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Fresh insights into the Zimbabwean situation

THRIVING BLACK MARKET KEEPS ECONOMY AFLOAT

Money-changers are among the few people doing well out of Zimbabwe's crumbling economy.

By Norman Chitapi

Credit: Lazele

An exchange office in a Harare bank. Most people opt to change money on the black market. Picture taken Januray 23rd 2007.

Hotels in Harare's central business district used to be the preserve of the well-heeled businessmen and tourists who flocked to Zimbabwe, particularly from the West.

As high-powered business deals were concluded inside the hotels, the prostitutes would wait outside to ply their trade. As soon as you stepped out of the hotel lobby during the evening, scantily-dressed women would try to attract your attention from behind parked cars. Just in case you missed the furtive signals, they would pop up beside your car and tap discreetly on the window.

But no more — the ladies of the night have grudgingly yielded to a new and rapidly growing breed of entrepreneurs, the black-market money-changers.

Unlike prostitutes, Zimbabwe's moneychangers do not operate at night. They hang around on the approaches to luxury hotels like the five star Meikles Hotel or the equally prestigious Holiday Inn, occasionally moving up and down the street to avoid detection by the police.

As soon as you park your vehicle, they are all over you, asking what currency you want to buy. They have all sorts of foreign currency in every possible denomination, even though the Reserve Bank of Zimbabwe's coffers are empty. US dollars are the most popular, then the South African rand and the British pound, followed by other currencies.

NEWS IN BRIEF

■ The Minister of Indigenisation and Empowerment, Paul Mangwana, has announced that the government will force foreign-owned mining firms in the country to cede a controlling share in their stock to indigenous Zimbabweans before the end of the year.

■ President Mugabe has warned businesses to stop unilateral increases of prices of basic commodities, saying his government might be forced to nationalise all companies that engage in the practice. He was speaking after the cabinet ordered retailers to slash the prices of basic commodities by 50 per cent. Now a blanket freeze has been imposed on the prices of all goods and services, and members of the public have been urged to blow the whistle on retailers who ignore the latest edict.

■ Opposition parties this week accused the government of attempting to rig next year's elections even before a single ballot is cast, by instructing officials to turn away thousands of opposition supporters wishing to register for the polls.

■ South African president Thabo Mbeki will brief Southern African Development Community leaders on progress in the talks between Zimbabwe's main political parties during an African Union summit in Ghana on July1-3.

The traders come in all shapes and sizes, united only by their determination to drive a hard bargain.

At one end of the spectrum is the well-dressed gentleman leaning against his slick Mercedes Benz and tinkering with the latest-model cell phone. At the other is the school-leaver or the woman who looks as though she would be more at home working at a market stall.

Some are there to change money sent home by their relatives in the diaspora. Others are agents working for big businesses, desperate to acquire foreign currency to stay afloat.

Reserve Bank governor Gideon Gono has described the thriving black market trade in foreign currency as Zimbabwe's own "World Bank". Some argue that the parallel currency trade keeps the economy going when it should long since have imploded, and that its existence has therefore averted widespread popular unrest.

The black market took off after the Zimbabwean economy began contracting by an average of four per cent annually in 1997, and especially since President Robert Mugabe's land seizures from 2000 onwards precipitated a steep economic decline.

The formal banking system still uses an official exchange rate pegged at 250 Zimbabwe dollars, ZWD, to the US dollar. On the illegal parallel market the American dollar is worth up to 100,000 or 150,000 ZWD, an astonishing difference which makes precise comparisons redundant.

In addition — and of course closely linked to the ZWD's devaluation on the street — the country is suffering alarming inflation rate. In May, prices showed a 4,500 per cent increase on the same month in 2006. Economists are even more worried by the rate of increase — prices at the end of May 2007 were 100 per cent higher than they had been four weeks earlier.

Wages have been increasing in nominal terms, too, but nowhere near enough to keep pace with inflation.

The average monthly wage of a factory worker is 800,000 ZWD — a respectable 3,200 US dollars at the official exchange rate but just eight dollars on the black market.

Rather than try to use the two widely diverging exchange rates as a measure of comparison, it is more useful to set these wages against the minimum cost of living level, which the Consumer Council of Zimbabwe said was 5.5 million ZWD for an average family of six in May. Even though teachers and nurses now earn around four million ZWD a month, their incomes clearly fall well below the minimum they need to get by.

One of the factors driving inflation is that imported goods are bought using foreign currency acquired on the black market, so the retail price expressed in ZWD is accordingly high.

