

**The South African Institute
of International Affairs**

Business in Africa Research Project

A Nation in Turmoil

**The Experience of South African
Firms Doing Business in Zimbabwe**

Dianna Games

Series editor: Neuma Grobbelaar

**SAIIA's Business in Africa Project is sponsored
by the Royal Danish Embassy, Pretoria**

Copyright © SALLA, 2006

All rights reserved

THE SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS

ISBN: 1-919969-47-0

Business in Africa Report No. 8

Please note that all amounts are in US\$,
unless otherwise indicated.

SALLA National Office Bearers

Fred Phaswana
Elisabeth Bradley • Moeletsi Mbeki
John Buchanan • Alec Pienaar
Elizabeth Sidiropoulos

Acknowledgements

SALLA would like to thank all the companies and people who participated in the survey and gave their time to contribute to the study.

About the Author

Dianna Games is the executive director of Africa @ Work, a South African-based company which focuses on the African market in the areas of publishing, research, event management and public relations. Ms Games has travelled to Zimbabwe many times, and has produced two research reports on the country for SALLA: 'The Zimbabwe Economy: How Has It Survived and How Will it Recover?' published in 2002, and 'Zimbabwe: A Pre-election Overview and Recovery Scenarios', produced in early 2005 before the elections held in March that year. She is the managing editor of the Institute's bi-annual journal, the *South African Journal of International Affairs*.

About the SALLA Business in Africa Project

This is the seventh country case study in a comprehensive survey of business conditions prevailing in Africa, conducted by SALLA's Business in Africa project. The report forms part of a series of country and sectoral studies undertaken with a view to extrapolating specific policy recommendations for African governments on how to create a more supportive business environment in Africa.

The New Partnership for Africa's Development (Nepad) initiative emphasises the critical importance of the private sector to the continent's economic development. South Africa's expanding track record as a significant, and even more important, a fellow African investor is a notable indicator of business confidence in the future of the continent. This is also making it possible for the private sector to play a stronger role in the continent's development.

Although it is generally assumed that South African investors are less averse than others to taking risks in view of their knowledge of, and proximity to, the African market in terms of appropriate technology and products, the SALLA Business in Africa project aims to verify whether this is indeed the case. Moreover, the research identifies critical areas in which reform is essential if Africa's private sector is to contribute to growth and sustainable development.

Neuma Grobbelaar, the Director of Studies at SALLA, who is assisted by Hany Besada, the Business in Africa researcher, heads the Business in Africa Research Project.

The following reports have been published by the project thus far:

Games D, *A Preliminary Survey: The Experience of South African Business in Africa*, Business in Africa Report 1, SALLA, 2003.

Grobbelaar N, *'Every Continent Needs an America': The Experience of South African Firms doing Business in Mozambique*, Business in Africa Report 2, SALLA, 2004.

Games D, *An Oil Giant Reforms: The Experience of South African Firms doing Business in Nigeria*, Business in Africa Report 3, SALLA, 2004.

Besada H, *Glimpse of Hope in West Africa: The Experience of South African Firms doing Business in Ghana*, Business in Africa Report 4, SALLA, 2005.

Grobbelaar N & K Tsotetsi, *Africa's First Welfare State: The Experience of South African Firms doing Business in Botswana*, Business in Africa Report 5, SALLA, 2005.

Sayagues M, *Timbuktu's Golden Legacy: The Experience of South African Firms doing Business in Mali*, Business in Africa Report 6, SALLA, 2005.

Besada H, *Meeting the Sphinx: The Experience of South African Firms doing Business in Egypt*, Business in Africa Report 7, SALLA, 2006.

Methodology and Rationale

This report is based on a series of interviews conducted in both Zimbabwe and South Africa over several months in 2005. The information collected was complemented by extensive research done by the author for two other reports on Zimbabwe for SALLA since 2001, as well as research for other purposes. For this specific project, 28 companies were interviewed in both countries, and much anecdotal reportage was gathered. Information was also gleaned from newspapers in South Africa and Zimbabwe, and from reports published by companies, research agencies and economists.

A problem inherent in any research done on conditions in Zimbabwe is that the information is changing very quickly. The government frequently passes laws or reverses them, and makes regular proclamations on the macroeconomic climate, foreign relations, government spending and other issues. This makes it difficult to supply up-to-date facts and figures. Much of the information in this report is available in economic research reports, but the detail of how business people survive the country's extremely hazardous economic climate is gathered entirely from personal research and observations, and is original source material.

The purpose of the study is to identify some of the pitfalls of doing business in Zimbabwe, a country that has increasingly become out of kilter with both the global environment and even the regional political and economic contexts. It has, in many ways, taken a step back in time as a result of the government's authoritarian and centralist policies. For all this, Zimbabwe is a key country in Africa — but probably for the wrong reasons. It is in the international spotlight because the policies of the government represent much of what is wrong with Africa, and because the response of other African

countries to the crisis in Zimbabwe has demonstrated a weakness in the commitment shown to the principles underpinning the New Partnership for Africa's Development (Nepad) by the continent's leaders.

Table of Contents

Executive Summary	1
Introduction	5
Overview of the Socio-Economic Environment	9
Trade and Business Linkages Between South Africa and Zimbabwe	67
South African Companies in Zimbabwe — Challenges and Experiences	81
Impact of South African companies in Zimbabwe	93
Some Policy Recommendations	97
Conclusion	103
Appendix A: Overview of South African companies operating in Zimbabwe	107
Appendix B: South African and Zimbabwean Trade by Commodity	117
Appendix C: Selected Financial and Monetary Indicators: Zimbabwe	121
Appendix D: Selected Indicators of Employment and the Labour Force	125

Executive Summary

South Africa's relationship with Zimbabwe has existed for more than a century, and is pivotal for both countries. Over the years, the nature of the countries' relationship has been shaped by the various political protagonists in each of them at any specific time.

Strong economic ties were maintained despite the often mismatched political dispensations on either side of the border. Zimbabwe was, until recently, South Africa's most important trading partner in Africa, and one of the 15 countries globally with which South Africa exchanges the highest volume of trade. In 2002, major projects in Mozambique displaced Zimbabwe from the top spot, but trade between Zimbabwe and South Africa remains brisk. South African exports to Zimbabwe are still fairly sizeable, standing at R6,2 billion in 2004, although this represented a drop from R7,3 billion in 2002. However, these official figures do not take into account the mushrooming informal trade that has been taking place across South Africa's borders with Zimbabwe since the beginning of the economic and political crisis in that country.

There is a significant South African business presence in Zimbabwe. About 27 of South Africa's biggest listed companies have operations there, and a number are also listed on the Zimbabwe Stock Exchange. Some of these are its top performers.

The political relationship has been less successful. Hostility between the two governments was, predictably, high during the apartheid era after Zimbabwe had achieved black majority rule. But even since the advent of black rule in South Africa, relations have been less than idyllic. Despite the initial political closeness between their leaders in the period

immediately after 1994, the relationship began to sour in the late 1990s. President Robert Mugabe's increasing resentment of South Africa's powerful role in the region, which displaced Zimbabwe as the region's power broker, coincided with outspoken criticisms by Nelson Mandela, South Africa's former president, of Mugabe's growing authoritarianism and the length of his stay in office. However, since 2000, when Thabo Mbeki became president, the relationship has thawed somewhat. Ironically, the new détente in the relationship has contributed to the prolonged economic and political decline in Zimbabwe. In the face of serious political and economic decline in Zimbabwe, the South African government has opted for a policy of 'quiet diplomacy', which has deflected international attempts to censure the country. Over the five years that followed, the policy showed little evidence of influencing events in Zimbabwe. Instead, the human rights, political and economic situation deteriorated significantly.

Meanwhile, South African companies operating in Zimbabwe continued to find ways to deal with the country's distorted and largely dysfunctional economy in order to maintain a presence there in expectation of eventual political change and economic recovery.

The main findings of the research conducted into the experience of South African companies operating in, and doing business with, Zimbabwe include the following.

- Long-standing business ties have not been severed by the current economic problems, although many companies have preferred to '**ringfence**' their Zimbabwe operations, keeping financials separate from the overall group operations, as a way of riding out the storm. Although most companies have limited contact with **head office** in South Africa, they believe that if they were faced with a real

problem the parent company would intervene to help them. However, the fact that Zimbabwe has not signed the **trade and investment protection agreement** drawn up with South Africa makes companies feel more exposed to the vagaries of Zimbabwe's economic policy, particularly as regards property and nationalisation of assets.

- The government's **erratic policy decisions**, and the resulting **hyperinflationary environment**, has made doing business difficult because it precludes long-term planning, and forces companies to revise salaries and other costs on a monthly or quarterly basis.
- The issue of **wages** has become complex and administratively difficult owing to the need for regular inflation adjustments, and the fact that companies have to negotiate an annual increase for their workers with the national employment councils separately.
- **Foreign currency** shortages are a critical problem for companies, which often have difficulty obtaining dollars. However, a number of companies say the percentage of the export earnings they are allowed to keep in foreign currency accounts (which changes regularly, as the government's economic policy twists and turns) covers their import needs. Although a number of South African companies have made good returns on the stock exchange, many do not repatriate **dividends** because of the foreign currency shortages.
- The role of the **Reserve Bank** has become increasingly unclear. It has assumed several functions that put it in competition with the banks, which has caused some confusion.
- Some companies' products are subject to government's **price controls**. This has made their products unviable, as they are required to pay market-related costs for inputs but are

not allowed to charge market-related prices for the goods they produce. They are also more subject to political harassment than other companies.

- The declining **skills pool** as a result of massive migration and the fallout of high **HIV/Aids infection** rates in the workforce has presented a problem for some companies.
- The **domestic market** has shrunk rapidly over the past five years, in terms of both numbers of consumers and their disposable income.
- Deteriorating **living conditions** have forced people to become self-sufficient. Many use borehole water, run generators to counter the increasing number of power cuts, and import their own fuel where possible. Ongoing **fuel shortages**, in particular, have hit business hard.
- The **lack of equity** in the local market for partners in Zimbabwe to take up stakes in South African-owned or run companies is proving to be a problem in an environment where there is increasing pressure for indigenisation.
- While **corruption** was not high on the list of problems mentioned by companies, some business people said it had become a factor in doing business in Zimbabwe, particularly with regard to companies linked to government officials. **Crime** is increasing rapidly, and is becoming more sophisticated. Apart from white-collar crime, armed robbery and hijacking are becoming more prevalent.

Introduction

Zimbabwe, once the strongest economy in the region apart from South Africa, has now become a regional pariah and a poorly performing state. The country has experienced a drop in GDP of more than 30% in the past four years, and has been classified by the United Nations as having the fastest-shrinking economy during peace time in the world. It has gone from being one of the most successful economies on the continent to a country plagued by food shortages, reduced industrial capacity, declining exports and massive unemployment. It has one of the highest inflation rates in the world. Factory output has fallen 45.6% since 1998, and manufacturing levels are at their lowest since 1971. Even optimistic growth projections for a post-Mugabe Zimbabwe suggest that it will take 15–20 years to regain the living standards of the mid-1990s, mostly because of the breakdown of agriculture.

The actions of the president, Robert Mugabe, who has been in power for 25 years, have pushed the economy into deep decline, and taken the country backwards politically. While other countries in the region are implementing reforms and liberalising their economies, Zimbabwe is becoming increasingly centralised and state-controlled, with the president dictating even market fundamentals. The repercussions of Zimbabwe's decline have been felt widely in the region, spilling over into other countries and diminishing investors' confidence in Southern Africa as a whole.

The extent of the business and other ties between South Africa and Zimbabwe as well as the latter's proximity to, and interconnectedness with, South Africa have made the Zimbabwe crisis a prominent issue in South African public discourse. Zimbabwe was, until two years ago, South Africa's

largest trading partner in Africa and one of its 10 biggest globally. A large number of South African companies have interests in Zimbabwe. Many of these date back decades, to the time when the country was named Rhodesia.

Since independence, and particularly since the late 1990s, South Africa, along with the UK, has been the preferred destination for Zimbabweans looking for greener pastures. The main causes of emigration have been declining job prospects and the repressive policies of the government.

The refusal of the South African government to act with regard to Zimbabwe throughout nearly five years of turmoil has been the cause of much concern in South Africa, Zimbabwe and the broad international community. South Africa, the most powerful country in the region, is seen as pivotal in that it could influence events in Zimbabwe. However, the South African government has repeatedly asserted that Zimbabwe is a sovereign country and that its (Pretoria's) hands are tied. Even as hundreds of Zimbabwean refugees pour over the border into South Africa daily, government officials repeatedly ask what it is that everyone expects them to do.¹

The South African response seems inadequate in view of the extent of the Zimbabwean crisis, and the fallout for its neighbour.²

If there is any country that we've been engaging with, and spent hours and days... it is Zimbabwe. We may not have the results that you expect, but it doesn't mean that we are not doing anything. It doesn't mean that we are not engaging. I don't think we should think or deceive ourselves and think we have some magic wand

¹ It is estimated that nearly a quarter of Zimbabwe's population of 12 million now lives outside the country, most of them in South Africa and the UK.

² *Independent Online*, 31 August 2005.

we can wave and get Zimbabwe to change if they don't want to change.

This was the way in which the South African Minister of Foreign Affairs, Nkosazana Dlamini-Zuma, responded to questions raised in the National Assembly in August 2005, asking why South Africa appeared to be paralysed when it was in such a strong position to influence the situation in Zimbabwe.

The Minister said that nobody had anything to gain from a total collapse in Zimbabwe, 'not South Africa, not Zimbabwe, not Africa, and not humanity. This would affect millions of Zimbabweans, as well as South Africa. So, it is important therefore that we avoid as far as we can the meltdown or total collapse of Zimbabwe'.

However, it is not clear what the South African government is doing to prevent this, nor whether it has any diplomatic leverage or real political willingness to do so.

South African businesses operating in Zimbabwe say that they are prepared to ride out the tough times, as they believe the situation will eventually right itself. Then the country will once again become a good business opportunity. With the right political leadership they have hopes that this once vibrant economy will again become a leader in Africa.

Most large companies have ring-fenced their Zimbabwe operations, partly because of the hyperinflationary accounting that companies have been forced into by ongoing three-digit inflation, and also because of foreign exchange difficulties and dual exchange rates. Many are in a holding pattern, shelving any plans for expansion until the economic climate improves. This is also attributable to the fact that the two countries have yet to sign the long-awaited protection of investment agreement that has been on the table since 2003.

But despite the difficulties, business people in Zimbabwe report that a number of South African companies made fact-finding visits to the country during 2005, and that they are looking to enter the market as soon as there is any likelihood of a change in the political and economic climate, or even before if they can get good deals. However, a constraint may be the consideration of shareholder concerns about investing in a country in economic decline and one that is considered to be a political pariah in many quarters. Some concern has been expressed by Zimbabwean companies that large South African firms, in particular, will come in off a strong base and severely dent their market share when they are in a poor position to compete, having been weakened by riding out the bad times. There are also fears that Zimbabwe may become 'recolonised' by South Africa, as it was during Ian Smith's rule. However, it is undeniable that the country needs all the foreign capital it can get. New investment, no matter where it comes from, is essential for the rebuilding of Zimbabwe.

Overview of the Socio-Economic Environment

The political situation

‘People have stopped putting a timeline on change’, a Zimbabwean said during an interview in late 2005, reflecting a feeling of resignation about the country’s economic and political decline. Many believed the crisis would bottom out after 2003, but the situation continued to deteriorate throughout 2005. By 2006, the country faced an increasingly bleak future. President Mugabe and many members of his old guard were still in power and had become more powerful as a result of the ruling party’s two-thirds majority in parliament after the March 2005 elections. All the repressive legislation introduced during 2003 and 2004 was still in place. It was buttressed by further legislation in August 2005. The political opposition seemed to be all but vanquished, and the country faced critical foreign currency and fuel shortages.

A Chronology of Key Events³	
1889	Cecil John Rhodes’ British South Africa Company (BSA) gains a British mandate to colonise what becomes Southern Rhodesia.
1890	Pioneer column of white settlers arrives from the south, and stops at the site of the future capital, Harare.
1922	BSA administration ends; the white minority opts for self-government.
1930	Land Apportionment Act restricts black access to land, forcing many black farmers into wage labour.
1930-1960s	Black opposition to colonial rule grows. Emergence in the 1960s of nationalist groups, the Zimbabwe African People’s Union (Zapu) and the Zimbabwe African National Union (Zanu).

³ Website, *www.bbc.co.uk*, updated 26 November 2005.

A Chronology of Key Events (continued)	
1953	Britain creates the Central African Federation–Southern Rhodesia (Zimbabwe), Northern Rhodesia (Zambia) and Nyasaland (Malawi).
1963	Federation breaks up when Zambia and Malawi gain independence.
1964	Ian Smith of the Rhodesian Front (RF) becomes prime minister, and asks Britain for independence.
1965	Smith unilaterally declares independence under white rule, sparking international outrage and economic sanctions.
1972	Guerrilla war against white rule intensifies.
1978	Smith yields to pressure for a negotiated settlement, and Zimbabwe Rhodesia is born. But it is not recognised, and the civil war continues.
1979	British-brokered all-party talks at Lancaster House lead to a peace agreement and new constitution.
1980	Zanu wins independence elections. Its leader, Robert Mugabe, becomes prime minister. Zapu leader Joshua Nkomo is included in his cabinet.
1982	Mugabe sacks Nkomo, accusing him of preparing to overthrow the government. Troops are deployed to crush a rebellion by pro-Nkomo ex-guerrillas in the southern provinces. Government forces are accused of killing thousands of civilians over the next few years.
1987	Mugabe and Nkomo merge their parties to form Zanu–PF, thereby ending the violence.
1987	The whites-only voters' roll is scrapped in line with the Lancaster House agreement. Mugabe changes the constitution to enable him to become executive president.
1990	Zanu–PF wins a landslide victory in elections, but only 54% of voters take part. The remaining restrictions in the Lancaster House agreement are scrapped.
1998	Economic crisis is accompanied by riots and strikes.

A Chronology of Key Events (continued)	
1999	Formation of the opposition Movement for Democratic Change (MDC).
2000	February — Mugabe suffers defeat in the referendum on the draft constitution. Squatters seize hundreds of white-owned farms in a violent campaign instigated by the government.
2000	June — The MDC challenges Zanu-PF with a surprise showing in the parliamentary elections, removing its two-thirds majority.
2001	Most western donors cut aid because of the land seizure programme.
2002	February — Parliament passes a law limiting media freedom. The European Union imposes sanctions on Zimbabwe and pulls out its election observers after the EU team leader is expelled.
2002	March — Mugabe is re-elected in a presidential poll widely condemned as seriously flawed. The Commonwealth suspends Zimbabwe from its councils for a year, after concluding that the elections were marred by high levels of violence.
2002	April — A state of emergency is declared as worsening food shortages threaten famine.
2002	June — Under the terms of a land-acquisition law passed in May, a 45-day countdown begins for some 2 900 white farmers to leave their land.
2002	September — A Commonwealth committee, comprising the leaders of South Africa, Nigeria and Australia, fails to agree on further sanctions against Zimbabwe.
2002	November — The Minister of Agriculture, Joseph Made, says the land-grab is over. He claims the government has seized 35 million acres of land from white farmers.
2003	March — A widely-observed general strike is followed by the arrests and reported assault of hundreds of people.

A Chronology of Key Events (continued)	
2003	June — The leader of the opposition MDC, Morgan Tsvangirai, is arrested twice amid a week of opposition protests. He is charged with treason, adding to the existing treason charge laid against him in 2002 over an alleged plot to kill Mugabe.
2003	November — Canaan Banana, Zimbabwe's first black president, dies aged 67.
2003	December — Zimbabwe pulls out of the Commonwealth after the organisation decides to extend the suspension of the country indefinitely.
2004	October — Tsvangirai is acquitted of treason charges relating to an alleged plot to kill the president, but faces another treason charge.
2005	March — The Zanu-PF party wins two-thirds of the votes in parliamentary polls. The MDC says the election process was rigged against it.
2005	May–July — The government destroys tens of thousands of houses, shanty dwellings and street stalls as part of a 'clean-up' programme. The UN estimates that about 700,000 people are made homeless.
2005	August — Prosecutors drop the remaining treason charges against Tsvangirai.
2005	November — Zimbabweans vote for members of a newly-created upper house of parliament, the Senate. The poll issue splits the MDC into two factions.

