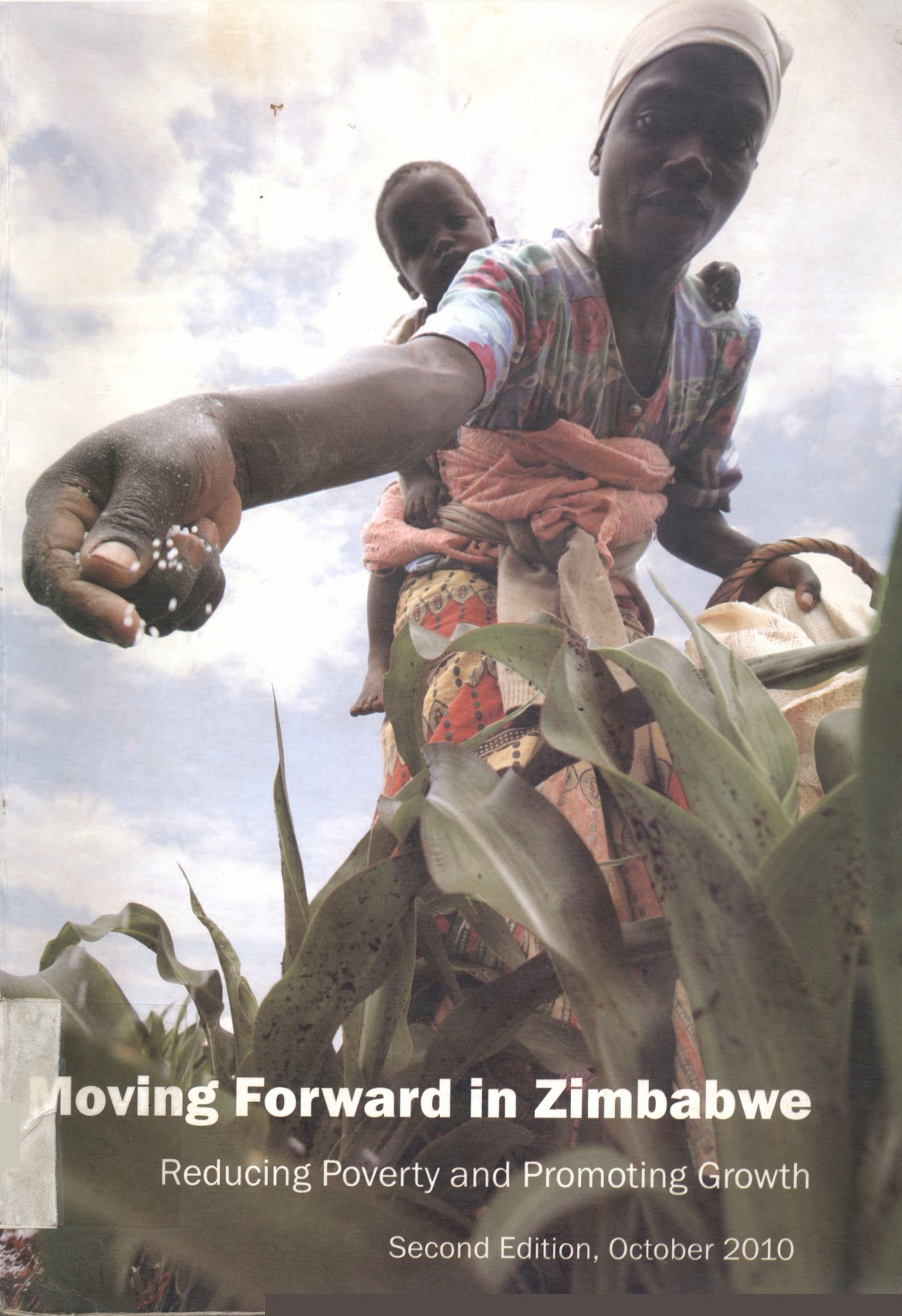

Moving Forward in Zimbabwe

Reducing Poverty and Promoting Growth

Second Edition, October 2010

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Editors: Admos Chimhowu, Jeanette Manjengwa and Sara Feresu

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Moving Forward in Zimbabwe

Reducing Poverty and Promoting Growth

Chapter 1: Zimbabwe's Economy and the Causes of the Crisis

1.1. Introduction

When Zimbabwe signed up to the Millennium Development Goals (MDGs) in September 2000 and adopted targets to (a) halve by 2015 the proportion of people with income levels below the Total Consumption Poverty Line[1], and also to: (b) halve by 2015, the proportion of people living in poverty as measured by the Human Poverty Index (HPI),[2] the country was already experiencing the socio-economic decline that is now commonly referred to as a crisis. Triggered partly by a programme to redistribute land from mainly white commercial farmers to the majority black Zimbabweans and by reactions to this programme, the crisis quickly assumed multiple dimensions that have undermined progress toward this goal.

About 72 per cent of the population already lived below the total consumption poverty line by 2003[3] and current monitoring reports suggest the country will be one of several African countries that will fail to meet these crucial goals on poverty. A look at the HPI trends clearly shows the impact of the decade long economic crisis. From an impressive HPI of 17 per cent in 2000 available data suggest a more than doubling in poverty rates to 40.9 per cent by 2006. Similarly the country has been sliding down the UNDP Human Development Index ranking. From a respectable 52 in 1990, the country was ranked 108 in 1992, 129 in 1997 and by 2005 it was ranked at 155 of the 177 countries. On current evidence it is clear that a majority of Zimbabweans are emerging from this crisis worse off and poorer than they have ever been at any time since independence.

