Political Victories And Economic Defeats
Managing The Post-Election Crisis In Zimbabwe

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'A government can rig an election, but it cannot rig the economy.' John Makombe, University of Zimbabwe

The Zimbabwe African National Union (Patriotic Front) won a two-thirds majority at the recent Parliamentary elections and has therefore established its right to rule for five more years. Violence and intimidation was significantly reduced during the last three weeks of the campaign, so the carefully chosen election monitors from the region could treat the result as a genuine representation of the national will, although not quite a 'free and fair' election. The opposition Movement for Democratic Change won virtually all the urban seats and would probably have won an overall majority had it been given full access to the media, and its supporters not been intimidated, denied access to food, removed from voter's rolls, and the vote in all probability 're-adjusted' after the event in many constituencies, and is therefore left with a residual role in Parliament in the present context.

Our first task is to understand how a regime that was said to be in a state of terminal crisis two years ago has been able to win an election and overcome some of the economic problems that threatened to destroy it. Our second is to examine the ways in which it has managed and mismanaged the economy over the past five years, and asses the viability of the mechanisms that it is using to extract the resources it needs to finance the state apparatus, reward it key constituents, and alleviate the deepening poverty and marginalisation being experienced by most of its people. Our third is to consider the effects of its recent attempts at economic reform, and to identify the major problems that their failure is now generating for the society as a whole.

The regime's ability to do this is now seriously compromised. Growing competition for contracting resources has produced serious splits in the party that surfaced dramatically during the run-up to the election. The MDC vote has grown in rural areas despite the repressive activities of Chiefs, local police and administration, and violent youth militias, and the Veterans of the anti-colonial civil war, who have spearheaded their repressive activities since 1997, are becoming increasingly disillusioned by their inability to secure any real gains. The government has been able to manage these political threats with considerable skill for many years, and may well be able to go on doing so for some time, but it will not be able to survive indefinitely unless it can sustain at least minimal levels of productivity and its capacity to tax and spend. This article will attempt to show why the new 'development cabinet' is likely to be unable to meet this challenge, although it will not attempt to any predictions about what is likely to happen if it fails.

Managing the Political Environment

The ZANU PF regime had confronted its first major political challenge in 2000 when it lost a Constitutional Referendum and the newly formed Movement for Democratic Change almost won a popular majority at the Parliamentary elections. It they launched a campaign of systematic intimidation against the MDC MPs, and putting their leader on trial for treason. Journalists writing for the main opposition newspaper were arrested and harassed, and the newspapers closed down in 2004. Large numbers of ZANU PF militants were sent to political training camps, and then let loose as youth militias in many constituencies where they intimidated and often assaulted opposition supporters. Members of the ZANU PF War Veterans movement were put into key positions in the police and the army, and Chiefs and Headmen in the rural areas were given increased salaries and allowances to guarantee their support. The government also gave the state controlled Grain Marketing Board monopoly powers to buy maize, and used it to deny food to many of its opponents.

By the middle of 2004 ZANU PF had shown that it could win bye-elections in even the safest MDC seats by using militias to force MDC supporters to stay at home, manipulating electoral rolls, and additional bussing voters into constituencies. Army officers ran the 2005 election, key constituency boundaries were redrawn, and an out-of date electoral register retained, and election monitors from the UN and Western countries were refused entry.

During the election carefully selected election monitors from the region were admitted for the last three weeks of the campaign when the MDC was also allowed to campaign freely for the first time. It was able to win 41 urban seats out of the 120 contested, and to significantly increase its rural vote. This allowed the official election monitors to claim that the result did reflect the national will, although they did not recognise it as 'free and fair'. However, widespread irregularities were recorded in a detailed survey of 105 constituencies conducted for a consortium of local NGOs by the National Constitutional Association. These included the use of violence by 'ZANU PF supporters, youth militia, and agents of the State', and 'the political use of food … in 74% of the constituencies sampled.'[1]

More than 10% of voters were turned away from polling booths, and there were major discrepancies between the number of votes that polling agents announced at the end of the day, and those on which the final results were based. Since the President has the power to appoint a further 30 MPs, ZANU PF now has the two thirds majority it requires to alter the constitution. The MDC retains a strong enough presence to represent the country's main hope for the future, but Mugabe has made it plain that it will have no influence over forthcoming events.

