IDAZIM
Institute for a Democratic Alternative for Zimbabwe

Economic MONITOR

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Will anticipated growth be matched by service delivery?

About the Institute for a Democratic Alternative in Zimbabwe

The Institute for a Democratic Alternative for Zimbabwe (IDAZIM) is an independent, not-for-profit, public interest policy institute with secretariats in Harare, Zimbabwe, and Johannesburg, South Africa. IDAZIM's main objective is to provide a platform for pro–democracy institutions and human rights actors to advance Zimbabwe's democratization, with programs built around the following major themes: democracy and governance, including political transition and constitutional governance; economic analysis in a context of socio-political transition; transitional justice, human rights, and rule of law; professional leadership training; and international policy analysis and global advocacy.

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IDAZIM Core Purpose

Promote and Advance Sustainable Democracy

IDAZIM Mission Statement

Promote the achievement of sustainable democracy in Zimbabwe through citizen participation to realize transparent and accountable governance.

IDAZIM Core (Foundational) Values

IDAZIM is committed to;

- Public Interest
- Justice and Human Rights
- Accountable Governance
- Integrity

Aims and Scope of the Economic Monitor

The Economic Monitor is a publication of IDAZIM that publishes socio-economic trends, policy analyses, case studies and normative critiques on developmental issues relating to Zimbabwe. Cognisant of the fact that no country exists in isolation, the scope of the Monitor extends beyond Zimbabwe to cover international and regional issues that necessarily impact on domestic developments.

Contents

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EDITOR'S NOTE

A warm welcome to the second issue of the ***Economic Monitor***, a publication of IDAZIM whose intended audience are the Institute's stakeholders, partners the Zimbabwe community and the public at large. This second issue reviews key economic developments as well as social developments in Zimbabwe while taking note of global and regional developments. Readers are encouraged to provide comments and feedback as a way of improving future issues of the Monitor. IDAZIM will endeavour to publish the Economic Monitor every quarter. Therefore, look forward to future issues.

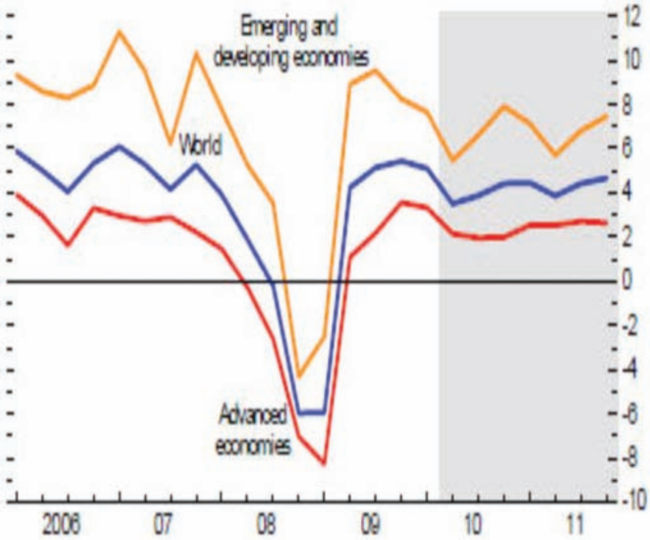
ECONOMIC DEVELOPMENTS

Global Developments

The global economy remained on a positive growth trajectory during the first half of 2010 despite the outbreak of the European Sovereign debt crisis which adversely affected a number of economies. According to the World Economic Outlook (WEO) assessment in July 2010, the world economy expanded at an annualised rate of over 5% during the first quarter of 2010. The principal contributing factors included an upsurge in industrial production, with industrial production and trade posting double digit growth. The advanced countries' growth opportunities marked by employment growth and overall macroeconomic developments confirmed expectations of a robust but steady recovery. Emerging and developing economies also experienced strong growth during the same period. On a year-on year basis, the world growth is now projected to grow by 4.5% in 2010, and 4.25% in 2011. Figure 1 shows the projected growth trend to 2011.

