting by soldiers during the third quarter of 2008.

The removal of 25 zeros off the currency (debasing), between 2006 and 2008, failed to stem the tide, as the parallel market took centre stage in transacting. Zimbabwe declined from being the second-largest economy in the Southern African Development Community (SADC) to the eleventh. Faced with a debilitating economic crisis and mutinying soldiers, the president sought assistance from SADC to stabilise the situation. As a result, the ruling party, Zimbabwe African National Union – Patriotic Front (ZANU-PF), and the two Movement for Democratic Change (MDC) formations signed to the Global Political Agreement (GPA) in September 2008, with South Africa brokering the deal on behalf of SADC. This led to the formation of a Government of National Unity (GNU) in March 2009. However, before the inauguration of the GNU, the budget announced by Acting Minister of Finance Patrick Chinamasa on 29 January 2009 liberalised price setting and formally adopted use of multi-currencies. This partial dollarisation immediately killed off hyperinflation and stabilised the macroeconomy, setting the stage for economic rebound.

2. ECONOMIC REBOUND AND ITS REVERSAL

As indicated under Article III of the GPA, the immediate priority of the GNU was ‘the restoration of economic stability and growth’, as well as nation building and national healing. Clearly, the fundamental task of the new inclusive government was to resuscitate and rehabilitate the economy. The GNU committed itself to lead the process of developing and implementing an economic recovery strategy and plan. To stabilise the civil service, all public-sector employees were to receive allowances amounting to $100 a month.

The Short-term Emergency Recovery Programme (STERP I) was adopted in March 2009, covering the period February to December 2009, with its three key goals:

- stabilise the macro- and microeconomies
- recover the levels of savings
- lay the basis of a more transformative mid-term to long-term programme that would turn Zimbabwe into a developmental state.

The priority areas were:

- political and governance issues
- social protection
- stabilisation.

The key focus areas of STERP included:

- social protection measures to mitigate poverty by strengthening humanitarian assistance
- support for the revival of the productive sectors
- creation of a conducive investment climate
- restoration of a stable macroeconomic environment
- collection of taxes in foreign currency
- a cash budget as part of fiscal austerity measures
- cessation of quasi-fiscal expenditures to stem fiscal discipline
- restoration of positive real interest rates to boost domestic savings and attract portfolio investment.

Successful implementation of STERP would depend on the mobilisation of $8.3 billion, a task that proved elusive. Because it could not finance full dollarisation with foreign currency reserves at 0.8 months of import cover in 2008, Government adopted partial dollarisation. Full dollarisation would have involved the Reserve Bank of Zimbabwe (RBZ) buying the deposits of the banks and financial system as a whole, and converting them to US dollars, which was not feasible without external assistance. The major advantages of (partial) dollarisation included the following:

- enhanced policy credibility
- promoted macroeconomic stability by immediately killing hyperinflation
- instilled fiscal austerity.

The main disadvantages were:

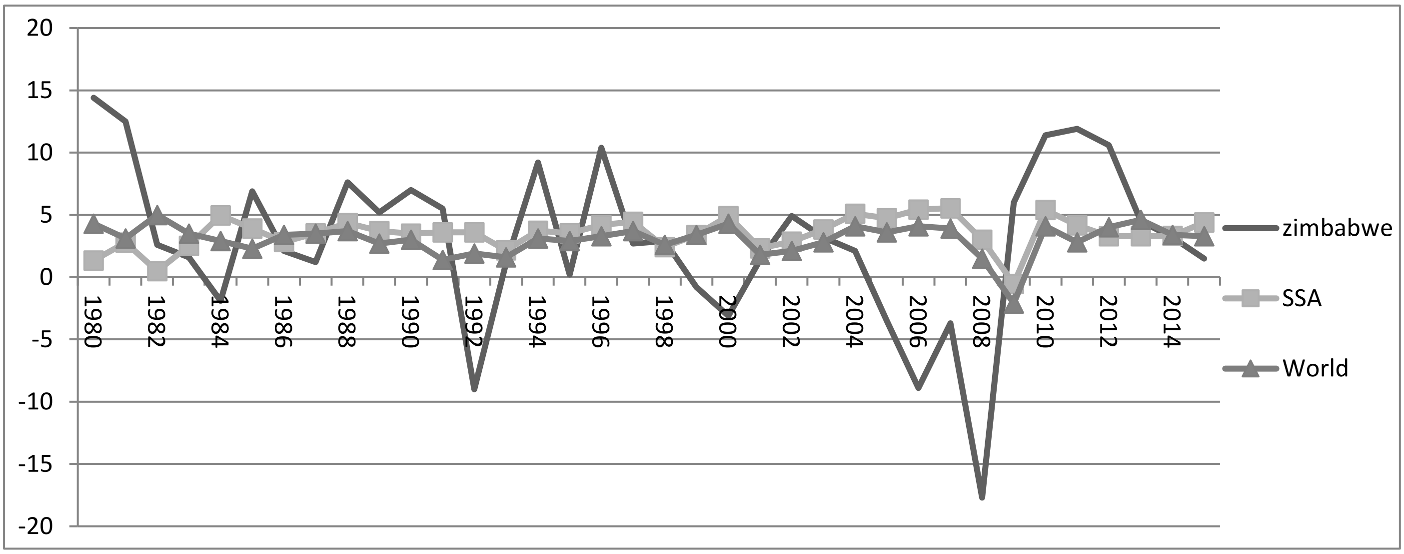
- loss of financial sovereignty
- RBZ lost its role as lender of last resort
- limited government’s capacity to respond to economic shocks
- loss of seigniorage revenue (revenue from printing money)
- left the majority of the people out of the system (as the Minister of Finance stated, ‘You eat what you kill’).

STERP I was followed by the Three Year Macro-Economic Policy and Budget Framework 2010-2012 (STERP II) on 23 December 2009 and the Medium Term Plan 2011-2015 (MTP) launched on 7 July 2011. The focus of STERP II was to take the economy from stabilisation to growth, and from growth to inclusive development. The adoption of MTP represented a return to medium-term planning. However, with the adoption of Zim Asset after the July 2013 Harmonised Elections, the MTP was unilaterally abandoned in midstream. Zim Asset was set to run for the period October 2013 to December 2018 and has been criticised as an abstract policy framework lacking a detailed strategy.

Figure 1 traces Zimbabwe, sub-Saharan Africa and the world average GDP growth trends over the period 1980-2015. Clearly, Zimbabwe's GDP growth is the most erratic over this period. On average, Zimbabwe outperformed the SSA and world economy during the first decade of independence at 5.2% compared to 3% for SSA and 3.4% for the world (1980-1989). Thereafter, its performance is below the average for SSA and the world at 2.9% during 1990-1999 (3.5% for SSA and 2.7% for the world), and -2.8% over the period 2000-2008, compared to 4.2% for SSA and 3.1% for the world. As Zimbabwe's growth was persistently negative over the period 1999-2008, that for SSA and the world were positive.

While inconsistent and contradictory policies accounted for the downturn in Zimbabwe's performance over the period 1997-2008, that of SSA was buoyed by strong commodity demand from the emerging countries, particularly China (the commodity super cycle) and improved economic management.[1] Paradoxically, the emergence of sustained growth and the associated 'Africa rising' narrative coincides with Zimbabwe's 'lost decade.'

Figure 1: GDP growth trend, 1980-2015 (%)



Source: World Bank, various years.

The period of the GNU and the multi-currency regime witnessed an economic rebound in Zimbabwe, with GDP growth averaging 10% between 2009 and 2012, compared to 3% for SSA and 2.2% for the world over the same period. Even as the SSA and world economies experienced negative growth on average in 2009, weighed down by the global financial crisis, Zimbabwe recorded a positive growth rate of 6%. However, the weakening of international commodity prices that began in 2013, coupled with drought and policy inconsistency and contradictions, caused the economic rebound in Zimbabwe to slow and trend downwards to a projected 0.6% in 2016, far below the SSA and world averages.

1 For a useful discussion, see AfDB et.al, 2015; UNECA, 2015.

As highlighted in the 2017 Budget Statement, the fundamental challenge facing the economy is underproduction across all sectors. This economic underperformance defies the strengths and opportunities in agriculture, manufacturing, mining and tourism, arising out of diverse natural resource endowment, conducive climatic conditions, and trained human resources. According to the Budget Statement, key reforms are required in terms of (1) fiscal adjustment, (2) structural reforms, (3) stimulating productivity across sectors, and (4) poverty eradication. In the absence of a robust fiscal adjustment and structural reforms as well as arrears clearance, as the Minister of Finance rightly warned, the persistent deterioration in the macroeconomic environment will continue. In addition, there is a need to finalise the outstanding components of the re-engagement process with international financial institutions. The major challenge is therefore 'walking the talk' in terms of implementing critical reforms that have been highlighted since 2009.

3. THE ECONOMY UNDERGOES WRENCHING STRUCTURAL CHANGES

The Zimbabwean economy has undergone such wrenching structural changes over the past 20 years that it is barely recognisable. These changes, which entail structural regression, include the following:

- increased dependence on primary commodities
- deindustrialisation and informalisation of the economy
- dissaving and depressed investment levels
- infrastructural deficits and weak institutions
- weak budget, unsustainable expenditure mix, rising domestic debt and debt overhang.

Each of these is discussed below.

3.1 Increased dependence on primary commodities

Recovery since 2009 was anchored by mining and agriculture, buoyed by the high global prices. Thus, the mining sector became the leading export sector, on account of high mineral prices and expanded platinum, diamonds and gold output. Mining surged to become the most dynamic sector, the role that had been played by agriculture in pre-crisis Zimbabwe. Mining's share of GDP grew from an average 10.2% in the 1990s to an average 16.9% in 2009-2011. Export recovery is driven by primary commodities: of the US$14.1 billion in export receipts generated between 2009 and September 2013, US$9.2 billion (65.2%) emanated from the mining sector; agriculture, horticulture and hunting weighed in with US$4 billion (28.3%); and the manufacturing sector contributed the balance of US$0.9 billion (6.4%). This implies that primary commodities (mining and agriculture) accounted for 93.5% of export earnings during the period 2009-2013. Of the US$2 billion export earnings during the period January to October 2015, at least 80% were primary commodities (agricultural products and minerals).

Table 1 summarises the contribution to export growth by sector over the period 1993-2012. Clearly, there have been significant changes in the sources of export earnings, with greater reliance on primary commodities. The increased dependence on mining in the latter period 2009-2012 is particularly acute, as well as the recovery of agriculture during that period. Increased reliance on primary commodities exposes the economy to the vagaries of the international commodity markets and weather patterns. Apart from the excessive reliance on primary commodities, export earnings are also less diversified. Mining exports in particular are concentrated in two commodities (platinum and diamonds), with the top five exporters contributing more than 60% of the export receipts (Zimplats – platinum; Mimosa – platinum; Mbada – diamonds; ZIMASCO – chrome; and Unki – platinum), implying that the economy is more exposed to commodity cycles and is increasingly in a more capital-intensive mode.

Table 1: Contribution to export growth by sector, 1993-2012 (%)

	1993-2000	2001-2008	2009-2012
Agriculture	79	-78	30
Mining	8	61	68
Manufacturing	3	-72	-1
Services	10	-11	4

Source: Calculated from Zimstat Data, various years.

The use of the overvalued USD as the main currency of transacting has undermined export competitiveness, while imports, especially from the major trading partner South Africa, have become cheaper due to the depreciation of the rand. Lack of export competitiveness is reflected in the low rankings Zimbabwe has attained in the World Economic Forum (WEF)'s Global Competitiveness Index at 132 out of 144 countries in 2012-13; 131 out of 148 in 2013-14; 124 out of 144 in 2014-15 and 125 out of 140 in 2015-16.

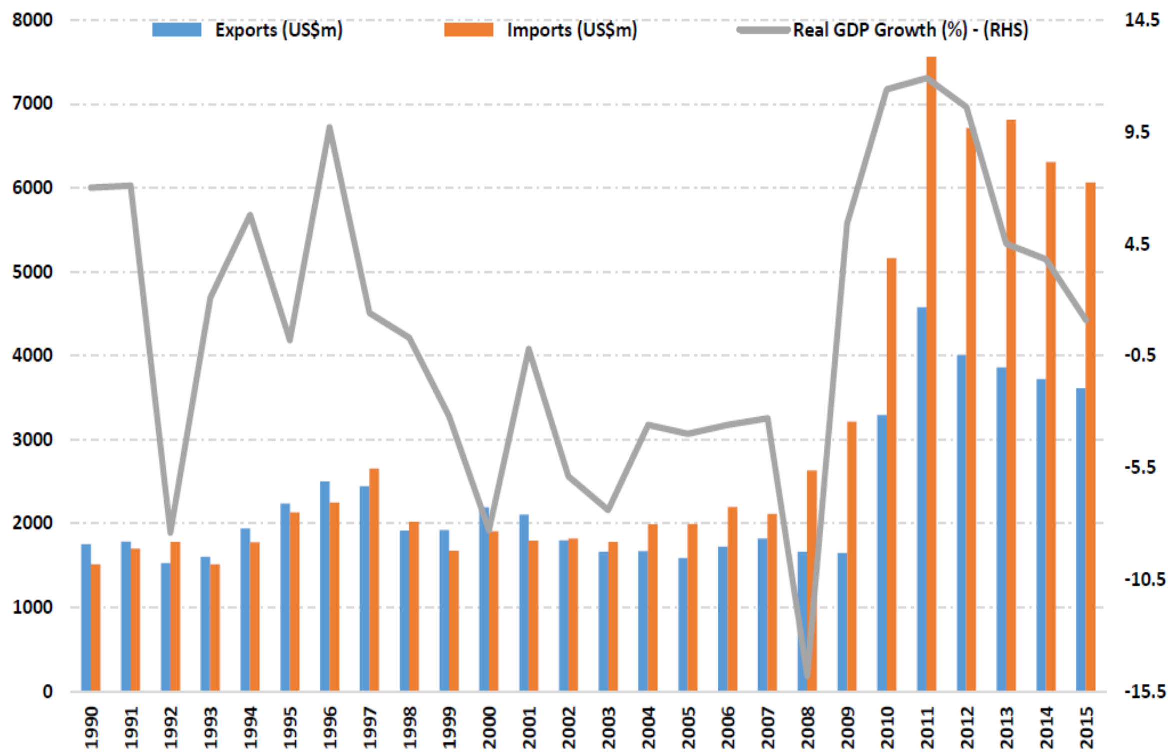
The Global Competitiveness Reports have identified Zimbabwe's strengths in terms of 'soft factors. These include female participation in the labour force, reliance on professional management, quality of education system, inflation level (low), protection of minority shareholders and taxation.

However, the country ranks low on 'hard factors' such as national savings, breadth of value chains, property rights observance, venture capital availability, quality of electricity supply, number of days to start a business, and soundness of banks.

As the Global Competitiveness Report (2012/13) aptly observed: 'Surprises, however, arise not from the rankings, but rather from the policy disconnect; specifically the unwillingness of policy-makers to tackle the challenges identified, opting rather to focus on soft factors which do not necessarily add value in lifting competitiveness rankings.'

Exports are projected to fall by 6.9% from US$3.614 billion in 2015 to US$3.365 billion in 2016. Imports are projected to decline marginally from US$6.3 billion in 2015 to US$6.2 billion in 2016, reflecting measures adopted to protect local producers. Regrettably, the large trade deficit reflects the country's overdependence on imports, most of which can be produced locally (see Figure 2 below). The huge import bill is also fuelled by the continued depreciation of the rand against the US dollar, undermining the competitiveness of Zimbabwean exports. A current account deficit of US$2.6 billion is projected in 2015 against US$2.8 billion in 2014; 18.7% of GDP against a SADC macroeconomic convergence target of under 9%.

Figure 2: Export and import trends and real GDP growth, 1990-2015



Source: World Bank, various years.
Note: RHS – right-hand side.

3.2 De-industrialisation and informalisation of the economy

A review of the literature suggests that reallocation of jobs across sectors is central to the process of structural change and upgrading productivity. Growth in labour productivity can come either from (1) changes arising from the reorganisation of production within sectors through, for example, adoption of new machines and innovative technologies that raise output without changing amount of labour or (2) from the reallocation of jobs across sectors ('structural change') as workers move from low- to high-productivity sectors (e.g. from agriculture to industry or services) – the structural bonus.

The process of structural change is central to the sustainable enhancement of the standard of living of the population, enabling more people to benefit from higher productivity levels in more advanced segments of the economy. Hence, structural change is considered the most effective driver of growth that reduces poverty in both the short and long run. The across-sector labour productivity component of growth is therefore associated most strongly with the speed at which vulnerable employment and poverty are reduced (see AfDB, 2013; AfDB et al., 2013, 2015; ILO, 2013; UNECA, 2015).

Instead of the expected structural changes as discussed above, however, Zimbabwe is experiencing a structural regression characterised by increasing dependence on natural resources, deindustrialisation and informalisation. The share of the manufacturing sector in GDP peaked at 26.9% in 1992 before collapsing to 7.2% by 2002 and averaging 11.7% between 2009 and 2014. Industrial capacity utilisation declined sharply from 35.8% in 2005 to only 18.9% by 2007, and below 10% by 2008. It then climbed to a high of 57% in 2011 before declining again, reaching 34.3% in 2015, but was back up to 47.2% in 2016. Just between 2011 and 2014, 4,610 firms closed down, retrenching 55,443 workers. In its State of the Manufacturing Sector Survey, the Confederation of Zimbabwe Industries (CZI) observed: 'Industries in Zimbabwe are under serious threat. Deindustrialisation has reached catastrophic levels, with dire consequences to the state of the economy' (CZI, 2015).

Table 2 reports the major causal factors of the deindustrialisation. Clearly, low local demand, cost of, and access to capital, antiquated machinery and machine breakdown, competition from imports, high cost of doing business, cost / shortages of raw materials, and power outages and water shortages accounted for 91.2% of the capacity constraints in 2015.

Table 2: Major capacity constraints (%), 2013-2015

	2013	2014	2015
Low local demand	17.6	28.8	28.4
Capital constraints	40.2	26.5	18.6
Antiquated machinery and machine breakdowns	9.8	7.3	12.3
Competition from imports	12.5	14.2	10.3
High cost of doing business	5.2	6.2	8.3
Cost / shortage of raw materials	5.9	6.2	6.9
Power and water shortages	-	3.8	6.4
Drawbacks from current economic environment	8.8	7.0	2.0
Other	-	-	6.9
Total	**100**	**100**	**100**

Source: CZI (2015). Manufacturing Sector Survey Report, pp. 13-14.

As a result of persistent deindustrialisation and decline, the economy has increasingly informalized. The share of informal employment in total employment increased from 80% in 2004 to 84.2% in 2011 and 94.5% in 2014.[2] The worst affected are the youth, who have little labour market experience. The 2014 Labour Force Survey reveals that as many as 98% of the currently employed youth aged 15-24 years and 96% of currently employed people aged 15-34 years were in informal employment. In terms of enterprises, the FinScope survey of 2012 highlighted that 85% of the 3.5 million micro, small and medium enterprises (MSMEs) were unregistered. Such levels of informalisation are profound considering that 5.7 million people were working in MSMEs in 2012; 2.8 million were business owners while 2.9 million were employees.

The challenge with informality is that the motive for production is subsistence (survivalist thrust), with so many workers eking out a living under precarious working conditions. The majority of informal economy workers are at the bottom of the economic and social ladder, working under precarious conditions. They typically suffer from a deficit of decent work, with their work being casual, 'unprotected', 'excluded', 'unregistered' or 'unrepresented'.

In the context of such high levels of informalisation, it is not surprising that since the mid-1990s, more than 70% of the population has lived at poverty level (see Table 3 below).

[2] See The Labour Force Surveys of 2004, 2011 and 2014 respectively.

Table 3: Poverty, Income, Consumption, Expenditure Survey

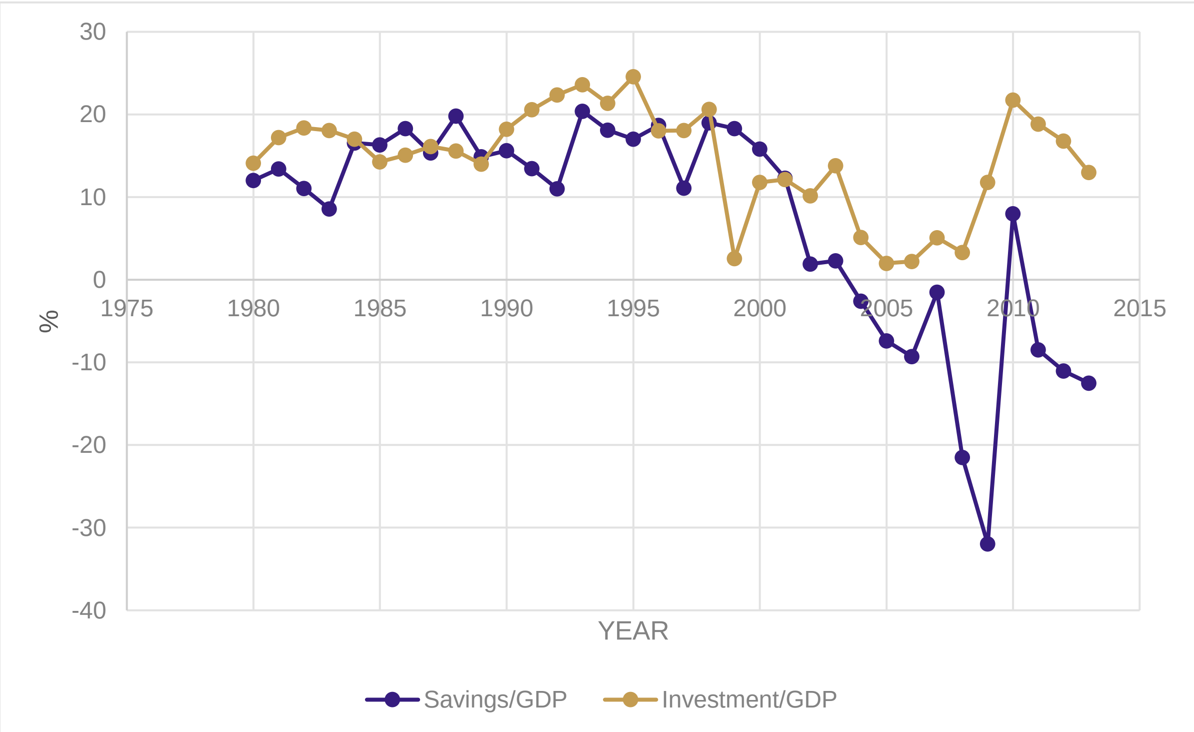
		Household		Individual	
%	**Sector**	**Poverty**	**Extreme poverty**	**Poverty**	**Extreme poverty**
2012	**Rural**	76.0	22.9	84.3	30.4
	Urban	38.2	4.0	46.5	5.6
	All	62.6	16.2	72.3	22.9
2011	**Rural**	73.0	42.3	82.4	52.4
	Urban	33.8	10.5	42.3	14.5
	All	60.3	32.2	70.9	41.5
1995	**Rural**	76.2	50.4	86.4	62.8
	Urban	41.1	10.2	53.4	15.0
	All	63.3	35.7	75.6	47.2

Source: ZimStats.

3.3 Dissaving and depressed investment levels

Savings and investments are a critical component of growth in any economy. However, in the case of Zimbabwe, this has been neglected such that savings as a percentage of GDP – which had increased from an average of 14.6% during the first decade of independence (1980-1989) to 16.3% over the second decade (1990-1999) – declined to -1.1% during the period of crisis (2000-2008) and -10.8% during the period of the GNU (2009-2014) (see Figure 3). Domestic savings, estimated at -11% of GDP in 2015, are far below the regional comparators. Botswana has a savings-to-GDP ratio of 38%; Angola and Tanzania, over 20%; South Africa, 19%; and Mauritius, 11%.

Figure 3: Savings and investment ratios (%) of GDP, 1980-2015



Source: Derived from data from the IMF and World Bank.

Both domestic and foreign investment have also remained depressed, averaging 16% during the period 1980-1989, rising to an average of 19% during 1990-1999, before falling to 7.3% over the period 2000-

2008, and averaging 15.9% during the period 2009-2014. For both savings and investment ratios, levels above 25% are considered optimum.

Foreign direct investment (FDI) has remained depressed over the years. Zimbabwe's FDI inflows amounted to US$1.7 billion over the period 1980 to 2013, compared to US$7.7 billion for Zambia and US$15.8 billion for Mozambique. Of the total of US$25.2 billion received between the three countries since 1980, Zimbabwe has accounted for only 7%. According to the RBZ, average FDI for Zimbabwe was US$88 million compared to US$800 million for Zambia, US$586 million for Mozambique and US$486 million for Botswana during the period 2002 to 2012. FDI inflows were estimated at US$591 million in 2015, compared to annual averages of US$6 billion for South Africa, US$2 billion for Zambia, and US$1.8 billion for Botswana.

According to the CZI Manufacturing Sector Survey of 2015, 87% of the respondents in 2014 and 90% in 2015 indicated that the environment in Zimbabwe is deterrent to FDI, with the percentage of firms that made capital investment using FDI very low at 5%. CZI put this down to '…unclear signalling through sometimes contradictory positions taken by different arms of Government' (2015: 7).
The report cites the lack of clarity on the Indigenisation and Economic Empowerment policy as an example. The indigenisation law requires foreign investors with more than US$500,000 to cede 51% of shares to indigenous persons.

An example of policy contradictions emerged when the Minister of Finance and Economic Development, Patrick Chinamasa, issued a statement on 24 December 2015 outlining 'revisions' to the contentious indigenisation laws. In that statement, he indicated: '…a non-indigenous business may hold the majority shareholding of a business for a period ranging up to five years, except for the energy sector which can go up to 20 years'. He also stated that existing foreign companies were allowed to operate in all sectors of the economy, but had to pay an indigenisation compliance levy as a trade-off for non-compliance.

The next day, on Christmas Day, the Minister of Youth, Indigenisation and Economic Empowerment, Patrick Zhuwao, rebuffed Chinamasa's statement and insisted that no changes in the policy or law had been endorsed. Though the president issued a statement on 12 April 2016 seeking to clarify the matter, after the Minister of Youth had threatened to close down foreign companies that failed to submit credible indigenisation plans by 1 April 2016, the issue remains unsettled and contentious.

3.4 Infrastructural deficits and weak institutions

The important role of investment in infrastructure in terms of promoting economic linkages and trade is well documented. It is acknowledged that poor infrastructure is a critical barrier to accelerating growth and poverty reduction, especially in Africa. Hence, studies have shown that increasing the stock of infrastructure by 1% can raise GDP by the same margin. Infrastructure typically reduces the cost of doing business and facilitates access to markets and is therefore a key enabler of economic activity, growth and development.

The state of Zimbabwe's basic infrastructure for the power, transport, water and sanitation, and information and communications technology sectors is detailed in the report by the African Development Bank (AfDB, 2011). Notwithstanding that the coverage and quality of Zimbabwe's basic infrastructure was among the best in Southern Africa in the early 1990s, it underwent substantial deterioration in quality such that its quality is roughly in line with that of other countries in the region. The sustained deterioration is related to the inadequate levels of public expenditures for routine and periodic maintenance of the infrastructure networks, especially in power, water and sanitation, and transport. In sectors dominated by parastatals such as power, rail transport, and fixed line communications, low services prices raised the economic costs of the deterioration, resulting in unsustainable operating losses.

This deterioration in the physical infrastructure is exacerbated by failure to build institutional capacities for management and regulation of the basic network services. The problems reflect and are caused by the disjointed approach to regulation and oversight among the various ministries involved. This has been worsened by the loss of technical skills in the sector through brain drain. Furthermore, the institutional and regulatory inadequacies undermined investment by the private sector in basic infrastructure. Given the role of basic infrastructure as an enabler of economic activity, its deterioration impacted negatively on productive sectors of the economy and the level and quality of services. Therefore, AfDB (2011) estimated that at constant 2009 prices, US$14.2 billion is required to rehabilitate the infrastructure between 2011 and 2020.

Additionally, the deterioration and weakness of institutions pervades Government, local authorities and public enterprises such that they have become a major source of risks in the economy. The institutional weaknesses and corporate governance shortcomings have become recurrent issues in the Auditor and Comptroller General's Reports and Budget Statements. As noted in the 2016 Budget Statement, 'Clearly, we cannot grow our economy if our corporate management structures at both public and private entities are allowed to persist, demonstrate inefficiency and unaccountability over use of scarce resources' (paragraph 398, page 88).

The president captured the challenges faced by public enterprises and parastatals well in his State of the Nation Address to the joint sitting of Parliament and Senate on 25 August 2015:

> 'It is very clear that, over many years and due to a variety of reasons, the level of compliance with good corporate governance principles at many, if not most of our parastatals/State enterprises, has fallen to levels well below what might be regarded as even "minimally acceptable". The extravagance of the remuneration packages and associated benefits which boards and management have blithely awarded themselves, borders on the obscene reflecting avarice and greed, instead of the commitment to serve which we expect, indeed demand, of those appointed to such strategic positions. The launch, in April 2015, of the National Code on Corporate Governance and the current process of integrating the principles therein in the amendments to the Companies Act, indicate Government's serious intent in this regard.'

In the 2016 Budget Statement, an example is given from the Zimbabwe Electricity Transmission and Distribution Company (ZETDC), where a provision of US$482 million was made for power generation, transmission, distribution and rural electrification to address the power shortages, *yet the organisation's debtors as at 30 September 2015 owed it US$1 billion, and this figure was growing* as a result of the prevalent culture of not paying for services. Overall requirements for infrastructural development for 2016 were projected at US$2.7 billion. Thus, State enterprises long ceased to yield value to the State and economy, with most incurring employment costs which have undermined efforts at restructuring. While the restructuring and reorganisation of state-owned enterprises (SOEs) has been raised in all Budget Statements over the past decade, actual implementation has been very slow.

Lack of transparency and accountability around mineral resources has been a sticking issue for a long time. As the mid-term Fiscal Review Statement of 2015 indicated, Government was losing US$1.8 billion annually through smuggling, illegal dealing in gold and precious stones, corruption, fraud, tax evasion, and externalisation, among others. On diamonds, for instance, the 2016 Budget Statement notes: '…this is a resource that seems to have not benefitted the generality of our people, notwithstanding that the diamond industry has potential to uplift our population, especially as we fully exploit the diamonds value chain' (paragraph 357, page 81).

Furthermore, 'Indeed, there was greater economic impact from diamonds during times of uncontrolled alluvial panning than what is being realised following introduction of formal diamond mining arrangements' (paragraph 358, page 82). The president weighed in on the debate during commemorations of his 92nd birthday, on 21 February 2016, announcing that the country had lost US$15 billion in diamond revenues since the discovery of the resource. Even though the actual levels may be contestable, it is still disturbing to note the culture of corruption with impunity that has become widespread, haemorrhaging the economy.

Not surprisingly, therefore, Zimbabwe ranks low in the Transparency-International Corruption Perception Index, at 150 out of 168 countries in 2015, and 154 out of 176 countries in 2016. Even though the Zimbabwe Investment Authority 'one-stop investment centre' was launched in 2010, its operationalisation was very slow, ostensibly due to reluctance by relevant line ministries and departments to second staff. In this vein, the subtitle of the Monetary Policy Statement of January 2016 was 'Economic Transformation Through Transparency and Accountability.'

A number of measures have been adopted to address the scourge of corruption and corporate misgovernance, including the finalisation of work on the Corporate Governance Bill to establish corporate governance and performance principles for SOEs, and amendment of the Public Finance Management (PFM) Act to include monitoring and close oversight of public enterprises and local authorities, with the PFM Amendment Bill gazetted on 23 November 2015. This includes the proposed creation of a unit within the Accountant General's Department to analyse audit reports, to enforce compliance on issues raised by the Auditor General and Parliament, and to promote accountability of Ministries and Departments and compliance with their obligations under the PFM Act regarding public resources. As the Minister of Finance and Economic Development observed in the 2016 Budget Statement, the challenge is 'walking the talk', with rhetoric running ahead of actual practice. Even the establishment of the Zimbabwe Anti-Corruption Commission (ZACC) in September 2005 has not deterred this scourge, with the institution remaining largely a paper tiger.

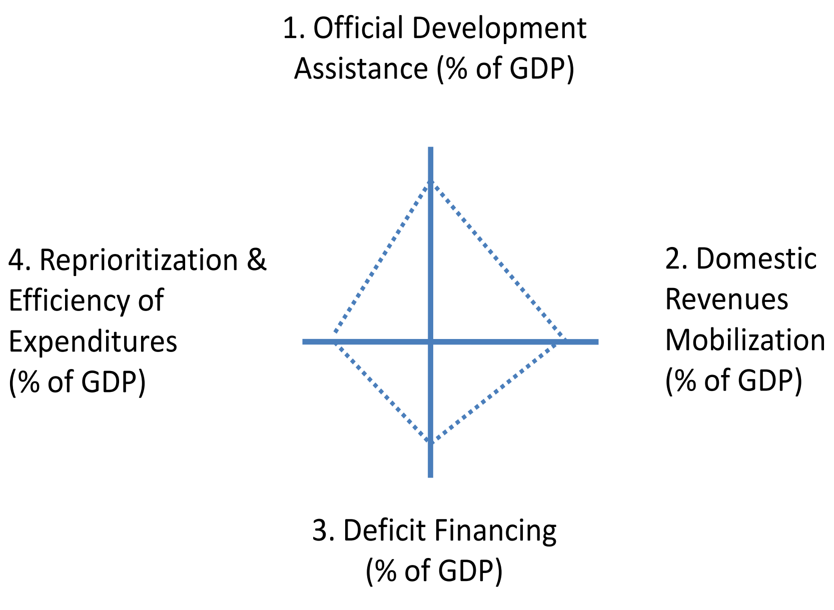
3.5 Weak budget, unsustainable expenditure mix, rising domestic debt and debt overhang

The *fiscal space diamond* is an analytical tool, a visual representation of the sources, tendencies, amplitude and potential increases or decreases in resources derived through fiscal instruments as illustrated in Figure 4 below. Plotted over four axes signifying different key components of revenue or savings, with each axis scaled as a percentage of GDP, the diamond illustrates both the aggregate fiscal space available to governments and the policy implications of the dominant sources of revenue.

The key fiscal instruments or 'pillars' of the fiscal diamond are:

i. external grants/aid (Official Development Assistance – ODA) or debt relief;
ii. domestic revenue mobilisation through tax administration or tax policy reforms;
iii. deficit financing through domestic and external borrowing; and
iv. 'reprioritisation' (expenditure switching) and raising efficiency of expenditures.

Figure 4: Fiscal space for development: the fiscal space diamond



Source: Roy, Heuty and Letouzé (2009: 37).

Since dollarisation in 2009, Zimbabwe has not had the advantage of accessing all four pillars of the fiscal space diamond. In the absence of re-engagement with the international community, official aid is off-budget and largely targets humanitarian assistance. The third pillar of deficit financing through domestic and external borrowing is not feasible in the absence of re-engagement, arrears clearance and debt resolution. As will be seen below, recourse to domestic debt has limited application in an economy that has a debt overhang and is in debt distress. In the absence of the required political will, reprioritisation and efficiency of expenditures (pillar four) has not been leveraged.

This therefore implies that Zimbabwe has exclusively relied on domestic resource mobilisation, mainly taxation. Over time, company closures and the informalisation of the economy resulted in low revenue collection. Cumulative revenues from January to October 2016 stood at US$2.876 billion, against a target of US$3.158 billion, 1.5% below 2015 and 9.8% lower than budgeted estimates. In 2017, only moderate growth of revenue is projected at US$3.7 billion. While revenues are severely strained and have been progressively declining, expenditures have remained high and have grown to levels inconsistent with revenue collection. Cumulative expenditures for the period January-October 2016 at US$3.84 billion, against a target of US$3.32 billion, resulted in a variance of US$520 million.

Unbudgeted expenditures associated with drought related grain importation of US$253.5 million; December 2015 salary payment arrears, at US$119.4 million; and debt servicing, at US$100.9 million resulted in expenditure overruns. Coupled with bonus payments for 2015 of US$177.8 million, employment costs at US$2.63 billion for the period January-October 2016 consumed 91% of total revenues. The cost of such high employment costs, taking up the highest percentage of revenues in sub-Saharan Africa, can only be measured in terms of foregone social and capital expenditures. As highlighted by the Minister of Finance in the 2016 Budget Statement, the increase in the size of the Public Service from 203,362 in February 2009 to 276,163 by December 2014, a 35.8% growth rate, despite a policy of a general freeze on recruitment introduced by Government in 2011, contributed substantially to this unsustainable expenditure mix.

Against the original 2016 Budget targeted deficit of US$150 million, 1% of GDP, a financing gap of US$1.18 billion, which represents growth from 3% of GDP in 2015 to an unsustainable 8% of GDP, emerged in 2016. Domestic debt has risen sharply from around US$250 million at the end of the GNU mid-2013 to US$3.7 billion by October 2016. The government increasingly resorted to domestic borrowing to finance this gap to the extent that treasury bills have become a form of surrogate currency used to settle Government expenditure. There is therefore a need to revert to cash budgeting to contain expenditures, especially employment costs, and refocus fiscal expenditures towards social services and capital expenditures.

Meanwhile, total domestic and external debt stood at US$11.2 billion (79% of GDP) as at 31 October 2016, beyond the recommended sustainability level of 60%, indicating that the country is in debt distress. The agreement to settle arrears as part of the overall arrears clearance and debt resolution strategy agreed between Zimbabwe and the international financial institutions (IFIs) in Lima, Peru, in October 2015 is in limbo, with the agreed timeline of clearing the arrears of US$1.8 billion by 31 April 2016 having been missed, as well as the extension to October 2016. Of the US$7.5 billion external debt (53% of GDP), US$5.2 billion (69.3%) is in arrears.

However, as part of the Arrears Clearance Strategy agreed with creditors in Lima in October 2015, Zimbabwe settled its overdue obligations to the International Monetary Fund (IMF) (US$107.9 million) on 20 October 2016. While the plan is to settle early in 2017 arrears to the other multilateral creditors – the AfDB, US$610 million; the World Bank, US$1.16 billion; the European Investment Bank, US$212 million; and others – as well as bilateral official creditors, the liquidity crunch and the deteriorating fiscal position make this difficult, especially in the context of forthcoming elections in mid-2018.

4. THE EXISTING POLITICAL AND ECONOMIC CONSTRAINTS ON ECONOMIC REFORM

Since independence in 1980, Zimbabwe has implemented no less than 17 economic blueprints as follows:

- Growth with Equity (1981)
- Transitional National Development Plan (1982-1985)
- First Five Year National Development Plan (1986-1990)
- Economic Structural Adjustment Programme (ESAP) (1991-1996)
- ZIMPREST (1996-2000)
- Millennium Economic Recovery Programme (MERP) (2001-2002)
- Ten Point Plan based on Agriculture (2002)
- National Economic Revival Programme (NERP) (2003)
- Macroeconomic Policy Framework (2005-2006)
- National Economic Development Priority Programme (NEDPP) (2007)
- Zimbabwe Economic Development Strategy (ZEDS) (2008) (aborted at conception)
- Short Term Economic Recovery Programme (STERP I) (2009-2010)
- Short Term Economic Recovery Programme (STERP II) (2010-2012)
- Medium Term Plan (2011-2015)
- Zim Asset (2013-2018)
- Ten-Point Plan (August 2015)
- Interim Poverty Reduction Strategy paper (I-PRSP) (2016-2018).

Of note is that as the crisis began to emerge in 1997, the country abandoned medium-term planning and resorted to knee-jerk reactive measures encompassing price controls, policy inconsistency and reversals, and even contradictions. While the period of crisis (1997-2008) typifies this approach as highlighted above, this has continued to characterise how Government does business to this day. The last attempt at medium-term planning was with ZIMPREST (1996-2000). Since ZIMPREST, the programmes became short-term as Government was grappling with an emerging crisis. MTP (2011-2015) represents a return to medium-term planning. But that programme too was abandoned in midstream following the end of the GNU Government post the July 2013 elections.

Experience suggests that Government has been long on planning and short on implementation, with regular changes to the programmes; policy incoherence and inconsistency; and even reversals. MTP was replaced by Zim Asset, which is a broad framework without an explicit implementation strategy. Hence the main objectives of Zim Asset, including an average GDP growth of 7.3% per annum and the creation of two million jobs, amongst others, have remained elusive.

While reforms have been identified as critical to sustained, inclusive and pro-poor growth, little progress has been achieved on these policy issues. These structural reforms include public sector and public enterprise restructuring, infrastructure rehabilitation and development, bringing the land issue to a closure through a land audit, arrears clearance and debt resolution as a basis for re-integration into the international community, and promoting inclusive, pro-poor growth. These reforms also encompass governance and electoral reforms that were identified in the GPA but not implemented during the tenure of the GNU. A number of factors have undermined the implementation of these reforms, described below.

4.1 The primacy of power and control (subjugation), political expedience overriding economic rationale (reform)

The governance template that emerged at independence largely subverted the implementation of a developmental framework. Given the contestations for power between the liberation parties, ZANU-PF and ZAPU, on the one hand, and suspicions about the continued existence of the colonial architecture, on the other, the main focus post-independence was political control and its consolidation. It is therefore not surprising that so soon after independence the erstwhile liberation allies in the Patriotic Front, ZANU-PF and ZAPU, turned against each other in a civil war that lasted from 1981 until the conclusion of a unity agreement in 1987.

In what became known as 'Gukurahundi', which in Shona refers to 'the first rain that washes away the chaff of the last harvest before the spring rains', a North-Korean trained 5th Brigade was unleashed onto the people of Matabeleland and parts of the Midlands.[3] This was largely seen as an effort to flush out and 'wash away' the opposition to create a one-party state. In the meantime, in 1983, President Mugabe merged the two influential positions of President and Secretary General of ZANU-PF in an effort to consolidate and centralise power within the ruling party. Henceforth, he was referred to as the First Secretary and President of ZANU-PF.

It is indeed a throwback to this period when the 2014 Congress of ZANU-PF gave all the powers to appoint the two deputies to the president, ostensibly to create one centre of power, following the attempts by the Mujuru faction to wrest power. This consolidation of powers in the president further found expression in the unity accord signed between ZANU-PF and ZAPU to create one party in 1987, marking a shift from the Westminster system that had been adopted at independence where government was run by the prime minister, with a ceremonial president.

The deeply embedded national and sub-national structures that give character and legitimacy to the State and the political system, the foundational factors, which have shaped and influenced political and economic governance in Zimbabwe, derived from both the legacy of colonialism and the liberation struggle. Participation in the liberation struggle has given the civil and military elites effective control of state levers of power and control, and have provided a culture of entitlement and dependence, which has in turn seen the centralisation of power in the presidency (the presidential State), and conflation between State and ruling party (party–state).

The social contract between the State and the people is perverted in that leadership is there to be served and not to serve and the relationship is maintained either through dependency or coercion – in which case the State has not been shy to revert to the colonial coercive apparatus to legitimise its hegemony and maintain its grip on power.[4] Thus, in the social contract and narrative, the ordinary Zimbabwean is referred to in disparaging terms as the *povo*, and the civil and military elites are the *chefs.* The narratives constructed to maintain this social contract and relationship speak to the right of the civil and military elites to rule without reference to their obligation to deliver on the promises of the liberation struggle.

Thus, all key levers of power (including information) are in the hands of, and are controlled by, the civil–military elite, including the Joint Operations Command (JOC), the security sector and the Central Intelligence Organisation (CIO). Increasingly over the years, the control of resources by this ruling elite has manifested itself in the control and running of the diamond fields, the fast-track land reform programme, and the militarisation of institutions, as well as the running of elections. National programmes including agricultural inputs, computers allocated to schools, and scholarships are distributed in the name of the president, and hence the enduring accusations that food distribution is

[3] See Catholic Commission for Justice and Peace in Zimbabwe (2008) and Chatham House (2007) for useful and extended discussions.

[4] For instance, the colonial Law and Order (Maintenance) Act (LOMA) was effectively changed in name only to become the Public Order and Security Act (POSA) introduced in 2002.

based on partisan lines. Regrettably, this reality of the people having to cede power to the elites and look up to them for sustenance has pervaded Zimbabwe's polity and civil life. Consequently, scenario mapping must factor this axis of power between the civil and military elites. Opposition parties are also modelled along similar lines, and even civil society organisations tend to be dominated by, and identified with, particular individual leaders.

Clearly, therefore, what is required in Zimbabwe going forward is not just a change of political leadership but a whole paradigm shift that includes a new set of foundational factors based on national ethos, values and principles that promote humane, people-centred development. An example from South Africa in this regard is most relevant, where, up to now, the Freedom Charter is the reference point for policies.

Deriving from the above foundational factors is a set of formal and informal rules of the game, which determine how the system works. These rules – which are largely informal, reflecting the conflated relationship of the state–party – define who governs, and how public resources are allocated and managed. Verification is used to determine who get appointed to positions of influence, where loyalty is the prerequisite to sustain power and create and run personal fiefdoms based on patronage. This results in highly centralised and discretionary decision-making and the selective application of the law (rule by law and not rule of law).

Thus, formal rules are followed (for instance the regular holding of elections but their outcomes are predetermined). The focus is on short-termism, outlining objectives without recourse to outcomes. If the outcomes are not favourable, an external source (e.g. sanctions) must be identified as the cause.

This therefore explains how a country can endure more than a decade of crisis without seeking comprehensive ways of resolving the issues. It took a near collapse of the economy to bring about the GNU. Under the GNU, ZANU-PF had to retain the levers of power, ceding to the opposition the economic and social spheres that desperately needed external support. Once the conditions were right and the system had recovered, there was no more need for power-sharing, and hence the whole nation was railroaded to elections, with predictable results. Tellingly, those that seek reforms are quickly dismissed as agents of 'regime change', serving external interests. In this regard, the word 'reform' has negative connotations and is to be avoided at all costs as it disrupts the foundational factors and the related rules of the game. Yet 'regime change' under democratic norms and standards is a *sine qua non* of the very system.

However, given the absence of reforms, the political and economic system is in crisis again because the reforms that are needed are not implemented. Instead, the system is caught in factional fights within the ruling party that spill into Government; political and economic uncertainty; policy inconsistencies and contradictions; endemic corruption; informalisation and widespread poverty. The inherited dual economy has not been addressed but rather accentuated. While the foundational factors and their related rules of the game have created the gridlocked situation characterised by stasism, it is also presenting opportunities for change (reform).

The economic outcomes arising from the system of patronage and rent-seeking behaviour cannot be sustained by the system, as it has also created personal fiefdoms, dependency and far-reaching productivity deficits across all sectors of the economy, as pointed out by the Minister of Finance in the 2017 Budget Statement. The sources of rents have quickly dried up in the absence of measures to enhance national and sectoral productivity. As shown above, economic rebound has been fragile and is trending downwards, with a huge financing gap emerging.

Moreover, the centre of power by virtue of age and the gerontocracy cannot be sustained, as several centres of power are emerging in the same ruling party, vying to take over the reins of power. The situation is therefore highly fluid and unpredictable. The fallout of the Mujuru faction and their removal from both the party and Government has not created stability. Other centres of power have emerged with similar objectives of wresting power from the incumbent. What is particularly unique about the current discourse is that, for the first time, it has separated the presidency from the war veterans who were, over the years, the gatekeepers of the system. Attempts to create an alternative grouping of war veterans to prop the system appear to be failing. In this regard, by firmly aligning themselves with one of the factions, the war veterans have thrown spanners into the system, demanding a new set of foundational factors and rules of the game. This presents an historic opportunity for the forces for change, in that in this fluid situation, networking and alliance building is a necessary step towards the deconstruction of the old template and its narrative.

The situation is made more complex by the fact that the opposition parties likewise are exhibiting similar tendencies of fracture and factionalism. In addition, the wrenching structural changes that have taken place in the economy have shifted the social base, decimating the traditionally organised working class and replacing it with an unorganised informal economy embedded in survivalist activities. The emerging civil society coalitions based on resident associations are still at a nascent stage of evolution.

Nevertheless, as Karl Marx correctly foresaw, the contradictions in the system create a basis for its own destruction (dialectical materialism). It is therefore this dynamic that provides opportunities for change. But as the Arab Spring in Tunisia, Libya and Egypt shows, change that is not driven by values and principles may reproduce the system it sought to replace. This therefore *necessitates the building* of citizenry and agency mechanisms that should inform and drive change. In this regard, given the trade-offs in policy associated with reforms, it is imperative to promote inclusive structures and processes for broad ownership of outcomes.

Thus, processes such as re-engagement, arrears clearance and debt resolution should be redirected from the current top-down elitist approaches towards more inclusive and sustainable processes. This is the key lesson from three decades of structural adjustment programmes (SAPs) as distilled into the Paris Declaration on Aid Effectiveness based on five principles. These include: (1) Government-led processes of developing and implementing national development strategies through broad consultative processes (national ownership); (2) harmonisation; (3) alignment; (4) managing for results; and (5) mutual accountability.

4.2 Legislative constraints

Since the advent of independence, Zimbabwe has been governed on the basis of the Lancaster House Constitution, which was amended 18 times. This transitional Constitution was a negotiated settlement based on a compromise between polarised positions. It effectively protected the status quo. Hence, a dejected Mugabe commented about the process: '…even as I signed the document I was not a happy man at all. I felt we had been cheated to some extent … that we had agreed to a deal which would to some extent rob us of the victory that we had hoped to have achieved in the field' (quoted in Mandaza, 1986:38). The Bill of Rights, which formed part of the agreement, had a provision on 'Freedom from Deprivation of Property', which provided for a ten-year guarantee on the inviolability of private property. Any future land redistribution exercise would be guided by the market concept of 'willing buyer, willing seller', with the British government providing 50% of the cost of acquiring the land.

However, while these provisions were initially binding over a ten-year period, Zimbabwe had in the 1990s adopted a market-based Economic Structural Adjustment Programme (ESAP), which laid aside the transformative agenda. As the World Bank in its 'performance audit' of ESAP conceded, '... the concerns, however, go beyond the issues of pace and design: the comprehensiveness of the program seems a fundamental issue, especially given the objective of reducing poverty. Given the highly dualistic nature of Zimbabwe's economy (where the white minority dominates formal sector economic activity and owns two thirds of high-potential land, and the black majority is concentrated in rural, communal areas and the urban informal sector), it would appear that some basic questions were not explicitly addressed at the outset. First, would ESAP, predicated on the formal sector acting as an engine of growth, create sufficient jobs, quickly enough, to address the serious problems of employment? ... Even realisation of the most optimistic scenarios for formal sector growth will not provide a quick solution to the unemployment problem' (World Bank, 1995:11).

In the aftermath of ESAP, the economy descended into crisis, where the transformative agenda was effectively shelved. A new Constitution, with a progressive Bill of Rights, was adopted in March 2013, effectively paving the way for a justiciable rights framework. However, the challenge remains that the enabling legislation is not yet aligned with the new Constitution, with 400 pieces of legislation targeted for alignment. Critically, in the absence of fiscal space, Treasury is finding it difficult to finance the new institutions (e.g. Commissions) and to meet the requirement that 5% of the budget should go to local authorities. In fact, the Minister of Finance has pronounced the new Constitution un-fundable.

The importance of alignment of laws with the Constitution lies in that those who are against reforms often hide behind the archaic laws. For instance, the Minister of Finance is failing to progress on restructuring public enterprises and parastatals because the enabling laws give the line ministries the exclusive right and control over these entities, creating a silo mentality and fiefdoms.

4.3 Private sector environment

The doing-business environment in Zimbabwe is generally repressed, with the country performing poorly in global rankings, as indicated in Table 4 below. This is reflected in the persistent deindustrialisation and informalisation of the economy. While the Office of the President and Cabinet (OPC) has taken commendable steps to improve the doing-business environment through its 100-days rapid results reforms, and the rankings have improved, they remain low, indicating that much more work needs to be done.

Table 4: Global competitiveness, ease of doing business, economic freedom and corruption perception rankings, 2007-2008 and 2015-2016

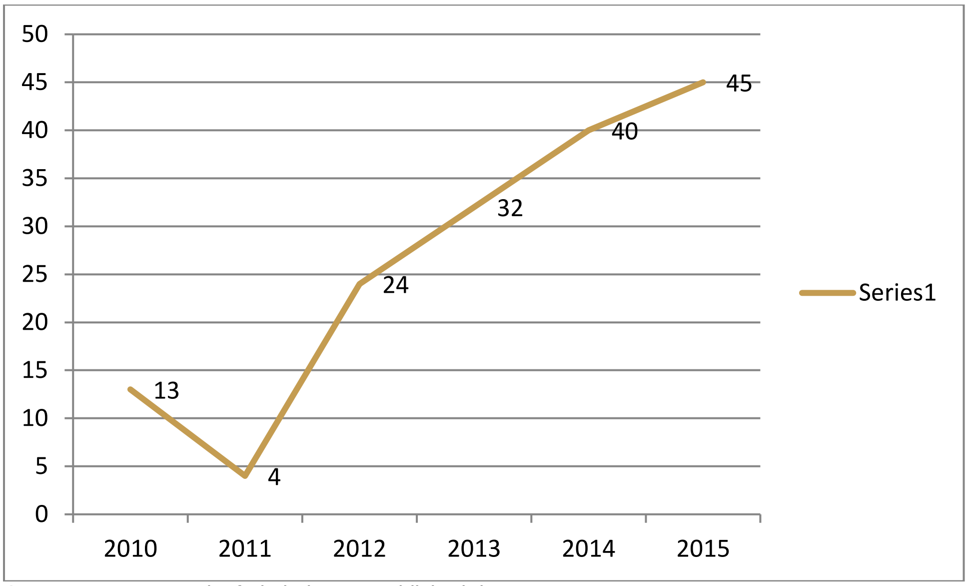
Period	WEF Global Competitiveness	WB Ease of Doing Business	Heritage Foundation Index of Economic Freedom	Transparency-International Corruptoion Perception
2007-08	129-131	154-183		150-179
2008-09	118 of 121	160 of 183	145 of 147	166 of 180
2009-10	132 of 134	156 of 183	175 of 179	146 of 180
2010-11	136 of 139	157 of 183	178 of 179	134 of 178
2011-12	132 of 142	170 of 183	175 of 177	154 of 183
2012-13	132 of 144	172 of 185	175 of 184	163 of 176
2013-14	131 of 148	170 of 189	176 of 178	157 of 177
2014-15	124 of 144	171 of 189	-	150 of 168
2015-16	125 of 140	155 of 189	-	125 of 140

Source: World Economic Forum, World Bank, Heritage Foundation and Transparency-International, various years.

While dollarisation has stabilised the macroeconomic environment, it has however imposed a high-cost structure to the economy. The use of a strong reserve currency such as the United States Dollar, which is overvalued against other major currencies, makes the economy uncompetitive. Though Zimbabwe adopted a basket of multi-currencies in 2009, 95% of transactions are in US dollars, which according to RBZ is overvalued by 45%. The depreciation of the South African Rand and other regional currencies has made Zimbabwe's exports more expensive and hence uncompetitive, while imports from these countries are much cheaper, resulting in a trade imbalance against Zimbabwe.

Figure 5 illustrates the extent of overvaluation of the USD since 2010. In this regard, discussions around use of the Rand as the reference currency are most appropriate. However, the refusal by Government to make the Rand the reference currency is based on political considerations, which have nothing to do with economic rationale. The choice of currency is therefore an illustration of how political expediency supersedes economic rationale in decision-making in Zimbabwe.

Figure 5: Overvaluation of the USD, 2010-2015 (%)



Source: Reserve Bank of Zimbabwe unpublished data.

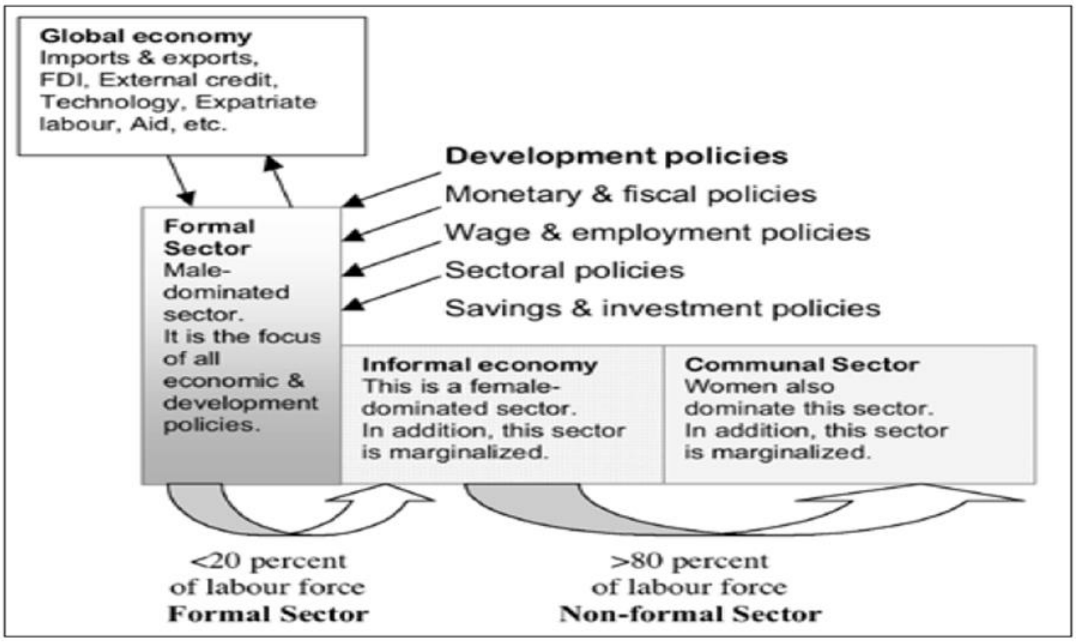
4.4. Employment and the informal economy

In order to fully appreciate the basis for economic transformation, it is important to outline why this overriding objective is critical in Zimbabwe. At independence in 1980, Zimbabwe inherited a dual economy with a relatively developed formal sector coexisting with an underdeveloped informal sector. This reflects the capture of a part of the economy, the formal sector, for capital accumulation, while the rest of the economy was left under pre-capitalist modes of production that have been fused together in a rather uneasy and tenuous coexistence (grafted capitalism) (see Figure 6). A substantial portion of workers in the non-formal economy are underemployed as they are engaged in work and income sharing.

The formal sector is more integrated with the global economy than the internal one, and is linked to the latter in a manner that exploits and further marginalises it. The non-formal segment is a source of cheap labour and subsidises the reproduction of labour in the formal sector especially by providing social protection to those displaced in the formal segment. The organisation of production in the formal sector involves the use of reproducible capital (including advanced technology), and labour (skilled and unskilled). In the non-formal segment, it involves use of predominantly unskilled labour, with natural resources and simple tools and implements.

In the formal segment, production is for profit, which is saved and used to reproduce capital (investment); while in the non-formal sector it is for subsistence, with little savings and investment. Working conditions in the non-formal sector are largely unregulated and the workers are either self-employed or engaged as casual irregular wage workers. In addition, huge gaps in labour incomes and productivity characterise the two segments, with poverty (and use of child labour) prevalent in the non-formal segment. Government regulations and institutions of collective bargaining generally exist in the formal segment, and are absent in the non-formal economy.

Figure 6: The dual and enclave economic structure



Source: Alternative to Neo-Liberalism in Southern Africa (ANSA), 2006.

From a market, and therefore capitalist, point of view, underemployment manifests itself as non-productive labour in that it is not harnessed by capital for accumulation. An important requirement for development under capitalism is the capture of this surplus labour into the realm of its operations as, this way, a dynamic impulse is imparted to social relations based on the imperative to accumulate. Thus, the disruption of pre-capitalist relations imparts to a country the potential of internally driven growth. The issue is that while both developed and developing countries have elements of both productive and non-productive labour, it is the predominance of non-productive labour in developing countries that constitutes the major problem. In other words, the tragedy in most African economies is that the majority of the labour force (and particularly women) are trapped in pre-capitalist forms of production, which are not driven by the need to employ labour to generate profit and the further expansion of capital.

Apart from the underutilisation of resources, and especially labour, another legacy of colonialism is the absence of an internal (endogenous) dynamism for growth and transformation, since the economies are dependent on and constrained by external factors. In the absence of an internally motivated and conscious process of transformation, the growth process would not only marginalise the majority of the labour force but also marginalise the developing country itself in the international arena. The following, therefore, constrain the ability of such an enclave economy to transform itself:

a) **Demand deficiency**: An enclave economy will also be limited by the nature of the system itself – the fact that a large segment of the labour force are engaged in low productivity implies that effective demand is low, limiting the market for formal activities to expand. This deficiency in effective demand also makes the formal economy more reliant on external demand, thereby reinforcing dependency.
b) **Limited internal savings**: The fact that a large segment of the labour force cannot engage in productive activities (that is to say, it is survivalistic) implies they are not available for accumulation by the capitalist sector. In addition, the fact that a majority of the labour force live close to subsistence levels implies that they cannot save – and if they do, their savings are not captured through financial intermediation due to missing linkages and gaps in the financial market. Thus, an enclave economy tends to lack the capacity to generate internal savings, hence the reliance on foreign investment and foreign aid, which pre-empts the need for self-generated savings.
c) **Asymmetry between national, regional and international growth and development needs:** As a consequence of the above problems, African countries find themselves in a dilemma whereby

disarticulations at the national level, coupled with external dependency, militate against effective regional cooperation and national development as well.[5]

Critically, with such a distorted economic structure, the trickle-down effects from the formal sector are too weak to transform and absorb the non-formal sectors into formal activities. Market forces on their own would simply perpetuate this dualism, even in the presence of some growth. In this regard, a proactive role of the state is needed to integrate the non-formal economy and endogenise the growth process in a manner that allows the majority of the labour force to be in productive activities. The strategy recommended involves targeted supply-side measures to resolve market failures through redistribution of productive assets.

In a nutshell, three indicators are critical for the assessment of the employment situation in developing countries, namely:

- the share of the formal segment in total employment
- output per worker in the non-formal segment
- the unemployment rate.

Other things being equal:

- The larger the share of the formal segment in total employment, the better the employment situation.
- The higher the output per worker in the non-formal segment, the better the employment situation.
- The higher the employment ratio (the lower the unemployment rate), the better the employment situation (see Ghose et al., 2008:63).

As has been shown above, instead of the expected structural transformation, Zimbabwe has experienced wrenching structural regression characterised by persistent deindustrialisation and informalisation of the economy. To reverse this trend, interventions are required at three levels, namely:

- **Intra-sectorial structural change**: reorganisation of production within each sector to raise productivity levels. For example, there are some interventions in Zimbabwe that are transitioning women communal farmers from subsistence farming to commercial farming.
- **Inter-sectorial structural change**: the change that is associated with the fastest reduction of vulnerable employment and poverty. It entails shifting workers and capital from less productive activities (agriculture, informality) to more productive ones (manufacturing, tradeable services) – the ‘structural bonus’. This can be done by deliberately promoting linkages across sectors (e.g. through value chains and clusters). The CZI has identified 18 value chains that will link the resource sectors (agriculture and mining) with manufacturing.
- **Firm dynamics:** reorganising production at the firm level through retooling and improving the distribution of firms in favour of relatively productive ones. Zimbabwe has to gear for re-industrialisation by promoting the emergence of new, efficient firms instead of trying to resuscitate those that are struggling and are heavily geared.

Considering the high levels of informalisation, formalisation is an important mechanism to promote structural transformation. The 104th ILO Conference held in June 2015 adopted Recommendation 204 on ‘Transition from the Informal to the Formal Economy Recommendation’. Given the diversity of informality, designing coherent and integrated strategies to facilitate formalisation requires that the following principles, amongst others, are considered:

- the diversity of characteristics, circumstances and needs of workers and economic units in the informal economy, and hence the need for tailored approaches

[5] See Mhone (2000) and Ghose et al. (2008) for detailed discussion.

- the specific national circumstances and priorities for the transition to the formal economy
- the diversity of strategies that can be applied
- the need for coherence and coordination across a broad range of policy areas
- effective promotion and protection of the human rights of all those operating in the informal economy
- fulfilment of decent work for all
- paying special attention to those most vulnerable to the most serious decent-work deficits in the informal economy (e.g. women, young people, migrants, older people, persons living with HIV or affected by HIV or AIDS, persons with disabilities).

Given the diversity of the informal economy, it is necessary to pursue an integrated policy response that takes into account the two main categories of informal employment (self- and wage employment) as well as the three main responses to informality (regulation, protection and promotion) as reflected in Table 5.

From a regulation point of view, what is needed are appropriate regulations of both enterprises and employment relations that balance economic efficiency and social redistribution goals. Protection of the working poor in the informal economy focuses on promoting their business, labour, and property rights. Promotion is necessary to increase the productivity of informal enterprises, not only through access to capital but also through sector-specific business development services, infrastructure and inputs, and supportive regulations and policies. Strengthening the employability of informal workers requires skills training and job matching. What is required is to implement an appropriate mix of these policies for different sectors of the informal economy.

Table 5: Integrated policy responses to informality

Segments of informality	Regulation	Protection	Promotion
Self-employment Microenterprises Own account operations	Registration, licensing, and corporate taxes	Commercial law, property rights and social protection	Price policies, procurement, sector policies, infrastructure and services
Wage employment Informal employees Casual day labourers	Labour regulations, payroll taxes and social security contributions	Minimum wages Non-wage benefits Social protection Labour registration Freedom of association	Skills training Job matching Capacity building for unionisation? Collective bargaining? etc.

Source: Chen, M. (2008) 'Addressing Informality, Reducing Poverty', International Poverty Centre, Poverty in Focus, No.16, December, page 7.

The detailed strategies to transition informality to formality are captured in Figure 7.

Figure 7: Decent work strategies for the informal economy

Source: ILO (2013).

The enterprise-upgrading policies for the informal economy include the following:

- promoting a greater awareness of the benefits and protection that come with formalisation
- creating an enabling policy and regulatory environment that reduces, at both national and local levels, the barriers to formalisation while protecting workers' rights
- particularly focusing on barriers that women entrepreneurs and other social groups face in formalisation
- fostering linkages between enterprises of different sizes in value chains and clusters to improve market access
- improving access to finance and business development services
- encouraging informal enterprises to join together in production conglomerates or cooperatives.

5. CONCLUSION

As discussed in this paper, the problems in Zimbabwe in both its economy and its political environment have accumulated over more than two decades. They have been predominantly driven by the political environment which has been characterised by political factionalism and conflict, fiscal and economic mismanagement and deeply-ingrained corruption. This has resulted in a deep regression in the structural transformation of the economy that has led Zimbabwe away from political stability and long-term economic prosperity.

The human cost of these problems is high. They have been accompanied by political instability including civil violence and human rights violations. The social contract between ordinary people and their government has been undermined and civil society has degenerated. Poverty levels have risen sharply and health and educational provision has fallen.

At the time of writing, the outlook for change is poor. As detailed in section 4, the required changes and reforms are very extensive and the political barriers to this high. This is likely to only be exacerbated by the forthcoming 2018 elections and the declaration of President Mugabe as a continuing candidate for ZANU-PF. Against this background, many commentators see the situation in Zimbabwe as being unsustainable with prospects for further deterioration.

However, in the views of the authors, and as highlighted in this paper, the most likely possibility for longer term change is the regeneration of civil society and a renewed engagement with political powers in a positive social contract. This could not only tackle economic problems, but also bring positive and peaceful political reform including labour reform and social liberalisation. For all parties, this is the much hoped-for outcome for Zimbabwe and its people.

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