The regime has also been able to retain the support of most of the states in the region, despite these abuses and its economic failures, because of Mugabe's ability to present himself as an anti-colonial nationalist restoring economic rights to his people, and their reluctance to criticise each other. President Mbeki of South Africa, who could have put real economic pressure on the regime by denying it access to electricity and other services, refused to do so. Instead, like Margaret Thatcher in her dealings with the Nationalist regime in South Africa in the 1980s, he has used 'quiet diplomacy' to

[1] NCA 'The 2005 Parliamentary Election. Flawed, Unfree and Unfair', Harare, April 2005.

try to broker an agreement between the major parties while protecting the regime from its creditors in South Africa, and the regime from international criticism.

The Nature of the Economic Breakdown

The scale of the economic catastrophe inflicted on the country by the ZANY PF government since 2000 can be quickly summarised.

Total production is down by at least 40%; food production and agricultural exports have declined by two thirds since the land seizures began in 2000; manufacturing output is less than half of 1997 levels; mining output, excluding platinum has fallen, total exports are down by more than 50%; and formal unemployment exceeds 70%. External debt has not increased significantly since the country cannot borrow, but it has almost doubled as a proportion of GDP to about 138%, and arrears are up from US$ 109 million in 1999 to US$ 2,700 million in 2005. Savings were 75% greater than domestic debt in 2000 and are now about 50% less than debt. Two local banks had to be closed, and six more suspended out of 17 in 2004. The real value of the Zimbabwe dollar had fallen from 11 US in 1997 to 6,000 on the official market and 18 000 on the parallel market at the end of April. Inflation was 600% at the end of 2003, had been reduced to a notional 123% in March, but is exploding again in the face of massive increases in the fiscal deficit, government domestic debt, and shortages of all kinds.[2]

This process of economic decay has had devastating social consequences. Thousands of people are now suffering from serious food shortages, and a million tons of food imports are needed to avert widespread starvation. More than 150,000 displaced farm workers now live as internal migrants in unbearable conditions, and as many as 30% of the original number have already died from AIDs and other diseases, deprivation and stress. Perhaps 2 million people have emigrated and live as illegal economic migrants in South Africa, Botswana and Europe, destroying the basis for stable family life. The middle classes have also suffered since inflation has destroyed their personal savings and pensions. Health, education and other social services have collapsed, and life expectancy has fallen from more than 60 in the late 1990s to about 35 now. Population had been growing by 3.5% per annum for a hundred years before the economic and social crisis, but has now started to decline.

These official figures underestimate the productivity of the ‘real economy’ because of the rapid growth of informal activities and a growing tendency for producers to engage in illegal transactions in order to evade the increasingly onerous exactions of the state. However they do provide an accurate picture of the damage that populist and predatory policies have done to what had been one of the most industrialised and best managed economies on the continent. They also provide us with a clear indication of the scale of the government’s problem, because it cannot capture the resources being generated in the informal and ‘black’ economies, so its long-term survival therefore depends first and foremost on its ability to restore the productivity of the formal sector.

[2] Source: Robertson Economic Information Services. I am very grateful to John Robertson for access to this data and his analysis of its implications.

To overcome these problems we must now first explain the logic of the political and economic forces that have driven this process of political and economic decay, and use this analysis as the basis for a new approach that will not only overcome these economic problems, but also enable those responsible to secure the political support required to remain in power and rebuild state capacity. This article will focus almost entirely on the first of these issues.

Populist Policies and Economic Breakdown

What, then, were the major policy changes that have produced these disastrous results, and why have they been continued for so long, given their increasingly disastrous results? Zimbabwe was a relatively well-managed African state up to the second half of the 1990s. [3] By the start of 1997 it had completed a difficult and socially disruptive Structural Adjustment Programme (ESAP), but both its exports and output were growing strongly. In August 1997 it began to take a series of decisions that have led it inexorably from one crisis to another, and now to a situation of virtual collapse where many people will facing actual starvation if the government does not make an urgent appeal for foreign aid.