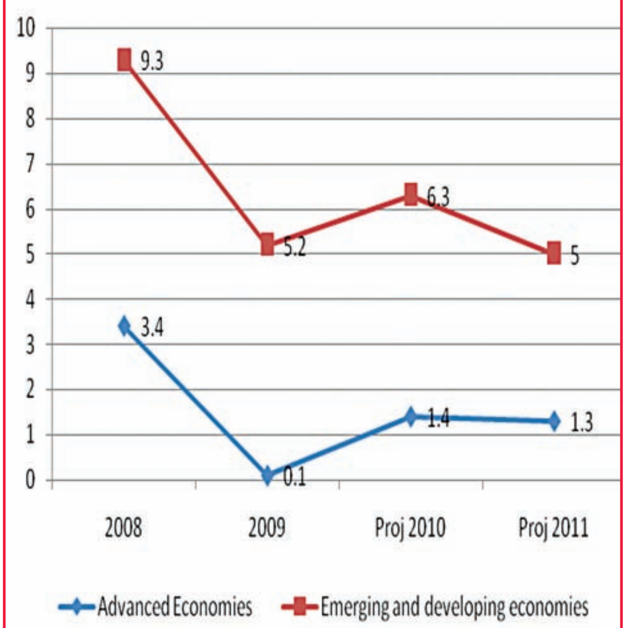
Financial instability is a key factor militating against gains registered over the twelve month period of 2009 to 2010. Hence, policy efforts in developed countries should focus on the implementation of fiscal discipline that enhance medium growth prospects such as reforms to entitlement and tax systems. A supportive monetary policy will work to enhance stability. In developing countries, policies targeting structural reforms and greater exchange flexibility rate will help maintain the growth momentum as projected.

Figure 1: Global GDP Growth
(Percent, quarter-over-quarter, annualized)



Source: IMF staff estimates

Figure 2: Global Inflation



Source: World Economic Outlook, July 2010

Global Inflation Developments

Depressed inflationary pressures were recorded for the month of May and June 2010. Inflationary pressures are expected to remain subdued in advanced economies, see Figure 2. Well anchored inflation expectations should contain inflationary pressures in advanced economies, where inflation is expected to remain around 1.4% and 1.3% in 2010 and 2011 respectively. In contrast, in emerging and developing economies, inflation is expected to edge to 6.3% in 2010 before subsiding to 5% in 2011.

Regionally, inflation is expected to remain within the regional average of about 6%, a development which ensures external competitiveness[1]. The table below shows the inflation trends for selected SADC countries, and USA

Table 1: Annual inflation rates for Selected SADC Countries

	Jan-10	Feb-10	Mar-10	Apr-10	May-10
Zimbabwe	-4.8	-0.7	3.6	4.85	6.03
Botswana	6.1	6.1	6	7.1	7.8
Mozambique	5.1	6.8	7.1	9.1	12.7
Tanzania	10.9	9.6	9	9.4	7.9
Zambia	9.6	9.8	10.2	9.2	9.1
SA	6.2	5.7	5.1	4.8	4.6
Malawi	7.8	8.2	8.3	8.1	7.8

Source: Reserve Bank of Zimbabwe

Regional Developments

South Africa

The South Africa economy remained on a positive growth path during the first half of 2010. After registering a growth of 4.6% during the first quarter of 2010, the economy registered a growth of 3.2% during the second quarter of the year. The growth of the economy was mainly driven by manufacturing and service industries that benefitted from the 2010 World Cup tournament.

According to Statistics from the South Africa Reserve Bank, travel receipts from non-residents associated with the World Cup amounted to R3.5 billion (about R15 billion annualized) during the second quarter of 2010.

Inflation

South Africa's Consumer Price Index (CPI) which stood at 4.2% year-on-year in June, declined to 3.7% in July 2010. The current level of inflation are in line with the inflation target of 3-6%. Inflation is projected to remain below 4% during the second half of the year on the back of the strengthening Rand, and weak domestic and foreign price pressures.

Ed Suter / Independent Contributors / Africa Media Online

Exchange rate

The South Africa Rand broke the R7/US$ barrier in September 2010, its highest level in two and half years. The strengthening of the rand was largely attributed to huge inflows of foreign capital in the bond market, easing of USA monetary policy, a weak dollar, and strong gold prices.. The continued strengthening of the rand is adversely affecting the competitiveness of exports and other manufactured products. There is now increased pressure on the monetary authorities to intervene in the foreign exchange to address the issue of currency overvaluation.