Zimbabwe, which was formerly a British colony, gained independence in 1980 after a lengthy bush war that started in the 1960s, and in which many thousands of people died. The white settlers, led by Ian Smith's Rhodesian Front, had unilaterally declared independence for Rhodesia from Britain in 1965. They were pitted against two liberation movements — the Zimbabwe African People's Union (Zapu), formed in 1961 and led by Joshua Nkomo; and the Zimbabwe African National Union (Zanu). The latter came into being in 1963 as a more politically radical breakaway party from Zapu, and was then led by the Reverend Ndabaningi Sithole. Later the party

split. The new wing, led by Robert Mugabe, was named Zanu-PF, to differentiate it from Sithole's Zanu party, which continued to exist.

Despite the stresses imposed by international sanctions and the tide of black independence sweeping Africa, Smith insisted on maintaining the political *status quo*, and refused to entertain the notion of black majority rule. However, in the mid-1970s, his key ally, South Africa, started pushing for change in Rhodesia, partly to keep pressure off its own apartheid state. Threats that South Africa would withdraw its crucial support finally led to a referendum in Rhodesia, in which the nation voted for majority rule. Smith, ignoring the liberation movements the country had been fighting against for nearly two decades, instead made agreements with three internal nationalist leaders in 1978. In April 1979, Bishop Abel Muzorewa became the country's first black prime minister, and the country was renamed Zimbabwe-Rhodesia.

Predictably, the guerrilla movements and the international community rejected this compromise solution. The US and Britain began mediation efforts with all parties to the conflict. This resulted in the convening of all-party talks at Lancaster House in London, which led to a British-supervised ceasefire in December 1979.

The Lancaster House agreement, signed in London on 21 December 1979, contained a nine-point settlement reached by all parties to the talks. These included representatives of Zanu, Zapu, the British government, and the leaders of Zimbabwe-Rhodesia. The hard-fought terms of the agreement stipulated the reservation of 20 seats for whites until 1987, restrictions on constitutional changes and land redistribution. The settlement included other clauses relating to security and political issues. The liberation groups resisted the land

distribution restrictions, but eventually accepted a compromise in the spirit of making it possible to hold an election and gain independence. The subsequent April 1980 elections were won by Zanu-PF, and Mugabe became prime minister.

The path taken at independence did not run smoothly. Within two years, the government had accused Nkomo and his supporters of plotting to overthrow the government, after arms caches were found on premises belonging to Zapu officials. Nkomo was removed from the cabinet. His supporters began a campaign against the government in protest at what they perceived as the marginalisation of their leader and his party from the seat of power. The uprising, and its brutal suppression (otherwise known as Operation *Gukurahundi* or 'Strong wind which blows away the chaff'), lasted until 1986. Thousands of people were killed or detained under a state of emergency, a hangover from the security legislation of the colonial era. After making a pact that ended the violence but effectively neutralised Zapu, Nkomo was brought back into the cabinet and the parties were merged.

In 1990, with the expiry of the Lancaster House agreement, Mugabe's campaign to make Zimbabwe a one-party state began in earnest. In parliamentary elections that year, his party won 117 of the 120 seats (in a 54% voter turnout). He proposed various amendments to the constitution, many of which related to increasing the power of the president; abolished the senate and expanded the House of Assembly from 100 to 150 members.⁴ He also introduced a clause which allowed the president to appoint 30 MPs in addition to the 120 elected

⁴ Mugabe became executive president in 1987, a post for which he stood unchallenged. Canaan Banana remained president until his death in 1997.

MPs.⁵ However, while Mugabe has consolidated his power, he has not succeeded in making Zimbabwe a *de jure* one-party state, partly because of resistance to his efforts internally, and partly owing to the growing trend towards democracy in Africa.

Mugabe, however, dealt ruthlessly with any challenge to his rule and his party's hold on power. What opposition there was remained weak and fragmented. Successive elections were won by Zanu-PF, although its victories were achieved amid dwindling voter interest and low polls, suggesting that popular support for the ruling party was declining.

In the mid-1990s, dissatisfaction with the government's increasingly authoritarian rule and an economic decline that was partly attributable to the introduction of an IMF-led structural adjustment programme in 1991, led to riots in the streets, and the formation of new political movements that were critical of the authorities. One of the most important was the National Constitutional Assembly, a pro-democracy coalition launched in 1997, which remains actively in opposition to Mugabe today. The Zimbabwe Confederation of Trade Unions (ZCTU) also became more politicised, and openly spoke out against the government. In 1999, the Movement for Democratic Change (MDC) emerged as a political party with its roots in the trade union movement.

Public service strikes took place in 1997, amid allegations of high-level corruption and misuse of public funds. These claims were given credence by the payout in 1997 of Z\$5.2 billion (which had not been part of the national budget) to the war veterans, who were becoming a powerful lobby group and a threat to the government. Mugabe wanted them on his side,

⁵ *Africa South of the Sahara*, London: Europa Publications, 2001.

and later used them as a state militia to drive his land programme. However, the massive payment to the war veterans precipitated the virtual collapse of the currency, increased the already high percentage of government spending to GDP and swept aside economic reform. The situation was exacerbated by Zimbabwe's logistical and financial support for Laurent Kabila in the Democratic Republic of Congo's civil war, which pushed the budget deficit over 10%.

In 2000, two things happened to hasten the country's political and economic decline. The first was the 'no' vote in the referendum held to approve the government's new draft constitution. This was the first overt challenge to Mugabe's power to take place in Zimbabwe's history by the population at large (as distinct from the Zapu dissent of the 1980s). The second was that the MDC, which had been in existence for less than a year, made a strong showing in the subsequent 2000 parliamentary elections, winning 57 seats to Zanu-PF's 63, despite a campaign of violence and intimidation waged by the ruling party, before and during the poll, with the support of the police and army.

The unprecedented twin challenges to Zanu-PF and Mugabe unleashed a tide of violence that was to continue up to and even after the 2002 presidential elections, in which MDC's leader, Morgan Tsvangirai, lost to Mugabe. The challenges had another significant effect — the beginning of violent seizures of white-owned land, which continued into 2006.

The current situation

On the political front, Mugabe's policies continue to reflect the narrow concerns of Zanu-PF. Political expedience dictates most of the government's spending priorities. For example, four

extra ministries and a 60-member senate were established in 2005, a year in which the finance minister as good as declared the government bankrupt.

Supporting a costly war in the Democratic Republic of Congo (DRC) at a time of significant economic hardship was another.

Economic policies have been driven by the need to keep reform at bay while trying to keep the economy afloat, a balancing act that has had little success, but continues nevertheless.

The government has effectively driven most of the independent-minded judges out of the judiciary, replacing them with known party supporters who will back its policies, particularly in the execution of the land seizures. Several ministers have publicly stated they will disregard any court judgments that work against the government's interests, which raises concerns about the effectiveness of the courts as a check on power.

The independent press has been harassed, and what is left of it is subject to government control through a system of registration of both media houses and journalists. The Access to Information and Protection of Privacy Act passed in 2003, for example, established a Statutory Media Commission that requires all journalists to apply for a one-year renewable licence to be allowed to work. This can be revoked at any time if the government deems a journalist to be in breach of the Commission's code of conduct.

The Public Order and Security Act, also passed in 2003, gives unprecedented powers to the police. It has been likened to apartheid-era legislation in South Africa.

Among other things, it makes it a criminal offence to speak badly of the president, or to do anything that might provoke a

disturbance of the peace. It also allows the police to disperse public gatherings whenever they deem it necessary, a clause widely used against the opposition.

In 2005, the government introduced two more pieces of legislation that served to undermine the rule of law. One prevents commercial farmers from recourse to the courts over the seizure of their land; the other allows the government to confiscate the passports of those Zimbabweans it suspects of criticising the country when travelling outside it.⁶

In 2006, the government drafted yet another piece of repressive legislation, the Interception of Communications Bill, to do just what the name implies — intercept communications at will. Those who were nominated to drive the interceptions included the Chief of the Defence Intelligence, the Director-General of the President's department of national security, the Commissioner of the Zimbabwe Republic Police and the Commissioner-General of the Zimbabwe Revenue Authority. The wording of the legislation says this will be used in the event of proof of a threat to the country, but what constitutes a threat or proof of a threat is unclear.

⁶ Trevor Ncube, the publisher of the *Mail & Guardian* in South Africa and several Zimbabwe newspapers, was one of the first people to be put on a list of more than 60 'enemies of the state' to have his passport taken. It was returned after he took legal action. The MDC's Secretary for Information and Publicity, Paul-Themba-Nyathi, also had his passport removed by the state, and a human rights lawyer, Beatrice Mtetwa, was threatened with such action until she informed the Zimbabwean officials that she holds a Swazi passport.

Box 1: Public Trust in Public Institutions

A survey conducted in October 2005 by *Afrobarometer* showed that Mugabe was trusted by only 19% of Zimbabwe's urban dwellers and just 37% in rural areas — 31% overall. It also found that after government newspapers and the electoral commission, the president and Zanu-PF were the least trusted public institutions in the country.

In 1999 the *Afrobarometer* survey showed that 17% of those living in urban areas trusted the president, as against 21% in the rural areas. In 2004 these figures jumped to 45% in urban areas and 58% in rural areas, dropping again to 19% and 37% respectively in 2005.

Looking at public institutions, 53% said they trusted the courts, while 50% trusted the military.

The survey ascribed the rise in support recorded in 2004 to the land reform programme, which involved the redistribution of white commercial farms. The drop in trust levels is attributed to Operation 'Drive Out [the] Rubbish' (*Murambatsvina*).

The opposition political parties received a 47% approval rating, while independent newspapers gained 44%. Independent broadcasting services notched up 41%, the police just 39%, parliament a paltry 35%, local councils 33%, the government broadcasting services 33%, and the president and the ruling party a scant 31%. The Electoral Commission won 29% and the government newspapers 28%. The survey report noted that except for the judiciary and the military, none of the institutions surveyed attracted the trust of even half of the adults surveyed.⁷ (See box 2.)

The government's hand was strengthened by the results of the 2005 parliamentary elections, which, although controversial, gave the ruling party a two-thirds majority. The reason the elections were controversial was that Mugabe, who had been a signatory to the Southern African Development Community (SADC) election guidelines for free and fair elections in 2004, violated almost all of them, without a murmur

⁷ *Associated Press*, 23 February 2006.

of protest from the other member countries. While voting day was generally peaceful and well organised, the violations of the code occurred during the process leading up to the event. These allowed the government to strengthen its control of the voting machinery. Despite this flouting of the guidelines, the SADC states, including South Africa, and most of the other countries observing the elections declared them fair.⁸

At the same time, the MDC was losing ground. It gained 16 fewer seats than it had in 2000, 41 seats as against Zanu-PF's 78. The latter's number of seats increased to 108, counting the 30 seats to which it was allowed to appoint MPs. However, voting patterns remained much the same as in 2000, with the MDC gaining control of the main urban areas and Zanu-PF winning seats in the rural areas.

Mugabe is widely expected to stand down in the next presidential poll, which is scheduled for 2008.⁹ The succession debate has become a political hot potato, and has already resulted in a deep rift in the party. The issue became a bitter one as far back as 2004, when a successor to one of the two vice-presidential posts was required to replace the late Simon Muzenda. The front-runner, Emmerson Mnangagwa, who was the Speaker of parliament and the party's secretary of administration, and had long been tipped as Mugabe's successor, was sidelined by the president. Mnangagwa's reversal of fortunes was swift. He was put under investigation by

⁸ Only countries and organisations invited by the government/ruling party were allowed to observe the election. Observer missions noted that about 10% of people were prevented from casting their votes while independent observers estimated the figure of those turned away to be as high as 30%.

⁹ The government has said it may link the presidential and parliamentary polls, in which case this election may be aligned with the 2010 poll, in this way granting Mugabe two more years in power.

the police for gold smuggling, corruption and currency violations, and party members who supported his candidacy were swiftly dealt with by Mugabe. One of the casualties was the former Minister of Information, Jonathan Moyo, who was pushed out of the party.¹⁰ Six provincial chairmen were also expelled for backing Mnangagwa.

Mugabe appointed the Minister of Water Resources, Joyce Mujuru, a Zanu-PF stalwart and one of only four people remaining who have served in the cabinet since independence in 1980. Although Mujuru is recognised as a veteran politician and a respected former liberation fighter, it is generally believed that her appointment was dictated by political expediency. Firstly, she is the wife of a former army chief, Solomon Mujuru, who is close to Mugabe. She was also a drawcard for the women's vote in 2005. Her appointment also upstaged the 'big men', whose jostling for his job had angered Mugabe. However, she is seen as an unlikely successor to Mugabe in 2008.

The divisions brought about by the succession battle have opened a new fissure in Zimbabwe politics along ethnic lines. Mugabe has moved to consolidate the control his small Zezuru clan exercises over the others that make up the larger Shona tribal group, particularly the Karanga clan, of which Mnangagwa is a leading member. Although outsiders believe the tribal split in Zimbabwe is between the Shona and the Ndebele, intra-Shona divisions have always existed. Earlier they were not as divisive as they have become over the past 18 months. The Karanga is the largest clan, accounting for some 35% of the population, while the Zezuru is the second-biggest. The Karanga provided the bulk of the fighting forces in the war

¹⁰ Moyo stood as an independent candidate in 2005, and won the seat.

of independence, but Zanu–PF was led by Mugabe, a Zezuru intellectual. Since 2004, he has filled most of the most senior positions in his government with members of his own clan.

Box 2: *Operations Murambatsvina and Garakail Hlalani Kuhle*

In May 2005, the middle of Zimbabwe’s winter, the government launched Operation *Murambatsvina* (‘Drive out [the] Rubbish’), ostensibly to rid the urban areas of informal settlements and the criminals who lived in their midst. The operation, which began in Harare, soon spread to all towns and cities. Dozens of police with bulldozers swooped on areas at short notice, demolishing buildings, confiscating goods and burning structures.

Curio vendors and flower sellers, who had been working from parks and roadsides for decades, had their goods destroyed by riot squads. More than 20,000 informal vendors were arrested in Harare alone, even though many had licences to trade. Many of the destroyed premises were not shacks, as the government claimed, but brick and mortar houses. Thousands were forced into government transit camps for removal to the rural areas — which are ruling party strongholds — in what critics called the ‘peasantisation’ of Zimbabwe. Several people died in the demolitions.

Apart from the physical displacement of families and destruction of goods and homes, the operation had major implications for an already struggling economy. According to one report from a Zimbabwean NGO:¹¹

It is estimated that no more than 20% of the adult population is currently employed in the formal sector. Approximately 80% of adults in Zimbabwe therefore eke out an existence in the informal sector, either through subsistence farming or through informal employment in towns. By this means, they pay their rent, buy food for their children and send them to school.

¹¹ ‘Operation *Murambatsvina*: An Overview and Summary’, Sokwanele Civic Action Support Group website, www.sokwanele.com, 18 June 2005.

**Box 2: Operations Murambatsvina and
Garakai/Hlalani Kuhle (continued)**

As many as three to four million Zimbabweans survive by informal employment, and their income is supporting another four million Zimbabweans at least. It is the unofficial backbone of the economy, and in a nation with no free health, housing or education, to remove the informal sector is to reduce Zimbabwe's poorest to a state of abject poverty.

In June 2005, the UN Secretary General, Kofi Annan, sent an emissary, Anna Tibaijuka from UN Habitat, to investigate the situation. On the day she arrived in Zimbabwe, the government announced that the campaign had ended and that it had earmarked Z\$3 trillion for new housing in a second campaign, Operation *Garakai/Hlalani Kuhle* ('Live well'). Tibaijuka was escorted around the country by her government hosts, who allowed her to see only what they wished. Despite the government's insistence that the operation was simply the start of a major new housing campaign, Tibaijuka wrote a damning report on the situation. She estimated that 700,000 people had been directly affected by the campaign, and another 2.4 million — nearly a quarter of the population — indirectly affected. She said the operation had been carried out 'in an indiscriminate and unjustified manner, with indifference to human suffering', and called for those responsible for people's deaths to be charged. Annan described the report as 'profoundly distressing', and said that the government should ensure that 'those who orchestrated this ill-advised policy are held fully accountable for their actions'. In September, Mugabe used the occasion of his address to the UN to defend his actions, saying¹²

We have rejected the scandalous demand ... that we lower our urban housing standards to allow for mud huts, bush latrines and pit toilets as suitable for the urban people of Zimbabwe and for Africans generally. Nothing could be more insulting and degrading of a people than that and invited Annan to come and see the situation for himself.

¹² *Associated Press*, 18 September 2005.

**Box 2: Operations Murambatsvina and
Garikai/Hlalani Kuhle (continued)**

The Zimbabwe government said the figure of 700,000 was grossly inflated, and denounced Tibaijuka for failing to understand the government's policies.

Tibaijuka, a member of Tony Blair's Commission for Africa, was also accused of being a spy for the British government, and was demonised in the state-owned media.

Despite a promise that Operation *Garikai/Hlalani Kuhle* would build two million houses for those displaced by the demolitions, only several hundred homes had been built by the end of 2005. This was well short of the number promised. Officials later admitted that the homes built were intended for civil servants and members of the army.¹³ The government has yet to provide any alternative accommodation for those it made homeless, and it continues to tear down temporary structures. It has also rejected the UN's attempts to provide assistance. Not only funds were turned down: in December 2005, the government destroyed a prototype emergency house built by the UN for *Murambatsvina's* victims, claiming that it was substandard and not good enough for Zimbabweans, even though it had been developed by UN Habitat in consultation with the government.

There is no clear explanation of what really sparked the campaign. Some observers believe it was intended to punish the urban population for voting in favour of the MDC in March 2005. Others say it was a way of concentrating political control of the people further, by forcing them into the rural areas. Yet others believe the government thought the amounts of illegal fuel and currency in the black market were larger than they turned out to be. Zimbabweans were stunned at the extent and speed of the campaign, renaming it 'Operation Tsunami'. Some people interviewed for this report said the actions showed that the government no longer had any boundaries, or any fear of reprisals for its increasingly extreme actions.

¹³ *IRIN*, 19 August 2005.

Box 2: *Operations Murambatsvina and Garakai/Hlalani Kuhle (continued)*

'If we had this boldness in leadership in dealing with some of the more critical issues affecting people's lives, then we would applaud it', a high-ranking Zanu-PF member said. 'But instead, this boldness has been used to destroy the most defenceless citizens of the country who are looking up to us for protection'.¹⁴

The MDC falls apart

The MDC has spent most of its existence under siege by the ruling party. Its leaders have had to face prison spells, treason charges, arbitrary arrest, torture and other hardships as a result of the party's popular support and the threat this poses to the ruling party. It has had to counter credibility problems in the region as a result of the government's propaganda campaign against it, for example accusing it of being an agent for whites and Britain, and has had to deal with the resistance of many African governments to opposition parties. South Africa, in particular, has been a thorn in its side because of its perceived, and often overt, support for the ruling party.

However, the MDC has, many argue, brought about its own decline. It has lost political momentum as a result of leadership problems, state repression, a lack of funds, limited vision on key issues and poor spin doctors. Some say it did too little in the way of engaging with influential parties inside Africa, including SADC leaders and opposition and labour groups in other countries on the continent. It was only in late 2004/2005 that the party began seriously to develop relations with key African

¹⁴ Interview, Harare, July 2004.

players outside Zimbabwe, but by then its credibility had already begun to wane. The MDC has also been censured for not taking a strong enough stand on the land issue, to counter the populist fervour whipped up by the ruling party.