The formation of the transitional Government of National Unity (GNU) in March 2009 created prospects for stabilisation and can lay the foundation for long-term socio-economic development. One of the key issues the GNU needs to deal with is the general welfare of an impoverished nation. Experience in similar situations elsewhere in Africa shows that if care is not taken to deliberately formulate welfare policies that address poverty, such concerns are soon subsumed under a myriad of problems that the State has to deal with. In order to make rapid progress toward achieving MDGs the GNU will need to identify the areas of policy that can quickly stabilise incomes and reduce the numbers of people living in poverty.

In a modest way this report seeks to generate debate and add to contemporary discussions on how to stabilise and develop Zimbabwe with a particular focus on a pro-poor agenda. The idea is not to argue for a narrow poverty agenda but to ensure that in discussions about the need for stabilisation and economic growth there is due attention paid to how this growth will translate into better lives for a majority of Zimbabweans. In doing this we make the plausible assumption that increasing impoverishment of the majority of Zimbabweans is among the most potent threats to long term national stability. We therefore seek to explore ideas and generate discussion about a general development strategy and the mechanisms for transmission of the benefits of growth to those currently living in poverty. In short, our aim is intellectual engagement with policy issues to ensure that future development efforts are crafted in a way that ensures that the benefits of economic growth will improve the welfare of those living in poverty.

While the country has been gripped by this crisis the global poverty agenda has progressed and new ideas on how to reduce and in some cases eradicate poverty have begun to influence how countries in Africa respond to the welfare challenges within their borders. Our intention is to review some of these experiences and to see how their lessons can benefit the rebuilding process in Zimbabwe. Before taking a look at the effects of the economic crisis and prospects for stabilisation and development it is important to give a brief background to the country as a context to discussions.

1.2. Physical context of development

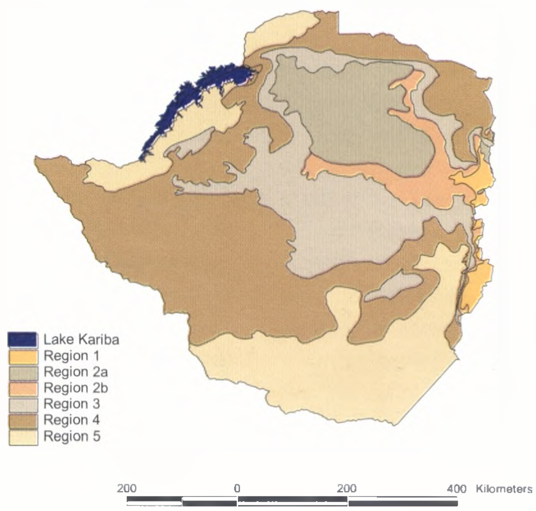
Zimbabwe has an area of 390,757 square kilometres. An outstanding feature of its physical geography is the central plateau (also called the highveld). This has an altitude of 1,200 m and stretches for 650 km from the southeast toward the northeast of the country. On either side of this central plateau is the middleveld that has an altitude ranging between 600 m and 1,200 m above sea level. The lowveld, with an altitude below 600 m, is mainly located along the Zambezi river valley and the stretch of land between the Limpopo and Save river valleys.

[1] The level of income at which people can meet basic food and non-food needs (shelter, education, health etc).
[2] Composite index measuring deprivation computed from three dimensions namely probability of not surviving till 40, adult literacy and unweighted mean of number of people without sustainable access to an improved water source and children under weight for age.
[3] GoZ 2005:5.

Rainfall in Zimbabwe is broadly related to altitude, making the identification of high, middle and lowvelds useful in characterising areas of agro-ecological potential. This is a critical observation in a country where dry land farming based on one natural growing season (October to March) provides a livelihood for to up to 70 per cent of the population.

In the 1960s an official study of the relationship between physical attributes and farming potential published a report that divided the country into five agro-ecological regions. This has since been adopted as the official indicator of natural farming potential. Figure 1.1 shows the five natural farming regions while Table 1.1 shows the main features of the regions. We can draw out four key points pertinent to this report. First, more than fifty per cent of the country lies in regions classified as being generally unsuitable for dry land farming without additional investment in water technology. Regions IV and V were deemed too dry for crop production without irrigation. Small grains particularly millet and sorghum could be produced in some parts of the regions although seasonal and periodic droughts are a common feature afflicting most farm based livelihoods pursuits. With changing production practices and innovations, regions IV and V have seen increased production of high value tourism products based on wildlife farming.

Figure 1.1: Natural Farming or Eco-agricultural Regions of Zimbabwe



Source: Department of Geography and Environmental Science, University of Zimbabwe

Table 1.1: Main features of the five natural farming regions of Zimbabwe

Natural Region	Per cent of total area	Main Features	Natural Agricultural Potential
I	1.56	Rainfall in excess of 1,050 mm, precipitation in all months of the year, relatively low temperatures.	Specialised and diversified farming Forestry, fruit, intensive livestock, tea, coffee
II	18.68	Rainfall between 700 mm-1,050 mm per year mainly in summer	Intensive farming Crops and intensive livestock production
III	17.43	Rainfall between 500-700 mm, infrequent but heavy falls of rainfall, seasonal droughts, relatively high temperatures	Semi-intensive farming Livestock, fodder and staple and cash crops like maize, tobacco, cotton
IV	33.03	Rainfall between 450-600 mm per year, frequent seasonal droughts, relatively high temperatures	Semi-extensive farming Livestock farming, drought tolerant crops
V	29.3	Rainfall less than 500 mm, erratic. Northern Lowveld may have higher rainfall but topography and poor soils make it unsuitable for arable agriculture	Extensive farming Extensive cattle ranching, wildlife farming, crops only possible with irrigation
Total	**100**		

Source: Vincent and Thomas, 1961

Secondly, only 38 per cent of the country is deemed to have natural farming potential. Region I is seen as suitable for specialized and diversified farming, especially activities related to forestry, fruit and intensive livestock production. Region II is suitable for diversified farming that includes production of flue-cured tobacco, maize, cotton, sugar beans, coffee, sorghum, groundnuts, seed maize, barley and horticultural crops. It also has potential for irrigated winter wheat, poultry, beef and dairy production. Some parts of Natural Region III with suitable terrain are marginally suitable for semi-intensive farming especially the production of grains and livestock. Therefore this 38 per cent of the country that is less prone to seasonal and periodic droughts is highly desirable for those pursuing agriculture-based livelihoods. However, the issue of carrying capacity must be viewed in relation to the financial capital and technology available to users of this land. Where users apply modern and higher productivity technologies, the carrying capacity of the area can be higher than situations where subsistence low productivity technology is used, as is the case in much of Zimbabwe. Farming technologies in communal areas have not changed significantly over the past hundred years, and have remained effectively non-mechanised, labour intensive and of low productivity. These factors have resulted in inadequate rural incomes and thus pose a challenge for policy.