According to the International Monetary Fund (IMF), the rand was overvalued by 5% to 15%, a situation which was not conducive for sustained growth of the economy, or job creation.

Employment

According to the Quarterly Employment Statistics released in September 2010, employment in the formal economy increased by about 41 000 to 8.13 million during the second quarter of 2010. New jobs were largely created in the mining, electricity, gas and water, wholesale and retail trade sectors. The issue of employment creation is central to poverty reduction in the country.

The Zimbabwe Economy

The Zimbabwe economy is likely to register strong growth in 2010. The high growth of the economy will be driven by the strong performance of agriculture and mining sectors. The growth of the agriculture sector will be driven mainly by tobacco. Tobacco output surged to an eight year high level of 123.5 million kilograms in 2010, and given the weight of tobacco in the agriculture basket this should significantly push the growth of agriculture in 2010, and hence the overall Gross Domestic Product (GDP). The second factor that will significantly push the growth of the Zimbabwe economy in 2010 is the contribution of the mining sector especially the Platinum Metal Group, and Gold.

The key challenge that the economy continues to face is lack of credit lines to support industry due to high country risk. A number of investors still perceive the country as high risk due to the uncertainty arising following the promulgation of the indigenisation and economic empowerment regulations. Furthermore, talks of elections in 2011, are also worsening the business confidence index in the country.

Real Sector Developments

The Zimbabwe economy experienced a fundamental structural change over the past 10 years which calls for an urgent review of the contributions of the various sectors to the GDP. Traditionally Manufacturing had the biggest weight of 18.6%, followed by Agriculture, Hunting and fishing (16.1%), Distribution, Hotels and Restaurants (16.1%). Over the years, the mining sector has emerged as one of the key contributors to GDP and its current weight of 3.8% as given in the National Accounts is not in tandem with the reality on the ground. As such, there is need to review the sectoral weights to take into account the structural changes in the economy.

A review of the weights will help the authorities to come up with realistic sectoral performance and contributions to GDP. Furthermore, in the measurement of Zimbabwe's GDP, it is equally important to include the activities of the informal sector as this sector has emerged as one of the key drivers of the economy.

Agriculture

The strong performance of the agriculture sector in 2010 is one of the key factors behind the resurgence of the Zimbabwe economy during the second half of 2010. The recovery of agriculture was largely led by tobacco, whose output improved remarkably in 2010.

Table 2: Selected Agricultural products and weights

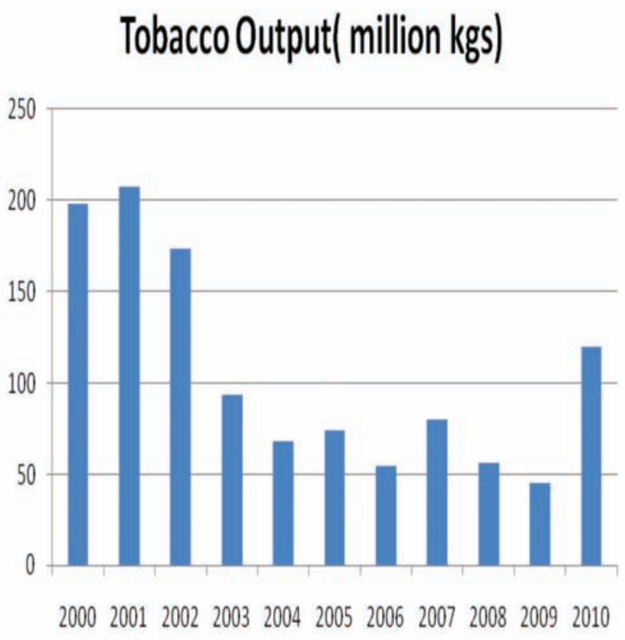
Agriculture production	Weights
Tobacco	25.5%
Maize	14.0%
Beef	10.20%
Cotton	12.5%
Sugar	6.8%
Horticulture	6.5%

Source: Zimbabwe National Statistics Agency (ZIMSTATS)

From the above table it is clear that tobacco is a key crop and has a big impact on the overall performance of the sector and hence the economy. The country`s tobacco output reached an 8 year high output in 2010. Tobacco output surpassed the initial projection of 77 million kilograms and 93 million kilograms to close the season at 123.5 million kilograms.