"It's the only way I can preserve the value of my money" — businessman who uses the black market.

Tonderai, a young man from Eastlea who has never been in formal employment since leaving high school two years ago, explained how the system works in practice. He trades in the money his sister sends back from the UK in British pounds.

"If I change 100 pounds in the bank they will give me 4,500 ZWD," he said. "A single loaf of bread costs 23,000 ZWD. Work out for yourself whether it makes sense. On the black market I can easily make 25 or 30 million ZWD from what my sister sends me a month. How many Zimbabweans who go to work every morning earn that kind of money?"

Transactions take place right on the street, or out of sight in cars and even in lifts. Once the deal is done, the traders move further out of town into the Avenues district, a red-light area which is the haunt of the big-time currency dealers. Here, foreign currency sells at a premium to businesses that need to make foreign purchases.

Some of the buyers are private enterprises, both legitimate importers and also the firms which illicitly bring in fuel from South Africa. Then there are the government officials who want to buy luxury goods or pay their children's school fees abroad.

Even government agencies are said to buy currency in this way to fund essential imports of items like grain and electrical power, as there are not enough dollars and rands in the country's Reserve Bank.

At only 36, Maxie has made a small fortune importing cars, and regards black-market currency purchases as essential to his business.

"It's the only way I can preserve the value of my money," he explained. "Every car sold means more foreign currency for me; then I am able to import more."

Maxie drives around in a Mercedes, but plans to get a Bentley soon — meaning another trip to the "World Bank".

Demand for foreign currency looks likely to grow stronger as inflation rises and confidence in the ZWD declines. That will keep even small-time traders like Tonderai in business for the foreseeable future, despite the risk of arrest in what is, after all, an illegal sector.

"Without doing any formal job, I am still far better off than my friends who get up at five, scramble for transport and return home weary at the end of the day. It's me who buys them beer every day," said Tonderai.

"They [police] can arrest us, but my brother, nobody teaches you common sense except common sense itself."

Norman Chitapi is the pseudonym of a journalist in Zimbabwe. ■

DOOMSDAY PREDICTIONS PREMATURE?

New report suggests runaway inflation will drive Zimbabwe out of business by year end, but experts say this ignores the underlying resilience of grassroots economic activity.

By Florence Ushe in Harare

Credit: Lazele

A fishmonger holds her baby as she waits for customers in Harare. Picture taken May 18th 2007.

International aid agencies based in Zimbabwe are predicting that the country's economy will implode within the next six months, potentially leading to major social unrest.

But economists interviewed by IWPR disagree, saying total meltdown is not imminent, and crediting Zimbabwe's informal sector with keeping disaster at bay when under normal circumstances everything should have ground to a halt a long time ago.

The Heads of Agencies Contact Group, which represents close to 40 aid groups and other non-government organisations, including the United Nations, the Red Cross and Oxfam, have warned that the country's economy will completely cease to function by December this year.

The Heads of Agencies report, issued last week and compiled by private consultants to raise awareness among international organisations, donors and their staff in Zimbabwe, said aid groups should brace themselves for a scenario where shops and businesses closed, the Zimbabwean currency became utterly worthless; unrest broke out among a destitute population; and a state of emergency was declared by the government.

The key trigger for disintegration, according to the report's authors, is an acceleration in the already headlong gallop of retail price rises — the world's highest rate of inflation.

In May, inflation stood at 4,500 per cent compared with the same month in 2006.

Year-on-year inflation has been in the thousands for some time, but what worries the consultants who wrote the report is the speeding up of price rises from month to month. By the end of May, prices were 100 per cent higher than they had been at the end of April, so that as the report put it, wages and money held in the bank halved in value in the space of four weeks.

This monthly jump has accelerated the trend for shops to constantly change price-tags on the goods they are selling. As well as doubling prices over the course of May, the report said retailers were doubling them again in anticipation of the need to restock at much higher prices.

Indications that money was quickly becoming worthless were that price quotations were now being quoted as valid for a day — even an hour — instead of seven to 14 days; wages were being paid weekly instead of monthly, and sometimes in kind rather than in cash; and the rate of business closures was higher than in previous months.

If this trend continued, "doubling the current [month-on-month] inflation for each of the seven remaining months of 2007 gives 512,000 per cent [year-on-year inflation], thus the economic collapse is expected before the end of 2007", the report's authors said.