Thirdly, where a family is located has significant implications for its capacity to make a living off the land. Table 1.2 shows the interplay between population distribution, land use and agro-ecological potential. With up to 74 per cent of all communal lands located in the drier regions IV and V it is not too difficult to see why this marginality, when combined with high population densities and relatively basic production technologies has implications on the ability of these families to make a living and stay out of poverty. Consequently, if poverty is to be addressed, either future policy efforts need to influence the movement of rural agricultural activity away from the more fragile zones, or new technologies will have to be found to make these areas more productive.

A fourth point to note about the designation of these eco-agricultural regions is that the analysis was based on natural farming potential alone. This however disregards other livelihood activities that can be pursued outside agriculture. The country is endowed with mineral resources that, apart from generating foreign currency and formal sector employment, have over the past decade emerged as an important livelihood diversification strategy by rural households – mainly through artisanal mining.

1.3. Economic context of development in Zimbabwe

The economy exhibits what Mhone (2000) aptly describes as segmentation and enclavity typical of most post-settler colonial states in southern Africa. Segmentation refers to the existence of an urban and a rural segment of the economy. The urban economy is characterised largely by manufacturing and value addition while the rural sector is mostly about raw material production. The term enclavity refers to the co-existence of a regulated formal sector alongside a loosely regulated non-formal sector (consisting of the communal subsistence sector and the informal sector). We shall return to the implications of this in our discussion of labour markets in Chapter 3. Official measurements of the Zimbabwean economy often only reveal what happens in the formal sector despite the informal sector having become a large part of the 'real economy'.

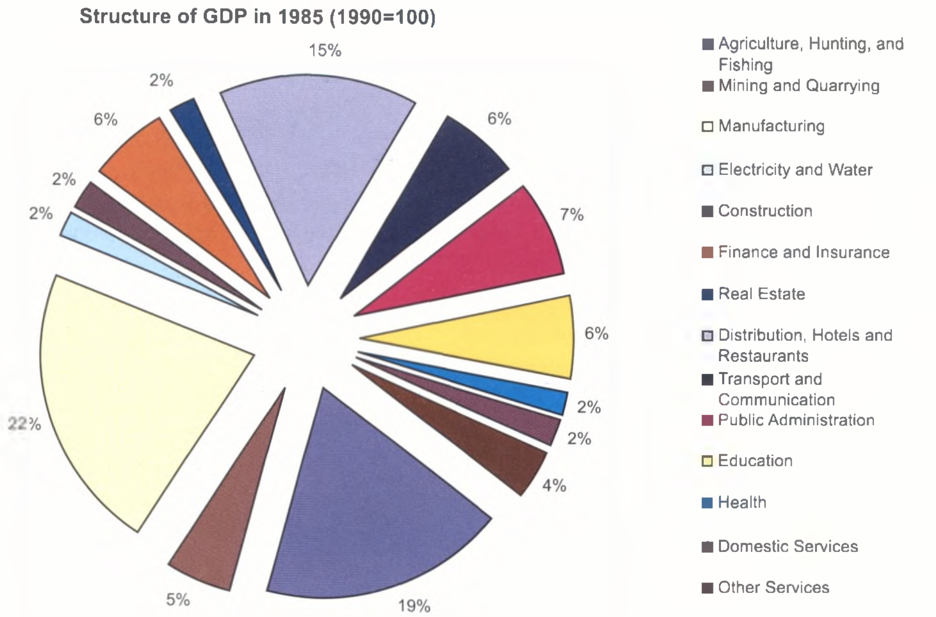
The structure of the economy has been changing, largely in response to the economic policies adopted by the State. Analyses of the post-Independence economic policy show that the economy has gone through three distinct policy swings – from interventionism (1980-1990), to structural adjustment (1991-1995), to reactive management (1997 to 2008). At Independence in 1980 the post-colonial State inherited and maintained a diversified import substituting economy that had endured more than a decade of economic sanctions. Characterised by State intervention in markets, during this time manufacturing, agriculture and distributive services drove the economy. Figure 1.2 shows a typical structure from the interventionist years.

Table 1.2. Distribution of population by natural region in communal and commercial farmland

Natural Region	I	II	III	IV	V	Total
Communal Areas						
Population in natural region (x10^3)	51.7	625.5	939.9	1,857.7	798.0	4,272.8
Percentage of population in communal area	1.2	14.6	22.0	43.5	18.7	100.0
Total area (km^2 x10^3)	0.9	16.0	31.1	78.3	44.2	170.5
Population density (people per km^2)	**57.4**	**39.1**	**30.2**	**23.7**	**18.1**	**25.1**
Commercial Farmland						
Population in natural region (x10^3)	172.1	735.6	261.5	243.9	144.1	1,557.2
Percentage of population in commercial area	11.1	47.2	16.8	15.7	9.3	100.0
Total area (km^2 x10^3)	8,500	42.3	37.9	46.1	32.9	167.7
Population density (people per km^2)	**20.2**	**17.4**	**6.9**	**5.3**	**4.4**	**9.3**