The strong performance of tobacco is expected to continue in 2011, with output projected to average 150 mil-

Figure 3: Tobacco Production (2000-2010)



Source: Zimbabwe National Statistics Agency (ZIMSTATS)

lion kilogrammes. Increased inputs support fostered increased hectarage, consequently improving production of the sector.

The issue of food security is one of the main challenges that the country is facing despite the improved performance of maize production in 2009 and 2010. Maize output which declined to 575 000 tonnes in 2008, stood at 1 240 000 tonnes in 2009 and improved further in 2010 to 1 300 000 tonnes. This output is still far short of the 1 800 000 tonnes required in the country to ensure food security. It is estimated that about 1.68 million[2] people still need food aid through March 2011.

Meanwhile the government suspended the ban on imported poultry in a move meant to protect local consumers from high prices. An import quota of 1000 metric tonnes per month was put in place to complement local producers. The country requires about 3500 metric tonnes per month for domestic consumption. However local producers were struggling to meet local demand, and hence the move by the Government to allow more imports.

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It is important for policy makers to carry out extensive industrial surveys before announcing new policy measures. This will help to ensure that policies are not reversed immediately after they are announced. It is equally important to ensure that policies regarding to the dutyon imports into the country are extensively debated before implementation and issues of viability of local industries, and affordability of consumers is openly discussed. From the poultry industry experience it is clear that when local industries do not have capacity, the immediate impact of a ban on imports will be shortages and price increases which will end up adversely affecting the ordinary citizens of Zimbabwe.

On the other hand, policy makers need to look at the structural challenges that are currently affecting the competitiveness of local industries. Without addressing these structural challenges, local industries will never grow and the country will continue to be a net importer of goods and services.

Mining

The mining sector has strong potential to lead the recovery of the economy. Addressing critical issues like power supply and undercapitalisation will be important to ensure that the sector realises its full potential. However, equally important is the need for government to come up with appropriate structures to ensure that the country fully benefits from diamonds. With independent experts projecting that the country could get about US$2 billion every year from diamonds, it is crucial to ensure that a significant portion of this revenue goes into government coffers and used for the benefit of all Zimbabweans.

Furthermore the promotion of local beneficiation will be important in the mining sector as a way of maximising the benefits from the mining activities in the country. A significant portion of precious minerals like gold and diamonds should be set aside for local industries. Local diamond cutting and polishing, for example, could emerge as a lucrative industry in the country if a framework is put in place to support local industries. This will help to enhance local industrial activities and employment creation in the country. Therefore, if the proposed new regulations that require diamond mines to reserve 10% of their produce for sale to local cutting and polishing firms is fully implemented, this could go a long way in stimulating local industries. This is consistent with regional practises in other countries like Botswana and South Africa.

Besides diamonds, the Platinum Metals Groups (PMGs) are also going to drive the growth of the mining sector in 2010 and beyond. Production of PMGs will be triggered by increased investments especially Zimplats' second phase expansion programme, increase in capacity utilisation at Mimosa mining company and resumption of operations at Unki Mine in the last quarter of 2010.

Gold output is also expected to remain firm as a result of the liberalisation of the sector and the opening of credit lines to miners. The recapitalisation of Hwange Colliery company and the efficient use of the dragline is expected to foster production of coal in Zimbabwe.

Overall, increase in power supply, recapitalisation of mines will help to restore viability of the sector and increase productivity. The mining and exportation of diamonds, coupled with accountability and transparency, will help the sector realise a growth momentum.

Manufacturing

The manufacturing sector has lost its dominant role in the economy and its contribution to GDP is likely to remain subdued due to a host of factors currently affecting its recovery. Low levels of foreign direct investment, lack of lines of credit, low industrial productivity and the high cost of funding on the domestic market, have conspired to constrain the regeneration of the decimated manufacturing base. The tight liquidity situation in the economy has also resulted in banks taking advantage to quote punitive short-term interest rates of up to 30%, which has discouraged most firms from borrowing. With antiquated manufacturing equipment, local companies have failed to produce at low cost or to compete with low priced imports.

