ZIMCODD

ZIMBABWE COALITION ON DEBT AND DEVELOPMENT

WEEKLY ECONOMIC REVIEW AND UPDATE

15 March 2021

"Celebrating 20 years of People driven Social and Economic Justice in Zimbabwe"

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Weekly Dashboard

Forex Auction Weighted Rate

Week (02.03.2021)	**Week (09.03.2021)**
ZWL83.8868 per USD1	ZWL83.9827 per USD1

Total Consumption Poverty Line

Nov 2020	**Feb 2021**
ZWL4 426.00	ZWL5 187.00

Food Poverty Line

Nov 2020	**Feb 2021**
ZWL3 279.00	ZWL3 934.00

Consumer Price Index

Feb 2020	**Feb 2021**
640.16	2 698.89

Covid-19 Cases

Week (07.03.2021)	**Week (14.03.2021)**
Positive cases 36 271	**Positive cases** 36 484
Recovered 33 834	**Recovered** 34 043
Deaths 1 485	**Deaths** 1 503

COVID -19 Vaccinations

Vaccinated 01/03/21: 2163
Cumulative Total: 21 456

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Notable Issues This Week

PUBLIC DEBT SUSTAINABILITY VS NEW DEBT CONTRACTION

The 2019 Annual Public Debt Bulletin shows that the total Public and Publicly Guaranteed (PPG) debt spiralled beyond several international benchmarks, signalling the unsustainability of the same. In 2019, PPG to GDP ratio stood at 89%, a 1% increase from the 88% recorded in 2018. The 89% exceeds the IMF benchmark of 35% by a towering 53% and is still above SADC's 60% benchmark – exposing government's insatiable proclivity to borrow. Whereas Treasury is still to issue the 2020 National Debt Bulletin, total PPG is expected to shoot through the roof given that government was processing the takeover of RBZ debt in 2020. The government has continued to flout own controls and stipulations on debt contraction by failing to observe the 70% benchmark suggested by the Public Debt Management Act (Section 11). The addition of further debt of US$10 million not only aggravates the unsustainability of public debt but worsens the plight of ordinary citizens as they shall be made to pay for debts accrued for flimsy reasons.

CORRUPT FIRM BANNED FROM THE FOREX AUCTION

There has been reported ongoing nefarious and rent seeking dealings on the auction rate system by some rogue companies. There exist some well-knit networks of those using letter-box companies to buy the foreign currency at an official rate and selling on the parallel market. They then go back to the auction system to offload the local currency. Some of the companies are involved in transfer pricing, also known as transfer mispricing. This refers to trade between parties at manipulated prices to sway the market and deceive tax authorities. Resultantly, these murky schemes fuel high exchange rates at the parallel market and causes a jump in prices of goods and services. The cycle continues and benefits a corrupt few at the detriment of the economy. Such arbitrage tendencies are not acceptable as they derail government efforts to stabilize the economy.

GOVERNMENT TARGETS 13 AGRICULTURAL SOES FOR REFORMS

Government's stated intention to reform 13 Agricultural State-Owned Enterprises (SOEs) must be underpinned by broad-based Parliamentary-led consultations to safeguard the national interest. The Zimbabwean experience with SOE reforms has predominantly undermined the public interest and left the nation worse off whilst enriching foreign interests and local elites at the expense of the nation. Ideally, government must retain control of key and strategic SOEs. Host communities, workers and local investors including Zimbabweans in the diaspora must be allowed fair opportunities to own shares or equity in reformed SOEs. Innovative financing options to facilitate the inclusion of all Zimbabweans including equity crowdfunding, workers stock ownership plans etc must be put on the table and explored. However, adequate legal provisions must be availed for the operationalization of reform measures in a manner that expands opportunities and sustainably leverages sovereign wealth without undermining the public interest. The whole SOE restructuring exercise goes beyond rhetoric and calls for the democratic engagement, transparent management of resources and political will.

1. COVID-19 Resource Tracker

The COVID-19 resources tracker is a ZIMCODD initiative to keep track of all resources pledged, received and utilised by the Government of Zimbabwe in response to the COVID-19 pandemic from March 2020 to date. The aim of the COVID-19 resources Tracker is to strengthen transparency and accountability by the government on COVID-19 resources while empowering citizens with information to hold the government to account on allocation and utilisation of COVID-19 resources. The tracker is updated on a weekly basis to show pledges honoured, resources received and resources expended.

The Government of Zimbabwe (GoZ) set aside ZWL7 billion in the 2021 national budget to recruit more health personnel, procure PPEs, testing kits and sundries required in fighting COVID-19. The government has also budgeted ZWL3.5billion to cushion 500 000 vulnerable households whose beneficiaries comprise the informal sector, returning residents and children living in the streets.

