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Zimbabwe's Recovery and NEPAD

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South Africa has failed Zimbabweans. There were always positive, active things to be doing over the past four years of Zimbabwe's economic and human rights implosion beyond 'silent diplomacy'. By focussing on Robert Mugabe and his eccentric personal and party needs– itself wrong as he heads an illegal and massively corrupt and brutal regime – South Africa has denied itself and Zimbabweans a number of constructive measures of long term value.

If that had, or soon does, happen, the good governance foundations of NEPAD would have been well served. So too, an understanding as to how best to rebuild failed states and economies could have been tried and demonstrated.

NEPAD's economic framework seeks foreign support, upon good governance, to build the infrastructure to attract foreign private investment to produce the exports to pay off the foreign loans. It, curiously and sadly, says little of direct interest to Africans desperately seeking to find economic activity for themselves within their own countries. It is global without any 'local'.

Zimbabwe, as our immediate and most important neighbour, still provides South Africa with several important opportunities. They are to demonstrate the ability to help bring about the reforms and the economic security of all citizens needed to ensure its rapid economic recovery and return to full democratic nationhood.

This paper concentrates on two key issues: -

1. **Reformed Foreign Exchange Market**
2. **Citizen Investment Rights**

The economic and social recovery of Zimbabwe requires that two mechanisms for rapid economic and social recovery be used. The first part examines the type of foreign exchange regime that suits Zimbabwe's economic needs and opportunities so that an economically devastated country can recover rapidly. The second part contains a proposal for the creation of economic and social rights for all adults, notably community investment rights and the formation of community development associations within which to exercise those investment rights.

The aims of the proposed policy and programme pieces are the following: -

Dynamic foreign exchange and a stable currency.

Securing the country by providing all citizens with economic activity and thus with income whilst greater 'effective local demand' stimulates local economic activity.

Localisation policies and economic rights programmes to speed up the rebuilding of the economy and providing rewarding mutual activities within communities riven by trauma and officially sponsored violence.

Part 1. A Stable Yet Dynamic Foreign Exchange Regime

Keynes made the all-important distinction: people, ideas and some goods and services must move freely between countries – but not goods and services that can be produced locally and certainly not money. He argued for controls over capital flows so that each country could set interest rates according to domestic economic policy needs.

The massive structural shift to vast speculative capital flows does not affect the rich countries as much as it does many poorer countries. The reason is that the developed countries, which set the rules, conduct very little trade compared with the size of their GDPs. For instance, the imports and exports of the USA and the EU comprise a mere 15% and 14% of their GDPs. In the UK, trade makes up around 30% of GDP. As a small economy, 65% of Zimbabwe's GDP is formed by exports and imports. Zimbabwe receives prices from the global economy. The flash of vast speculative monies rushing hither and thither easily distorts the pricing of normal trade.

The International Monetary Fund estimates, December 2004, the build-up of unpaid foreign arrears is now US$2,6bn. This amounts to a debt of R1, 300 per citizen or R7, 800 per family of six. Moreover, Zimbabwe runs a yawning annual US$500m gap between foreign currency inflows and outflows.

Post the 2005 March election, there is great political and thus economic uncertainty. Hence, it is unclear if and when Zimbabwe will rebuild working relations with the IMF and the World Bank to help with restoring a working currency and trade and investment systems. The international community has long been ready to announce a "package" of support if that government can earn enough legitimacy. The detail, however, remains important.

The level of state debt, international and national, makes this task difficult. Yet Zimbabwe has and can again pay its way in the world.

The way foreign exchange is raised and distributed becomes crucial. With so many competing needs, an open system will not work. There are humanitarian (food and health) and general (fuel and electricity) needs that must be met. At the same time, the gross displays of consumer wealth an open exchange system allows are not to be tolerated. Non-essential imports should be curbed in favour of local production.

What is needed is a rapid recovery of those activities that earn foreign exchange and the creation of a large mass market for basic goods and services, that is for locally produced items that have low foreign exchange requirements in their production and thus consumption. People and the public interest, sustainable economic recovery, must be seen to come first.