Although capacity utilisation in the sector has improved to levels around 43%, the majority of companies are struggling. The recovery of the manufacturing sector is also negatively affected by the poor performance of ZISCO Steel.

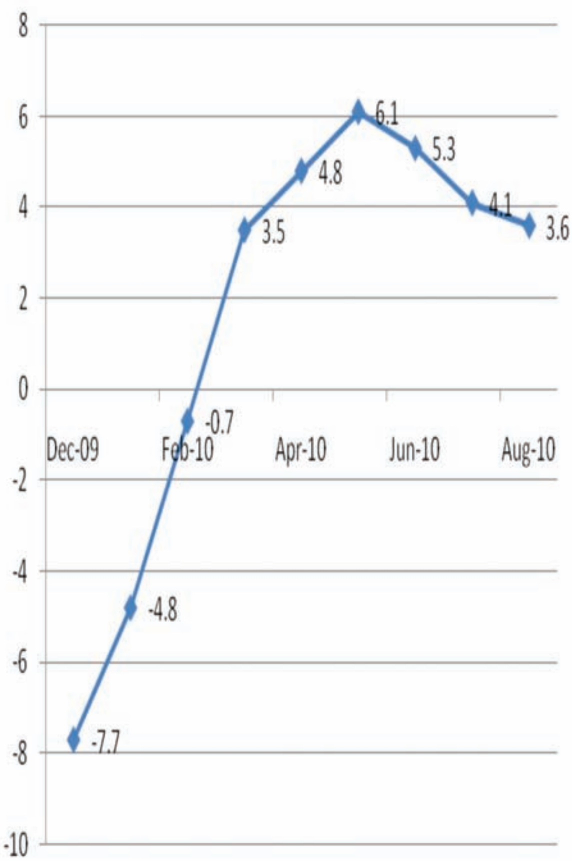
The ongoing discussion on the Bilateral Investment Promotion and Protection Agreement (BIPA) between Zimbabwe and Botswana if successfully completed could result in Zimbabwe accessing US$70 million which could go a long way in addressing some of the funding constraints that sectors like manufacturing are facing.

Macroeconomic Developments and Public Finance

Inflation

Year-on-year inflation, which has been on an upward trend since the beginning of the year reached its peak of 6.1% in May 2010. Since then inflation has been on a downward trend. Annual inflation dropped from 6.1% in May 2010 to 5.3% in June 2010, and eased further in July and August to 4.1% and 3.6% respectively, see Figure 4. Month- on- month inflation on the other hand remained static at -0.1% from June to August 2010. The current levels of inflation are in line with the Government's projected target of 4.5% by year end and compares favourably with the region.

Figure 4: Year on Year Inflation Rates



Source: Zimbabwe National Statistics Agency (ZIMSTATS)

Consumer Price Index for the month of August stood at 95.0 compared to 95.1 in July this year and 91.7 in August last year. During the same period, month on month food and non-alcoholic beverages inflation stood at -0.01% in August, gaining 0.02 percentage points on the July ;rate of -0.03%.

The government is likely to meet its inflation target of 4.5%. Inflationary pressures will however come from the continued strengthening of the South African Rand, which could adversely push up the price of imports, high cost of funds, high utility costs and wage pressures.

Government Revenue

Government revenue figures continue to improve, and as at July 2010 cumulative revenue stood at US$1 144 573 765.9 against a cumulative target of US$995 557 246. The improvement in the monthly revenue collections to US$140 million per month, and the improvement of corporate, and individuals' taxes show that economic activity is picking in the country.