At the most general level, it is clear that the shift from the relatively disciplined economic policies that prevailed up to the middle of 1997 to a range of populist measures was a function of a growing sense of political vulnerability, and a corresponding willingness to use its economic power to transfer resources to key stakeholders and, in doing so, to undermine the profitability and productivity of the real economy. This, in turn, further reduced the regime's long-term capacity to acquire the taxes and foreign exchange it needed to maintain the state's capacity to deliver essential services, and also to satisfy its own supporters. It has then had to turn to further short-term measures that have further worsened the situation, leaving it now confronting the terminal breakdown described in the preceding section.

The first indication of declining support was evident at the 1996 elections where ZANU PF was virtually unopposed, but voter turnout was very low. More significant, by 1997 the government's failure to generate formal sector jobs, exacerbated by ESAP, had led to widespread strikes from civil servants and other workers, and to threatening demonstrations from veterans of the civil war of the 1970s. These activities were complemented by a significant growth in activism amongst a wide range of civic organisations that came together under the auspices of the National Constitutional Association (NCA) in 1998 to campaign for a more democratic constitutional system. This opposition finally culminated in the formation of the opposition MDC in 1999, and in the the loss of the government's Constitutional Reform Referendum in February, and in the MDC almost winning a popular majority in the parliamentary elections in April 2000 and the Presidential elections in 2002. led to the revival of almost forgotten demands for the transfer of white-owned commercial farms to black owners, and to the decision to encourage violent farm invasions by war veterans and less widespread occupations of commercial and industrial businesses.

The ZANU PF regime has used four key mechanisms to buy political support – fiscal transfers, foreign exchange controls, the seizure of private assets, and the allocation of

[3] I have examined the political and economic implications of these processes see in 'From Corporatism To Liberalisation In Zimbabwe', in *The International Political Science Review,* 2005.

monopolies and subsidies to state enterprises. and in doing so, to undermine the viability of the economic system and policy

First, the ZANU PF regime had always run a high taxation policy, and it was its inability to bring the fiscal deficit under control during ESAP that had undermined much of the rest of the programme, and lost it the full support of the International Financial Institutions. (IFIs) In early 1997 it was attempting to negotiate an extension of IFI support, but it was then confronted with the War Veteran's demonstration, and responded by giving them large and unbudgeted payouts in August 1997. This lead to a serious loss of business confidence and a collapse in share prices and in the value of the currency. Despite this it then send its troops to the Democratic Republic of the Congo in 1998, seriously worsening the fiscal deficit and alienating the IFIs even further. While it had generally financed itself through taxes and controlled borrowing up to the end of the 1990s, it now began to print money, and initiated a cumulative growth in inflation that peaked at 600% at the end of 2003.

Second, the currency crisis at the end of 1997 persuaded the government to reintroduce the forex controls relaxed during the ESAP period and kept the rate at an increasingly over-valued level from then onwards in order to give it access to the foreign currency it needed to finance essential imports like energy, pharmaceuticals, and educational materials, but also military equipment and the luxury goods for the elite. By 2003 the gap between official currency was still being sold at 825 to the US$, while it had reached almost 8,000 on the unofficial market. Access to forex at the official rate was therefore an effective way of giving a growing group of crony business-men with close political connections access to huge rents that they used to finance luxury consumption, buy business assets and set up new banks. However, it was virtually impossible for legitimate businesses to import inputs or export profitably at these rates. The result was a continuous decline in exports and growth in bankruptcies in all sectors.

Third, the government responded to growing apathy in the rural areas by resurrecting its demand for land transfers that had virtually been in abeyance since the mid-1980s. It announced its intention of changing the constitution to enable it to take over land without paying full compensation at the end of 1998, and simultaneously nationalised all of the water and dams on privately owned farms. The former led to a loss of business and farming confidence, the latter to the cessation of all new investments in irrigation. But, most crucially, it encouraged the War Veterans to mount a campaign of violent farm invasions after the referendum and parliamentary elections. As a result the great majority of the white commercial farmers who were responsible for producing the bulk of the country's agricultural exports and commercially produced food were thrown off their land, and several of the killed in the process. The government then set up a hasty and badly managed redistribution programme in which many large farms were kept intact and allocated to favoured politicians, soldiers, judges and officials; and the rest divided into small subsistence plots. The result was been a devastating decline in production and a serious intensification of the forex and food crises as we will see.