The big split in the MDC came in late 2005, when the party divided into two camps over whether it should take part in the 2005 senate elections. Ironically there was less dissent over whether it should boycott the 2005 parliamentary elections, a more critical decision. The senate, which can overrule legislation passed by the lower house, was dismissed by many in the MDC, including its president, Tsvangirai, as being a waste of money, and designed only to provide more patronage opportunities for the ruling party. However, in what came as a surprise development to many in Zimbabwe, the party's national council endorsed MDC participation, in so doing backing the faction led by the MDC's Secretary General, Welshman Ncube.

Many allegations and insults were traded between the MDC's leaders. Tsvangirai was accused by his former allies of being a despot who did not consult other members of the party before taking decisions. Mediation efforts to bring the factions together, conducted both in Zimbabwe and by President Mbeki in South Africa, failed. Tsvangirai dismissed the 26 MDC members who insisted on standing for election. The party subsequently suspended Tsvangirai for violating the party's constitution by calling for the boycott.

By January 2006, there seemed little hope the different factions in the party would reunite. Instead, the Ncube faction brought in a new leader — Arthur Mutambara, a former student activist who has been living abroad for some time. While he arrived with fanfare and promises, after just a few months, a number of members of his factions defected to the

Tsvangirai faction. The opposition remains fragmented and thus weakened. As one political analyst said,¹⁵

In many ways the formal split of the MDC is the end of a world. Here was a party that for the first time in the history of Zimbabwe was able to unite under one roof capitalists and socialists, the workers, the unemployed, peasants, intellectuals and students. The MDC's ability to get disparate groups together was its strength and, in many ways, its Achilles heel.

The land question

The land question was central to the war of liberation. Therefore the stipulation in the Lancaster House agreement that land ownership could be changed only on a 'willing seller, willing buyer' basis at market rates, was a bitter pill for the liberation movements to swallow, as it prevented fast-track redistribution. It also prevented the new government from meeting the expectations of the people who voted it into power that they would be given land.

When the agreement terminated in 1990, one of the first pieces of legislation the government passed allowed it to buy land compulsorily. In this way it intended to redress a situation in which 4,500 white commercial farmers owned 70% of the country's productive land, while millions of small farmers were restricted to overcrowded and over-farmed communal areas — a legacy of the colonial era.

However, during phase one of the government's land redistribution programme (1980–1996), only 71,000 families, as against a target set in 1982 of 160,000, were settled on 3.5 million hectares.¹⁶ According to the British government, a land

¹⁵ Zvomuya P, 'End of a world', *Mail & Guardian*, 20–26 January 2006.

¹⁶ British government figures. See www.britishembassy.gov.uk.

resettlement grant signed in 1981 was closed in 1996 with £3 million unspent, because the Zimbabwe government did not have plans to use it. In 1996, Mugabe, facing increasing opposition to his rule, announced that land redistribution would be speeded up, and produced a list of more than 1,500 farms to be expropriated. He demanded that Britain fund the compensation payments to the dispossessed farmers, arguing that it was under British rule that the land had been 'stolen' in the first place. However, it is estimated that more than half of the farms owned by white commercial farmers had been bought during Mugabe's tenure as president. Many of these purchases had had expressions of no interest from the government incorporated in their sales agreements.

A donor land reform conference, which was attended by 24 countries, was held in 1998. It was partially successful in mapping a way forward, and some money was pledged to support the programme. Britain stated its intention of providing funds for the programme if it was conducted in accordance with the rule of law and Zimbabwe's constitution. Already stories alleging that officials of the ruling party were the main beneficiaries of the land resettlement programme were in circulation. When Mugabe's government listed hundreds of farms for compulsory acquisition, the British voiced concern over whether the poor were benefiting from the programme, and asked why people were not being resettled on land already owned by the government. It withdrew its support for the government's programme, and began working through NGOs. Mugabe responded by lashing out at the West, particularly Britain, for failing to support land reform. He also accused these countries of persuading the IMF, which had raised its own questions about how land distribution was being undertaken, to withhold funding.

In 2001, at a Commonwealth meeting in Abuja, where concerns were raised about the violence attending the land distribution programme, the Zimbabwe government pledged to put an end to further illegal occupations of white-owned farmland, political intimidation and human rights abuses. In return, Britain said it would honour its agreement to fund land reform. However, in the months following the signing of the agreement, hundreds of additional farms were invaded. Incidents of violence and human rights violations increased in the lead-up to the 2002 presidential elections. Thousands of farmers were driven off their land, and the issue of compensation became increasingly murky. The government offered to pay for improvements to the land, but not for the land itself. In most cases, no compensation was paid. The government later introduced laws to forbid farmers to remove any assets from the land when they left.

In September 2005, the government introduced the most draconian legislation relating to its fast-track land reform programme to date. The legislation, which lawyers say is unconstitutional, allows the government to nationalise all commercial farmland, and prevents any legal challenge to its actions. This enabled the government to scrap some 4,000 cases regarding issues of ownership and compensation brought against it by white farmers over the past five years. The government said that white farmers, along with everyone else, would now have to apply to the government for 99-year leases.¹⁷ A new wave of often-violent farm invasions followed, to remove the remaining several hundred farmers from their land.

¹⁷ In late September, several farmers were attacked on their properties by state security agents and told to leave the properties.

Despite the media headlines — both for and against the land reform programme, redistribution has fallen well below expectations in terms of the take-up of farms and productivity, as even the government admits. The Presidential Land Review Committee appointed by Mugabe in 2003 reported that 127,000 peasant farmers and 7,260 commercial farmers had been settled on 4.2 million hectares.¹⁸ In January 2004, Minister of Special Affairs, John Nkomo, acknowledged that the land programme had failed to benefit large numbers of poor black farmers, as many of them had not taken advantage of the land on offer. He said that in some areas, fewer than half of the black farmers who had been allotted land had started to farm it.¹⁹ In March 2005, Mugabe conceded that only about 44% of the millions of acres seized from white farmers and given to black commercial farmers²⁰ had been properly used. He also announced in 2005 that 6,000 members of the army would be given plots under the land reform programme, a move believed to be related to rising tensions in the military over the harsh economic climate in the country.

The Land Review committee also found that in 2003, nearly 200 influential individuals, including cabinet ministers and the president's wife, were owners of more than one farm each. One provincial governor had nine prime commercial farms. Some had abandoned seized farms after selling the crops grown by the farmers before moving on to other, more profitable farms. Others had displaced resettled farmers. Many of the multiple owners eluded a presidential directive to keep only one farm by registering properties under different names.

¹⁸ *Business Day*, 21 October 2003.

¹⁹ *The Observer* (UK), 4 January 2004.

²⁰ The A2 programme was for commercial farmers and the A1 programme for peasant farmers.

During 2004, the government began a serious crackdown on multiple ownership. However, as late as 2005 government officials continued to seize farms, although many of these had already been taken over by new settlers, who resisted eviction.

Box 3: The Constitution

Since the country gained independence Zimbabwe's constitution has been amended 17 times, mostly to entrench the power of the ruling party and the president. The National Constitutional Assembly (NCA), a broad grouping of NGOs and organisations working for change, says the amendments have served to concentrate power in the hands of the president. In 1987, for example, the post of prime minister was scrapped in favour of a new title, executive president, a post for which Mugabe was the sole candidate. In terms of another amendment, the president was given the right of veto over legislation.

In 1999, the government set up a Constitutional Commission to effect significant changes. However, many organisations, including the NCA, refused to take part, on the grounds that it was not an impartial exercise. Although some critics of the government were sworn onto the commission, Mugabe chose nearly all of the 400 commissioners. He also reserved the right to amend or ignore the commission's findings. Some of the key suggestions put forward by the members — that the powers of the president be reduced, that the president's term of office be limited, and that the size of the cabinet be reduced — were excised from the final draft.²¹ As noted earlier in the report, the amended constitution was rejected by the population in the referendum held in 2000.

The land audit showed that more than 4,300 out of 4 500 white-owned farms had been seized. In October 2004, the Commercial Farmers Union estimated that only about 500 of its members remained on the land. Many of these were running

²¹ BBC, 19 November 1999.

their operations from urban areas to avoid harassment and violence, while others had become managers on farms bought legally by the black elite. Yet others have moved abroad, or have taken up opportunities offered to them by governments elsewhere in Africa, most notably Zambia, Mozambique, Malawi and Nigeria.

Addressing the congestion of the communal lands, which was supposed to be the primary aim of the land reform programme, has yet to take place. Millions still toil on this unproductive land. Thousands of those who applied for plots have yet to receive them, years after their names appeared on the list of successful applicants. Farm workers have been the biggest casualty in human terms. Few of the estimated 350,000 workers employed on farms in 2000 have benefited from the land programme. Most are now homeless and jobless. Fewer than 100,000 farm workers in total are believed to be still on the land.

Now that the programme is officially over, bar several attempts during 2006 by government officials to take over farms through force, the government seems to be taking a hard line against those who are not using farms properly, on the grounds that they are confirming the criticisms of the country's detractors. Vice President Joyce Mujuru called those not fully utilising farms 'saboteurs' who had been the first to beg for assistance from government.²²

We want farmers who work the land for maximum production, not incompetents and idlers who just sit and do nothing ... We have lost our respect through begging, and we must produce our own food. The poverty in Zimbabwe is man-made.

In 2006, the government made moves to court white commercial farmers to get them to apply for tracts of land,

²² *The Herald*, 17 September 2005.

although it stated that there would be no preferential allocations. By mid-2006, several dozen farmers had applied but many said they were not prepared to take the risk again.

Socio-economic indicators: education

Although Zimbabwe's education system, and the government's strong support of it, was lauded in the early days of independence, lately it has suffered a major downturn. This is the result of reduced funding, as political priorities crowd out social spending. Over the past 10 years, standards in government schools have been eroded. Pupils in rural areas have seen a particularly sharp decline in resources spent on their schools, and many private rural schools on farms have now closed as a result of the land invasions. In 1990, Zimbabwe had a literacy rate of 90%, by far the highest in SADC, and above average school attendance. Although the literacy rate appears to have remained stable, according to United Nations Development Programme (UNDP) indicators, school enrolment is falling, failure rates are rising, and fewer pupils are finishing school.

In the past few years, government interference in education has grown. Instead of tackling the problems of underfunding and declining standards in its own schools, the government has focused its attention on private schools, which are attended by an estimated 30,000 pupils. In 2004, the Minister of Education, Aeneas Chigwedere, froze school fees, and said that any fee increases had to be approved by the ministry. The government closed 45 private schools for raising their fees. However, the private schools won a court action claiming that the state's action was illegal. Ironically, less than a year later, in mid-2005,

the government itself increased school fees by a massive 1,000%.

In the same year, the minister proposed amendments to the Education Act that would grant the government virtual control of private schools. The new law would have allowed the government to set fees and dictate zoning, teacher recruitment, the wearing of uniforms and class numbers. However, before the bill went before parliament it was dropped, mostly in response to an outcry by Zanu–PF legislators and teachers' associations, who said it threatened the standard of private education and would result in the closure of half of the country's schools and a mass exodus of the country's elite.²³

Socio-economic indicators: health

Zimbabwe's health care system, once considered among the best in sub-Saharan Africa, is collapsing because of a severe shortage of funds to buy medical equipment and essential drugs. The country has been hard hit by a combination of Aids,²⁴ increasing poverty and the decay of its public health system. Currently, life expectancy is 42.9 years, compared with 56 years in 1975.

Despite this, the Zimbabwe government's allocation of resources to health dropped from 12.7% of the national budget in 2002 to 8.3% in 2003. The Zimbabwe Congress of Trade Unions, in its critique of the 2004 budget, pointed out that, in the defence budget, the allocation for wages and salaries

²³ *Financial Gazette*, 18 August 2005.

²⁴ In 2001, the proportion of adults infected with HIV/Aids was estimated to be 33.7%.

alone outstripped the entire amount allotted to health. Besides experiencing a major funding shortage, the sector is one of the worst hit by the brain drain. Doctors from Cuba, the DRC and other countries have been employed to fill the gap. The medical school intake has almost halved in a few years.

Foreign humanitarian aid, largely from global charities, the US and Europe, has prevented Zimbabwe from running out of drugs and medical supplies entirely. Much of the donor money still coming into Zimbabwe is dedicated to social projects, particularly HIV/Aids care and prevention, even though donors have become increasingly wary of funding Aids programmes because of concerns that the money would be channelled into the government's coffers and used for other purposes. As a result, Zimbabwe is receiving significantly less financial support for Aids from donors than other southern African countries.²⁵

However, the UN claims that Zimbabwe has become the second country in sub-Saharan Africa to slow the spread of HIV significantly. The Joint United Nations Programme on HIV/AIDS (UNAIDS) reported that infection rates among a particularly vulnerable group, pregnant women, had fallen from 24,6% in 2002 to 21,3% in 2004. Infection figures among young people,

²⁵ In mid-2004, the Global Fund to Fight AIDS, Tuberculosis and Malaria decided to exclude Zimbabwe from the list of African countries it was assisting because it did not want to channel funding to an 'untrustworthy' government. In 2003, the US government also excluded Zimbabwe from the president's five-year US\$15 billion emergency Aids plan, which focuses on 12 African countries, among others in different parts of the world. The British government gives about US\$11 million a year and has promised more if political and economic reforms are effected. 'AIDS crisis as Mugabe scares off donors', *This Day* (SA), 17 August 2004.

another high-risk group, had dropped from about 25% to 20%.²⁶ This success has been attributed to the committed work done by both the government's Aids specialists and NGOs.

The economic situation

Zimbabwe's economy was, for decades, among the strongest on the continent. It was one of the few countries with a strong industrial base, which was largely dependent on its successful agricultural production, and a high level of skills, due to the government's focus on education and training in the early years of independence. Despite the strength of its economy, the country's economic fortunes varied because of contingencies such as adverse weather conditions. This illustrated the importance of agricultural production to the country's overall economic performance, as did international commodity prices and the government's economic policies. The latter did not result in significant wealth redistribution and economic growth, hovering as they did between liberalisation and international re-engagement, and socialist precepts.

In 1990, the government introduced a structural adjustment programme (SAP), which resulted in widespread economic hardship, and failed to achieve most of its targets. Although the SAP promised economic growth of 5% annually, average growth under the programme was only 1.2% between 1991 and 1995.²⁷ Indeed, average growth for the decade was 2.4% (Zimbabwe recorded its last year of positive GDP growth — by

²⁶ 'Zimbabwe makes headway in AIDS fight', *Business Day* (SA), 18 January 2006.

²⁷ Bond P & Manyanya M, *Zimbabwe's Plunge*, Pietermaritzburg: University of Natal Press, 2002.

2.5% — in 1998). The economy stagnated the following year, and from 2000, negative growth became the norm.)²⁸ During the 1990s, mass protests were held over economic issues, including bread riots in 1993 and 1995. During this era, opposition groups began to form and make themselves heard. In turn, the government became increasingly interventionist on the economic front.

The sharpest decline was precipitated by the land invasions, which began in 2000, hitting at the heart of the economy. Before that time, an estimated 60% of agricultural output fed into the manufacturing sector, while around 20% of manufacturing output was absorbed by the agricultural sector. Financial institutions and the service sector were also strongly linked with agriculture.

In 2005 the latter contributed only 15% to GDP, compared with about 20% in 2000, according to the UN. Rapid declines in agricultural production had an extremely negative effect on manufacturing, foreign exchange levels (due to reduced exports), and employment. The land redistribution programme changed the fundamental structure of the economy.

Since 2000, the economy has been held hostage to a range of ad hoc economic policies, frequent u-turns, massive government spending and unrealistic economic projections. Its collapse has, mostly, taken a back seat to the ruling party's political objectives. The corrective actions required to turn the economy around are strongly linked, for the most part, to the unravelling of Zanu-PF 's strong hold over the polity as a whole, and its overriding desire to stay in power at all costs. The ruling party's landslide win in the March election that year did not bode well for economic recovery, as it removed any incentive

²⁸ *Africa South of the Sahara, 31st Edition*, London: Europa Publications, 2002.

for the government to show accountability. Although Mugabe installed a 'development cabinet', which included new ministerial posts, the economy has continued its downward spiral.

The hyperinflationary environment has affected every facet of the economy. It has caused major distortions that, while they kept economic activity brisk in some areas until recently, proved to be unsustainable in the long term. The government has depended heavily on inflation to finance public spending. In the private sector, quick fortunes have been made on the back of inflation and fuel and currency trading. Profiteering has become the driver of the new economy. Many government officials have their fingers in the pie, reducing the incentive to tackle the economic problems. However, a retailer in Zimbabwe said there had been a major slowdown on high-end goods, as even the wealthier people were becoming less extravagant. Instead of buying luxuries they were diverting their money to meet ever-rising basic costs, such as school fees, fuel, rates and taxes.

Some statistics which bear out the seriousness of the situation include the following.

- The economy has contracted by 40% in the five years since 2000.
- Unemployment stands at an estimated 70% of the population.
- The currency has devalued rapidly, mostly owing to foreign exchange shortages. It dropped from Z\$90,000 to \$1 to Z\$150,000 in just three weeks in January 2006;
- Official inflation figures are heading for 1000%, standing at 914% in April 2006, up from 164.3% in June 2005 and 586% by the year end. Year-on-year food price inflation (excluding alcohol) in early 2006 stood at 717.1%, while general inflation

(not including food) was 522.3%. The cost of buying groceries in Zimbabwe increased almost tenfold in 2005, according to the country's independent Consumer Council, which found that the price of a loaf of bread had risen by 1,157% in that year, while that of milk had jumped by 1,718%.

- The fiscal deficit-to-GDP ratio doubled, from 7.1% in 2004 to 14.2% in 2005.
- Import volumes declined by 11.9% in 2005.
- Domestic debt rose to all-time highs, having leapt from Z\$3 trillion in January 2005 to Z\$12 trillion in June — a 400% increase.
- GDP has dropped. In 2002, it fell by 24%; in 2003 by 10.7%; and 4.2% in 2004. The IMF estimated a decline of 7.2% in 2005, attributable to the sharp fall in agricultural output.
- Only 32% of arable land was planted in 2004.
- The fuel price varied by as much as 1,000% in one month during 2005.
- More than two million Zimbabweans, many of them highly skilled, have left the country for greener pastures over the past five years.
- Capital value has been destroyed on a massive scale. What was worth Z\$2 million a few years ago would now cost Z\$10 billion to replace.

The meltdown of the Zimbabwe economy has been predicted for a long time. However, the current combination of long-standing fuel shortages (which have even grounded the national airline on occasion); a serious shortage of foreign exchange; the flight of people with skills; critical food shortages; increased political insecurity; and escalating day-to-day costs have now created real alarm. How are ordinary people going to cope, even in the short term?

Table 1: GDP by kind of economic activity — Rate of growth				
	2000	2001	2002	2003
Agric, hunting, forestry fishing	3.2	-3.9	-22.8	-1.0
Mining, manufacturing, utilities	-9.9	-5.3	-8.8	-14.5
Of which manufacturing	-11.5	-5.4	-13.2	-13.8
Construction	-15	-35.2	-41.2	-15.5
Wholesale, retail & hospitality	-8.8	-5.2	-4.5	-30.8
Transport, storage & comms	-12.2	-5.5	-1.0	-8.1
Other	-0.2	2.8	5.8	-5.8
Source: <i>unstats.un.org</i>				

Pension funds have become almost irrelevant in the hyperinflationary environment. The payouts to people who have saved for years hardly bought a trolley of food in 2005. Some pension funds have opted to pay out monthly pensions as a lump sum, to make the sums involved appear more meaningful. The government's high prescribed asset ratios have not helped. In September 2005, it again raised the ratios for all forms of insurance and pension funds to a flat 40%, from 35% at market value. Many pensioners have lost some or all of their savings because many asset management companies have collapsed over the past few years owing to recent banking reform measures. (See below.) Soaring inflation has also led people to look at more short-term, high-risk investments, and many of them have paid the price.