Zimbabwe's foreign exchange system is chaotic. It is a punishment to all citizens and businesses and rewards speculators and subsidises government loans at the expense of savers. Most people work to make the corrupt few rich while becoming impoverished in the process. The orthodox foreign exchange market will not serve Zimbabwe's recovery. It needs a system that recognises market forces, but does not naively believe that "free markets" are indeed free and thus are not a perfect solution.

A return to an orthodox foreign exchange regime would ignore the mismatch of the highly open nature of the Zimbabwe economy, unfair international trade practices and the dominance of speculative money flows. It would also treat consumer goods as equal to essential imports. It would thus starve foreign exchange-earning sectors of access to abundant and cheap foreign exchange and hold back on essential services.

Four foreign exchange categories fulfil different purposes in the economy. They should be treated separately and the economy defended from difficult international conditions, at least until it has recovered. These categories are:

1. **Those sectors that earn foreign exchange.**

   Exporters, tourism, and services must be allowed to maximise their foreign exchange earnings by optimising production and sales. They must be allowed to buy and then to repay all the foreign exchange they can use. The best method is for each sector to adopt "indicative planning"; that is a plan to optimise all relations within each sector. In Zimbabwe agriculture would be one such sector. Under normal conditions it earns around US$4 for every US$1 it uses. Tobacco, horticulture and beef, etc have higher earnings ratios and must be helped to recover. Tobacco is 12:1. Mining, tourism, manufacturing and services are other net earners.

   For Agriculture, farmers, input and equipment suppliers, transport, banks, processors and trade agents, labour and the state agencies that form the agriculture sector would undertake a series of optimising circular or iterative discussions. "I, John, could double production and employment if...." And the response: "I could do what John requires if..." This exposes the bottlenecks and helps devote key resources to removing them. If they are net earners of foreign exchange, they loan what they need, even from foreign banks. Foreign exchange is not allowed to be a constraint.

   Government or donors can guarantee such loans at very little risk. In this way, the financial capacities of the donors and of the state are multiplied manifold.

If funds have to be borrowed abroad, the interest rate would be likely to be lower than local rates, providing a cost savings, and there is little or no foreign exchange risk involved in this "market" as it earns the same currencies that were borrowed.

2. Essential public goods

The net earnings of foreign exchange by the first market are deposited into the second market. This secures the importation of essential "public and economic" imports such as fuels, transport equipment and medicines. As there is no premium to be paid for the foreign exchange, it keeps landed costs low. This helps establish a low cost structure to the economy that also promotes its competitiveness.

3. Imports for local production

Any balance left over from the import of essential public goods goes into the third market that provides foreign exchange for the imports needed for local production. In bad times, the price of foreign exchange in this market will be higher than in the first two markets. This will instil some discipline in terms of what is produced. However, the price will be higher in the next market, market 4 for consumer goods imports. This will act to favour locally produced items.

4. Consumer imports

The foreign exchange for imported consumer goods, holidays abroad, etc. is provided in the fourth market. This is allocated by way of a monthly auction of the available balance of foreign exchange after the first three markets have been satisfied. Here the price of foreign exchange will be the highest providing a degree of protection for local production from competition from imported consumer imports.

The four markets have different foreign currency prices according to the economic value of their activities. The model values exports ahead of essential imports, aiming to "get the ball rolling" by earning foreign currency; then it provides the means to buy essential imports as cheaply as possible in order to keep the domestic cost structure and inflation down; it also provides for import needs for the local production of consumer goods and services; finally, it treats imported consumer goods as the lowest priority and thus with the highest foreign exchange prices, providing a degree of protection for local producers.

When the country generates more foreign exchange than is needed for its immediate needs, including building up reserves, the model can be simplified. One or more markets can be collapsed, even into one market. The different markets can be reintroduced as foreign exchange runs into short supply, beginning with placing consumer goods imports at the back of the queue where available foreign exchange is auctioned and prices are higher.

The country can thus defend itself not by tariffs or by interest rates, but by altering the market conditions and thus the prices under which foreign exchange is purchased for different purposes in different markets to suit both global and internal conditions.