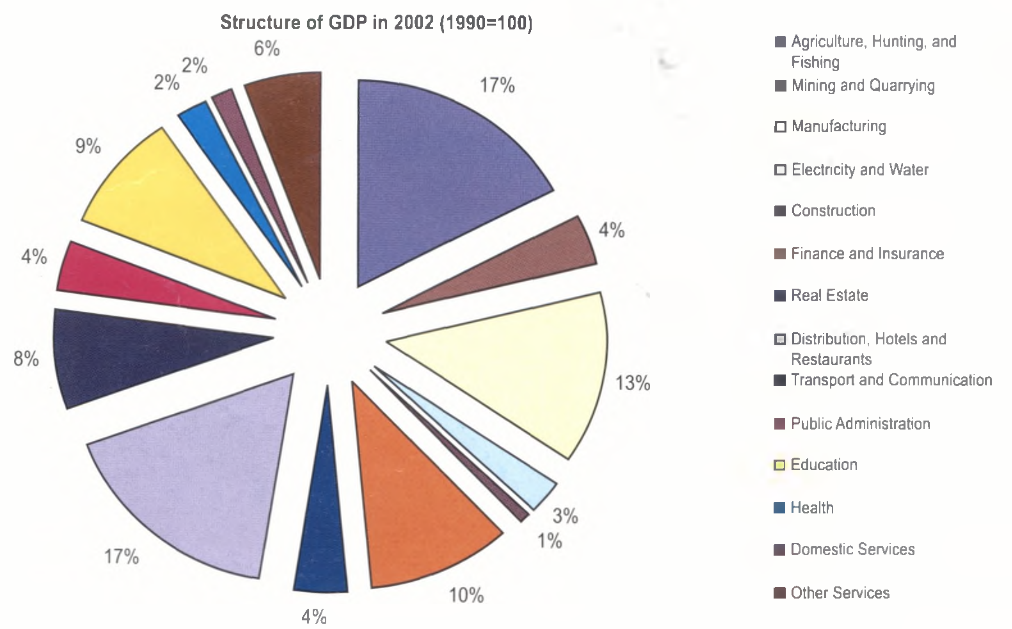
Source: Mehretu and Mutambirwa, 2006

Figure 1.2 : Structure of GDP in 1985



The country adopted an IMF inspired economic structural adjustment programme (ESAP) in 1990. ESAP is often credited with deindustrialisation of the economy following a decline in the contribution of manufacturing to the economy. By 2002 the contribution of manufacturing to GDP had declined to 13 per cent (see Figure 1.3). The main sectors of the economy were agriculture and manufacturing but the contribution of the services sector had grown substantially especially finance and insurance, the social sectors (especially education) and transport and communication. Surprisingly, although the country is well endowed with minerals, the share of mining has changed little over time. Although showing a slight increase in its contribution to GDP in the 2002 data, at 6 per cent of the GDP, this is actually down from the 8.8 per cent share at independence in 1980. When Figures 1.2 and 1.3 are compared the rank order change in the structure of the economy is clear. The Figures depict an economy that transformed from a manufacturing base to an agrarian- and service-industries-based economy. It is also clear that sectors dependent on foreign currency were not doing well. By 2002 the economy had become less diverse and contemporary evidence suggests that the nearly ten years of decline have changed the structure even further.

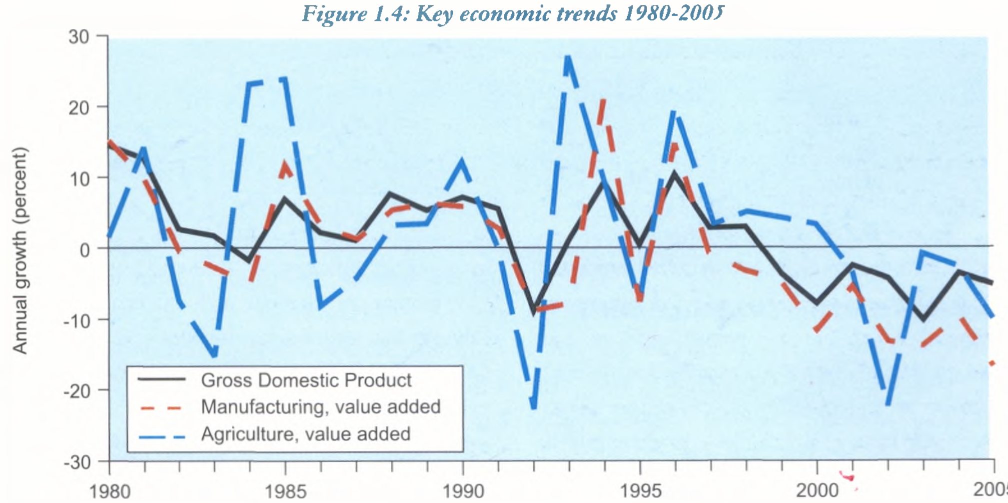
Figure 1.3 : Structure of GDP in 2002



Formation of the GNU in March 2009 and dollarization of the economy brought a measure of stability to an economy that had been characterised by instability and unprecedented decline. Hyper-inflation that reached 231 million per cent per year in July 2008[4] showcases how unstable the economy had become, which was also characterised by a poor performance in all productive sectors, especially the key drivers – manufacturing, agriculture and mining. This is reflected in the recorded decline in gross domestic product (GDP) from US$2,892 in 2000 to US$2,212 by 2007.[5] The first decade of Independence can be described as one of growth while the second was one of stagnation followed by decline in the post-2000 period. Figure 1.4 illustrates growth trends in GDP, manufacturing, and agriculture between 1980 and 2005. It shows positive but fluctuating growth for nearly two decades till the late 1990s when the economy went into an extended recession. The Figure also shows that manufacturing growth is related to agriculture growth especially in earlier years till the early 1990s. This is because manufacturing depends on agricultural raw materials. Estimates suggest that as much as 60 per cent of raw materials for the manufacturing sector come from agriculture.