Breaking the law in order to keep business going has become the key to survival in the commercial sector. Business people

say the lack of predictability in the government's policies makes life extremely difficult. A Harare businessman said,²⁹

The government introduces something one day and a few weeks or months later decides it no longer likes the idea and makes it illegal. Before you know it you are on the wrong side of the law for doing something the government allowed you to do the day before.

The ad hoc management of the economy, coupled with rapidly rising inflation, and the fluctuation in currencies — both in the official and the black market rates — means that businesses are unable to plan ahead. Many companies review staff salaries every month, or at least quarterly, to keep ahead of inflation. Supply chain management is made difficult because of the continually varying rates for foreign exchange and other moving targets, all of which affect monthly budgets. Again, hyperinflationary accounting makes nonsense of annual reports.

The Zimbabwe government has long been in denial over the real state of the economy, as it panders to the president's political spending priorities and pretends to its supporters that all is well.

The government's economic predictions, on which many of its policies are based, are well out of kilter with reality. The Minister of Finance predicted economic growth of up to 5% in 2005, while economists forecast a contraction of about the same percentage. He promised double-digit inflation by the end of 2005; by then it was almost 600%. The government continues to blame sanctions and a conspiracy by western powers against Zimbabwe for its problems, even though existing sanctions target only the political elite. It continues to find scapegoats outside its own ranks to blame.

²⁹ Interview, Harare July 2005.

The powerful Governor of the Reserve Bank (RBZ), Gideon Gono, who is referred to by some as a *de facto* prime minister because of his very wide brief, has helped to stabilise the economy over his two-year tenure. But his positive economic measures are often not followed through by his political masters. Policies change continually as the government tries to find more politically palatable answers to its problems.

One of Gono's relative successes was the introduction of a foreign currency auction at the end of 2004, in a bid to stamp out the black market. However, because the auction system was tightly controlled, demand soon outstripped supply, sending the parallel rate back into orbit, particularly when black market prices for scarce fuel were also shooting up. The government's attempts to deter black market activity proved fruitless, even after the auction rate had been trebled overnight. In late 2005, the auction system as a mechanism for determining the official rate of the currency was dropped, and replaced by the inter-market rate. This resulted in a decline in the currency of 75% after October 2005 and a fall by as much as 20% in the first month of 2006 alone. Alarmed at the pace of devaluation, Gono tried to control rates through a back-door mechanism based on the value of trading done. In other words, if turnover is below \$5 million a day, the rate will remain the same: it will increase incrementally if the value of trade rises. By mid-2006, the severe shortage of foreign currency in the market seemed to slow the rate.

Increasing dissatisfaction is being expressed by both business people and politicians over Gono's all-powerful role. There is some resentment among party heavyweights of his preferential access to the president. Also, bankers complain that the roles of the RBZ and Gono are also becoming blurred. 'He has brought discipline back to the sector, but the problem is that he has taken his role well beyond what it ought to be. He is not just a reserve bank governor any more, he is now behaving like

a prime minister', said one banker.³⁰ The central bank has, for example, set up several foreign exchange bureaux. It is offering banking services to a number of special groups such as diplomats and non-governmental organisations, who have their payments routed through foreign banks. It also created a special vehicle, Homelink, to enable Zimbabweans in the diaspora to send foreign exchange into the country at a special rate, although this proved to be unsuccessful in drawing remittances into the formal banking net.

The IMF commented on the issue in February 2006. Taking issue with Gono's blaming the rise of inflation above 600% on the government's being forced to print money to forestall expulsion from the IMF (see the section on international relations below), the IMF Director of External Relations, said,³¹

We do not believe that is the case at all. The reality is that inflation in Zimbabwe has been driven mainly by quasi-fiscal activities of the Reserve Bank of Zimbabwe. The government deficit that is reported at 3% of GDP in 2005 is only a small part of the picture. A truer picture of the public deficit is provided by the consolidated deficit of the Reserve Bank and central government.

He also said that inflation approached 60% of GDP in 2005, as against 27% in 2004. He also claimed that the central bank was issuing large sums of money, to agriculture and manufacturing, in particular, to keep the economy going. Zimbabwean analysts say the bank is also propping up the cash-hungry parastatals.

The business sector has learned to dread Gono's quarterly statements, as they normally precipitate sweeping changes

³⁰ Interview, Harare, 28 July 2005.

³¹ Press Briefing, 23 February 2003, Washington DC, see <http://www.imf.org/external/np/tr/2006/tr060223.htm>.

that affect business people, manufacturers and exporters across the board, and usually have a major impact on some aspect of the currency. But his real engagement with the economy has been welcomed, because the same commitment was not demonstrated by either his predecessors or the finance minister. In mid-2005, Gono started making controversial statements, for example about the misuse of the land programme by party officials. He has become increasingly outspoken on the state of the economy, the effect of the continuing land invasions and other political issues, adding to the dissatisfaction many feel with the wide-ranging role he has assumed for himself.

The instability of the country's currency has been pinned largely to the reduction in exports and Zimbabwe's lack of engagement with the international community. The manufacturing sector has taken the worst beating over the past five years, mostly because of the massive drop in agricultural production. Other reasons are poor economic fundamentals, particularly foreign currency volatility, which has made production very expensive; foreign currency shortages, which have had an impact on availability of imported raw materials, spare parts and other inputs; and a lack of fuel to get to markets.

Although Zimbabwe's exports are well below the levels of the 1990s, the government says they increased slightly in the first half of 2005 as compared with the figures for the previous year.³² It attributed the increase to a number of pro-export incentives that it had introduced over the previous year. These include the Productive Sector Facility, under which manufacturing firms were given access to cheap loans at a concessionary rate of 50%, which is significantly lower than the

³² 'Zim's exports increase', *The Herald*, 10 July 2005.

rapidly fluctuating market-related interest rates. Although the facility was phased out in June after 18 months, it helped to save a number of firms on the verge of collapse, and to increase capacity in companies. But in mid-2006, the government announced a Z\$5 trillion fund with the same goals, as private sector capacity continued to dwindle in the tough economic climate. This represents yet another of its crisis-management methods, which it favours over addressing the fundamental problems of the economy.

Table 2: Export Growth 1991 — 2004, annual average rate (%)				
	<i>1991-95</i>	<i>1996-00</i>	<i>2001-04</i>	<i>1991-2004</i>
Zimbabwe	6.9	15.5	-1.1	7.7
World	8.7	4.8	9.7	7.6
Developing Countries	12.2	7.8	12.5	10.7
Africa	2.1	9.2	10.7	7.1
South Africa			11.3	
Tanzania	11.4	1.9	16.1	9.4
Kenya	11.5	0.8	14.7	8.6
Uganda	38.0	-4.2	17.7	17.1
Source: IMF, see http:// www.imf.org				

The government has been trying to keep interest rates above inflation, but because the latter is once more rising rapidly, this gap has closed. In May 2005 banks were lending at anything up to 180%. Because of continual government reversals of policy, businesses do not know what rate they can borrow at. 'There is definitely less borrowing as a result, and demand has gone down from last year [2004]', a banker said.³³ This situation was partly the result of a fall in borrowing from the

³³ Interview, Harare, July 2005.

manufacturing sector, which faces a combination of high interest rates and reduced demand.

Professor Tony Hawkins, an economist, says the effects of Zimbabwe's economic policies have been far-reaching.³⁴

People are obviously an awful lot poorer than they were. Incomes are on average about 40% lower. We have seen a big outflow of skills, black skills, white skills — a lot of the younger people have moved on. We have seen shrinkage, in terms of companies — a number of foreign companies have just sold out and moved off, or relocated some of their operations, mostly to South Africa. We have seen virtually no investment since 2000. We have seen a very serious deterioration in underlying infrastructure, anything from urban lighting, and sewerage and housing, right through to telephones, railways, aircraft and electricity provision.

Another prominent economist, John Robertson, reports,³⁵

The government's policy seems to be a bad idea balanced with another bad idea — it is a house of cards. They take a position and then look for evidence to make it right. It is such an unwieldy and unstable edifice that a major policy change could break the whole thing.

In 2006, the government established a new body to oversee the running of the economy — the Zimbabwe National Security Council, which is widely seen as an attempt to further control the economy through the state security forces and reduce Gono's influence. Mugabe has given the council, tasked with reversing the country's economic decline, overriding powers under the new National Economic Development Priority Programme. Nine task forces have been established to oversee all sectors and manage monetary policy and foreign exchange issues. Although Gono has a presence on the council, it is dominated by members of the military, police, Central Intelligence Organisation and air force.

³⁴ *Voice of America* interview, 5 August 2005.

³⁵ Interview, Harare 2005.

Sectoral Overview

The financial sector

The banking sector expanded dramatically with the opening of many new banks during the late 1990s, when indigenisation of the sector became a government priority. At the peak, there were 16 commercial banks and more than 40 financial institutions. Competition between the banks for depositors created some instability. Several institutions used deposits for arbitrage activities in non-core banking business. Interest rates for borrowing money went as high as 1000% at the end of 2003. The government placed severe restrictions on borrowing, and pushed the interest rates even higher. This, coupled with the reforms implemented by Gono in 2004, led to major disruptions in the financial sector. Many institutions went under, and some consolidation took place. A number of company directors and bankers were arrested on assorted charges, and several fled the country. The closure of banks left many depositors with uncertain futures, and savings of millions of dollars were lost.

Some bankers predict that even greater consolidation will take place, as Zimbabwe's rapidly dwindling economy is still oversupplied with banks. In August 2005, the government announced a tenfold increase in minimum capital adequacy thresholds for financial institutions, with a deadline of 30 September 2006, which was designed to strengthen the sector. Merchant banks, finance houses and building societies are now required to have a minimum capital of Z\$75 billion, (as against the earlier figure of Z\$7.5 billion), while that for discount houses will rise to Z\$50 billion (compared with the current Z\$5 billion).³⁶

³⁶ 'Capital adequacy requirements to restore confidence', *The Herald*, 1 August 2005.

Because of the high returns it continues to generate, the banking sector has been targeted by the government as a source of funding. Apart from direct borrowing, the government has forced banks to buy treasury bills offering interest of 17% over two years, with their excess liquidity. Should the banks require short-term funds in the meantime, they have to borrow from the RBZ at high rates, which the central bank put up in August 2005 to 260% for secured lending and 270% for unsecured lending. They were 180% and 190% respectively in July 2005. Reacting to the bigger-than-expected increase in inflation in July 2005 — a rise of 90.5% to 254.8% from 164.3% in June 2005, the Reserve Bank, in an unprecedented move, lifted rates twice in 24 hours.

Box 4: The Zimbabwe Stock Exchange

The stock exchange did not trade for 18 days in mid-2005, as a result of the government's imposition of a 10% capital gains tax and a rise in prescribed asset ratio requirements for pension funds, the biggest investors on the exchange, to 35%. This forced them to take money out of the exchange and put it into government bonds.

There are 79 listed companies on the exchange, including the South African insurance company Old Mutual, Pretoria Portland Cement and British American Tobacco. There have been no new listings since November 2003. At the end of July 2005, the market capitalisation of the ZSE stood at Z\$37.6 trillion. Buying shares on the exchange has proved to be a safe investment in the otherwise declining economy, and the ZSE has reported record highs during some of the worst economic crises of the past few years. Zimbabwe dollar returns have outpaced inflation, even at its 2003/04 height, although US dollar returns have been eroded by the rapid devaluation of the currency. South African companies are among the best performers on the index

Box 4: The Zimbabwe Stock Exchange (continued)

Old Mutual being one of them. The Absa-linked CBZ, for example, gained 1,572% during 2005.³⁷ The share of SABMiller's Zimbabwean subsidiary rose 350% in the first eight months of 2005, and 5,600% since April 2004. Other companies posting stellar results include Edgars (+1500%), Murray & Roberts (492%) and Truworths (616.7%). Analysts say the reason for the exchange's good performance in 2005 was high inflation and negative yields in the money market for most of 2005, which drove available investments into the exchange as a hedge against inflation.

Agriculture

Zimbabwe's agricultural woes have deepened over the past few years as a consequence of the destruction of commercial farming. Yields and production of almost all crops have dropped significantly, and crucial export markets for beef and agricultural products have dwindled. The tobacco crop for 2006 was estimated to be the lowest since 1972, according to the Zimbabwe Tobacco Association, and cotton and sugar production has dropped dramatically. The Zimbabwe Cotton Producers Association estimates the 2004/05 cotton harvest at up to 150,000 tonnes, less than half of last season's approximately 333,000 tonnes.³⁸ The country has become a net importer of maize, after having been a net exporter. Most imports are from South Africa. Some used to come from Zambia, until the government there imposed a temporary ban on grain exports. Zimbabwe's agricultural sector faces the added problems of a shortage of seeds, fertiliser and irrigation

³⁷ Analysis by J Waters, CE of *Zfn Realtime Financial Intelligence*, Harare.

³⁸ *IRIN*, 24 May 2005.

equipment, farming skills and funding. Drought has also contributed to the country's agricultural decline.

Table 3: Zimbabwe Crop and Animal Production 2002–2005 (‘000 tonnes)				
	2002	2003	2004 (est)	2005 (est)
Tobacco	173	82	68	85
Maize	508	930	650	550
Beef	125	99	100	105
Cotton	190	228	287	192
Sugar	554	501	410	475
Horticulture	82	75	79	80
Poultry	40	35	35	40
Groundnuts	59	141	140	140
Wheat	212	49	60	60
Dairy	140	108	95	100
Coffee	8.8	9.3	9.3	10
Soyabeans	8	48	50	55
Tea	13	10	7	6
Paprika	13	14	14	18
Pork	13	10	10	10
Game	61	50	50	30
Sorghum	24	60	60	65
Barley	39	45	45	50
Sheep & goats	0	0	0	0
Sunflowers	4	5	5	8
Ostriches	30	24	20	28
Source: Stanbic Zimbabwe				

The government has long denied there are food shortages, and has, on several occasions, refused food aid from international organisations on this basis. However, the World Food Programme estimates that about a quarter of the population faced food shortages in 2005. The government set aside Z\$1.4 trillion (about \$76 million) for food imports in 2005 and opened up trade in maize and wheat, dropping the state monopoly on the sale of the crops, which had been in place

since 2001, and waived duties on grain imports in a tacit admission of the problem. Much of the problem with growing maize is related to the fact that the government controlled the price, making the crop unviable.

Zimbabwean government officials often refuse to release statistics, saying the information is classified as maize and wheat have been designated 'strategic grains'. Farming experts have said there would be no meaningful production even in the event of good rains in late 2005 as the country only had 26,000 tons of maize seed against a required 51,000 tons.

Horticulture, Zimbabwe's main export earner after tobacco, has suffered a decline of more than 22% over four years as a result of the land seizures. The industry had registered growth rates of 15% annually in the 10 years up to 1999. Zimbabwe was the sixth biggest rose producer until 2001 and in 2000 it earned \$87 million by selling flowers, mainly to traders in Amsterdam. Vegetables were also exported to UK firms such as Tesco.³⁹

Tobacco output has deteriorated over the past four years from 285 million kg to about 60 million kg in 2004. In 2005, earnings were 17% below 2004⁴⁰ while the 2006 crop is expected to be the lowest in 34 years.

Tobacco, along with cotton, is a crop that has benefited from contract farming, where a company provides seeds and

³⁹ 'Gono urges Zimbabwe to lure back horticulturalists', 23 May 2005.

⁴⁰ The wife of Justice, Legal and Parliamentary Affairs Minister Cde Patrick Chinamasa, Monice Chinamasa, won the 2004/2005 BAT Tobacco Grower of the Year Award in 2005. She averaged 3,500kg of tobacco per hectare during the 2004/2005 agricultural season from her 90 hectares of tobacco and grew 80 hectares of seed maize, 25 hectares of commercial maize and another 80 hectares of barley as a winter crop. The award was criticised in the British media because the farm was seized without compensation from its previous owner.

inputs and guarantees buying of the crop. In 2005, contract sales, in their second season, amounted to more than 43 million kg — 50% of this year's crop and up on last year's 35%. The contract system offered better prices than the auction floors.

The near extinction of the beef herd, which stood at around 1.4 million animals in 2000 and earned around \$2.4 billion a year in foreign currency, is another casualty of the chaos in agricultural areas. The number of animals was below 125,000 at the end of 2004, according to the Cattle Producers Association. More than 10,000 cattle have died from foot-and-mouth disease, spread by the breaking of fences between game and cattle areas and the free movement of infected herds. Numbers have also been reduced as a result of farmers selling off their stocks, as well as by slaughter and neglect by land invaders. The main export market, the EU, has banned Zimbabwean beef as a result of the foot-and-mouth outbreak and other markets such as Malaysia have also been affected.

Milk output fell by 44% in 2003 alone, following a decline in the national dairy herd from 6.5 million in 2002 to an estimated 200,000 in 2003. Most farmers de-stocked because of the land programme, while the herd was also affected by a shortage of vaccines and an increase in stock feed prices of up to 84%.

Parastatals

Parastatals constitute the biggest drain on government spending. The reasons are the neglect of some; costly government interference in others; management problems; and shortages of resources, particularly of hard currency. In March 2001, parastatal debt stood at Z\$93 billion. It has soared since then. The government has had to print money to continue subsidising these loss-making organisations. The Reserve Bank promised a \$1.6 billion recapitalisation plan in

early 2005 for 16 foundering parastatals, but has yet to launch it.

The government has reversed its policy on privatising utilities, and is now pursuing their commercialisation. No improvement is likely without the concurrent recovery of the broader economy and the election of a more market-orientated administration. In 2001, the government generated only Z\$7.1 billion from the disposal of parastatals, compared with a target of Z\$22 billion. The programme has slowed since then.

The country's power utility, the Zimbabwe Electricity Supply Authority (ZESA) is one of the key parastatals suffering most from the economic decline. Zimbabwe has been experiencing serious power shortages over the past few years. These are attributable to deteriorating equipment; the limited availability of coal (due to operational problems at Hwange Colliery Company, the country's sole coal producer); Zimbabwe's lack of foreign exchange for operations and the importation of power; and the breakdown of generators. To cope with the supply shortfall, the utility has implemented a system of load shedding, cutting power in different parts of the country at peak times in order to distribute it elsewhere. However, in some cases, areas have gone for days without power. Generators for business and residential use are becoming an increasingly common feature of life in Zimbabwe.

Thirty-two percent of national power requirements are imported through Eskom (300 MW), Hydroelectrica de Cahora Bassa (250 MW) and Societe National d'Electricite (Snel) of the DRC (100 MW). Zimbabwe's relationship with Eskom has survived despite reports of payment problems. In June 2005, Eskom said that Zimbabwe had paid off the last instalment of its long-term R100m debt, which had been on Eskom's books

since late 2003.⁴¹ In February 2006, the South African media reported that despite its own supply problems at home, Eskom planned to invest R226 million in the expansion and upgrading of Hwange. There have been reports over several years that Eskom is hoping to trade Hwange's debt for an eventual stake in the power utility.

Parastatals suffering from massive debt and other problems include the Cold Storage Commission, which has been hit by a four-year epidemic of foot-and-mouth disease, which has curtailed exports of meat to the European Union (EU). National Foods Holdings is suffering the effects of high import and overall operating costs. Others are the Zimbabwe Iron and Steel Company; the national milk supplier, Dairibord; the National Railways of Zimbabwe; and Air Zimbabwe, which has had to ground its fleet from time to time because of foreign currency problems and acute fuel shortages.

Mining

Mining's contribution to GDP has declined from 8% in the 1980s to around 3%. Employment figures have dropped to around 40,000, from 55,000 in the mid-1990s. In the past few years a number of mines have closed down, while others have reduced production to minimise losses in the difficult macroeconomic climate. The main problems faced by mining companies include high costs of production, the scarcity of foreign currency, unfavourable exchange rates, erratic power supplies, fuel and equipment shortages and transport problems (related to the deterioration of the railway network). The situation eased somewhat in 2004 after the central bank allowed mining companies to retain more of their earnings,

⁴¹ 'Zim settles light bill', *Financial Mail*, 10 June 2005.

and made more foreign currency available to the industry for imported inputs. Some mines have also benefited from cheap funding reserved by the central bank for the revival of distressed industries.