Expenditure

Cumulative Expenditure[3] during the first seven months of the year stood at $837 556 201 against a target of $792 154 997. The government has failed to operate within its means despite the Minister of Finance`s call to fiscal discipline. Minister Biti`s decree that Treasury would not go

Table 3: Revenue and Expenditure
(Jan –July 2010)

Month	Revenue	Expenditure
January	102244495.7	81477146.09
February	133272566.7	128499503
March	175993546.9	131071254
April	159775145.1	116693542
May	157207619.5	113817992
June	202162185.9	137748872
July	213918206.1	128247892
Total	1144573766	837556201.1

Source: Ministry of Finance

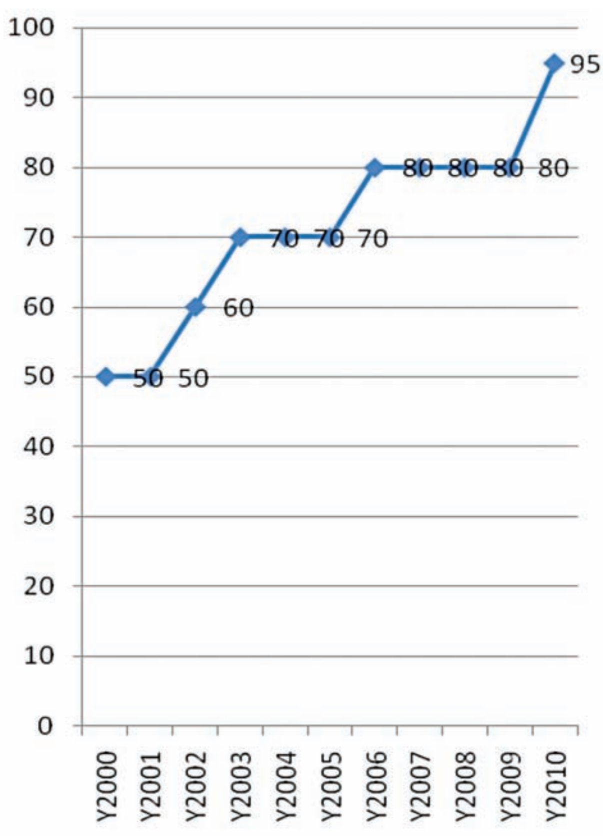
for a supplementary budget, means that stringent measures will need to be put in place to curb government overspending. These among other measures would include a reduction in regional and international travel and a limit on the size of travel delegates. If not adhered to, prospects of reversing the economic gains achieved since 2009 becomes imminent.