Fourth, the government continued to control the supply of many key services and the commodities through state enterprises – power, transport, communications, food, steel, and many other activities. It used subsidies to control key prices – notably fuel which has always been heavily undervalued, and had controlled the prices of key foodstuffs. Lucrative jobs were given to key supporters including an increasing number of retired army officers, and crony businessmen given favoured access to soft contracts. Their resources have also been systematically abused to in order to support the existing regime. Zim Air provides the President with free international flights at short notice and the national bus company provides ZANU supporters with free transport to rallies. Their activities have been shrouded in secrecy, since none of them have published accounts for many years, but they are all losing money, intensifying the fiscal crisis and denying the private sector access to essential services. The virtual collapse of the railways, for example, will greatly intensify the problems involved in emergency food relief even if the government is able to raise the necessary resources. The Reserve Bank has now insisted on a full audit of their accounts before it will bale them out further, but many commentators believe that the elites who control them will never allow this to happen.[4]

By the end of 2003 the disastrous policy decisions had had three major effects. First, they had allowed the regime to reward its leading followers; obtain the resources needed to maintain minimal levels of state capacity, and to retain the support of the military, the police, and the traditional chieftaincy. However, second, they had systematically undermined the society's capacity to generate the resources it needs to continue this process in the longer term, and therefore made it more and more difficult for the regime to continue to finance itself without inflicting further costs on the economic and social system. Fuel queues were lengthening, power cuts were worsening, forex shortages were increasing and inflation was totally out of control. And third, they had also involved the forcible transfer of massive resources from almost every social group in the society described earlier, and not just from the white commercial farmers that captured the attention of the West. Few members of the indigenous population have been able to avoid these exactions and many of them now face life-threatening and politically generated shortages of food, medicines, jobs and savings.

Managing the Crisis: The Reforms of 2004

Few observers felt that the regime could survive for much longer by the second half of 2003 given the worsening economic situation and growing social anger that manifested itself in a series of successful general strikes. However, the regime retained sufficient competence to at least partially recognise the problem and introduced a programme of economic 'reforms' at the end of the year that did enough to restore a semblance of order. Gideon Gono, an experienced private banker, was made governor of the Reserve Bank of Zimbabwe (RBZ), given wide economic powers, and strong assurances by the President that he would be allowed to implement unpopular reforms. Economic policy had been taken out of the hands of the Ministry of Finance and the Cabinet and transferred to a supposedly technical committee led by the governor of the RBZ and responsible only to the President.

At the start of 2004 a new 'auction' system was introduced for forex allocations that was supposed to provide business with a more realistic rate. The parallel market was

[4] Gideon Gonwe the Governor is now obliged to travel everywhere with two armed bodyguards.

subjected to punitive controls, and the two rates virtually equalised at about 4500 in the first part of that year. As a result the government's access to forex increased from about US$ 300 million in 2003 to US$ 1.2 billion n 2004. This allowed it to overcome the fuel and power crisis, import food, allocate foreign exchange to a limited number of carefully selected companies, and to enter into what appear to be very unfavourable contracts with China to supply military hardware, unsuitable busses, and rehabilitate the country's major colliery.

Positive interest rates were introduced to suppress inflation, and these, together with limited improvements in fiscal management brought inflation down from 600% to about 125% before the election. The fall in inflation and disappearance of super-profits that were being made by well connected players who had been able to sell officially allocated forex on the unofficial market precipitated a banking crisis that threatened the survival of the whole domestic banking sector and of its deposits. The RBZ used this as a mechanism for getting rid of some of the worst performing banks by closing 2 of them down and putting six others into 'curatorship'. It also raised to 60% the proportion of banking deposits that had to be held as reserves at zero interest rates in its own coffers. It was able to use this money to support government spending, and introduced a system of emergency loans for troubled banks and Productive Sector Loans at negative interest rates of 50% for troubled businesses and new 'cell phone farmers' on stolen land. It has attempted to create the Zimbabwe Allied Banking Group, as a new consortium out of several of these marginal banks, but the process is being actively challenged in the courts by several of the players.

The Grain Marketing Board (GMB) was given a monopoly over the purchase of maize and wheat and the power to set prices and sell to the retail market. Roadblocks were set up outside major towns and grain being moved for sale was confiscated. Producer prices were kept very low, and enough forex allocated to the GMB to import supplies from South Africa to offset the effects of a very disappointing season in 2004, despite the fact that rains were very good. However, these controls, combined with their rejection of all donor offers of food aid, did give the government the power to exercise a powerful influence over the election in March, as we have seen.