The mining industry has also been dogged by concerns about nationalisation. In 2004, the government introduced a controversial draft law that would have compelled companies to sell up to 49% of their shares to black Zimbabweans. It was withdrawn following an outcry from the industry. But in 2006, the government announced that it would introduce legislation that would see it owning 51% of new and existing mines over the next seven years. In terms of the proposed legislation, existing mines would have to cede 25% of their shares to the state, while the rest would be bought by local stakeholders. The mining industry is estimated to be worth about \$20bn. There are concerns about, among other things, where Zimbabweans or the government will find the capital to buy into the mining sector and that in fact the move will probably amount to expropriation.

Predictably, the move has threatened to undermine confidence in the one sector that is working well in Zimbabwe and companies, concerned about losing a portion of their existing investment, may review their exploration, expansion and investment plans if the legislation goes ahead in its current form.

Platinum has been earmarked as the biggest growth industry for the economy, and was, for some time, allowed preferential foreign currency arrangements. Even though these have now been revoked, platinum mining companies are still making good profits. The fact that Zimbabwe has 15% of known platinum reserves and the world's largest reserves near the

surface, has kept investor interest piqued despite the political and other problems.

Gold has suffered in recent years, despite being a major foreign currency earner. It used to account for around 52% of total mineral production several years ago, but the figure has been declining steadily as the industry struggles to survive the harsh operating environment. About 12 gold mines have closed down in the past few years, while others have put new projects on hold. However, in 2004, there was a 70% increase in production, mostly by smaller producers, over 2003 as a result of increases in the gold support price,⁴² which offers a guaranteed price that producers can either access in foreign currency only at a lesser rate, or as a combination of local currency (60%) and foreign currency (40%) at a higher rate. Until mid-2004, it was available only to the smaller producers.

In January 2006, a mining survey conducted by the Canada-based Fraser Institute ranked Zimbabwe last on a list of mining destinations, with a score of 7.6 as against the highest-ranked place, Nevada in the US, which had a score of 95.2. The index measures the effects of government policies, among other things. Of the companies interviewed, 44% said they would not pursue investment in Zimbabwe, either because of its policies or poor administration and enforcement of regulations. Thirty-nine percent said they would not invest because of regulatory issues, while 21% said tax issues were a key deterrent. More than 28% also cited security of tenure as a major issue.

Tourism

In 1999, tourism was one of the three highest foreign currency earners, accounting for 12.4% of GDP and 8.5% of

⁴² '66th Annual General Meeting 19-20 May 2005', Chamber of Mines of Zimbabwe.

employment. Since 2000, this figure has shrunk by about 15%. In the first half of 2004 alone, tourism revenue dropped 44% over the same period in 2001, and tourist arrivals fell by 48%. Although overall arrivals in the first quarter of 2005 were 30% higher than in the previous year, only 59% were tourists. In the period July to September 2005, tourist numbers dropped by 27% over those recorded in 2004. The Zimbabwe Tourist Authority said that Europeans had made up the bulk of tourists in this period (57%), followed by Americans (22%). Despite the government's focus on encouraging tourism from the East, China contributed only 2% of tourist arrivals in the period, and the rest of Asia 15%.⁴³

The government is trying to lure to the country the organisers of big events focusing on the Victoria Falls, even though the resort has lost much of its business to resorts in Zambia. Land invasions and widespread poaching have depressed hunting and wildlife tourism. Also, apart from image and security problems arising from the political situation, prices for tourists are higher in Zimbabwe than in other countries in the region.

International engagement with Zimbabwe

The approach of other African countries to Zimbabwe's problems has become more nuanced over the past five years. The shift has been from unquestioning support of the current government, regardless of its actions, to more varied stances. On issues such as the decision to suspend Zimbabwe from the Commonwealth at the organisation's December 2003 meeting in Abuja, African countries proved to be seriously divided.

⁴³ 'Zimbabwe tourist numbers dwindle', *Agence France Presse*, 3 January 2006.

While SADC has proved ineffective in influencing events in Zimbabwe, the spillover from the economic crisis in that country has led some regional leaders to become increasingly disenchanted with Mugabe's rule. However, most of this loss of support has been played out behind the scenes. Mugabe has managed to maintain his public face as a regional strongman, even garnering standing ovations at SADC meetings for his ever-popular anti-West rhetoric.

The AU has been equally unable to deal with Zimbabwe's problems. It has kept the issue off the agenda at successive summits, on the grounds that the subject is too divisive. At the 2004 Addis Ababa summit, a report compiled by the AU's Commission on Human and People's Rights that criticised the country's human rights record, was stifled. The Zimbabweans claimed they had not seen, or had a chance to respond to, the report, and demanded that it be withheld from the assembly to allow them time to study it. However, it later emerged that copies had been delivered to the government several months earlier. Interestingly, its eventual adoption by the Executive Council of the African Commission on Human and People's Rights in February 2005 went almost unnoticed. A subsequent report, focusing primarily on the forced removals in Zimbabwe, was drawn up by the same commission in late 2005, but this, too, was only tabled well after the AU summit at which it was due to be presented, for technical reasons.

The AU's attempts to make its own assessment of the 'clean-up' campaign and to get the two key parties to talk were both unsuccessful.

Relations with Britain remain frosty, although there appears to be some momentum to get Mugabe to open up space for dialogue with Britain. Despite attacking the British government constantly over several years, Mugabe, when he welcomed

the new high commissioner in early 2006, called for the two countries to 'build bridges'. There is also speculation that Mugabe is being pressed by his advisers to consider talks with Britain, as a way of reopening international dialogue. Some Zimbabweans believe that a meeting with Blair might just be what is needed to allow some movement towards reform in Zimbabwe, given the popular view among many of his countrymen that Mugabe, despite his anti-British rhetoric, craves a return of the acceptance and recognition from Britain he enjoyed in abundance in the early years of independence.

In 2002, the EU imposed a ban on the sale of military equipment to Zimbabwe. It also joined the US in imposing sanctions on Mugabe, members of his cabinet and close aides — about 80 people all told. The sanctions included a travel ban and the freezing of assets abroad. In 2004, the sanctions were renewed, and 10 people were added to the list. In September 2005, Switzerland⁴⁴ increased to 126 the number of prominent Zimbabweans who faced travel and finance restrictions, with immediate effect. Most of the 33 people added to the list were cabinet ministers and provincial governors.

Meanwhile, the US has joined European countries in taking a strong line against Mugabe. The former US Secretary of State, Colin Powell, has been particularly outspoken. 'How many good Zimbabweans will have to lose their jobs, their homes or even their lives before President Mugabe's violent misrule runs its course?' he asked in an article published in the *New York Times* in June 2003. President George Bush, during his mid-year visit to Africa, put his weight behind Mbeki's efforts to resolve the problem. Meanwhile, during the Senate confirmation

⁴⁴ *News24*, 6 September 2005. Switzerland remains outside the EU bloc, but often co-ordinates its policies with those of the EU.

hearings for Secretary of State in January 2005, Condoleezza Rice labelled Zimbabwe 'an outpost of tyranny', saying it was one of six countries targeted by the US government. This statement made it clear that the Bush administration's hard-line attitude towards Mugabe's government would continue. Political analysts have predicted that Zimbabwe might become a higher priority issue in the UN when the US assumes the revolving presidency of the Security Council for 2006.

The 'look East' policy

Stung by its rejection by key western countries, the Zimbabwean government has turned its attention to the East. It has courted China and Malaysia⁴⁵ in particular for investment, tourism opportunities and stronger political ties. Chinese investors have swarmed into Zimbabwe over the past few years, acquiring significant interests in telecommunications, power, minerals, marketing and textiles. China is also lining up many lucrative contracts in Zimbabwe. It has been instrumental in restructuring many of Zimbabwe's ailing parastatals, including the Zimbabwe Iron and Steel Company, Air Zimbabwe and the Zimbabwe Revenue Authority. However, while China is being promoted to the nation as Zimbabwe's friendly helping hand, such deals come at a certain cost. ZESA has done a \$3.5 billion deal with a Chinese firm, CATIC, for the rehabilitation of the Hwange and Kariba power stations, in return for coal concessions. Hwange, the country's only coal producer, is negotiating a contract with the China North

⁴⁵ Ironically, Malaysia was one of the countries that voted for Zimbabwe's continued expulsion from the Commonwealth in December 2003.

Industries Corporation for mining equipment, in return for coal and coke.⁴⁶

Another sector in which China has indicated its interest is Zimbabwe's platinum reserves, the second-largest in the world. Accordingly, the government has begun putting pressure on platinum producers to allow Chinese investment in their operations. Many fear that the government could force companies to sell to the Chinese at below market rates.

The Zimbabwe government says China will soon displace South Africa as Zimbabwe's largest investor. Although the Zimbabwe Investment Centre (ZIC) refused to provide investment figures for the past few years, despite several emailed and telephonic requests in August 2005, the state-owned media reported that in 2004, the ZIC had approved 87 projects valued at about Z\$353 billion, whereas it had agreed only 76 projects, worth Z\$25.6 billion, in 2003. China contributed the highest level of investments at Z\$126 billion, followed by India with Z\$92.8 billion. South Africa's investments amounted to Z\$29 billion, Australia's Z\$23.2 billion, the UK's Z\$10 billion and the DRC's Z\$1.14 billion. About half of the projects approved were in manufacturing. The remainder were distributed over mining, tourism, transport and services.⁴⁷

Trade between China and Zimbabwe is currently tilted in favour of Zimbabwe. China's exports are estimated at \$32 million, as against \$159 million in imports, comprising mainly tobacco. However, the export revenues in Zimbabwe are mostly swallowed by the need to service its mounting debt to China. Zimbabwe has also paid in other ways. In April 2005, the Zimbabwe government announced the purchase of six fighter

⁴⁶ 'Chinese demand coal guarantees', *Financial Gazette*, 20 May 2005.

⁴⁷ *The Herald*, 11 January 2005.

jets from China at a cost of \$20 million each, despite the fact that the country was already experiencing a foreign currency crisis.

On the other hand, China has proved an important ally of Zimbabwe in international forums. It was one of the countries that tried to block debate in the UN Security Council on Operation *Murambatsvina*. It has applauded Mugabe's land reform programme, and refused to comment on the government's human rights violations. But among ordinary Zimbabweans, there is resistance to the Chinese penetration of the economy. The use of a common derogatory term for the Chinese by Zimbabweans, 'Zhing Zhong', has been officially outlawed.

The government is also courting Iran. It was one of the few non-African countries invited to observe the March 2005 poll, and Iranian government officials who visited Zimbabwe later that year promised that investment would follow. It recently negotiated a \$67 million credit facility with Zimbabwe's government, and the state media have reported that Iran has agreed to fund the long-awaited Lupane Gas Project. An Iranian company has also entered into partnership with a Chinese firm to increase capacity in Zimbabwe's electricity utility. Russia is also becoming a popular partner and mining deals were in the offing in 2006.

Libya was a key partner for Zimbabwe post-2000, with Libyan leader Muammar Gaddafi pledging support for an embattled Zimbabwe. Libya for several years, gave Zimbabwe a credit line for fuel to be supplied by the state oil company, Tamoil, in return for assets and a loan. The assets in question included land, a stake in a top Zimbabwe bank and the national oil company Noczim as well as a stake in the Zimbabwe-Mozambique pipeline and even beef quotas. However, the

relationship soured in 2002 when the assets were taken up and Zimbabwe was unable to repay the loan.

Donors

Zimbabwe has had a difficult relationship with the IMF over many years. The threat of action against Zimbabwe by the IMF has been of long duration. Zimbabwe has been in arrears since 2001. The country narrowly escaped expulsion from the organisation in September 2005, after paying only two tranches of \$170 million of the total \$295 million owed. It made another payment in early 2006, settling its debt to the General Resources Account. The government also promised to initiate certain economic reforms relating to price controls, the currency and the interest rate regime.

After the IMF's visit in January 2006, the government again promised to undertake reforms. The state-controlled media took a hostile line, reporting that the IMF had moved the goalposts for Zimbabwe, and, having been paid its money, was focusing on Zimbabwe's economic management. They accused the IMF of being insincere, and criticised Gono for taking the IMF seriously. Gono, on the other hand, charged the IMF with having been responsible for forcing Zimbabwe to print Z\$21 trillion to pay the IMF debt, in this way pushing up inflation. Other voices noted that it was because of the IMF that people had had to forgo medicines and other essentials.

In turn, the IMF has opened an investigation into how Zimbabwe raised the funds it used to pay the arrears, when it was unable to meet the fuel and other essential needs of the population. The investigation was prompted by a statement by a Zimbabwe businessman, Mutumwa Mawere, who had left the country after having been put under pressure by the ruling

party. He claimed that the government had raided his Zimbabwe company for part of the funds. Rebutting Mawere's testimony, Gono said the administration had drawn on export reserves and mineral sales, among other sources, to find the necessary funds. However, business people in Harare said that the government had also pressed some companies to change their foreign exchange at preferential rates that had left the cupboard bare, further compounding economic hardship. Analysts have pointed out that this kind of strategy is typical of the short-term economic planning of the government.

The World Bank and the International Finance Corporation have suspended project finance and balance of payments support because of Zimbabwe's payment arrears and the government's refusal to adhere to the principles required for the resumption of lending. The World Bank's role is now limited to technical assistance and analytical work focusing on macroeconomic policy, food security issues, social sector expenditure, social service delivery mechanisms and HIV/Aids. Any resumption of disbursements is contingent upon the clearance of arrears.

Other donors and agencies have limited their activities to social concerns, which include HIV/Aids, social protection and human rights. The EU, for example, has continued giving humanitarian aid to Zimbabwe.

UN and other food relief agencies, trying to meet the food aid requirements for an estimated 5.5 million Zimbabweans, have been through hard times in Zimbabwe, trying to keep food distribution on a neutral basis. In 2003, just ahead of provincial and local government elections, the government attempted to force the UN food agencies to hand their food aid to the government for it to distribute. Concerned about reports of the government using the food to gain political

support, the agencies vowed to close down rather than give in.⁴⁸ Although the government backed down, in 2004, with general elections looming, it ordered all UN and other humanitarian agencies to end their food aid, saying the country had more than enough food and did not need relief. In 2005, after the elections and in the wake of *Murambatsvina*, the UN, with the government's support, resumed food aid to Zimbabwe in the face of widespread famine.

⁴⁸ Meldrum A, 'UN threat to halt food aid to Zimbabwe', *The Guardian* (UK), 23 August 2003.

Trade and Business Linkages Between South Africa and Zimbabwe

The political and business relationship between South Africa and Zimbabwe goes back a long way. In fact, it was as far back as 1922 that the Rhodesians, then governed by the Charter Company formed by Cecil John Rhodes, were given the choice between becoming a fifth province of the Union of South Africa or being granted 'responsible government'. They voted in a referendum for the latter option. When Ian Smith unilaterally declared white Rhodesia's 'independence' in 1965, South Africa strengthened its ties with the country, and in doing so significantly diluted the effect of international sanctions against it led by Britain.

The Vorster era

South Africa's relationship with southern Africa began changing after John Vorster became prime minister in 1966. Vorster wanted to influence politics in the region in such a way that South Africa could neutralise the domestic threat posed by the independence movements sweeping across the continent. He believed Rhodesia had to be the sacrifice that would ensure the survival of apartheid South Africa, reasoning that helping Rhodesia to find a peaceful political solution would reduce the political pressure for change that was being brought to bear on South Africa. With Zambia's then president Kenneth Kaunda, he tried to persuade Smith to begin a political process that would culminate in majority rule. This proved to be unsuccessful. However, when in 1976 a historic meeting was held between Smith, Vorster and the former US Secretary of State, Henry Kissinger, Smith was told that South

Africa would close its borders and halt trade with Rhodesia unless he made a move towards majority rule.

After the 1980 elections in Zimbabwe, South Africa became the first port of call for thousands of white Rhodesians leaving the country. It is estimated that around 14,000 whites emigrated to South Africa in 1981 alone.⁴⁹ Many thousands more followed in subsequent years.

With a new government installed in Zimbabwe after 1980, that country's relationship with South Africa, then led by PW Botha, took another turn. The Harare government provided political, diplomatic, and military support to the African National Congress (ANC) in its armed struggle against Botha's government. It also gave military assistance to the Mozambican government's war against South African-supported insurgents — Renamo, which is currently the main opposition party in Mozambique. Subsequently Zimbabwe became a target, along with Botswana and Zambia, for raids by the South African Defence Force in 1986 and 1987.

However, despite this political hostility, trade continued to flow across the border. South Africa's strong position in the region allowed it to ensure that Zimbabwe remained dependent on its trade corridors to the sea ports by destabilising the alternative routes through Mozambique and Botswana. Thus, when Zimbabwe became independent, South Africa was its largest trading partner. Nineteen percent of Zimbabwe's total trade was with South Africa, and 41% of all Zimbabwe's manufactured exports went to its neighbour. Most of these goods were sold under a preferential trade agreement between the countries that had been signed in 1964, shortly before the Unilateral Declaration of

⁴⁹ Frederikse J, *None But Ourselves*, Johannesburg: Ravan Press, 1982.

Independence (UDI).⁵⁰ It was difficult for Mugabe to threaten such an agreement when his newly independent country needed to maintain the strong trade ties, if not the political relationship, with its problem neighbour.

The Mandela era

The political interaction between the two countries stabilised from 1990 onwards, after Nelson Mandela had been released from jail. However, even as the rhetoric and mutual praise flowed at state functions in the early 1990s, sources of tension were beginning to emerge. In 1996, Pretoria introduced the requirement that Zimbabweans needed visas to enter South Africa. This was in response to the growing number of illegal immigrants trying to escape the economic hardships being experienced in Zimbabwe.

Cracks also started to show in the relationship between the two leaders when Mandela usurped Mugabe's position as the leader of Africa's most successful free nation. After 1994, capital flows started to be redirected south of the Limpopo, and many diplomatic missions, international agencies and companies relocated their head offices to South Africa, leaving branch offices in Zimbabwe. South Africa joined SADC in 1994, displacing Zimbabwe as its most powerful member. Mugabe found himself overshadowed by Mandela, who was being assiduously courted by the whole world in the 1990s.

The relationship became publicly hostile in 1997 at a SADC summit in Malawi, when they disagreed on SADC's Organ on Politics, Defence and Security, which at that time was led by

⁵⁰ Sithole IM, 'Zimbabwe. SA Relations in Perspective, Financial Gazette 1 September 2005.

Mugabe. The issue was resolved only in 2001, when Mugabe was forced to give up his position as 'permanent' head of the Organ. Mugabe had to take a back seat to Mandela in 1997, when the latter mediated a diplomatic transfer of power from Mobutu seso Seko to Laurent Kabila in the DRC. The following year, Zimbabwe flexed its regional muscle by joining Angola and Namibia in sending thousands of troops to the DRC to support Kabila against opposition forces, even though this exacerbated the strain on Zimbabwe's already declining economy.⁵¹

After Mandela handed over power to Mbeki in 1999, he became publicly critical of Mugabe, suggesting that as president of Zimbabwe he had overstayed his welcome. In 2000, for example, Mandela was reported by the *Washington Times* as having said: ⁵²

There are leaders in Africa ... who have made enormous wealth, leaders who once commanded liberation armies. But rubbing shoulders with the rich, the powerful, the wealthy has made some leaders despise the very people who put them in power, and they think it is their privilege to be there for eternity.

There were two views on Mandela's statements at the time. One was that he was saying openly what the current leader of South Africa could not say, but had his sanction. The other was that his outspoken comments had harmed the trust between the countries that Mbeki was relying on to bring about reform in Zimbabwe. The phrase 'quiet diplomacy' emerged in Mbeki-era statements on Zimbabwe, which were usually closely followed by comments on the ineffectiveness of 'megaphone

⁵¹ The cost of the war to Zimbabwe was one of the factors that hastened the country's rapid economic decline in the late 1990s. It also set the relationship between the IMF and Zimbabwe on its current acrimonious course.