Unemployment

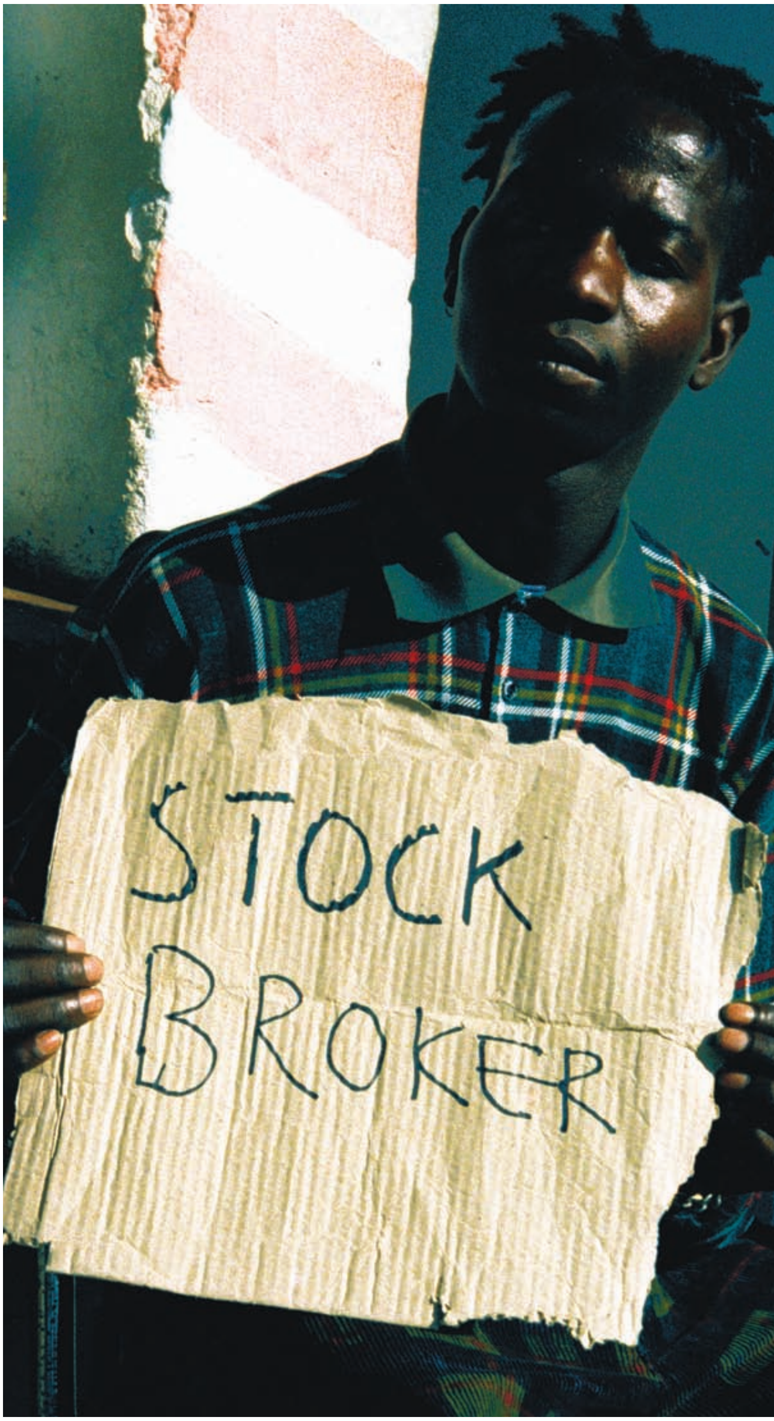
Unemployment remains one of the major challenges in the country. Unemployment is currently estimated at 94 percent, industries are working at less than 40 percent of capacity, private sector confidence is at rock bottom, there is little cash circulating among the vast majority of Zimbabweans, and barter trade is estimated at 37 percent in rural areas[4].

Formal sector employment remains low against slow growth of the local industries.

Figure 5: Unemployment levels (2000-2010)



Source: Central Intelligence Agency (CIA) World Fact book, Jan 2008 and Feb 2010. *2010 Figure is an estimate level.*



Guy Stubbs / Independent Contributors / Africa Media Online

SOCIAL DEVELOPMENTS

State of Service Delivery in Local Authorities

Introduction

Service delivery is crucial to the welfare of the citizens of a country. In Zimbabwe service delivery crumbled

John Robinson / South Photographs / Africa Media Online

over the past years due to the meltdown of the economy. However the situation has somewhat improved following the formation of the Inclusive Government which brought about macroeconomic stability in the country.

Water Provision

According to the Urban Councils Association of Zimbabwe, water provision has improved in most local authorities where residents who had gone for months without water in areas like Mandara in Harare, parts of Kadoma and Gweru are now getting water for hours without a interruption. This is attributed to the support given to local authorities by the inclusive government in the form of both financial and material resources such as equipment and water pipes. Harare City Council has installed new pipes to replace the leaking pipes which had seen over 40% of treated water going to waste. In Kadoma, old obsolete pumps and equipment are being replaced and it is estimated that in three months time Kadoma will have adequate water. Bulawayo, Gweru and Mutare City Councils are also making steady progress towards 100% water provision. The Urban Councils Association of Zimbabwe estimates that if the steady improvement in water provision continues, Zimbabwe will soon enjoy 100% water provision in the urban areas.

Although the situation in the urban areas is showing some steady recovery, the situation is not looking good in the rural communities. Indications from the Association of Rural District Councils are that over 60% of the water points in the rural areas are broken down without immediate funding available for repair and maintenance. Revenue collection stands at 30% – 60% in urban local authorities and below 30% in rural local authorities. The Democratic Councils Forum (DemCoF), the Urban Councils Association of Zimbabwe (UCAZ) and the Association of Rural District Councils (ARDC) believe that the Zimbabwean culture of responsibility in terms of honouring debts was badly affected by the fall of the national economy, which adversely affected real disposable incomes

Road Infrastructure

As far as urban roads are concerned most local authorities are busy patching potholes and the urban roads have improved significantly. DemCoF, UCAZ and ARDC believe that this is due to the Zimbabwe National Road Authority's (ZINARA) contribution to local authorities' road construction and maintenance, due to an improvement in toll gate collections. Unfortunately there is no marked improvement in the rural roads network maybe because the network was worse off than that of its urban counterpart.