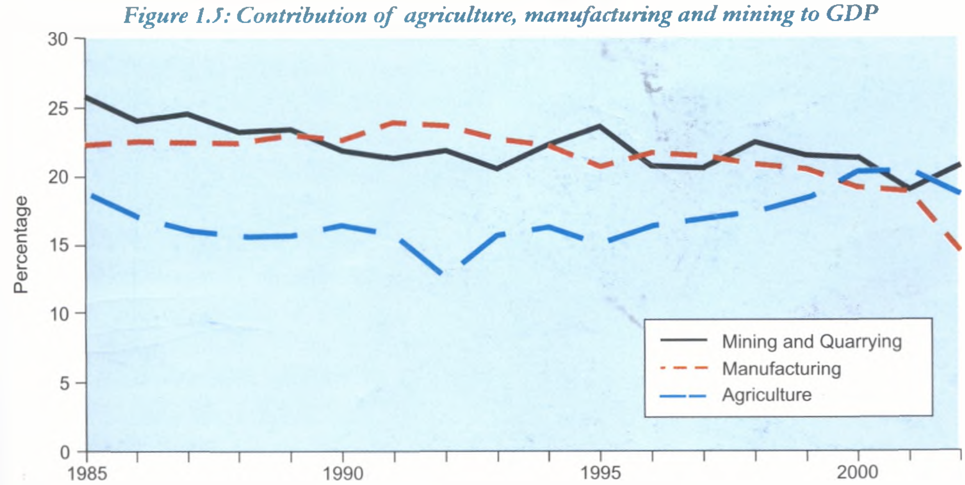
GDP growth is driven by the performance of the agriculture and manufacturing sectors. Each time a drought occurs (about once every four years) these two sectors of the economy under-perform and drag GDP growth down.[6] Figure 1.5 shows the fluctuations in their contributions to GDP. The three sectors which contributed over 40 per cent of GDP in any given year, significantly influence what happens to the economy. The link here is with rainfall patterns. Analysis of GDP growth and rainfall data for the first 16 years of Independence has found a

Figure 1.4: Key economic trends 1980-2005



Data sourced from World Bank tables and are based on 2000 prices. Note this uses value-added figures derived from the difference between output price and cost of intermediate inputs

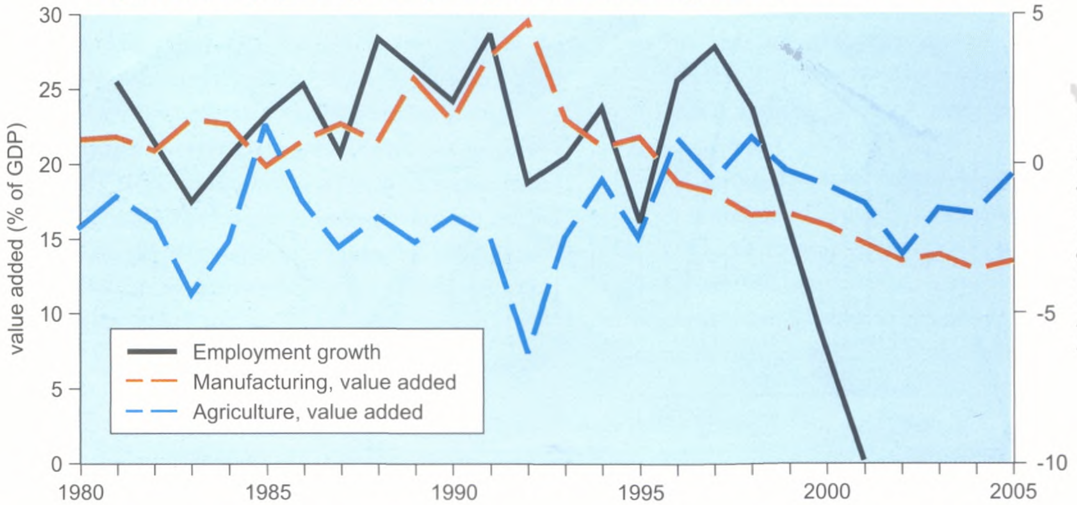
Figure 1.5: Contribution of agriculture, manufacturing and mining to GDP



[4] Official figure issued by the CSO in July 2008 before formation of the GNU. Estimates suggest that the figure for November of that year was much higher.
[5] Source IMF data Tables.
[6] Between 1980 and 2000, Zimbabwe has experienced four major droughts: 1982-3, 1986-7, 1991-2 and 1994-5. After 2000 on average every other year has been a deficit rainfall year. In some years, such as 2007/2008, the timing of the rainfall has been at issue more than the total amount of rainfall.
See Richardson (2007).

Performance of agriculture and manufacturing also influences what happens to employment growth in the formal sector as Figure 1.6 shows. It is clear that formal employment had also shrunk substantially from about 3.6 million in 2003 to an estimated 480,000 by 2008.

Figure 1.6 : Employment growth plus agriculture and manufacturing contribution to GDP



In the next section we look at some of the key causes of this socio-economic decline that is now commonly referred to as a crisis.

1.4. Multiple causes of the Zimbabwe crisis

The causes of Zimbabwe's crisis are as complex as they are multiple and there is little scope to do justice to all of them in this section. Rather we aim to identify the main factors that we can link directly to some of the key themes of this report. Even as we draw out particular social, economic and political events we are mindful of the fact that it is how these are managed that ultimately influences the severity of their impact and hence their contribution to the economic decline. The main point though is that there is not one factor that caused the crisis but a combination of factors. Further, as will become apparent, although the crisis worsened since 2000 its economic origins predate the political manifestations that emerged at the turn of the millennium.