⁵² *Washington Times*, 12 May 2000.

diplomacy'. These were believed to refer to Mandela's handling of Mugabe, as well as the calls by various NGOs, opposition parties and the media that South Africa had to act on Zimbabwe.

The Mbeki era

Since Zimbabwe's economic crisis began in 2000, the government has been criticised for hiding behind the notion of quiet diplomacy as a way of dealing with Zimbabwe, while in effect supporting the Mugabe government's actions.

South Africa has been the recipient of what is estimated to be more than a million Zimbabwean refugees escaping Mugabe's rule and the economic fallout of his policies since 2000. Even so, many South Africans regard him as a hero because of his role in seizing white-owned land and taking on the international powers. This support is believed to inform the South African government's soft approach towards Zimbabwe. Mugabe has also wielded his standard description of his critics, as 'puppets of the West' very effectively in pre-empting criticism from South Africa.

Some analysts speculate that South Africa's reluctance to engage more openly with a labour-led opposition party in Zimbabwe is because it fears the unfolding of a similar situation with regard to South Africa's own labour federation, Cosatu.⁵³

⁵³ In its early days, the MDC had minimal contact with the South African government. There seems little doubt that Mbeki, who was appointed point man on the Zimbabwe issue by the American president, George Bush, in 2003, had tried to foster talks between the MDC and Zanu-PF. But his efforts were singularly unsuccessful. Mbeki assured an international forum in 2003 that there would be a

The latter currently forms part of the ruling triumvirate, along with the South African Communist Party (SACP). Cosatu wields great power, and does not always agree with the government on fundamental issues. One of these is Zimbabwe. The leaders of Cosatu began to speak out about the problems in Zimbabwe several years ago. For example, in 2002, Cosatu's secretary general, Zwelinzima Vavi, said in a speech: ⁵⁴

We took a decision as a trade union movement in the region in principle to support land redistribution in Zimbabwe. However, we could not associate ourselves with the chaotic and anarchic fast track land resettlement programme unleashed by the Zimbabwean government in 2000. This programme was in flagrant disregard of the law and unleashed a wave of violence that threatened the very stability of the society. What is even more disgusting was that the violence by party hooligans was also directed at farm workers. We are not convinced that this was a genuine programme since government has failed for 20 years to address the central question at the centre of the revolution in Zimbabwe — the land question.

In 2004, Cosatu, backed by the SACP, again took an openly critical stand against Zimbabwe, in direct conflict with the government's policy of quiet diplomacy. Cosatu's two fact-finding visits to Zimbabwe in October 2004 and January 2005, both of which were banned by the Harare government (which summarily deported the Cosatu officials), angered the ANC. The issue was well publicised by the media, which published irate exchanges between the two parties. While the ruling triumvirate eventually settled the public quarrel, Cosatu's departure from official policy showed that there are significant

solution to the political situation in Zimbabwe by mid-2004, but two years later, in 2005, the situation was worse than ever.

⁵⁴ Vavi Z, 14 May 2004, http://www.afrol.com/Countries/Zimbabwe/backgr_cosatu_zim_speech.htm.

divisions within the government on the Zimbabwe problem, something that had not been evident earlier.

Apart from complicity with some of the other SADC countries in keeping the Zimbabwe issue off the agenda at successive SADC and AU meetings, the South African government has actively supported Zimbabwe in blocking motions of censure against Zimbabwe in international forums, most notably in the UN Human Rights Commission and it lobbied countries unsuccessfully to lift Zimbabwe's suspension from the Commonwealth.

South Africa has also endorsed the results of successive controversial elections in Zimbabwe which have been rejected by many international countries and some African states. It has turned a blind eye to allegations of widespread election-rigging.⁵⁵ During the run-up to the 2005 parliamentary polls, the MDC refused to co-operate with the South African observer mission, because of its perceived bias in favour of the ruling party. After South Africa approved the results of the election, the MDC announced it was cutting its ties with the South African government. A party spokesman said the MDC did not see the point of continued engagement with a country that ignored the ruling party's excesses.

⁵⁵ The Democratic Alliance's representative on the SADC observer team, Diane Kohler-Barnard, withdrew from the team following its approval of the poll. Members of the DA also distanced themselves from positive findings of the South African Parliament's observer team, with DA leader Tony Leon saying his members were pressured to support the poll process. Allegations that the South Africans arrived in Zimbabwe with a predetermined view were also made by the MDC.

A missed window of opportunity?

Although it was widely believed that South Africa would be able to influence the Zimbabwe government if it had the political will to do so, an issue that arose concerning a loan Zimbabwe requested from South Africa in mid-2005 showed that this assumption may have been misplaced. The Zimbabwe government, finally acknowledging the depth of its economic crisis, asked South Africa for a substantial loan on the eve of its expected expulsion from the IMF. The media reported that South Africa had agreed to the loan (originally estimated as in the region of \$1 billion, but later said to be about half that), but only if certain conditions relating to political and economic reform were met. The imposition of conditions, many of them allegedly concerning matters that South Africa had appeared to condone over the previous few years, came as a surprise to many critics of the government's quiet diplomacy.⁵⁶

The conditions were reported as including drawing up a new constitution acceptable to the MDC; adopting electoral provisions that would meet international standards of fairness and transparency; stopping controversial constitutional amendments; introducing a fair and open programme of land

⁵⁶ In 2005, when the loan issue was first raised, Mbeki mentioned that Zimbabwe had delayed land reform in 1990, when the Lancaster House agreement expired, in order to allow successful negotiations to be concluded in South Africa. He also denied that Zimbabwe's land reform programme had been marred by corruption, apparently to soften the public response in South Africa to the possibility of a loan to Zimbabwe. Much heated discourse arose from the question of lending money to Zimbabwe, partly because of concerns about whether that country would be able to repay it, but also because of moral doubts over assisting Mugabe's government. 'Liberation landed Zimbabwe in debt', *Business Day*, 29 July 2005.

reform; repealing laws used to muzzle the media and silence or intimidate political opponents; and drawing up a credible programme for economic recovery.⁵⁷

Unsurprisingly Mugabe refused to accept conditions, because to do so would effectively have involved the unravelling of his government's carefully constructed, micro-managed control of the political and economic structures of the country. The Zimbabwe government, after applying to China unsuccessfully, resorted to raiding its own desperate economy to satisfy the IMF. Both South Africa and Zimbabwe say the loan is still on the table. Whatever happens as far as the loan is concerned, the issue of the loan shows that South Africa does not have the leverage over Zimbabwe that it might have thought it did.

Indeed, the MDC's secretary-general, Welshman Ncube, accused Mbeki of spoiling Mugabe by endorsing his stolen election victories and propping up his crumbling regime.⁵⁸

This loan initiative won't take us anywhere in terms of resolving this crisis. Sometimes South Africa is naive because it thinks appeasing a dictator can cause him to reform. What the international community, including South Africa, should do is to further isolate and squeeze the Mugabe regime until it collapses.

Mbeki also revealed in early 2006 that he had been led to believe his intervention in getting the MDC and Zanu-PF into informal talks would lead to a political solution, and that he had made public statements based on this assumption. Exhibiting what local analysts described as a 'weariness' with Zimbabwe, Mbeki said that Eskom's briefly cutting off Harare's electricity supply (although the reason was allegedly related to maintenance) demonstrated Zimbabwe's dependence on

⁵⁷ 'Sign or sink!', *Sunday Times* (South Africa), 7 August 2005.

⁵⁸ *Sunday Times*, *op. cit.*

South Africa. Also mentioning a directive to oil contractors to halt supplies, he commented, 'If this illustrates the extent of their reliance on South Africa, then it is good and well.'⁵⁹

There are many in the ANC who are tired of the attention given to Zimbabwe, which diverts the party's energies from local issues. Even Mbeki is said to be frustrated with the lack of progress and engagement with Zimbabwe seemed to be on the backburner in 2006.

Trade and business

South Africa's business and trade relationship with Zimbabwe has been the most enduring on the continent. South Africa has always been Zimbabwe's biggest trading partner, and the latter has been high on the list of South Africa's most important trading countries globally.

After 2002, Zimbabwe became South Africa's second-biggest trading partner on the continent after Mozambique.

But in many respects the close political and economic ties with Zimbabwe have not worked in South Africa's favour. For example, it has affected investor perceptions. In 2003, a commissioned report by the Zimbabwe Research Initiative, a non-profit think tank run by South Africans and Zimbabweans, stated that Zimbabwe's crisis had cost the region about \$2.5bn since 2000, and had shaved around 1.3% off South Africa's GDP.

Zimbabwe's ailing parastatals have also incurred large debts in South Africa. At the end of 2002, an estimated R60 million was owed to Telkom, R80 million to Eskom, R75 million to the Reserve Bank, R55 million to Transnet, more than R75 million to

⁵⁹ 'Mbeki's had it with Zim', *Mail & Guardian*, 10 February 2006.

the fuel sector and about R120 million to other companies. Many of these debts have been paid off over time. Nowadays companies, particularly fuel companies, are demanding payment up front.

Table 4: SA's Trade Balance Globally — Top 10 (R'000)			
<i>Country</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
UK	2,451,051	1,573,363	6,744,015
Netherlands	7,607,891	6,995,341	7,541,498
Mozambique	6,015,733	5,395,397	4,872,894
Japan	5,661,772	5,935,375	5,659,775
Belgium	5,355,473	3,600,365	3,377,298
Zimbabwe	5,149,681	3,895,396	3,386,524
India	1,094,013	224,174	-834,218
US	3,959,076	3,761,938	4,020,526
Switzerland	801,856	2,259,734	4,174,874
Zambia	4,763,269	3,477,519	3,742,511
<i>Country</i>	<i>2005 to May</i>	<i>Rank 2004</i>	<i>Rank 2005</i>
UK	4,534,595	2	1
Netherlands	4,282,521	1	2
Mozambique	2,265,041	4	3
Japan	2,263,423	3	4
Belgium	2,124,967	10	5
Zimbabwe	1,919,958	9	6
India	1,497,555	7	7
US	1,475,415	6	8
Switzerland	1,223,638	5	9
Zambia	1,190,185	8	10
Source: SA Department of Trade and Industry, 2006			

Nevertheless, trade continues to flow. According to detailed figures up to 2003 provided by the ZimTrade Information Centre in Harare,⁶⁰ the main imports from South Africa in that year in

⁶⁰ Their data was sourced from the Central Statistical Office in Harare. The figures are quoted in US\$, but it is not clear what exchange rate has been used to convert the export and import figures to dollars.

terms of value were: vehicles, railway rolling stock, parts and accessories; mechanical appliances; mineral fuels; cereals; electrical machinery and parts; plastic items; paper and paperboard; iron and steel articles, rubber and rubber articles; animal and vegetable oils and fats; essential oils and resinoids; edible vegetables and certain roots and tubers; furniture; soap agents; and aircraft parts.

The main exports to South Africa in 2003, according to the ZimTrade figures, were: iron and steel; cotton; mineral fuels, oils and products of the distillation; nickel and nickel articles; articles of stone, plaster, cement, asbestos and mica; ores, slag and ash; wood and articles made of wood; salt, sulphur, earth and stone, lime and cement; printed books, newspapers and other products; precious stones and metals; and electrical machinery, equipment and parts.

Table 5: SA Trade with Zimbabwe (R'000)			
<i>Type of trade</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
Imports from Zimbabwe	2,159,775	2,656,012	2,795,783
Exports to Zimbabwe	7,309,455	6,551,409	6,182,317
<i>Type of trade</i>	<i>2005</i>	<i>Rank 2004</i>	<i>Rank 2005</i>
Imports from Zimbabwe	1,307,944	25	25
Exports to Zimbabwe	3,227,903	13	10
Source: SA Department of Trade and Industry, 2006			

The business sector in South Africa has taken a much tougher line on the Zimbabwe issue than the government. It frequently calls on the government to speak out more trenchantly about what is happening in Zimbabwe.

Tito Mboweni, the governor of the South African Reserve Bank, said in May 2005 that Zimbabwe had to sort out its problems if it hoped to meet SADC's regional economic integration targets. He added that he hoped the situation of errant states could be resolved amicably, but that it might be necessary to resort to legal action to enforce the agreements.⁶¹

The previous month, Business Unity South Africa (Busa) urged Mbeki to discuss Zimbabwe's economic crisis with their organisation to seek solutions, because of the deleterious effect Zimbabwe's problems were having on South Africa.⁶²

In July 2005, the MDC made a surprise statement that a 'post Zanu-PF government' would not necessarily honour business deals that had been made with Mugabe's government. Tsvangirai stated that foreign companies, most of them South African, were guilty of propping up the Mugabe government: 'It is disconcerting that under such flagrant violations of the rule of law, South African companies such as Impala Platinum and Anglo Platinum are still negotiating deals... when the country is imploding', adding that such companies could be compromising their future business interests.

Business people seemed to dismiss the comments, on the grounds that that they came from someone who seems increasingly unlikely to be Zimbabwe's next president, and that businesses needed to keep going, regardless of the political environment.

⁶¹ 'Mboweni tells Harare to get its house in order', *Business Day*, 5 March 2005.

⁶² 'Business calls for discussion with Mbeki on Zimbabwe', *Business Report*, 5 April 2005.

Box 5: The trade and investment protection agreement

South African companies in Zimbabwe have voiced concern about the fact that since 2003, Zimbabwe has been stalling on signing the bilateral trade and investment protection agreement between the two countries. Officials on both sides say on the record that the reasons are merely circumstantial. However, off the record, the South Africans admit that for a period of more than two years. The Zimbabweans have simply not made themselves available to sign it.

Some of the clauses in the draft agreement appear to be incompatible with certain elements of the current political climate in Zimbabwe, which may explain the current unwillingness to sign the document. These clauses include provision for compensation to investors for, among other things, destruction of property, expropriation or nationalisation. The agreement recommends that such compensation be equal to the market value of the asset before it was expropriated, and gives the affected investors the right to turn to the courts in the country in which the investment was expropriated, to review both the case and the valuation. The trade and investment protection agreement also covers dispute settlements between investors by either of the two countries involved, and the promotion and treatment of investments. The draft states that once signed, the agreement will be effective for 10 years. Thereafter it will remain in effect unless either party terminates the agreement in writing.

In 2003, a group of South African farmers whose land had been seized in Zimbabwe formed a lobby group, Concerned Investors in Zimbabwe, to put pressure on the South African government to act on the seizures of land in Zimbabwe. It is not clear whether the South African government had any leverage to deal with this matter, or, if it did, the political will to exert it. Neither is it clear whether South African landowners have been affected by the latest legislation, which allows forced land seizure without compensation or legal recourse.

South African Companies in Zimbabwe — Challenges and Experiences

Many of South Africa's biggest companies have investments, subsidiaries and interests in Zimbabwe. Many others provide goods and inputs for the Zimbabwe market in areas such as retail, pharmaceuticals, raw materials for manufacturing, and construction. The business linkages are vast on every level. (See Annexure 1 for the details of the main companies, although this list is by no means exhaustive.)

Most of the problems experienced by South African companies in Zimbabwe are the same as those undergone by any company operating there. All are held hostage by the business climate precipitated by the government's political priorities and ad hoc economic policies. What makes it easier for the South African companies than those of many other countries is the similar language, business and social culture. Proximity to the home base is also an advantage. The fact that Zimbabweans manage many of the South African companies also makes it easier for these firms to understand the way the government works, and how best to deal with the situation. One Zimbabwean running a major South African company in Harare said:⁶³

To work in Zimbabwe, you need to put your emotions aside and try to think how they [the government] think. Most decisions are based on keeping in power and not on economic fundamentals. Once you understand their political machinations, you can usually get it right.

⁶³ Interview, Harare, July 2005.

Apart from the problems experienced by business in general, different sectors have their own specific difficulties. Banks, for example, are required to use their surplus funds to buy two-year treasury bills at a current interest rate of 17%. If they need money urgently, they have to borrow it back at overnight rates of more than 200%.

Banks are also expected to fund agriculture, even though at present this is not necessarily a profitable area for lending. This compromises the deals banks can offer to their clients. Gold producers also have a special dispensation in terms of the gold support price, which was, once discriminatory in relation to other producers although it has recently been increased (see Mining above).

In the agricultural sector, the government to some extent dictates the kinds of crop that can be grown, while pension funds are subject to punitive prescribed asset ratios that have made many people unwilling to subscribe towards pensions in Zimbabwe's hyperinflationary environment.

Many companies are battling to survive because of the combined effect of power cuts, fuel shortages, foreign currency shortages and inflation. Some have cut back production and are just keeping things ticking over in the hope that the situation may improve. Others have had to reduce their regional markets because of lower manufacturing output and foreign exchange shortages.

Many countries in the region such as Kenya, which once traded briskly with Zimbabwe, are no longer prepared to sell their goods there because their Zimbabwe customers are unable to pay them in hard currency.

Ranking on Ease of Business Procedures in Zimbabwe — 2005 Some Comparative Ratings out of a Ranking of 155 (lowest)				
<i>Ease of ...</i>	<i>Zimbabwe</i>	<i>South Africa</i>	<i>Best performer</i>	<i>Worst performer</i>
Doing business	126	28	New Zealand	DRC
Starting a business	140	51	Canada	Angola
Dealing with licences	147	37	Palau	Tanzania
Hiring and firing	19	66	Palau	Burkina Faso
Registering property	71	77	Palau	Nigeria
Getting Credit	90	40	UK	Cambodia
Protecting investors	107	8	New Zealand	Afghanistan
Paying taxes	109	84	Maldives	Belarus
Trading across borders	134	55	Denmark	Iraq
Enforcing contracts	69	38	Norway	Timor-Leste
Closing a business	138	53	Japan	West Bank & Gaza
Source: World Bank ⁶⁴				

Before looking more closely at some of the challenges facing South African companies in Zimbabwe, it is important to note that the proximity of the Zimbabwe market to South Africa makes it a natural trading partner because contiguity brings down the cost of logistics and makes it fairly easy to establish business bases there. Zimbabwe's central location in the region also allows business to be extended into other Southern African

⁶⁴<http://www.doingbusiness.org/ExploreEconomies/Default.aspx?economyid=208>.

countries without much difficulty. The diversified nature of that country's economy has opened many opportunities for South African companies to acquire stakes in Zimbabwean companies, establish fully-fledged subsidiaries and service the domestic market. Another positive factor is that both countries have very similar business practices, and share a similar social culture.

It is also important to note that long-standing business ties have not been severed by the current economic problems, although many companies have preferred to 'ringfence' their Zimbabwe operations by keeping financials separate from the overall operations of the group as a way of riding out the storm. For example, several companies have written down their investments in Zimbabwe to Z\$1. However, even though most companies have limited contact with their head offices in South Africa and run their operations independently, they believe that if they encountered a serious problem in Zimbabwe the parent firm would intervene to help them out. However, because many subsidiaries are effectively excluded from the main operations of the enterprise, they do not participate in group synergies in South Africa and the region.

Despite the deterioration of the economic situation, many people believe Zimbabwe is still a better and easier place in which to do business than many other African countries, because of its strong business sector and relatively good infrastructure. Many companies are also making good profits, even if these are currently being undermined by inflation and they are experiencing difficulty in repatriating profits. However, the domestic market has become smaller in terms of both numbers of consumers and the amount of disposable income. Also, some companies have divested some or all of their holdings in Zimbabwean enterprises over the past few years because of the increasingly difficult business environment.