Part 2. Building Citizen Rights, Economic Security and Participation

In responding to Zimbabwe's need of at least US$800m for emergency food aid and vastly more funds for economic recovery over several years, maybe US$2 billion in all, the UN and donors, including South Africa, should:

Place those foreign funds, on agreed timetables over three or more years, into the first foreign exchange market. As this will be at no cost, exporters and the seller, the Reserve Bank, can share the gains from what becomes a subsidised price for foreign exchange. These funds can be used to 'gear-up' available foreign currency by guarantying loans and hence would also act to keep borrowing rates down. Donor assistance, in the first round, thereby helps fuel economic recovery via exports and a resultant higher capacity to import essential goods while building the new foreign exchange system.

Sell all direct food imports directly into the local market, minus emergency distribution needs, restoring the food market to efficiency and moving it beyond political manipulation. In addition, a development fund from the Z$ proceeds should to go mainly into the community investment fund *(see below).*

Help oversee the financing needs of instant reform of the exchange system, thereby preventing currency speculation.

Empowering Citizens as Investors and Owners

Zimbabwe requires a strategic way to rebuild its key productive economic activities and to place its people ahead of primary rewards to capital. Once the foreign exchange markets to support trade are set up, they must be automatically separated from those for speculative and investor capital flows. The latter becomes a fifth market until the country can take the risk of further capital flight. It would be like the Financial Rand of not so long ago.

Zimbabweans are in dire straits. The UN, AU and South Africa should lead the international community in setting up a "Citizen and Community Investment and Development Fund" to operate for five years, declining by 15% per year as the economy picks up. No other funding would be needed.

The size of the fund should be calculated to provide community employment for all adults for 88 days a year, declining – like the fund – by 15% per year. The wage should be the equivalent of US5.50 (R40) per day (work on community projects, not a job) and doubled to cover materials, engineering and transport.

This fund should flow directly to all adults organised into community development associations as a community investment budget under which their individual grants are assembled for joint community use. This method acknowledges each individual's membership and the fact that they have rights over the resultant budget. It also acts to build joint analysis of investment options and joint decision-making.

Most importantly, it provides, for the first time, the basic economic right to know the available resources. All business people, heads of agencies and families with income enjoy this right – why not communities as "constituent units of society"? It allows them to explore the opportunity cost of each possible action, to invest across a front of options to optimise benefits, and to plan to invest in a sequence over time.

Once projects are chosen, the workdays involved are distributed at a rate per day set by the community as work rights. These are exchangeable amongst members. Those who work for 90 days per year gain a training right grant of the equivalent of R2 500 so that individuals and families, operating within community goals, can build their security, income, training and careers, as well as family welfare and business for the next five years.

In return, Zimbabweans will reach out to find each other again and rebuild their lives and communities. The first use of the money will be for investment. The second, wages earned during local investment activity will go to support family consumption. The third use is the resultant family savings and investment. The fourth, under a social compact with the donors and their newly elected government, is to accept, in return for ongoing and increasing investment flows that build a financially competent citizenry, an increasing local commitment to pay for health and schooling under community guarantees that all have access to health (which is primarily about socio-economic conditions and not merely medical services).

It is also to accept that all children attend school. This, crucially, allows the state to redirect the large expenditure for education and health to investment through citizens in return for their accepting a greater responsibility for funding these services. They are able to accept this liability because of the greater infusion of investment monies and because they raise the local multiplier in the process, building strong local economies from which they can extract the fees due.

The model builds local activity and local demand to reward the local production of goods and of services, reconstructing the national economy from below. It also provides, as spent in local currency, the foreign exchange to rebuild the formal economy.

In addition, the model removes the petty discretion of officials, and makes possible common purpose amongst neighbours. It requires that the battered and distrusted state machinery withdraw to where it can begin to re-professionalise itself by seeing the wood for the trees, and learning to support people's endeavours. Without this break with the past, discrimination, endless spying and branding of innocent people, and poor policies and programme methods will persist.

The announcement of such measures to assist Zimbabweans to rebuild their lives and reclaim their country will whip the carpet out from under from Mugabe and all his cronies. The world, Africa included, will be seen to have acted to free citizens from grinding chaos and oppression. They will have "red-carded" a despotic regime long elected out of office to now leave the field. And they will have demonstrated an ongoing economic rights approach to citizen security, participation and responsible daily involvement as the best bulwark against tyrants.