Sewerage Reticulation

In the area of sewerage reticulation there is also a noticeable improvement. However, it is reported that cases of raw sewerage being discharged into fresh water bodies is on the increase rather than on the decrease, thereby increasing the cost of water treatment.

Refuse Collection

Refuse collection has also improved greatly with many local authorities buying refuse compactors and Harare has even advertised refuse collection schedules and advising the tenants on who to contact when their refuse is not collected.

Street Lighting

Street lighting has greatly improved with Kadoma boasting of almost all their streets, some of which had not seen light for a long time, now being lit.

Traffic Lights

Traffic lights have also greatly improved and the City of Harare is replacing non functional traffic lights with cost effective and durable solar traffic lights.

Health Services

Most local authority hospitals and clinics are now fully functional, manned by a reasonable staff complement and boasting of a full supply of medicines.

Education Services

Local authority schools are now back to normal with well maintained school grounds. Reports that international organisations like UNICEF will unveil US$50mln education grant, should result in a great improvement in the child to book ratio from 10 children to 1 book to 1 child to 1 book.

Service Delivery Challenges

There is a marked improvement in the local authority service delivery levels and one hopes the upward trend is maintained. There are however, a few issues remaining to be addressed, namely; the ability of the local authorities to collect adequate resources to improve service delivery, which at the moment is facing problems of political opportunism on the part of senior politicians who are discouraging ordinary citizens/residents from honouring their local authority debts for political reasons, and citizens who are developing a culture of irresponsibility as far as local authority issues are concerned.


John Robinson / South Photographs / Africa Media Online

According to the local authority associations (DemCoF, UCAZ and ARDC), collection levels stand at 30% – 60 % in urban local authorities and below 30% in rural local authorities. While the issue of affordability on the part of residents and the national economy are mitigating factors when it comes to revenue collection, these factors are now being used as excuses, as residents are not even making part payment in order to demonstrate their commitment to the local authority debt. Local authorities also face serious constraints as they are not afforded sympathetic preferential treatment when Parastatals such as ZESA are dealing with national shortages. The staffing levels of local authorities are not helpful as there are gaping professional and technical vacancies in most local authorities thereby militating against good service delivery.

As far as local authority management is concerned, there are a number of peculiar problems which militate against efficient and effective service delivery by local authorities. These problems in the local government sector are a result of lack of common purpose, vision and mission among the key players in the sector. The work of the elected leadership is compromised by an executive staff which takes advantage of the unsuspecting inexperienced city fathers to manipulate the system for personal gain. The residents on the other hand are watching helplessly, hoping that sanity will prevail.

It has been a tough battle for the newly elected councillors. Suddenly they realised that local government business was not a stroll in the park. The local authorities are struggling to collect revenue as the residents themselves are struggling to make ends meet. Residents feel that local authorities are overcharging while local authorities argue that residents are expecting local authorities to provide acceptable services without the requisite resources.

Conclusion

Given the budget constraints that Government is facing, councils need to come up with more innovative ways of funding their requirements. The process requires total commitment not only on the part of Central Government but also on all progressive thinking organisations, the private sector, the NGO sector, the elected officials in local government, the executive staff and not least of all, the ordinary residents of the local authorities. There is need for all stakeholders to work together if local authority service delivery is to be restored to its heydays of the early nineties, where water and sanitation provision was at 100% in the urban areas, and 90% water provision and 65% sanitation provision in the rural areas.

Endnotes

1 Mid-year Monetary Policy Statement of the RBZ, July 2010
2 Report by the United Nations Food and Agriculture Organisation and the World Food Programme, August 2010.
3 Total expenditure and net lending
4 http://ochaonline.un.org/ CERF allocates $5 million for protracted relief and recovery operation in Zimbabwe, 22 January 2010.

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