Main constraints facing companies in Zimbabwe

Policy uncertainty

Companies have found the government's **erratic and often extreme policy decisions**, such as huge rises in interest rates and massive devaluations, as happened in mid-2005, difficult to deal with, as they make it impossible for firms to plan ahead and exacerbate the already uncertain operating environment. In addition, companies are forced to operate in a complex and volatile **hyperinflationary business environment**. In mid-2005, the cost of living was increasing by nearly 30% a month. This has made doing business difficult, because it precludes long-term planning and forces companies to revise salaries and other costs on a daily, monthly or quarterly basis, depending on the type of business. One company said that it was continuing to do annual reports only 'because it is the right thing to do, but we cannot rely on the figures over the long term. One month's figures now can equate to several months' figures earlier in the year, although turnovers have not changed. We rather have to look at volumes.'⁶⁵

A related drawback is that the **president** controls the economy closely, rather than letting the market take its course. This makes policy difficult to predict. The increasingly unclear role of the **Reserve Bank**, which has assumed several functions that put it in competition with the banks, has also caused some confusion and the picture is even less clear now with the appointment of a new body, comprising mostly military officials, to monitor and run the economy.

⁶⁵ Interview, Harare, July 2005.

Government intervention

Government interference in the economy is a constant threat. One businessman commented,

Once a new policy is put in place, there is every possibility it will be messed with shortly afterwards. The government seems to believe supply and demand can be held back, that you can ignore the fundamentals. But we are now seeing the results of that view. Economies don't work by decree.

The government frequently changes the goalposts when it comes up with new ways to make money. In one instance, it imposed a royalty charge on the lime used by cement companies, although the latter argued that lime cannot be classified as a mineral.

In addition, the products of several companies are subject to the government's **price controls**, which have made their products commercially unviable. They have to pay market-related costs for inputs and production, but are unable to charge market-related prices for the goods they produce. While many price controls have been dropped, the government continues to monitor prices. Some companies have been publicly accused by the government of creating shortages, for example by hoarding goods. Their denials have been ignored by the authorities.

However, the most pressing concern is the ever-present threat of **nationalisation** in one form or another. There are also continual threats that companies will be seized in the same way that farms have been. Government officials routinely make comments along these lines, sometimes with regard to companies providing essential goods. The breakdown of law and order means that if seizure of businesses does happen, companies cannot expect any action to be taken against the perpetrators.

Companies also identified as a problem a **lack of equity** in the local market that would enable their partners in Zimbabwe to take up stakes in South African-owned or run companies. There is increasing pressure for companies in Zimbabwe to indigenise. However, there is also a lack of clarity on **empowerment targets**. Even though the government has been speaking about indigenisation for many years, it has yet to implement quotas.

Foreign currency shortages

Foreign currency shortages are a critical problem for companies, which often struggle to obtain dollars on the regular foreign currency auction, although a number of companies say the export earnings they are allowed to keep in foreign currency accounts (FCAs) cover their import needs. The problem arises when they cannot access hard currency. The delays in getting currency, which sometimes last for months, mean that the prices of goods will go up in the meantime because of the volatile exchange rate. Suppliers can withdraw 30-day credit arrangements, and factories can lie idle, waiting for parts. Many companies, even large ones, rely on '**cross border**' traders or merchants, who procure the goods in South Africa and other countries nearby. Such traders handle the currency exchange themselves, and sell the goods on in Zimbabwe dollars. But such deals are reliant on the vagaries of volatile **black market currency rates**. Some companies 'trade' currency from their FCAs with other companies for goods or local currency if they have excess foreign currency and need Zimbabwe dollars. The whole issue is a minefield, although companies operating in Zimbabwe seem to have got manoeuvring currency down to a fine art, despite the stress of

doing business in this way. The authorities routinely crack down on the black market activities that help many businesses to survive. Other, related concerns are a lack of guarantees of protection for **foreign currency accounts**, which are a lifeline for exporters. The government has been known to raid such accounts when it is desperate for foreign currency.

Currency problems have also reduced regional trade, and high operating costs have cut the competitiveness of many Zimbabwean exports.

Inability to repatriate dividends

Although a number of South African companies have made good returns on the stock exchange, it is not always possible to repatriate **dividends** because of the foreign currency shortages. It is done by firms on an ad hoc basis in many cases, depending on the availability of excess foreign exchange in their FCAs. Allocating currency for repatriation is not a priority of the auction, given the many demands on the limited amounts of foreign currency available.

High cost of finance and difficulties with cash transactions

High **interest rates** and the spread between borrowing and lending rates make it expensive to borrow, which discourages any projects involving large capital outlays. For the banks, the reduced capacity in the manufacturing sector means less business. There has been a drop in borrowing over the past few years in all but the capital-intensive mining sector. The latter has been described as a boon for the banks.

Companies and individuals also identified the small denominations of **cash** as a problem. The highest denomination is Z\$20,000, which buys a handful of groceries at best in a country where, in mid-2005, consumer inflation was rising by 30% a month.

Difficult social conditions

Uncertainty about what tomorrow's problems will be because of the increasingly unpredictable actions of the government has affected not only business but people's psyches. Many feel certain there will be ongoing problems, but the unforeseeable vagaries of the government and its increasing desperation to stay in power against all odds has made it more likely that the problems will extrapolate. Operation *Murambatsvina* introduced a new level of anxiety about what the government would do next, and whether there are boundaries to its power.

The deteriorating **living conditions** are a serious problem. They have forced people and businesses to become self-sufficient, using borehole water and relying on generators to counter the increasing number of power cuts. Ongoing **fuel shortages** in particular have hit businesses hard. Companies have had to obtain their own fuel at premium prices through private suppliers, most of whom are trucking it up from South Africa. The price can fluctuate as much as 1,000% in one month, depending on availability. This factor pushes up the cost of doing business.

A further, related concern is the issue of **wages**. This matter is complex and administratively difficult, because of the regular inflation adjustments that have to be made. Also, companies have to negotiate an annual increase for their workers with the various national employment councils. Because these councils

Games: A Nation in Turmoil

are sector-specific, it can be a headache for firms who have workers falling under a number of different councils. Most South African companies said they paid well above the rates negotiated with the councils. Businesses frequently have to provide loans for staff members who find it impossible to cope financially in Zimbabwe's volatile and costly economic environment.

Crime is also increasing rapidly, and is becoming more sophisticated. Apart from white collar crime, armed robbery and hijacking are becoming more prevalent. While corruption did not feature particularly high on the list of problems discussed, some business people said it had become a factor of doing business in Zimbabwe, particularly with regard to companies that have links with government officials.

Decline in the skills pool and the domestic market

The declining **skills pool** as a result of massive migration has presented a problem for some companies. Those Zimbabweans who have skills that are in demand come at a premium. This can be problematic for companies, as they are already operating in a high-cost environment.

Lack of security of tenure and investment protection

South African businesses also voiced concern over Zimbabwe's delay in signing the **investment agreement** with South Africa. Among other things, the agreement protects investment and includes a clause relating to compensation in the event of nationalisation. This means that South African investments remain unprotected under Zimbabwe law. Also related to the

investment protection agreement is the issue of **investment incentives**, which were promised by the government and then reneged on. This became an issue in 2004 in respect of a mining company that was granted tax concessions by the government, but was then confronted by a huge tax demand from the local revenue authority.

An associated problem is the current **insecurity of property rights**. Many people managing or working for South African companies are Zimbabweans or South Africans who own property. South African companies also own commercial farming ventures. Several have already been subjected to land seizures, which have affected local profits and exports.

Companies also identified as a concern the preferential relationship that exists between China and Zimbabwe. Competition by **Chinese companies**, particularly for government contracts, has become unequal, because this relationship has meant that such contracts tend to be awarded to the Chinese, that is based on political rather than commercial considerations.

Impact of South African Companies in Zimbabwe

Many of the existing South African companies in Zimbabwe have a longstanding and deep presence in the economy, which has made them an indispensable part of the business landscape and reluctant to shut up shop now that times are hard. However, over the years a number of South African companies have broadened their Zimbabwe-held shareholdings while retaining limited ownership or, in the case of Anglo American, sold off non-core interests. This lessens the overall impact of the South African connection, although it still remains the case that the South African linked companies retain a strong presence in the economy. For example, of the 75 companies listed on the Zimbabwe Stock Exchange, 60% are South African.

Old Mutual is the biggest company on the exchange, with about 18% of the ZSE market capitalisation index as at mid-May 2006. Other major South African companies on the ZSE are Delta (13%) and PPC (5.62%) while Zimbabwe's Innscore (9.02%) and Meikles (8.6%) are also at the top of the index.⁶⁶

South African companies are significant employers. A survey by research firm WhoOwnsWhom suggests that among the largest 40 companies listed on the JSE Securities Exchange, 27 have operations in Zimbabwe, employing about 20,000 people.⁶⁷ Most of the companies with South African shareholdings are run by Zimbabweans and are generally

⁶⁶ Zfn *Realtime Financial Intelligence*, a Zimbabwe financial information service.

⁶⁷ Singh S, 'Sticking around in hope', *Financial Mail*, 8 April 2005.

considered to be part of the Zimbabwean business landscape rather than being viewed as particularly South African.

South African investment has been substantial over the past few years, but mostly confined to the mining sector. By 2005, Implats' total investment in Zimbabwe was R1,7 billion, while Metallon Gold spent \$15 million on its mining interests and Anglo started work on the \$92 million Unki mine in 2005.

In the mining sector, Metallon Gold owns 60% of the formal sector gold mines, while South African-owned or part-owned mines, own 90% of the platinum mines. Stanbic and CBZ are major players in the banking sector, while there are some sizeable stakeholders in the clothing retail sector, sugar, brewing and pulp and paper. For example, Cafca is 76% owned by South Africa's African Cables; Commercial Bank of Zimbabwe is 26% owned by ABSA Bank; Delta is 34% owned by SABMiller; South Africa's Edcon owns 43% of Edgars; Anglo American owns 80% of Hippo Valley Sugar; Nampak owns 40% of Hunyani; Truworths is 33% owned by South Africans and South African shareholders own 48% of Murray & Roberts. Old Mutual is wholly owned.

The relative strength of the business sector in Zimbabwe despite the dramatic economic decline overall can be attributed to the diversified industrial base that has underpinned the economy since before independence. What began as a quest for self-reliance in the UDI years, Zimbabwean companies expanded and developed as Zimbabwe opened up from 1980, trading strongly with both South Africa and the region as well as developing successful export markets overseas. Although many companies are operating at well below capacity and staff have had to be retrenched, the potential of the country has already been realised and companies are, as a result, prepared to hold the

line for political and economic change rather than pull out now despite the fact that the downturn has dragged on for longer than many people anticipated.

Some companies have expanded into the region as a hedge against problems at home, while others, such as Old Mutual have diversified products to suit the economic climate that they have been able to roll out into other countries in the region. Banking, commercial agriculture, retail and franchising are among the sectors where cross-border expansion has taken place. The survival instincts companies are learning in Zimbabwe in order to keep afloat appear to be something they can use in other African countries. In some cases, such as Meikles, their investment in a top hotel in South Africa (Cape Grace) also acts as a hedge, particularly in foreign currency terms.

Some Policy Recommendations

The recommendations to the Zimbabwe government that arise out of this research relate to both political and economic reforms, which respondents to the survey view as being interdependent. Economic without political reforms would be unsustainable, as has been proved over the past few years. During this time, the Reserve Bank governor has been attempting economic reforms, but these have been compromised by the need for political approval.

The recommendations listed below include suggestions from South African business people in Zimbabwe, Zimbabweans themselves and members of outside organisations.

- **Changing the political leadership** (although not necessarily a change of party) was, unsurprisingly, identified as the most important recommendation. The exit of Mugabe is particularly important, as he represents (and controls) almost everything that is wrong with the country at present. However, Mugabe's departure is seen as a necessary but not a sufficient condition for political and economic recovery. Most respondents recommended that his coterie of top ministers should also be removed, as they have adopted his autocratic and irresponsible style of governance. Some still hope that something might precipitate an early presidential election, conducted on a level playing field and overseen by independent local, regional and international monitors. Failing this, some believe that the 2008 presidential elections, should they be held, may be free of manipulation and intimidation as a result of pressure from other African states, notably South Africa. There appears to be a 'wait and see' attitude towards Mugabe's chosen successor, Joyce Mujuru. Many people believe that her selection was merely

expedient, and intended to damp down the battle over succession. They also expressed doubt as to whether she would emerge as a reformist politician.

- Restoring the **rule of law** was seen as crucial to restoring legitimacy to the country and its processes. In particular, this would include repealing all the repressive legislation introduced over the past few years. This would allow freedom of speech and association and independent media that could operate free of state harassment and interference, and restore the independence of the judiciary.
- Reinstating **legal property rights** was another priority. A full audit needs to be undertaken of both the A1 (landless peasants) and A2 (small to medium-scale) programmes and the current state of commercial agriculture, in order to ascertain the physical and legal status of all land holdings, and the funding and support required. The constitutionality and legality of measures introduced as part of the fast-track land reform programme need to be reviewed. Compensation for dispossessed commercial farmers should be dealt with in consultation with donors.⁶⁸
- Encouraging the recovery of **commercial agriculture** through various means including incentives, training, extension programmes, and the provision of equipment and funding was also of prime importance.
- Making **policy** more **predictable** would ensure proper planning, even within a context of galloping inflation.
- Re-evaluating **monetary policy** to address foreign and local currency shortages, exchange controls, interest rates and financial stability and growth should be undertaken.

⁶⁸ In August 2004, the British Foreign Secretary, Jack Straw, said that about £45 million was still available to fund land reform in Zimbabwe.

- Shifting the government's **spending priorities** to address the country's, rather than the party's needs, was seen as crucial. This would include increasing social spending and allowing the private sector to contribute to budgetary decisions. Although the Reserve Bank has established a broad-based advisory board, which includes representatives from all ministries, the different divisions of the bank and prominent companies, the dictates of the president and his top ministers overrule any suggestions from the private sector.
- Significantly reducing the **budget deficit** was also seen as a priority. This could be done through decreased government expenditure and a reduction in both the number of ministries and the civil service; better management of the country's high accumulated debt; and a return to productive rather than consumption spending.
- Introducing policies that are more conducive to **foreign investment** and ensuring that agreements with foreign companies are honoured after they have invested was also recommended.
- Restructuring the Reserve Bank to make it autonomous would improve the economic climate. Although there is general agreement that Gono has done as good a job as is possible under the circumstances, many expressed concerns that he and the bank have become so powerful in the economy that he is on the verge of becoming both player and referee.
- Allowing **market forces** to determine economic fundamentals was also prescribed.
- Increasing sources of available foreign currency (related to improved macroeconomic policies) was desirable.
- Addressing problems in the **energy, power and transport** sectors was considered an urgent requirement. The government also needs to introduce supportive policies for

mining and agriculture in order to reduce the costs of production, which would have a knock-on effect for manufacturing and exports. The recovery of these sectors, particularly agriculture, would also provide a bigger domestic market for manufacturers.

- Removing, or certainly reducing, the requirement for **exporters** to surrender their foreign currency earnings would improve their operations.
- Increasing **national savings** would boost local investment. Currently, almost no saving is taking place. In 2004, savings represented a mere 4% of GDP. The reasons include negative real interest rates, high inflation and the fact that pensions are becoming a luxury fewer and fewer people can afford.
- Improving **tax collection** would increase government revenues. The tax base has been eroded by rising unemployment, an increase in black market activity and the growth in the informal economy.
- Restoring the **informal sector** and ensuring that any licensing that is required is done speedily and without onerous conditions was also suggested.
- Encouraging emerging business and small- and medium-sized enterprises (**SMEs**) through incentives and government support programmes would help the economy to recover.
- Reforming the **civil service** and building capacity would help both to address the loss of skills and halt the emergence of a culture of corruption and inefficiency. It would also prevent moonlighting by staff who cannot live on their incomes.
- Addressing the privatisation and restructuring of **parastatals** needs to be undertaken in a way that does not compromise the country's natural assets. The deals that are currently being made with the Chinese, among others, are examples of the wasteful exploitation of assets.

- Supporting SADC's **regional harmonisation** efforts and the steps it is making towards free trade with member countries would also benefit Zimbabwe.
- Fighting **corruption** in a meaningful and broad-based way was seen as crucial. Although the government has a battery of laws and commissions to counter corruption, these are controlled by the government. It has the power to select whom to prosecute or investigate, and it directs the courts accordingly. To date, these tools have been used primarily to target those who have fallen foul of the government or individual party officials, often on a personal level.⁶⁹

Policy recommendations to the South African government were as follows:

- Pressure should be put on the Zimbabwe government to sign the investment protection agreement. Despite the official comments on both sides that it is simply a matter of getting the relevant officials together, there is an unofficial view that the Zimbabweans are deliberately stalling. If that is not the case, South Africa is acting irresponsibly in delaying the implementation of measures to support those of its own companies that are operating in a foreign country.
- The comfort South Africa provides for Mugabe, which allows him to continue to rule without regard for his people's interests, should cease. Many of the people interviewed recommended that South Africa should acknowledge that its quiet diplomacy policy has not influenced events in

⁶⁹ In June 2004, the Criminal Procedure and Evidence Amendment Act was passed. This contained the controversial clause that allows the police to hold a suspect for 21 days without bail. In January 2005, the Bank Use Promotion and Money Laundering Act was passed and the Anti Corruption Bill was signed into law, facilitating the establishment of an anti-corruption commission.

Zimbabwe, which is moving ever further along the road to centralisation and repression, Instead the South African government should move to isolate Mugabe. This would include cancelling the offer of a loan. A number of people, particularly Zimbabweans, believe Mugabe is merely toying with South Africa on the loan issue, to keep the channels of communication open without actually committing himself. Zimbabweans appear to be ready to endure the pain of reaching rock-bottom if it means this will unlock political movement and precipitate change.

- South Africa should work more closely with those SADC governments that are eager to restore normality to the region. In particular they should collaborate in putting pressure on Mugabe to introduce political change or find a suitable exit strategy. South Africa should also work with the AU behind the scenes to bring this about.
- Government officials in South Africa who are involved in dialogue over the Zimbabwe issue should broaden their level of contacts to include representatives from Zimbabwean NGOs and business leaders, and not restrict consultation to their government counterparts and members of the opposition.

Conclusion

The potential for synergy in business and trade between South Africa and Zimbabwe is enormous. Currently this represents a wasted opportunity for both countries. South Africa is battling to contain the fallout from Zimbabwe's distress in terms of refugees, negative investor perceptions and reduced trade. It also has to bear blame for what is seen as its inability to wield its diplomatic muscle close to home. The South African government's inaction has undermined the credibility of the Nepad, in which South Africa plays a pivotal role. Nepad emphasises the importance of Africans resolving their own problems, but this principle has not been followed in the case of Zimbabwe.

In turn Zimbabwe has changed. From being one of Africa's most successful economies it has become one of the fastest-shrinking economies in the world, a situation driven by political expedience and the obsession with political power of its president. As countries around it are liberalising their economies, holding free and fair elections and seeing legitimate and non-violent transfers of power, Zimbabwe, under the direction of its president, is becoming a highly centralised state which shows disdain for the free market and globalisation. It no longer offers the liberties (such as free speech, freedom of association, and an independent judiciary and media) that are expected of a country that has liberated itself from political shackles.

South Africa has repeatedly said that the Zimbabweans themselves must change their government. However, the many years of political manipulation (a process that was well under way before Zimbabwe became a focus of attention for the South African media in 2000), high levels of repression and

government propaganda have taken their toll on the population. Zimbabweans believe that South Africans do not really understand the real nature of their problem, which centres on the long history of centralisation and political control of the current government. Neither can South Africans comprehend the way the Zimbabwe government works. Both of these points may be reasons why South Africa has been able to provide so little help in solving Zimbabwe's problems.

This seems ironic, given the level of interaction between the two countries over many decades, and the number of South African companies operating in Zimbabwe, which is higher than in any other African country. But it is these very linkages that make it imperative that South Africa should intervene. South Africa is economically powerful, and is a leading player in resolving conflicts elsewhere on the continent. It is nothing short of ludicrous that the government has, until recently, aligned itself with the limp-wristed response of SADC and the AU to the problem. Asking why Zimbabwe is always under the spotlight when there are many countries in Africa that are in a worse situation is to miss the point. Zimbabwe was a success story, something that is rare in Africa, and it is being destroyed. Most of the other countries on this continent have yet to show any of their potential, and can only move upwards. That is a crucial difference.

