

# Salary scandal in Zimbabwe

## Shady activities continue

After the 31 July 2013 general elections in Zimbabwe and the end of the Government of National Unity (GNU) between the Zimbabwe African National Union Patriotic Front (Zanu PF) and the Movement for Democratic Change formations (MDC), the country was rocked by a salary scandal in the state parastatals. This was hardly surprising, as most people's ethics had been compromised by devastating hyper-inflation which reached its peak in 2008, writes **Tapiwa Chagonda**.

### INTRODUCTION

This article argues that the salary-gate scandal that was exposed in early 2014 involving most of Zimbabwe's 78 state-owned parastatals and local council authorities can be traced back to the illicit activities that were common during the hyperinflation era. The scandal came as a shock to many Zimbabweans as exposes revealed that senior executives were pocketing obscenely high salaries, when the country was broke and going through a spell of deflation – a reverse situation to the hyperinflation of 2008 awash with worthless trillions of Zimbabwean dollars and empty supermarket shelves.

This article argues that senior executives in state-owned enterprises were prepared to award themselves fat salaries without batting eyelids. This happened on the backdrop of largely struggling entities failing to pay non-senior employees or partly paying them in some instances, or even laying them off without any benefits. This reveals a culture of corruption and fraud that is rooted in the dog-eat-dog hyperinflation days.

### SPECULATION

Zimbabwe went through a serious economic meltdown in the 2000s which led to the second highest hyper-inflation rate for any country in recorded history. Steve Hanke, one of the world's leading experts on inflation, argues that Zimbabwe's hyper-inflation peaked at a stupendous 89.7-sextillion % in October 2008. A sextillion has 21 zeroes. In order to survive such a testing economic environment, most people became involved in crooked speculative activities in order to cushion themselves from the ravages of hyper-inflation. These included trading and dealing in foreign currency, scarce commodities and even illegal selling of diamonds. Most of these activities took place in the growing informal economy.

The informal economy whose sections are also known as the 'black market', was very lucrative because of the shortages of foreign currency and most basic commodities. As a result, there was a thriving 'black market' in foreign currency, fuel and basics like mealie-meal, sugar, cooking-oil, and

soap, brought by cross-border traders into the country from neighbouring South Africa and Botswana.

A speculative informal economy will in most cases thrive in hyper-inflationary situations, because it provides an opportunity for people to hoard goods and re-sell them later at inflated prices rather than keeping money which loses value. In this case, speculative activities assist people to hedge against the devastating effects of hyper-inflation. The 'black market' also thrived in countries that faced hyper-inflation in the past such as Germany during the Weimar Republic (1920-1923), Argentina (1988-1989) and Yugoslavia (1992-1994), as most goods became available on the informal economy.

One of the most popular ways of cushioning oneself from hyper-inflation was what was known as 'burning money' through a banking transaction system known as the Real Time Gross Settlement (RTGS). Under RTGS transactions, if a person sold US dollars to the bank and requested that the money be transferred into their accounts in Zimbabwean dollars, that

individual would get local currency many times higher than the prevailing exchange rates. The trillions and quadrillions of Zimbabwean dollars which some of the forex dealers obtained through the 'burning of money' facilitated the possibility of other economic activities.

For instance, the 'burning of money' assisted some individuals to fly with Air Zimbabwe for almost nothing to countries such as China and the United Arab Emirates (Dubai) to buy electronic goods and clothing items which they would re-sell in Zimbabwe. The dealers would 'burn' a few US dollars and then pay for their airfares with the quadrillions or quintillions of Zimbabwean dollars obtained in the RTGS transactions. In reality, the national airline was making huge losses as became evident when the Zimbabwean economy started using United States dollars.

Activities such as 'burning money' only served to stoke the fires of hyper-inflation and in a way sustained people in Zimbabwe, albeit in a morally questionable fashion.

According to *The Worker* 2008 edition published by the Zimbabwean Congress of Trade Unions, in efforts to ease the shortage of basic commodities the government of Zimbabwe through the leadership of then reserve bank governor Gideon Gono decided to establish what were known as people's shops that sold basics at cheaper prices. Commodities such as cooking oil, sugar, soap and mealie-meal were made available under the Basic Commodities Supply Side Intervention (Bacossi).

However, there were reports that most of these Bacossi products were looted by well-connected traders and top Zanu (PF) officials, who would re-sell them at higher prices on the 'black market'. Shady speculative activities as the ones explained above are quite common in hyper-inflationary environments and Henry Hazlitt sums up the effects of hyper-inflation in compromising people's values and integrity when he argues: 'Hyper-inflation results in many social

ills such as mal-investment, waste, a wanton re-distribution of wealth and income, the growth of speculation and gambling, immorality and corruption.'

In the Zimbabwean scenario, at least with respect to state-owned enterprises, it appears as if the senior executives of these entities are still in a hyper-inflation mode of engaging in corrupt activities to make quick money.

### **SALARYGATE**

At the beginning of 2014, both the state and private media in Zimbabwe reported that there was a salary scandal involving most of the state's 78 parastatals and local government authorities. It was revealed that some senior executives in these state enterprises were earning monthly salaries and allowances that ranged between US\$20,000 and US\$500,000 per month (R200,000 to R500,000). They got these salaries despite the fact that most of the state-owned enterprises were struggling financially in an environment facing liquidity challenges.

It was further revealed by the media that about 3,000 senior executives and board members of the 78 state-linked firms in the salarygate, cost government US\$600-million, slightly over R6 billion in salaries and allowances since 2009 and \$133-million, about R1.5-billion in 2013 alone. What irked and shocked most Zimbabweans was the fact that these same state-owned enterprises were making losses despite getting state subsidies. At the same time, there are wide-spread reports in most parts of the country that service delivery has deteriorated in most urban and rural local authorities because the bulk of the revenue being collected from residents is spent on salaries.

To make matters worse, while the senior executives were raking in these obscene salaries, there were widespread reports that state enterprises such as the Zimbabwe Broadcasting Corporation (ZBC) and the Harare City Council, were failing

to pay ordinary workers for months on end.

Therefore, it can be argued that the immoral nature of the salarygate scandal is rooted in the hyper-inflation past - a phase in Zimbabwe's history that severely compromised people's ethics as most ended up engaging in all kinds of dishonest activities in order to make a living. Thus, the culture of engaging in illegality that was acquired by Zimbabweans during hyper-inflation has been maintained, hence the continued immoral activities that have been exposed by senior executives in state enterprises. The salarygate scandal shows that for as long as the Zimbabwean political and economic environment is volatile, and it will be difficult to restore virtues of honesty and good corporate governance in all sectors of the economy.

The salarygate scandal is still raging on and the Zimbabwean government has tried to rationalise the remuneration of senior executives in state enterprises by setting up a presidential committee in April 2014 that was supposed to ensure good corporate governance and the elimination of white-collar crime in state enterprises. The committee recommended capping the salaries of all senior executives of state parastatals at US\$6,000 (R60,000), and also the setting-up of a specialised commercial crimes court to specifically deal with white-collar crime. However, up to now, these recommendations have not been implemented as media reports still maintain that most senior executives in state enterprises are still earning more than the US\$6,000 that was recommended. <sup>18</sup>

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