Economic growth and the structural adjustment programme

Up to the introduction of the Economic Structural Adjustment Programme (ESAP) in 1991, Zimbabwe had a fairly diversified economy in which manufacturing played a much bigger role than in other African economies. The economic strategy was interventionist, premised on growth with equity (Ncube, 1995). After Independence, GDP growth between 1980 and 1989 averaged 3.2 per cent but needed to be higher to provide for a growing population and huge programmes of social expenditure by the State. Although poor export performance and the lack of meaningful foreign investment resulted in serious shortages of foreign currency before the implementation of ESAP, controls on imports and capital repatriation protected the domestic industry and the balance of payments. Interest rate controls kept domestic liquidity cheap to finance budget deficits and service debts. However, the inadequate level of economic growth, attributed to structural problems in the economy in the face of mounting demands on the fiscus, spurred the country to embark on the economic reforms (Mumvuma, 2002). Trade liberalisation was forecasted to create high and sustainable levels of export growth and open the country to external competition, earning the country foreign currency and increasing productivity (Hess, 2001).

Introduced as a five year programme ESAP actually saw a decline in average real GDP, the growth of which averaged 1.7 per cent between 1991 and 1996 while per capita income actually contracted by -1.9 per cent to Z$1,992 compared to Z$2,998 just before ESAP. Similarly, average inflation rose from 15 per cent to 25 per cent, while interest rates trebled (Moore, 2003). Implementing ESAP reforms required US$3.5 billion in new foreign loans over five years. This was in addition to an existing debt of US$2.5 billion. Even worse, during the 1992/93 fiscal year, interest payments on both foreign and domestic debt increased 15 per cent more than projected due to the interest and exchange rate volatility (World Bank 1995). Table 1.3 shows the deteriorating macroeconomic indicators during the reforms.

Table 1.3 : ESAP targets and actual performance of key economic indicators

Indicator	1991		1992		1993		1994		1995	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
GDP per cent	4.3	3.2	4.4	-5.5	4.6	2	4.8	5.3	5	-0.2
Exports US$ m	1,825	1,642	1,982	1,527	2,159	1,625	2,363	1,969	2,593	2,718
Imports US$ m	1,606	1,564	1,746	1,776	1,860	1,526	1,986	1,798	2,115	2,882
Overall Balance US$ m	136	-103	114	-32.7	123	208.3	108	270.5	114	44
Total Revenue as percentage of GDP	39.3	33.5	39.6	35.7	39.2	31	38.9	30.4	38.3	30.1
Total Expenditure as percentage of GDP	46.9	42.7	45.7	44.1	44	41.4	42.6	38	41.5	42.4
Government Deficit as percentage of GDP(excluding grants)	9.3	-9.2	7.8	-8.4	6.6	-10.4	5.5	-7.6	5.0	-12.2
Inflation percentage	16	39.7	14	46.3	12	18.6	10	21.1	10	22.6

Source: GoZ, 1998. Zimbabwe Programme For Economic and Social Transformation, (1996-2000).

Under ESAP, Zimbabwe also suffered what has been described as 'deindustrialisation'. This was evident in several key manufacturing sectors, such as textiles, which saw a 61 per cent contraction between 1990 and 1995 (Carmody, 1998) and manufacturing output in general fell more than 20 per cent between 1991 and 2000 (Ismi, 2004). Reduction in social spending by the State also affected basic social services and a parallel programme of reforming the civil service saw 25 per cent of public workers laid off. Unemployment reached 50 per cent by 1997. In spite of a programme to mitigate the social effects of adjustment the percentage of people living below the poverty line rose from 50 per cent to 75 per cent.

These social costs created a public backlash culminating in what the media termed 'IMF Riots', the most severe of which were the 1994/5 bread riots in the capital city, Harare. Public workers went on strike in 1996, followed by numerous other trade union organised strikes in 1997. The public unrest fermented resentment mostly among the urban dwellers hardest hit by the impact of the reforms. In some ways, although ESAP had some successes its failure to drive GDP growth during the 1990s could have laid the foundations for the unstable economic environment that led to the rapid economic decline that is evident in the GDP growth trends from the year 2000 onward. However, there is need to balance this point with the unknown trajectory of the economy if ESAP had not been implemented.

Economic management and 'Black Friday'

On the 14th of November 1997 (now called Black Friday) the Zimbabwe dollar lost 71.5 per cent of its value against the US Dollar and the stock market crashed, wiping off 46 per cent from the value of shares as external investors lost confidence in the currency. Debates are inconclusive on the real cause of Black Friday but these include economic management decisions (Gopinant, 1998), the failure of the IMF's structural adjustment programmes and attendant decline in investor confidence.

November 2008, up to 80 per cent of the population survived on less than US$2 per day. (Photo © Tsvangirayi Mukwazhi).

Land reform and its impact on the economy

The timing and execution of the Fast Track Land Reform programme is seen by some as the immediate trigger of the full blown political and economic crisis. In 1980 the Government had embarked on a programme to correct historical imbalances in land ownership. Although by 1998 some 78,000 black families had been resettled on land purchased via the market from former white commercial farmers, most fertile land still remained in the hands of the 4,500 commercial farmers. By the time a donor conference was called in September 1998, the land redistribution programme had all but stalled. In addition to donor funds drying up and implementation capacity issues, there was also resistance by some white commercial farmers to sell land. Although it was later regularised into a Government programme, the fact that the Fast Track Land Reform Programme had been preceded by spontaneous land invasions, created insecurity. Controversy over compensation soured relations with some international donors,[8] while commercial farm production was disrupted. With the newly settled farmers severely under-capitalised, the foreign exchange earnings from agriculture declined.