Not only is Zimbabwe causing problems for the individual countries that are its neighbours as it goes further into economic decline, but it is hampering SADC's many regional integration processes. It is increasingly out of step with harmonisation initiatives. Its dysfunctionality is also affecting projects such as the Great Limpopo Transfrontier Park, in which South Africa and Mozambique are partners with Zimbabwe.

Linking conditions for reform to the recent discussions of a possible South African loan to Zimbabwe was a step forward. However, many argue that it occurred too late to have any real influence in a country where the president is now all-powerful, and appears careless of consequences. Had South Africa put pressure on Zimbabwe several years ago, when the scale of the problem first became evident (and when South Africa arguably had greater leverage), it might have had more effect. However, now South Africa is in a position of being played off against countries such as China, India and Iran, which are rapidly gaining influence in Zimbabwe because of their willingness to ignore human rights abuses and political repression in the interests of getting a strong foothold in the economy. In some cases, these countries could take advantage of business opportunities that South African or even Zimbabwean companies might have been in a position to benefit from in a different climate.

Events in Zimbabwe may themselves, in the long run, precipitate the change that Zimbabweans are looking for. This would allow greater trade and investment to flow across the border in both directions. That is the best-case scenario. South Africa would then need to play a leading role in supporting positive change and the new leaders of that country. Their origins and affiliations are immaterial; what is important is that they should act in the country and its people's best interests.

Appendix A: Overview of South African Companies Operating in Zimbabwe

Anglo American

The diversified conglomerate Anglo American Corporation Zimbabwe Ltd (Anglo), once the largest investor in the country, has downscaled its Zimbabwe operations significantly over the past few years, selling off all subsidiaries falling outside its core business.

These subsidiaries include stakes in National Foods Holdings and Bindura Nickel Corporation (sold to Mwana Africa Holdings), Amzim Gold and Iron Duke Pyrites. Anglo has also sold a number of agricultural estates since 1999.

Anglo has had problems with the government over the seizure of large tracts of its commercial farmland. Several of its agro-industrial operations have been listed for compulsory acquisition, including Hippo Valley Estates in southeast Zimbabwe and Triangle Sugar, which the company jointly owns with South Africa's sugar giant, **Tongaat Hulett**. The two estates, along with Anglo's Mkwazine Estate, produce all of Zimbabwe's sugar, mostly for export.

The conglomerate's largest stake in the economy is its platinum operations. Its subsidiary Angloplat is developing the \$92 million Unki Platinum project in the Great Dyke in conjunction with Anglo American Zimbabwe (Amzim). It has also retained the carbon ferrochrome producer, Zimbabwe Alloys.

Stanbic

Stanbic Bank entered Zimbabwe in 1992 when the Standard Bank Group of South Africa acquired the African operations of ANZ Bank. Stanbic Bank Zimbabwe, with 16 branches, was listed as one of the country's top five banks in 2005, along with Barclays, Zimbank (40% owned by government), Standard Chartered and the Commercial Bank of Zimbabwe. Combined, these banks control an estimated 80% of the market.

Old Mutual

Old Mutual is a significant player in the Zimbabwe economy in the area of life assurance, asset management, unit trusts and short-term insurance. It manages Z\$10 trillion worth of assets. It owns the Central African Building Society (CABS), the country's leading mortgage lender, which has operated in Zimbabwe for 50 years. It currently has a market share of up to 60% in the insurance business, and manages Z\$10 trillion worth of assets. Old Mutual also has a 20% stake in the **Merchant Bank of Central Africa**, through the holding company's stake in Nedbank in South Africa.

Old Mutual has significant shareholdings in many major public companies, such as Delta Corporation, TA Holdings and the Meikles Africa Group. It also has anything up to 50% of the free float of the Zimbabwe Stock Exchange, and large property investments.

The company also has a 20% stake in Zimpapers, the government-owned group that has eight titles including *The Herald* (Harare), *The Chronicle* (Bulawayo) and the *Sunday Mail*. Its shareholding goes back several decades to the time

when the company was owned by the Argus Group of South Africa, but it has recently become controversial because of the Zimbabwe government's pariah status internationally. The Swedish group Skandia, for which Old Mutual put in a successful bid, had serious problems in accepting that the company had a stake in the government's key propaganda machine.

Old Mutual has launched a new range of products to help shield its clients against inflation. These were developed specifically for Zimbabwe, but are now being rolled out in Kenya and Malawi as well.

ABSA

ABSA has had a 25% stake in the Commercial Bank of Zimbabwe (CBZ), trading as Jewel Bank since 1998. The Zimbabwe government is the second- largest shareholder, with 17%. CBZ, which has 25 branches countrywide, is supported by business from government and the parastatals, both major players in the market.

Despite the merger of ABSA and **Barclays**, CBZ and Barclays Zimbabwe are to be maintained as separate entities that compete in the market.

Murray and Roberts

Murray & Roberts (Zimbabwe), which is 48% owned by Murray & Roberts Holdings Ltd of South Africa, has investments in the construction and agro-industry sectors in Zimbabwe. The South African company has two shareholders on the Zimbabwe board, and most of the contact between them is technical

and advisory. The financial report of the Zimbabwe operation, which has been listed on the ZSE for more than 30 years, is currently not consolidated into the group's financial statements.

Impala Platinum

Impala Platinum, the world's second-largest platinum company, has a 50% stake in Mimosa Platinum, and increased its stake in Zimplats from 84.5% to 86.9% in July 2005. The reserves of Zimplats, which has its primary listing on the Australian stock exchange, are estimated to be about 187 million ounces, more than double its South African reserves. During the 2004 financial year, Zimplats increased production by 17.2% year-on-year, although operating costs rose significantly, mostly as a result of the rising cost of dollars and the poor exchange rate.

In November 2004, political uncertainty and concerns about proposed changes to mining legislation led Zimplats to put on hold plans for a \$750 million expansion that would increase production in Zimbabwe to an estimated 610,000 ounces of platinum a year by 2014. However, in February 2006, following good results from its Zimbabwe operations, the company announced that it was again looking at expansion plans.

Metallon Gold

Metallon Gold, which is owned by the South African business magnate Mzi Khumalo, entered the Zimbabwe market in 2002 with the purchase for \$15.5 million of the Independence Gold Mining group from Lonmin. Metallon now owns five

Zimbabwean gold mines and employs more than 5,000 people, in what is one of the few big investments to be made over the past few years. Company officials say they hope to triple growth over the next five years by means of an ambitious expansion programme that will see it raise production to 600,000 ounces a year, from the current 195,000 ounces. Overall production is already increasing, and the company produces about a third of the country's gold, although managing inflation is a major challenge.

Mmakau Mining and Shaft Sinkers

A South African consortium, Mmakau Mining and Shaft Sinkers, bought the Eureka gold mine in Zimbabwe, which had been shut in 2000 as a result of high production costs and exchange rate problems, for \$6 million from Placer Dome in July 2005. This is the most recent investment in Zimbabwe's mining industry. Eureka is estimated as having reserves of more than 250,000 ounces. The consortium will hold 75% of the shares in Eureka at a cost of \$4.5 million, while the contract mining company Shaft Sinkers, in which Mmakau Mining has a 26% stake, will pay \$1.5 million for the remaining 25%.

African Cables

The company owns a 75% share in the Zimbabwe company Cafca, which manufactures, markets and distributes electric cables and overhead aluminium conductors to central and southern African markets. The company, founded in 1946, is listed on both the Zimbabwe and South African stock exchanges.

Barloworld

The diversified industrial company Barloworld has been operating in Zimbabwe for more than a decade. It has invested more than R300 million in the country. Its key investment is in the cement manufacturer Portland Holdings, a subsidiary of Pretoria Portland Cement (PPC), which it acquired from Anglo American in 2001. The Zimbabwe operation contributes around 10% to the parent company's earnings, but for the present PPC, like many other Zimbabwean subsidiaries, has been removed from the company's financial statements since 2004. In July, PPC became the first counter to trade at Z\$1 million a share on the Zimbabwe Stock Exchange (ZSE), an increase of 55,000% on its October 2001 listing price of Z\$1800.

Pick 'n Pay

The South African retailer is linked to Zimbabwe through its 25% shareholding in the **TM Supermarkets** chain, which in turn is owned by one of Zimbabwe's biggest companies, **Meikles Africa** group. Meikles has also had a franchise agreement with **Clicks** for 10 years to date, and a majority shareholding in the **Cape Grace Hotel** in Cape Town. Meikles' two Zimbabwe hotels, the Meikles Hotel in central Harare and the Victoria Falls Hotel, have been running at occupancies of between 20% and 30% for the last few years. However, the company is confident that when the economy begins to improve, the hotels will make a rapid turnaround.

Meikles owns 54 supermarkets, branded as TM, and seven upmarket department stores. It reports increased demand for its department stores even though profits have been affected by reduced margins, high staff costs and inflation. Meikles also

owns Rebserve, a services company set up with Tokyo Sexwale to provide ancillary services to his company, **Mvelaphanda**. It currently has a 1% shareholding in the company, but is looking to increase its stake.

Shoprite

Africa's biggest supermarket chain has only one store in Zimbabwe, located in its second city, Bulawayo. The store was opened four years ago and although the company said it was looking for more sites, it has not opened any other stores yet.

South African Breweries

South African Breweries owns 35% of **Delta Corporation**, one of Zimbabwe's biggest companies. Three years ago, Delta disposed of its holdings in a range of sectors, such as hotels and retail, to focus on beverages. Its main market is local, with a small export quota for Zambezi lager. A company spokesman said the difficulties associated with exporting were too great to be worth it for them. Delta imports its own fuel under licence, to service its large distribution network.

Tiger Brands

South Africa's Tiger Brands owns 40% of **National Foods Holdings**, which it bought from Anglo American. The shareholding rose from 27% to 40% in mid-2005 after approval from the Reserve Bank of Zimbabwe. Its CEO, Nick Dennis, was quoted in the South African media as saying that in the long

term, the company believed Zimbabwe was a good springboard into the rest of Africa. 'So we are committed to Zimbabwe, although in the short term it's really, really tough in Zimbabwe', he said.⁷⁰

National Foods is the sole producer and distributor of all basic food commodities in Zimbabwe. It mills maize and wheat purchased from the state-controlled Grain Marketing Board (GMB). The company said in May 2005 that only two of its five milling sites — Bulawayo and Harare — were still operating, but only at 5% of their monthly production capacity, because of serious foreign currency shortages. All its products are subject to the government's price control regulations.

British American Tobacco

The company is linked to South Africa through holdings in the parent company by Remgro and Richemont, who are part of the Rupert business empire. The combined stake of the two organisations in British American Tobacco is close to 30%.

Siemens

The Zimbabwe office of Siemens was established in 1980 as Electro Technologies, and the name was changed to Siemens in January 1995. Its main areas of business are medical, communications electronics and infrastructure. Its contractors include the mobile phone operator NetOne, the National Railways of Zimbabwe, Baines Imaging and the Diagnostic Imaging Centre. It has contacts with the Ministry of Health.

⁷⁰ Interview with *Moneyweb*'s Alec Hogg, 14 July 2005.

Other companies include **Dunlop Africa**, which has interests in Zimbabwe's largest tyre manufacturer and exporter, Dunlop Zimbabwe; **Edcon**, which has a 42% stake in the Edgars group in Zimbabwe, but has written down its investment to Z\$1; **Truworths**; **Nampak**, through its 39% stake in the paper and packaging manufacturer Hunyani Holdings; and **African Explosives**, which has a division in Zimbabwe.

Three prominent South African companies, **Multichoice Africa**, **Pam Golding Properties** and **Woolworths** have franchise operations in Zimbabwe, as do a number of food companies such as **Spur Corporation**, **King Consolidated Holdings** (which owns the Keg franchise), Nandos and Steers. Multichoice Zimbabwe has been in business there for more than 10 years, and is the dominant player in the pay television market. **Sasol** has been supplying fuel to Zimbabwe since the late 1980s, but has no investments there. Two of Zimbabwe's largest firms, the telecommunications company **Econet Wireless International** and the regional financial services group **African Banking Corporation**, currently run their operations from South Africa.

A number of South Africa's key parastatals provide services in, and to, Zimbabwe. **Eskom** supplies about 4% of Zimbabwe's power; **SAA** has been flying to Zimbabwe for many years, and still offers two flights daily to Harare and once a day to Victoria Falls, with average load factors of 65% for Harare and 68% for Victoria Falls. **Transnet** has agreements with the National Railways of Zimbabwe, while **Telkom** is a key service provider to TelOne, Zimbabwe's main landline operator.

Appendix B: South African and Zimbabwean Trade by Commodity

South African Imports from Zimbabwe by Commodity			
<i>Commodity</i>	<i>Value of Goods, 2005 (R000)</i>	<i>Value of Goods, 2004 (R000)</i>	<i>Value of Goods, 2003 (R000)</i>
Mineral products	1,516,779	1,262,243	1,087,311
Base metals	601,619	317,377	325,074
Wood & articles of wood	150,773	146,663	152,283
Textiles	277,345	530,702	354,027
Prepared foodstuffs, beverages	186,809	185,373	280,099
Miscellaneous manufactured articles	80,840	61,741	66,240
Machinery & mechanical appliances	79,203	46,508	73,999
Vegetable products	71,532	73,402	71,211
Other unclassified goods	21,577	28,354	31,483
Articles of stone, plaster and cement	27,141	25,164	43,773
Raw hides & skins and leather	29,674	28,163	34,956
Pulp of wood	15,655	13,769	30,910
Vehicles, aircraft and vessels	18,961	18,290	26,235
Plastics	7,955	11,858	7,824
Footwear, headgear and umbrellas	17,462	18,389	20,233
Chemicals	13,699	15,163	36,271

South African Imports from Zimbabwe by Commodity (continued)			
<i>Commodity</i>	<i>Value of Goods, 2005 (R000)</i>	<i>Value of Goods, 2004 (R000)</i>	<i>Value of Goods, 2003 (R000)</i>
Natural or cultured pearls	4,490	4,335	2,566
Live animals; animal products	6,546	5,135	8,500
Optical, photographic equipment	1,655	1,865	1,769
Works of art, collectors' pieces	1,372	1,121	1,050
TOTAL	3,131,518	2,795,783	2,656,012
Source: <i>South African Department of Trade and Industry, 2006.</i>			

South African Exports to Zimbabwe by Commodity			
<i>Commodity</i>	<i>Value of Goods, 2005 (R000)</i>	<i>Value of Goods, 2004 (R000)</i>	<i>Value of Goods, 2003 (R000)</i>
Vegetable products	1,665,436	494,472	837,377
Mineral products	1,198,137	1,551,739	921,843
Chemical products	1,087,538	904,915	989,023
Machinery & mechanical appliances	1,049,356	961,689	973,844
Plastics; rubber	572,528	504,829	513,125
Base metals	557,200	527,736	643,692
Vehicles, aircraft and vessels	442,847	416,911	726,797
Pulp of wood	269,763	205,698	226,211
Prepared foodstuffs; beverages	128,115	128,962	201,669
Articles of stone, plaster and cement	80,554	82,992	118,670
Textiles	165,692	164,473	152,979
Animal or vegetable fats	76,060	55,409	48,154
Optical, photographic items	71,299	83,812	69,952
Miscellaneous manufactured articles	33,342	23,274	38,387
Wood; wood charcoal	24,074	18,588	23,942
Footwear, headgear	14,273	10,880	16,306
Other unclassified goods	12,596	2,998	2,371
Live animals; animal products	33,690	35,639	36,729

South African Exports to Zimbabwe by Commodity (continued)			
<i>Commodity</i>	<i>Value of Goods, 2005 (R000)</i>	<i>Value of Goods, 2004 (R000)</i>	<i>Value of Goods, 2003 (R000)</i>
Raw hides & skins	3,569	5,067	5,766
Arms and ammunition	128	208	369
Natural or cultured pearls	380	536	2,132
Works of art, collectors' pieces	141	50	160
TOTAL	7,486,859	6,182,317	6,551,409
<i>Source: South African Department of Trade and Industry, 2006.</i>			

Appendix C: Selected Financial and Monetary Indicators: Zimbabwe

Zimbabwe: National Accounts, \$ million					
	1995	1997	1999	2001	2003
GDP, real, constant 2000 prices	6,542	7,414	7,574	6,598	5,354
General government consumption, % of GDP	18.0	16.3	15.2	19.3	15.8
Gross domestic Investment, % of GDP	2.9	2.8	4.1	1.0	1.8
Gross public investment, % of GDP	21.7	15.3	10.8	6.7	10.6
Gross domestic savings, % of GDP	17.0	11.1	15.7	9.0	2.1
Gross national savings, % of GDP	16.8	9.1	14.0	6.6	1.0
GDP growth, % annual change	0.2	2.7	-0.7	-8.4	-14.0

Zimbabwe: Money and Banking, Z\$ billion					
	1995	1997	1999	2001	2003
Net foreign assets	-3	3	-12	-11	-157
Growth of money supply, %	52	54	35	143	485
Commercial Bank lending rate, %	34.7	32.5	55.4	38.0	N/A
Commercial bank deposit rate, %	25.9	18.6	38.5	13.9	35.9

Zimbabwe: External Sector, \$ million					
	1995	1997	1999	2001	2003
Net foreign direct investment(current prices)	98	107	50	0	5
Other capital flows	-6	-235	-235	185	-193
Coffee exports, Thousand of metric tons	10	12	7	1	6
Cotton exports, Thousand of metric tons	27	91	80	69	70
Sugar exports Thousand of metric tons	160	219	165	179	98
Tobacco exports, Hundreds of metric tons	1,760	1,650	1,639	2,211	1,354
Meat exports, Hundreds of metric tons	238	143	205	5	86
Manufactured goods exports, (current prices)	826	900	609	314	319
Food Imports	78	84	82	68	206
Non-food consumer goods imports	205	203	125	186	150
Fuel imports	176	250	223	369	456

Zimbabwe: External Debt and Related Flows, \$ million					
	1995	1997	1999	2001	2003
Total external debt	4,976	4,707	4,566	4,444	4,448

Zimbabwe: Government Finance					
	1995	1997	2000	2001	2003
Government deficit/ surplus (excluding grants), % of GDP	-11.9	-8.6	-10.3	-10.6	-0.3
Government revenue (excluding grants), % of GDP	26.7	28.7	27.8	27.3	23.5
Taxes on income and profits, % of total revenue	45.9	47.6	50.7	54.3	53.4
Gov expenditure: wages and salaries, % of total expenditure and lending minus repayments	29.2	35.5	35.5	34.1	37.9

Zimbabwe: Aid Flows, \$					
	1995	1997	1999	2001	2003
Net aid from all donors, nominal, million	492	336	245	164	186
Net aid per capital from all donors, \$	43	28	20	13	14

Source: World Bank Development Indicators, 2005.

Appendix D: Selected Indicators of Employment and the Labour Force

Zimbabwe: Labour Force and Employment, thousands			
	1980	1990	2003
Number of the labour force	3,168	4,639	5,899
Source: World Bank Development Indicators, 2005.			

Zimbabwe: Industrial structure of the labour force, %			
	1980	1990	1995-2000
Agriculture	32	24	N/A
Industry	27	28	N/A
Services	40	48	N/A
Sources: World Bank Development Indicators, 2005.			

Zimbabwe: Labour Force and Employment, monthly, \$					
	1995	1997	1999	2001	2003
Wages in agriculture	34	44	27	60	N/A
Wages in manufacturing	196	216	123	233	N/A
Wages in mining and quarrying	165	207	128	221	N/A
Wages in construction	106	140	74	159	N/A
Wages in transport, storage, and communications	243	273	185	323	N/A
Wages in community, social, and personal services	130	233	135	267	N/A
Source: World Bank Development Indicators, 2005.					