Overall

Total Pledges = US$759,395,257; **Honoured Pledges** = $547,648,071; **Amount Spent** = $290,301,082

For the week ending 11 March 2021:

Total Pledges = US$118,359,904; **Honoured Pledges** =US$7,159,904; **Amount Spent** = US$7,159,904

Major Concerns

1. **National Vaccine Procurement Fund**

Government has indicated that Private Organisations will be allowed to procure COVID-19 vaccines for their workforce. According to the Minister of Information, Publicity and Broadcasting Services, Minister, Hon Monica Mutsvangwa

> *"organizations interested in procuring COVID-19 vaccines for their workforce will deposit into the National Vaccine Procurement Fund after approval by the Ministry of Health and the National Vaccine Procurement Fund will procure on behalf of the organizations guided by the National Procurement Guidelines,"*

Most Zimbabweans agree that the Private Sector and wealthy Zimbabweans should play their part in ensuring just and equitable access to COVID-19 Vaccines. A National Vaccine Procurement Fund is important to pool resources and facilitate gains from economies of scale. Zimbabwe needs resources of its own in order to negotiate with big pharmaceutical companies for cost effective vaccines. Meaningful participation in the various global and regional vaccine initiatives is also contingent upon Zimbabwe funding the personnel, facilities and technical coordination to support vaccination programmes.

Stakeholder concerns about the likelihood of corruption and mismanagement of the National Vaccine Procurement Fund warrant serious consideration. Government bodies and public officials have become notorious for the flagrant abuse of public funds with no fear of retribution. As such, Citizens bemoan the reality of an unwieldy rentier economy and economies of affection which greatly undermine the independence and organizational capacity of oversight and accountability institutions such as PRAZ and ZACC.

Recommendations

Concerns over the Fund's transparency and accountability can be allayed by:

- Publication of a clear National Vaccination Plan and Budget to give stakeholders an understanding of Government's Plans and areas for collaboration, support or compliance
- Adherence to standards of Good Corporate Governance in the Fund including a functional Board, Internal policies and procedures; recruitment of competent staff; an overseer and adjudicator outside of the government body to ensure compliance; and punitive measures put in place as a deterrent for abuse or misappropriation of funds
- Parliamentary oversight and scrutiny of all major tenders and vaccine procurement arrangements;
- An accessible digital public database of all National Vaccine Procurement Fund tenders;
- Clear consensus driven regulations and guidelines for Private Sector participation in COVID-19 vaccine initiatives;
- Worker and Consumer protection mechanisms to safeguard against rights violations and over-pricing in the context of private sector vaccine options;

- Legal requirement for profit oriented medical aid and medical insurance service providers to utilize surplus profits to subsidize members' vaccine access and certification;

2. **Low uptake of COVID-19 Vaccines**

The uptake of the COVID-19 vaccination in Zimbabwe is extremely low. While Rwanda has vaccinated 200 000 people in 4 days, Zimbabwe has only managed to vaccinate 35 000 since the launch of the vaccination program on 18 February 2021. Low uptake of Vaccines is attributable to a range or reasons, including: inadequate access to information; limited scope and reach of Government's vaccination programme; unclarity over vaccine effects; limited available vaccine stocks; overall inadequacies of the public health system etc.

Recommendations

Concerns over the low uptake of COVID-19 Vaccines can be addressed through:

- Broad-based public education initiatives to educate people and dispel misinformation and disinformation regarding the COVID-19 pandemic.
- Establishment of Vaccination Points and Information Centers on all primary healthcare settings; accessible public meeting places and on mobile vehicles reaching out to marginalised areas of the country.
- Inclusion of relevant COVID-19 information including on vaccination in relevant school curriculum.

Fiscal Issues

2. Public debt sustainability vs new debt contraction

The 2019 Annual Public Debt Bulletin shows that the total Public and Publicly Guaranteed (PPG) debt spiralled beyond several international benchmarks. This unsustainable rise in inflation has far reaching consequences for Zimbabwe's economy. In 2019, PPG to GDP ratio stood at 89%, a 1% increase from the 88% recorded in 2018. The IMF benchmark is 35% whilst the SADC benchmark is at 60%. Zimbabwe's Public Debt Management Act sets the benchmark at 70%.

The 2020 National Debt Bulletin, is likely to indicate a higher total given that government was processing the takeover of RBZ debt in 2020.

Whilst Treasury has not produced an audit report on the resources availed from the Global Fund, same as donations from multiple sources, it is pursuing a US$10 million loan, adding to the stock of outstanding debt. Debt service inevitable translates into tax burdens to ordinary citizens, limits investment spending by government and suppresses the growth potential of the economy through financial repression. This brings into perspective the need for public debt reform in Zimbabwe.

- