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Crisis Days Again

IS THERE ANY LIGHT AT THE END OF THE TUNNEL FOR ZIMBABWE?

In The Brief

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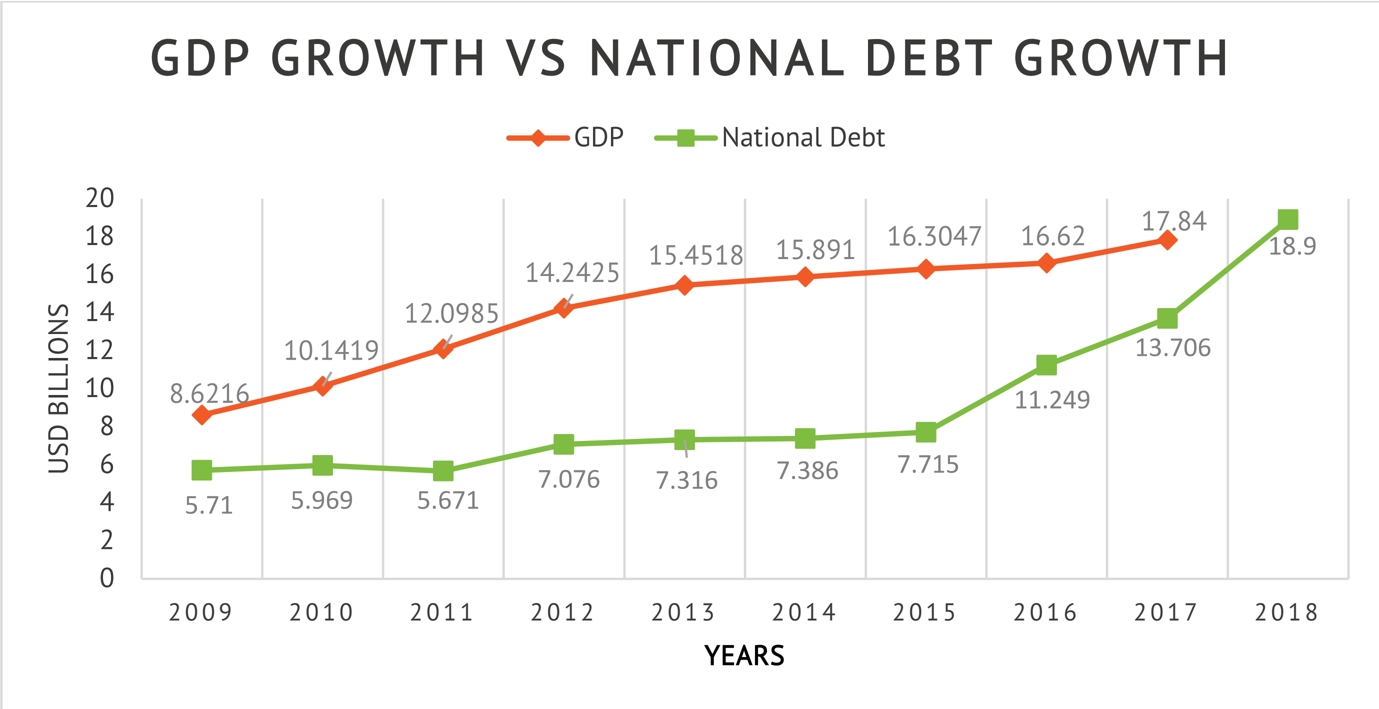
Introduction

Elections are over. Maybe we can now focus on the business of re-building the nation. September and October have been particularly tough for Zimbabwe; first the cholera epidemic and then the shortages of essential grocery items. There is something missing- a coherent solution for our seemingly unending crisis. For the majority of Zimbabweans, the unfolding crisis conjures unpleasant memories of 2008 - runaway inflation, shortage of goods including fuel and of course hopelessness. Is the crisis back- so soon? Or it never left. Currently, government does not seem to have a clear and coherent plan to deal with the contemporary complex challenges inherent in our political-economy - at least in the short term. The Minister of Finance has been clear about the need to re-engage the country's creditors around some form of an economic stabilisation programme, a measure similar to the Economic Structural Adjustment Programmes (ESAP) of the 1990s. The same Minister has been incoherent when it comes to dealing with the elephant in the room-the shortage of cash. Initially he sounded like he was on the path to demonetize the bond note but suddenly took a U-turn and claimed that he had secured a facility to keep the rate between the bond note to the USD at 1:1. True to government's custom of doing business, we never get to see such agreements, we just have to believe them. However, despite all attempts at calming down the market, there is still evidence of fuel shortages, astronomical price increases (in the range of 300% since August) even for goods manufactured locally, the rate between the Bond/RTGS and the real USD keeps on growing. It is evidently not well in our country. Is there another way? There must be. First, we discuss the shortcomings of the existing strategy and proceed to proffer suggestions on what can be done.

Correct Diagnosis but Inadequate Understanding of Root Cause

The Minister is right in identifying high government expenditure as the probable cause of the problems bedeviling the nation. Current government debt to Gross Domestic Product (GDP) stands at 65.5% using internal and external debt of USD18.9 billion and the rebased GDP of USD28.5 billion. Alternatively, it is around 94.7% if you use Parliamentary Budget Office figures with estimated GDP for 2018 before rebasing of GDP. Either way government debt is too high. Government borrowing, especially through the issuing of Treasury Bills has served to crowd out private sector borrowing. Many banks have taken the easy route of lending to government- it's a liquid debt. However, in the process there has been a shortage in the market of long-term financing arrangements to support private sector development. The immediate response of any financial expert would thus be to curtail what seems to be unwarranted government expenditure. But is it unwarranted? First, we need to have a detailed understanding of what government has been up to. Many would prefer to use expenses such as hiring of private jets, purchase of luxury vehicles, as the drivers of government expenditure. Expenses like these must be curbed- they are a waste. But are they the real drivers of government debt? We need more information. What is certain however is that the economy has shrunk whilst money supply has grown. Currently GDP and the debt seem to be neck to neck. We are not creating a surplus at all. Even our exports are far less than our imports.

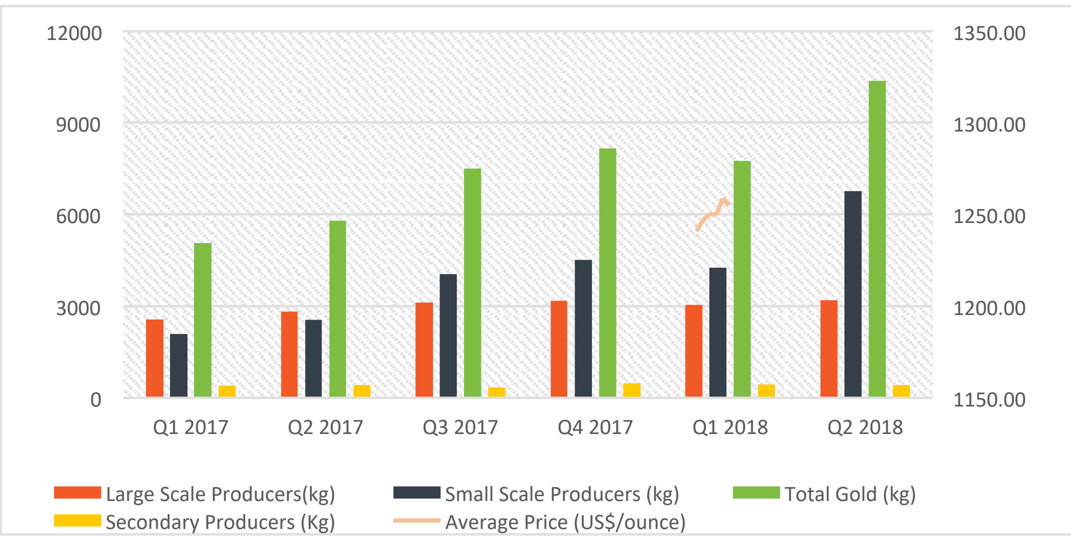
Fig 1: GDP Growth vs National Debt



Source: IMF, 2018[1]

Command Agriculture seems to have been one of the biggest drivers of domestic debt. It was mostly financed through Treasury Bills that were initially supposed to mature after five years but the holders also flooded the market with the promissory notes. The actual production results from Command Agriculture have been impressive. Its reported that over 1milliom metric tons (MT) of maize was delivered in August. Tobacco did very well-surpassing the 1990s record set when most of the farmers were mostly white large-scale commercial farmers. The largest chunk of government's domestic borrowing has contributed toward increasing maize output thereby reducing the food import bill. It has also contributed to an increase in tobacco production which is a major foreign currency earner. Another area of spending has been in encouraging gold mining. The report by the Governor of the Reserve Bank has demonstrated how mining responded positively to the incentive- gold output has suddenly quadrupled compared to previous years. It is important to note that the increase in production has come from the small-scale producers. However, despite all these positive developments, the foreign currency shortages continue. It tells us there is something fundamentally skewed about the economy. It's the manner in which we are re-allocating the scarce foreign currency and we will return to this later.

Figure 2: Quarterly Gold Output Trends: 2017-2018



Source: RBZ Monetary Policy Statement, 2018[2]

The problem then is not necessarily government borrowing. It's just that government's pockets are not deep enough to finance development especially given its isolation from international financial circuits of aid and investment. Of course, they need to reduce spending on luxuries. The problem is not necessarily of reducing expenditure-otherwise you cripple the envisaged growth. The Minister cannot just focus on improving taxation when the production base is weak. We are yet to see the carrot (set of incentives) to the real producers of economic value. The Minister of Finance has to focus on measures that grow economic activity and the sub-sections below provide suggestions on how we can go about that.

Start by Talking- A New Dialogue for Enhancing National Consensus

There is no easy fix to the problems that our country is going through, especially given our polarization along political party lines. There are currently some who are bent on proving that those in power do not deserve to be there and others yet, see opportunities for profiteering- who can blame them? The country is need of dialogue. Not the kind that we have seen where experts come to us in a Messiah-like stance and proceed to tell us they have the fix for the problems we face. We are dealing with deep-seated structural problems that have multifaceted layers; you try to fix things here but you are actually creating a mess somewhere else. We are dealing with "Wicked Problems".[3] No, not the spiritual type of wicked. These are problems that are so deep-seated and there are no quick solutions to them. The expert-based blue prints so far produced create an impression of easy fixes and that is why probably people are fast losing confidence in the government.

We need a sober discussion that starts off from; what shall we do about our economy? The names we give to the problem will help us have a better conversation. In our surveys, citizens have related how they are concerned about jobs, prices of goods, availability of cash and working hospitals. These are tangible problems and citizens express them in very straightforward language such as 'there is a shortage of morphine and other painkillers in hospitals'. 'We need jobs'. 'We need to be able to withdraw money from our bank accounts'. And this is how technocrats are responding 'we have secured a facility with Afreximbank to ensure that there is parity between the bond note and the USD'. That is not dialogue.

We need a new culture of dialogue in local halls, churches and other public places where those with anything to do with policy come to listen, not to grievances, but to learn of the solutions that citizens have to offer . The current mess in the economy was created by the same government's attitude of thinking that all solutions lie within government. They do not. An economy functions not only on the basis of policy measures but also based on the amount of trust that citizens have in institutions. The recent report on Zimbabwe by the Economist Magazine has demonstrated that the amounts being deposited into banks has been on the decline in the past three years- have we bothered to understand why people no longer save their money? Could it be that they have lost faith in the whole banking and financial services sector? You do not restore that faith/trust by being brash. It is important for one to engage in conversation and demonstrate sincerity and consistency in your behaviour. Currently we do not see that. The government needs to craft a new vision with citizens of 'the Zimbabwe we want' in a more open, consultative and transparent manner. Currently there is little or no space for considering how citizens can also be partners with government in resolving the economic challenges. The President of the Republic has already alluded to the fact that the envisaged transformation will come with pain. Isn't it only fair that citizens are included in the process of deciding which route to takes and issues to prioritize? Democracy is not just about having been elected into office but also entails working for and with citizens throughout.

Besides dialogue we also think that there are practical steps that government needs to embark upon to turn the economy around. We suggest that government needs to embark on resolving the outstanding agrarian reform issues, consider new of ways of domestic resource mobilisation outside of the punitive tax regime, disposal of some state-owned enterprises (SOEs) and repositioning others and finally carry out some bold currency reforms.

Attend to outstanding Agrarian Reform Issues

The country remains agrarian. In fact Zimbabwe unlike other countries, and as a result of the land reform programme, has actually seen an increase in rural population figures in the past ten years and has also witnessed a shrinking urban economy. At its peak, agriculture used to contribute around 23% to GDP. Currently its contributing around 12%. The land reform exercise that began at the turn of the century remains incomplete. The land tenure arrangements are in a half-way house with no sense of finality. It is important to note that the government of Zimbabwe (GoZ) through the Fast Track Land Reform Program (FTLRP) took approximately 4 000 large scale commercial farms and overnight destroyed their commercial value by doing away with freehold tenure.

Table 1: New Agrarian Structure

Farm Class	Land Tenure	Farms/Households		Area		
		Numbers	% of Total	Hectares (million ha)	% of Total	Farm Size(ha)
Smallholder	Communal	1,100,000	81.2	16.400	49.9	15
	Old Resettlement	75,000	5.5	3.667	11.2	49
	A1	145, 800	10.8	5.759	17.5	40
	Sub-total	*1,321,000*	*97.6*	*25.286*	*78.6*	*20*
Permit + 99 Year Leases	Old SSCF	8,500	0.6	1.400	4.3	165
	Small A2	22,700	1.7	3.000	9.1	133.9
	Medium Large A2	217	0.03	0.509	1.6	2.345
	Sub-total	*31,417*	*2.33*	*4.909*	*15*	*142*
Freehold	Black LSCF	956	0.07	0.531	1.6	555
	White LSCF	198	0.01	0.117	0.4	593
	Sub-total	*1,154*	*0.08*	*0.648*	*1.9*	*844*
Corporate Estates	Corporates	20	0.001	0.806	2.5	40,320
	Conservancies	8	0.001	0.247	0.8	30,875
	Parastatals	106	0.01	0.296	0.9	2,788
	Institutions	113	0.01	0.146	0.4	1,289
	Sub-total	*247*	*0.022*	*1.495*	*4.5*	*6,051*
Total		**1,354,000**	**100**	**32.878**	**100.0**	**24.3**

Source: *Moyo (2011, Murisa & Mujeyi 2013).*[4]

The freehold tenure was the main reason why the financial services sector and ancillary agri-business services such as insurance, contract farming arrangements, and other Joint Venture arrangements invested in large-scale agriculture, in comparison to its poorer cousin, customary area-based agriculture. The much-touted productivity of the large-scale farm sector was mostly because of the backing of agri-business which customary farming never had. Even globally agriculture has mostly thrived in areas where there is clarity of tenure arrangements and especially where title exists. Our current arrangements do not allow for long term investments in the sector and that is probably the reason why most of the investments that have gone into agriculture have been government-based subsidies. In many circles fast track is criticized for having displaced white farmers who were 'good at agriculture' and replaced it with 'weekend black farmers'. That debate is inconclusive but at policy level the government has been unfair to the new crop of farmers. It has not extended the same conditions and benefits that the former large-scale commercial farmers enjoyed. There is thus an urgent need to facilitate the issuance of title deeds that can be used to access the much needed capital.

Title is not just a piece of paper- it has to be acceptable by different parties and tradeable. The government of Zimbabwe faces a conundrum. It cannot legally pass or sell title to land it does not fully own. The dispossessed farmers are still holding their title deeds. The compensation of former owners needs to be expedited. There

Zimbabwe remains agrarian so the benefits of resolving land tenure and passing on title to deserving farmers are huge.

is an urgent need for dialogue between government and the different unions that represent farmers to find a way forward even through promissory debt notes which will allow these farmers to be paid what they are owed over a defined period of time. Beneficiary farmers especially in the A2 need to be charged a special levy that can be collected annually towards the compensation fund. We expected the Ministers of Finance and Agriculture to have made this one of their top priorities. Having an indaba with the different lobby groups and securing an agreement on how to proceed is also potentially one of the ways of addressing the conditions set in the United States' (U.S) sanctions framework on Zimbabwe, ZIDERA (Zimbabwe Democracy Recovery Act). Resolving the land tenure issue is probably more important than trying to pay back creditors. The benefits of resolving land tenure and passing on title to deserving farmers are huge. One of the immediate benefits is the unlocking of value and ensuring that there are new inflows of capital into agriculture outside of government. We need to fix agriculture by:

1. Unlocking value in agricultural markets through resolving tenure,
2. Creating conditions for the resuscitating of agri-business (finance, insurance, infrastructure and inputs supply)
3. Creating an enabling environment for long term savings which can be deployed into a new round of industrialization.

In a nutshell that is the process of resolving the Agrarian Question and also enhancing capacity for national capital formation which can be deployed into the economic sectors.

Domestic Resource Mobilization

There is no country that has developed without mobilising its own resources for productive investment and domestic capital formation. Domestic Resource Mobilisation has regained widespread recognition as a necessary condition for development in Africa. However, the current initiatives in Zimbabwe that focus on luring investment seek to develop the country at the back of other people's money. We are yet to see an FDI based strategy turn around a country.

> Are we saying we don't have anything at all at a domestic level that we can leverage to resolve some of our immediate problems?

At the last count Prof Mthuli had managed to meet with the Head of International Monetary Fund (IMF), World Bank Officials, representatives of the Paris Club and had been quoted in major news channels around the world. However, he engages with local processes at a distance. To him the game has to be played elsewhere, way beyond our borders. Most of his interviews focus on resolving the debt question and bringing in investors. He is probably sticking to the playbook that he agreed to with his principal. They are so focused to a point of obsession with debt and Foreign Direct Investment (FDI). Is it that bad? Are we saying we don't have anything at all at a domestic level that we can leverage to resolve some of our immediate problems. Let's take another look at our economy and in the process move away from a deficit mindset towards a more asset-based approach.

How about Leveraging NSSA?

We have National Social Security Authority (NSSA) which is currently sitting on investments worth USD12Billion. The idea is not to go and ransack people's pensions but instead to invest in a different way that helps us to resolve some

USD $12 Billion

The amout of investments NSSA is sitting on which can be invested in social service delivery like health care of our intractable problems. Let's say we invest 10% of the funds in enhancing social service delivery especially health care. The majority of those who contribute to NSSA are workers but let's take a look at where NSSA's investments are locked up- banks (FBC, ZB, CBZ, NBS and some collapsed) and of course properties. Remember XIMEX Mall. It was bought by NSSA only for them to raze it down and create a car-park. NSSA is not a traditional pension fund like Old Mutual or even the sector-based ones. It's meant to be the insurer of last resort for everyone. In such times an entity like NSSA that has "patient capital" (Mthuli's favorite phrase) can be encouraged to be the lead investor in a Health Bond targeted at Public Hospitals who can secure resources to refurbish their hospitals. Just imagine if NSSA set aside 10% of its portfolio to refurbish the existing District Hospitals and referral centres. The Ministry of Health and Child Welfare would guarantee the loans and pay them back over 10-20 years. Current performance targets at NSSA especially around its investments sound like any other private fund- maximizing returns. But these are workers' contributions and these workers need good quality healthcare.

NSSA should also consider the fact that its base of collection has been shrinking over the years and also that it can contribute to reversing that trend, and help create jobs. One of the traditional routes of creating employment (outside of the fetishized FDI) is through support to entrepreneurs in small-to-medium enterprises (SMEs). The SMEs sector has been starved of financing but Prof Mthuli also thinks it should contribute to his improved taxation goal-where is the carrot? Could NSSA be part of the carrot. What if NSSA establishes an SMEs Fund that can be used to ignite the SME sector?

Local Resources to Fix Our Roads

Second possible source of domestic resource mobilisation is ZINARA (Zimbabwe National Road Administration). According to the Minister of Transport, this is the cash cow of the ministry. Unfortunately, ZINARA has for years been dogged by scandals and limited to no disclosure on revenues collected and how these are used. That should be a thing of the past. The Auditor General and Parliament should help by providing oversight and insist on high levels of transparency. One of ZINARA's performance indicators should be on target of kilometers paved each year.

What to do with State Owned Enterprises?

Way back in the 1990s the announcement of the intention to privatise would have been met with demonstrations in the streets. Times have changed. Maybe citizens have realized that SOEs are not the panacea that we thought they would be. So, there is definitely scope to navigate the terrain of restructuring these entities. The Minister of Finance has already listed NetOne, TelOne and the People's Own Savings Bank (POSB) as entities targeted for privatisation and they have placed Air Zim under administration. Kudos to him, it was about time! We expect the list of SOEs to be privatized to grow but there is also a certain type of SOE where a more nuanced approach is required. There is no reason why Net One and Tel One are not profitable and not contributing significantly through taxes when their main competitor is in the top 3 in terms of tax revenues. However, we need an independent entity to determine the value of these companies before they are sold. Beyond the bidding processes, there will be also need to strengthen the role of the Competition and Tariff Commission, whose role is to act as an enforcement mechanism that guarantees fair competition, and protects consumers from unfair practices that can potentially emerge from the newly privatized sectors.

The Finance Minister is eager to open up the bid for SOEs in the telecommunications industry to international players. If managed in an open and transparent manner, the competitive bidding process could invite reliable global operating corporations with vast financial resources for the much-needed recapitalization, and who operate more optimally because of limited government interference and corruption. Their independence could potentially drive innovation & competitiveness, and hopefully contribute towards improved government revenues through tax and also fair prices for consumers.

However, inviting global players to participate in a competitive bidding process of SOEs has its downside. High transactional costs associated with competitive bidding, may discourage the participation of smaller domestic firms, who, because of their local knowledge and experience, may be better poised to offer innovative and potentially disruptive business models that meet the needs of local consumers. For that reason, privatization to global operating corporations should be an option of last resort. Only to be considered when and if domestic resource mobilization is neither sufficiently viable nor feasible. If that is the case then, international players can be inivited to buy and own stakes in SOEs. It is however imperative to ensure that there are special provisons that allow for local ownership.

Surely there are some entities that need to be kept for local business. The landline entity could be unbundled first to include the data company and the telephony company. The company could be further unbundled according to area code- and in the process allow for local participation/ownership. The POSB needs to be handled differently. It has always been the people's bank and cannot just be privatized. There are many possibilities- maybe convert it into various community banks owned by specific communities. Areas outside of Harare have over the years suffered from corporate decisions made at Head office such as closure of branches. It's about time communities were allowed to own their own banks and create possibilities of local capital formation.

Then there are SOEs which need a more nuanced approach. Take the National Railways of Zimbabwe (NRZ), for instance. That entity is an albatross for the nation. It owns rail infrastructure, warehouses, wagons and significant real estate but its operating at less than 10% of its capacity. What if it sold everything else and focused on rail tracks and stations only? Private players can lease or buy wagons to operate. The reforms carried out by Margaret Thatcher (from 1979 till about 1984) and the privatisation measures undertaken by John Major through the Railways Act 1993 are worth looking at in terms of the entities that can be created from the currently leviathan-like NRZ. We already have a private player called the Beitbridge Bulawayo Railway Company which seems to be doing much better than the NRZ. It is however inadequate to lure a single rail passenger company to operate the vast network that NRZ currently has. There is need for a diverse set players who can offer context-specific rail services at provincial and local government levels. This would reduce congestion and the number of accidents on our roads. Moreover, synergies with other regional rail services could be re-invigorated. This again is another low hanging fruit that can unlock value to the economy.

There is need for diverse players who can offer context-specific rail services at provincial and local government.

Float the Bond/RTGS against the United States Dollar

We are all living under a lie. There is no way the Bond Note is at par with the United States Dollars. The fact that there is a market outside of the formal banking system is evidence of this. We cannot hide from the fact that there is a shortage of USD in our banks and that when one wants to import goods they have to join a queue. There is simply a shortage. Floating the currency is not the best policy avenue to pursue. It is on the other hand inevitable. At the moment the GoZ through the Central Bank is providing a blanket and unaffordable subsidy. For the record, a bottle of 500ml water is now more expensive than a litre of fuel. They secure fuel and the demand has increased to an extent that the country is now spending approximately US$25million per week and the fuel operators pay for the fuel in RTGS at 1:1. That is a hefty subsidy for a poor country like Zimbabwe. Also consider the fact that there is no substantial explanation as to why the demand for fuel has increased by approximately 100% within year. Could it be that some Smarts have found a way of smuggling the same fuel meant for this market into the region where they get real dollars, come back and change them at the black market to RTGS and pay poor Mangudya for more fuel. There are many others- take the pharmaceutical cartel. They are on the priority list and get some medications on the very low but still sell at exorbitant prices.

For a poor country, Zimbabwe is paying a hefty subsidy for fuel

But we also know that a significant portion of our population would not be able to afford fuel and indeed other commodities if the rate was floated. That's where the balancing act must come in. For instance, why not limit cars to 30liters per week, impose a ban on jerry cans, etc. But you know what you are doing right there- creating a new layer of corruption and little fiefdoms run by service station managers. Admittedly floating of the currency will create havoc for a month or two while a new equilibrium is being sought. This needs to be widely communicated though because we have already had a tumultuous month. If it gets prolonged and especially with Christmas coming, the backlash might be so severe.

Focus on Production and not Consumption

The GoZ is full of contradictions. On the one hand they have managed to restore production in agriculture and mining through supporting production. On the other hand they are spending the majority of the foreign currency earned from tobacco and mining supporting consumption. The amounts of money being used per month on fuel alone is enough to resuscitate industry across the country. Priority areas should be pharmaceuticals. The current approach of importing drugs is not sustainable. We need to support local production and only source for the sophisticated types that are not currently being manufactured locally. Surely mature companies like Datlabs, CAPS, Varichem and many others should be able to resolve some of the shortages currently in the market. We should take a leaf from the Indians and get into generic drugs manufacture. The second priority should be in resolving the supply chain for food related industries. Command agriculture will need to invest in a more strategic manner to ensure a robust import substitution strategy around food items. We should not be importing inputs such as soybeans or sunflower seed for cooking oil or even dairy milk.

The US$50 million spent fortnightly to buy fuel can be chanelled to buy 100 buses thereby significantly decreasing the fuel subsidy, creating employment and decongesting cities

Another way of reducing the fuel bill will be to consider resuscitating the public transport company ZUPCO. We currently allocate US$50 million every fortnight to buy fuel. The same amount can buy 100 buses. These could be deployed across the country and in the process remove or at the least significantly decrease the fuel subsidy. Let the fuel companies import on their own and let consumers pay the market price for fuel. If we cannot afford fuel we use public transport. A new ZUPCO will create new jobs, provide decent public transport and should be able to access the subsidized fuel. There is however need for a long-term vison and plan that fosters the transformation of our transport system. Our rail and road public transport systems need to be decentralized. They also need to be decarbonized. We cannot continue to be reliant on foreign imports for energy for both power generation and transport. A transformation and transition of our energy systems towards renewables would enhance energy independence and security, as well as ensuring that actors such as transport operators, have access to reliable and affordable fuel.

Conclusion

There is no easy road to economic transformation and probably all the nation wants is clarity on how we intend to get there. The new thrust should not be about reducing government expenditure only, but also, and perhaps more importantly about growing the economy. Tough but urgent decisions must be made around the compensation of former white farmers, restructuring and privatising SOEs and floating the currency. However, in all this one also hopes that there is some olive branch that will be extended to Zimbabwe either in the form of a substantial loan or a method of ensuring that the country has a currency of its own. Zimbabweans have gone through a lot.

Notes

1. International Monetary Fund 2018, World Economic Outlook Database-Country/Series-specific Notes (Zimbabwe), April..

2. Reserve Bank of Zimbabwe, 2018 Monetary Policy Statement, Strengthening The Multi-currency System For Value Preservation & Price Stability, Harare: RBZ, 2018, **https://www.rbz.co.zw/assets/monetary-policy-statement-01-october-2018.pdf.**

3. A wicked problem is a social or cultural problem that is difficult or impossible to solve for as many as four reasons: incomplete or contradictory knowledge, the number of people and opinions involved, the large economic burden, and the interconnected nature of these problems with other problems. (Source: **https://www.wickedproblems.com/1_wicked_problems.php**).

4. Moyo S 2011, Changing Agrarian Relations After Redistributive Land Reform in Zimbabwe, *Journal of Peasant Studies*, 38:5, 939-966.

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SIVIO Institute (SI) is an independent organisation focused on ensuring that citizens are at the centre of processes of political-economic and policy change. It aims to contribute towards Zimbabwe's inclusive socio-economic transformation. It is borne out of a desire to enhance agency as a stimulus/catalyst for inclusive political and socio-economic transformation. SIVIO's work entails multi-disciplinary, cutting-edge policy research, nurturing citizens' agency to be part of the change that they want to see, working with communities to mobilize their assets to resolve some of the immediate problems they face. We are also engaged in an ongoing process of tracking the manner in which the Government of Zimbabwe is converting pledges made during the election campaign into policy actions here: **www.zimcitizenswatch.org**

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