The Zimbabwean dollar is already depreciating fast in real terms, and the government policy of pegging the official exchange rate at 250 to the dollar has only created a burgeoning black market in scarce foreign currency. But if inflation continues to rise at present rates, the report says the national currency will go out of use altogether, to be replaced by a mix of barter and payment in foreign currency.

When that point comes, the forecast is gloomy — "shops and services substantially cease to function", unemployment becomes near universal, and there is "concomitantly increased crime and possible civil disturbances", according to the report.

Many people think the economy has pretty much fallen apart already. Most members of this once relatively prosperous nation are close to destitution. Power and water utilities are slowing to a halt, with long daily cuts experienced across the country. Telecommunications are poor and the already faltering education system has deteriorated further.

The health sector, according to the Zimbabwe Association of Doctors for Human Rights, has already ground to a halt following a recent strike by staff at the country's major health institutions. Public hospitals have closed their doors to the public and have been emptying their wards.

Consultants predict "increased crime and possible civil disturbances".

Yet some local economists argue that while the economy is "deeply stressed", it is unlikely to collapse in the next six months — because it is being saved by the relatively vibrant "informal sector". This term means small businesses, traders, and craftsmen and women, and service providers who operate outside the reach of the taxman and whose activities are not captured in national statistics.

Economists polled by IWPR said Zimbabwe has defied all conventional economic and political theories, so that predicting the imminent demise of its economy is risky.

Under normal circumstances, no country that was not actually at war would have survived such high inflation rates and parallel exchange rates 100 or more times the official rate.

"My understanding is that [the economy] hasn't collapsed because of the people who are the bottom of the pyramid; that is, the informal sector," said Crispen Mawadza, whose company finances small- to medium-sized businesses.

Zimbabweans were naturally endowed with entrepreneurial skills, he said. Had this not been the case, many more children would have had to drop out of school, and industries would have gone under.

Economist David Mupamhadzi concurred with this view, saying it was misleading to posit economic meltdown on inflation indicators alone. Before this happened, other key economic variables would need to have deteriorated to unmanageable levels, including unemployment and social indicators such as the functioning of healthcare.

"It will not happen in Zimbabwe — not in six months," predicted Mupamhadzi. "It is a fact that our economy is overheated and most of the key indicators are in the negative — the economy is in dire stress.

"However, if you look at Zimbabwe's economy, what is carrying it is the informal sector. The informal sector is driving Zimbabwe's economy as it tends to cushion people [from their hardships]. If the economy was totally formal, it would have totally collapsed a long time ago."

He concluded, "Zimbabwe's economy has defied all conventional logic."

Collapse averted thanks to "the people who are the bottom of the pyramid" — finance company official.

Another local economist, John Robertson, said it was not easy to define exactly when a country could be said to have collapsed.

"Total collapse does not actually happen. People are making comparisons of countries like they are talking about companies. A country never ceases to exist. A collapse happens when the current system of governance breaks down completely.

"What I can say about Zimbabwe is that there is a state of collapse of certain systems like traffic lights, water, telephones, power and health. There can be total collapse when people lose confidence in the use of their own currency — when workers say they want to be paid in foreign currency and shops demand foreign exchange for purchases."

Another prerequisite for this would, he said, be that the large public sector — civil servants and the military — said would have to say they could no longer subsist on payments in Zimbabwean dollars. This would trigger a loss of confidence and the breakdown of financial systems like banks.

"Zimbabwe's economy has defied all conventional logic" — economist David Mupamhadzi.

Another factor, not mentioned by these economists, is the safety net provided by the substantial remittances that Zimbabweans receive from relatives abroad.

Comprehensive data are difficult to come by, but a study by the Global Poverty Research Group last year showed that of 300 households surveyed in Harare and Bulawayo, half had received cash, goods or food from abroad, almost all within the last year.

This represented "an extraordinarily high density of receipt", the report said, concluding that it reflected the reality that migratory flows had become "key coping strategies" in recent years.

The two main locations for relatives were Britain and South Africa, with Botswana and other countries some way behind.

Florence Ushe is the pseudonym used by a journalist in Zimbabwe. ■

SADC TALKS HANG IN THE BALANCE

Constitutional amendment looks likely to scupper Mbeki mediation initiative.

By Joseph Sithole in Harare

The eighteenth amendment to Zimbabwe's constitution, gazetted last week by Justice Minister Patrick Chinamasa, has been criticised everywhere as a further indication that President Robert Mugabe is not keen on talks with the opposition — talks which, it is naively claimed, will end the country's eight-year political and economic crisis.