Withdrawal of aid

Through ESAP Zimbabwe had come to rely a lot more on international finance for balance of payments support. More generally, donors supported the various State social development programmes and estimates suggest that by the time of the land invasions up to 18 per cent of recurrent expenditure budget was financed this way. The Government's social programmes channelled money into improving education, healthcare, land redistribution and infrastructural developments. Aid volumes had been falling in Zimbabwe since 1994 and declined further when the Fast Track Land Reform Programme started. The volatility of aid increased and amplified the macro-economic and balance of payment crises. This decline in aid occurred when the Zimbabwean economy needed international support the most.

Economic and political sanctions

The contribution of political and economic sanctions to the Zimbabwean economic crisis is a controversial subject which needs further analysis. Sanctions are often cited by the Government as the major cause of Zimbabwe's economic collapse. A closer look at the country's import and export activities between 1990 and 1999, (before the onset of the land redistribution programme), reflects the emergence of South Africa as a major trading partner for the country. This is largely attributed to the opening up of South Africa in 1994. However, whilst imports showed a marked increase between 1990 and 1999, export performance dragged behind over the same period. Therefore, it became apparent as far back as 1998 that the growing balance of payment deficit was largely a result of struggling exports whilst the import bill gained momentum.

There appears to be two types of sanctions on Zimbabwe. The first could be called political sanctions. They restrict movement and freeze assets of some members of the ZANU PF party and private individuals and companies accused of human rights violations. These have been applied by Australia, New Zealand, the EU countries and the US. The second type is indirect sanctions such as the withdrawal of aid, balance of payments support and termination of lines of credit. The Zimbabwe Democracy and Economic Recovery Act of 2001 passed in the US, for example, specifically bans any economic support to the country. The International Finance Corporation of the World Bank suspended funding of infrastructural and private sector projects in the country. The IMF and World Bank limited their interactions to technical assistance and analytical work, focusing on macro-economic policy, food security issues, social sector expenditure, social delivery mechanisms and HIV and AIDS projects.

The deterioration of political conditions after a disputed Presidential and Parliamentary election on 28 March, 2008 has led to an intensification of the sanctions. Apart from private companies cutting off business ties (Tesco, the world's third largest supermarket, announced soon after the election standoff that it was to stop sourcing fresh produce worth £1 million a year from Zimbabwe, and a German firm, Giesecke and Devrient, which had regularly supplied Zimbabwe with bank note paper for over 40 years, also announced it was stopping any link) the general perception that the country was imploding also led to a number of foreign missions either downgrading their missions or relocating elsewhere in the region.

Although the western countries have argued that targeted sanctions are directed at political leaders, it is usually the vulnerable groups of society who suffer rather than the targeted group. Sanctions have constricted key economic sectors with disastrous consequences. Most of these have manifested themselves in the form of shortages of foreign currency, resulting in the country accumulating external payment arrears and failing to import critical supplies. Between 1966 and 1999, Zimbabwe registered capital account surpluses largely in the form of project finance, as well as budgetary aid and balance of payment support. However, by 2000, the country had started experiencing capital flight reflecting the suspension of balance of payment support

[8]The State would only promise to pay when able to – even then for improvements and not for the land.

and project finance by the multilateral financial institutions and other donors. As a result, Zimbabwe's capital account has been in persistent deficits since 2000. The current account deficits and the reduced capital inflows, resulted in excessive pressure on foreign currency reserves, which as a result declined from US$830 million (3 months import cover in 1996) to less than one month of import cover by 2006 (RBZ, 2007). The shortages in foreign currency constrained the country's capacity to meet foreign payment obligations and finance critical imports. This in turn has caused a build up in foreign payments arrears from US$109 million in 1999 to US$1.5 billion by the end of 2006. This development affected the country's creditworthiness and worsened its risk profile, as a result of which traditional sources of external finance from bilateral and multilateral sources dried up. The IMF, which had suspended technical assistance in June 2002 due to arrears of more than US$132 million, has only now resumed liaising with the country following the establishment of the GNU.

Fiscal and economic governance

One of the major drivers of inflation has been fiscal mismanagement over the past 10 years. According to IMF reports, the budget deficit, including grants, stood at 10.0 per cent of estimated GDP in 2006.[9] This figure is more than triple the figure of 3.0 per cent of GDP achieved in 1998. In the 2008 budget announced on 29th November 2007, the forecast budget deficit was approximately 11 per cent of expected GDP of Z $16 quadrillion. According to IMF estimates, Government expenditure had reached 53.5 per cent of GDP in 2006 – more than double the expected value of 24.7 per cent. To the extent that the quasi-fiscal activities (QFAs) drove inflation over and above what was expected (given that the average Government fiscal deficit for 2003-2005 has been below 3 per cent of GDP and since 2001 the primary balance has been in surplus in all years except 2004), problems in economic governance may have made an already unstable economic environment worse. The economic governance issues point mainly to some structural inadequacies in the legislative environment, particularly the distinction of roles between the Reserve Bank and the Ministry of Finance.

Political governance

Analysis of how political governance failings led to the economic crisis can be traced to the nature of the Zimbabwe constitution. A failed attempt to reform this constitution in early 2000 is often seen as the main trigger of the political dimensions of the crisis. However, what is clear is that since the formation of the MDC in 1999 as an opposition, capable of contesting political power, the political landscape changed significantly. In addition to a strong opposition there was also a growth in the number of, and direct public actions by, civil society organisations that campaigned for greater civil liberties. Faced with a deteriorating economy, a determined political opposition, growing civil society militancy and real prospects of losing political power, the State responded through acts that closed down what political space existed. Apart from constitutional amendments to absolve the State of any responsibility to pay compensation for land acquired under the Fast Track Land Reform Programme, other key pieces of legislation that created controversy included the Public Order Security Act and the Access to Information and Protection of Privacy Act both passed in 2002. This was after restructuring of the judiciary done from March 2001 that created a perception of a compromised State institution.