These 'reforms' were in fact sufficient to contain the crisis until the election, but they did so by reducing their access to forex, pushing up real interest rates and failing to address the underlying weakness of the state sector. These problems intensified as the year progressed, mainly because the regime was never prepared to give up its ability to use its economic power to reward its closest supporters. As a result they have left the regime facing a post-election crisis that is far more serious than the one they confronted at the end of 2003.

The Nature of the Post Election Economic and Political Crisis

By the end of March the bankruptcy of all of the key reforms that had been used to stabilise the economic situation had become clear.

First, the auction had soon been turned into a system of direct allocation at increasingly punitive rates, and the parallel market had resurfaced. By the election the gap between official and unofficial rates had widened from 6,000 to t US$ to more than

12,000, and it was closer to 20,000 by the end of April. This has dramatically reduced exports and threatened the survival of all of the farmers and industrialists that cannot operate on the parallel market. The Reserve Bank is trying to persuade the regime to allow a significant devaluation, but this is being resisted because any attempt to raise it to realistic levels will force it to pay far more for its imports and worsen the fiscal crisis.

The Productive Sector Loans, were actually introduced as an expedient to defend producers from the effects of an unsustainable exchange rate. Needless to say they did not restore profitability, only intensified the long term problem. As a result most are not being repaid, and many companies are again faced with bankruptcy. In any case many were diverted to personal consumption, black market activities or stock market speculation, worsening inflation,[5] leaving the RBZ with a large portfolio of non-performing loans. These negative consequences were compounded by the fact that these loans were financed out of the deposits taken from the commercial banks by the RBZ. This has obliged them to increase their own rates to private borrowers, and reduce the rates they pay to depositors, while it has left the RBZ with a large portfolio of non-performing loans!

The complete bankruptcy of the land seizure programme has now been exposed by poor wheather at the end of the 2004/5 season. Grain output was perhaps half of a good year in 2004, with good harvests in the traditional African farming areas, and very little in the former commercial areas. This year African productivity has been seriously affected by drought. In the past this would have been offset by the use of irrigation in the commercial areas, but this no longer operates so the country can expect a harvest of little more than 500,000 tons, against a normal demand of 1.8 million. It has yet to acknowledge the extent of the shortfall, or to formally ask the donors for support, and is instead diverting its budget and forex into an emergency food purchasing programme.

Its ability to respond to the food crisis is seriously compromised by the lack of resources, inefficiency and corruption of the GMB, and the virtual collapse of other services – notably the railways and the state managed transport organisations. It has just made the GMB increase producer prices from Z$700,000 to Z$2.2 million per ton, assuming that producers are withholding supplies from the market. This is unlikely to generate a large increase in supplies since these are simply not available, and the GMB does not have the logistical capacity to obtain them. What it will do is provide favoured buyers with yet another opportunity to make monopoly rents by exploiting the price discrepancy, while simultaneously intensifying the fiscal crisis.

The collapse of the productive sector is also reducing taxes and exports just as the demands for emergency food imports is increasing the need for revenue and forex. Both problems are being compounded by the governments willingness to continue to subsidise fuel – the price is about three times South African levels at eh official exchange rate, and about ten times as high at the unofficial rate. [6] Needless to say this is causing significant leakages across the border, and worsening the fiscal and forex crises. Power outages and fuel queues have returned, and water riots have taken place in

[5] These problems are identified in a paper by the Confederation of Zimbabwe Industries. 'CZI Seeks Termination of Central Bank Facility'. *Daily Herald*, 21/4/2005.
[6] A litre of milk cost three times more than a litre of petrol at the end of April.

high-density suburbs in Harare since the water authority cannot afford the necessary chemicals and spare parts. Supermarkets are being forced to repress the prices of essential commodities although the government no longer has the legal right to do so, leading to reduced production, empty shelves and an active black market at prices that are double the 'official' price. These increases are not reflected in the official inflation figures.