Many analysts suggest that opposition Movement for Democratic Change, MDC, demands and ZANU-PF actions mean that a Pretoria-led effort to get the two sides together is unlikely to succeed.

Analysts doubt the South African mediation effort will succeed.

Through South African president Thabo Mbeki's mediation process in Zimbabwe, mandated by the Southern African Development Community, SADC, the MDC is demanding a new, people-driven constitution, a new voters' roll, an independent electoral commission, the right to vote for people living in the diaspora (all who are assumed to be opposed to ZANU-PF rule, or at least to Mugabe), and a constituency delimitation commission answerable only to parliament.

The MDC also wants an immediate end to politically-motivated violence against its supporters and international observers for the country's first combined presidential and parliamentary elections, tentatively scheduled for March next year.

Credit: Lazele

Liberation war veterans at a rally at ZANU-PF head office in Harare. Picture taken June 9th, 2007.

ZANU-PF, however, has pushed through Constitutional Amendment 18, which reduces the term of the president from six to five years, legalises the joint holding of parliamentary and presidential elections and, significantly, increases house of assembly seats from the current 150 to 210 and senate seats from 66 to 84.

The latter would require the redrawing of new electoral boundaries, which would give ZANU-PF room to gerrymander constituencies, especially in rural areas where it enjoys considerable support.

Critics argue that because the amendment is being rushed through by ZANU-PF and not as part of a mediation process with the MDC, the mediation process itself is being undermined.

Writing in the Zimbabwe Independent, Jonathan Moyo, a political scientist and independent member of parliament, said, "Mugabe's henchmen want to pre-empt and sabotage Mbeki's SADC mediation by turning it into a meaningless exercise in assured failure."

Lovemore Madhuku of the National Constitutional Assembly, a pressure group that has campaigned for a new constitution since the late Nineties, said the amendment "puts an end to the Mbeki initiative".

Some observers are not quite so pessimistic but agree that the ZANU-PF was trying to weaken the opposition in advance of possible talks.

Mugabe's administration wants to make the mediation process "a meaningless exercise in assured failure" — Jonathan Moyo.

A Harare-based analyst said the MDC was right to be wary about what the ruling party was doing but that didn't mean the SADC talks were dead, suggesting that ZANU-PF was trying to "limit the MDC's options".

"ZANU-PF... are always a step ahead of their opponents," he said.

Another Harare commentator said it was naive of the opposition to imagine that a sitting government would create a constitution that disadvantages it. "If [the MDC] wants a new constitution they will have to win power first. This is politics; you play according to the rules on the ground not romantic ones. The amendment is characteristically ZANU-PF playing politics. Politics is their life," he said.

ZANU-PF "always a step ahead of their opponents" — Harare-based analyst.

Mugabe recently told New African magazine in an interview that no politician would make constitutional changes that would cost him power. He scoffed at MDC demands for a new constitution as unrealistic expectations.

The commentator said the MDC should set minimum achievable demands and decide now whether it will take part in next year's election if they are not met. He said so far people didn't know where the party stood — apart from making demands for free and fair elections.

He said nothing stopped the party from engaging ZANU-PF in the parallel process on the new constitutional amendment while they pursue Mbeki's mediation route, "It is better to try and influence the process through engagement than by standing aside and hoping that Mbeki alone will come to their rescue. They can try to influence ZANU-PF MPs to reject the amendment when it is presented to parliament next month."

ZANU-PF needs a simple majority in parliament to pass the bill into law. It already has that by virtue of its overwhelming majority in the senate.

The analyst pointed to the emergence in the ruling party of factions linked to leading personalities said to be opposed to Mugabe's plan to stand as the sole candidate in the presidential election in March. Rural Housing Minister Emmerson Mnangagwa and retired army general Solomon Mujuru are said to be opposed to Mugabe's plan. But they are also bitter rivals to succeed him.

MDC "wants to remain an urban party, yet the majority of our people live in rural areas" — analyst.

He also said the MDC depended too much on an urban constituency while doing precious little to win voters in the countryside. "They want to remain an urban party, yet the majority of our people live in rural areas. A new constitution won't alter that reality. By the time they get that constitution, ZANU-PF will have won the election," he said.

Joseph Sithole is the pseudonym of an IWPR contributor in Zimbabwe. ■

The Zimbabwe Crisis Report is an initiative of IWPR-Africa's Zimbabwe Programme.
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The key purpose is to increase awareness in the Southern African region of the Zimbabwean situation and the implications for regional peace, security and economic development.

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