It is clear from this discussion that there was no single factor that led to the economic crisis in Zimbabwe. Rather it resulted from the interplay of long term structural problems with the economy, coupled with deterioration in political and economic governance. The following section examines the impact the economic crisis had on Zimbabwe's poor.

1.5. Poverty impact of the crisis

By the time the GNU was formed in March 2009 key macro-economic fundamentals pointed to a deep seated economic crisis that had simmered since the late 1990s before accelerating to become a general pattern of decline at the turn of the millennium. This pattern of economic performance is also reflected in any analysis of the poverty trends. There is no doubt that by 2009, a majority of Zimbabweans were poorer than they had ever been since attaining Independence in 1980. Data from the three major poverty surveys (Income Consumption and Expenditure Survey of 1991, Poverty Assessment Study Surveys of 1995 and 2003) are not accurately comparable over time due to methodological issues,[10] but they do suggest that by 2000, poverty in Zimbabwe was already on the rise after the initial impressive progress made during the 1980s. From 25.8 per cent in 1991 the number of households living below the food poverty line rose to 34.9 per cent by 1995 before a dramatic rise to 63 per cent by 2003.[11] There was a similar rise in the number of people living below the total consumption poverty line. These increased from 55 per cent in 1995 to 72 per cent in 2003. Since the Poverty Assessment Study Survey of 2003 there has not been any further official surveys on the levels of poverty in Zimbabwe, but some estimates suggest that by the time the economic crisis reached its high point in November 2008 up to 80 per cent of the population survived on less than US$2 a day.[12]

[9] IMF, Regional Economic Outlook for Sub-Saharan Africa April 2007, Washington DC.
[10] Especially how poverty is measured.
[11] GoZ, 2005. The initial rise has often been attributed to ESAP and the massive job loses experienced.
[12] USAID Health Report.

In general, available data suggest that poverty in Zimbabwe is predominantly rural. This is not surprising given that up to 70 per cent of the population still reside in rural areas. They are mostly smallholder farmers living off the land. Current estimates show that there are about 1.3 million smallholder farmers occupying nearly 75 per cent of all agricultural land. Of these about 1.1 million are located in communal lands while the rest subsist on land in the 'original' resettlement areas (72,000 households) and A1 Fast Track resettlement farms (141,000 households). A majority of the rural poor are found among these smallholder households (especially those in communal lands as well as some landless displaced former commercial farm workers).

If we consider data on the incidence of rural poverty according to agro-ecological regions it is clear that the more marginal an area is, the greater the rates of poverty (Table 1.4). As the largest number of rural residents is found in Natural Region IV, it is clear that this is also where the largest number of rural poor is found.

Table 1.4 : Poverty by natural region in rural areas

Natural Region	Prevalence (percent) of	
	Poverty	Extreme Poverty
I	62.4	36.2
II	71.6	41.2
III	77.3	51.4
IV	81.6	57.2
V	79.5	55.7

Source: Ministry of Public Service, Labour and Social Welfare (1997)

The Central Statistical Office (2003) also calculates that the highest incidence of rural poverty is to be found in Matabeleland North (88.2 per cent of households), followed by Mashonaland Central (85.2 per cent)[13], Matabeleland South (86.6 per cent) and Masvingo (84.0 per cent). As Table 1.4 suggests, poverty follows types of farming system and consequently natural or regional agro-ecological conditions.

The National Food Early Warning Unit (NFEWU) surveys show some differentiation within the rural areas where some households were more vulnerable than others. Specifically, female-, grandparent-, and child-headed households and those headed by young male adults were found to be the most vulnerable (USAID, 2008). More generally, poverty was found to be worse in marginal and remote rural districts of the country than those near the line of rail.

A major cause of the poverty in rural areas is low incomes from farm livelihood activities due to a combination of productivity challenges and poor market returns. Given that smallholder farmers now occupy 75 per cent of all agricultural land, it is clear that part of the solution to poverty will be in making farm livelihoods work for these families. Urban areas were generally found to have lower poverty rates, although increasingly the severity and depth of poverty is now much greater than in rural areas due to the sharp decline in the formal employment sector. With unemployment estimated at 80 per cent at the time the GNU was formed, it is clear that getting the formal economy working again will be the most direct way to deal with urban poverty. In the next chapters this report looks at the impact of the economic crisis on the various sectors, starting with labour markets.

1.6. Conclusion

Two main points emerge clearly from this discussion so far. First is the fact that although the appropriation of white owned commercial farms is often seen as the main cause, and indeed was the ultimate trigger mechanism, the Zimbabwe economic crisis emerged from a combination of structural problems inherent within the key productive sectors of the economy (agriculture, manufacturing and mining).

Secondly, it has been shown that poverty was already increasing by the time of the farm invasions in 2000. There is no doubt that poverty rates increased during the economic crisis and by all measures a majority of Zimbabweans were poor by the time the GNU was formed. Most of the poverty in Zimbabwe today is still rural and is largely a function of underperformance of smallholder agriculture that has led to low agricultural incomes and a lack of alternative sources to make a living. Deep pockets of poverty now exist in the major urban centres as most people now make a living through the informal sector. A key implication of this is that rural poverty reduction will probably be achieved by the revitalisation of agriculture and increased earnings from the smallholder farms. Similarly urban poverty reduction will necessarily be underpinned by the revitalisation of manufacturing on the back of agricultural productivity growth. The next chapter examines the issue of labour markets and employment in more detail.

[13]Mashonaland Central has 74 per cent of households in NRI and II, is located fairly close to Harare and is well served by transport so it is rather contradictory for it to have such high levels of poverty. Back in 1995 the World Bank (1995) had noted that Mashonaland Central also fared badly in nutritional surveys. However, recalculation of poverty levels based on 1990 ICES data showed Mashonaland Central to have one of the lowest incidences of poverty in the country.

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