The combined effect of these inter-linked crises is nothing less than the treat of a major economic and humanitarian catastrophe. Zimbabwe has been one of the worst performing economies in Africa since the land invasions began, and has now clearly run out of the resources needed not only to provide its citizens with minimal services, but also with the food needed for basic survival. In normal circumstances a government responsible for a disaster of this magnitude should have suffered a major election defeat, but as we saw, it was able to avoid this fate at the end of March through a combination of political manipulation and short-term economic reform. Our final question, therefore is to ask how long it is likely to be able to deal with the intense pressures that are clearly being generated by the growing economic crisis.

In fact the government shows no sign of being willing to change its ways. It has refused to look for support to the IFIs and Western Donors, and instead believes that it can overcome its problems by 'looking east', despite the fact that China and other countries there are unable to offer it aid, provide it with second-rate products, and their exports further undermine local producers. The new so-called 'development cabinet' contains five new ministries, including one for Public and Interactive Affairs, and another for Rural Housing and Social Amenities as a home for Mugabe's chief rival, and one-time enforcer Emmerson Mnangagwa, and enough 'dead-wood' to 'build a large ark'.[7] Needless to say no budgetary provision has been made to finance the budgetary increases that this expansion of the cabinet will involve, nor are they likely to satisfy the demand for spoils emanating from a growing pool of dissatisfied ZANU PF notables. Zimbabwe now has on of the largest Cabinets in the world with 49 Ministers and Deputy-Ministers, 10 Provincial Governors and 1 President.

Hence the current economic and humanitarian crisis will almost certainly continue to deepen over the next few months, but its political consequences are more difficult to predict. The MDC has been sidelined as we have seen, and is attempting to regroup and strengthen its organisational base. It represents the major hope for the country's future, but its failure to mobilise widespread demonstrations in 2003 appears to have persuaded it that this is not a viable prospect now. Civic organisations like the National Constitutional Assembly are hoping to exploit the anger generated by these failures to mobilise mass protests, but they have to contend with the repressive capacity of the state and more with the apathy engendered by dispossession, hunger and political atomisation. The Trade Union movement is fighting a losing battle against dwindling numbers and resources. The business community many of whom have made large windfall profits out of the abuses that this system has encouraged are also in fact now increasingly threatened by the current situation. They complain incessantly but does not resist the state's exactions, not least because so many of them owe

[7] For a number of incisive analyses see Zimbabwe Independent, 22/4/2005. The acumen and courage of the Independent and Financial Gazette is wholly to be admired.

their position to political favours from the government whose policies are undermining their ability to make proper use of them.

Gono knows that the only real hope for the country is a rapprochement with the donor community, substantial inflows of concessional aid and a return to economic discipline and rationality. But the President continues to demonise the west, while he and his closest associates continue to block the policy changes needed to turn the economy around and secure renewed donor support. He believes that they will be able to rebuild by looking east and not west, but China and Malaysia are making them pay in increasingly scarce hard currency for everything they receive. The almost unconditional support they have received from President Mbeki is now being challenged by his allies in the South African trade union movement, and by other civic organisations, and the government as a whole is becoming increasingly worried by the threats posed by the worsening situation.

Most important of all, Mugabe's ability to impose his own authority and maintain party unity is now seriously compromised, and must weaken further as conflict over the succession that should take place in 2008 intensifies. A major threat to his leadership emerged at the end of 2004 and was only averted by the removal of six out of ten Provincial Chairmen. Jonathan Moyo, his Minister of Public (Mis)Information resigned before the election and was nevertheless elected as an independent. Senior party officials, including the former Minister of Finance have been indicted for 'economic crimes', and three more imprisoned for spying for South Africa. There are rumours that senior army officers are now seriously worried by the appointments Mugabe has made. He has surrounded himself with supporters from his own region and extended family, and in doing so alienated the majority who are being denied the resources they need to pay their personal and political debts.

His ability to manage apparently impossible political crises has constantly confounded his enemies, but he is clearly running out of options. It is clear that fewer and fewer former supporters will have to be denied access to the benefits they enjoyed in the past, and that access to significant levels of foreign support will not be possible until fundamental reforms including political liberalisation happen or Mugabe goes. He has demonstrated his ability to overcome many serious crises in the past, but none that are remotely comparable to the one that confronts him now. This does not mean that we can expect an early change, but I would not be at all surprised if the current regime was to collapse before the next Presidential and Parliamentary elections.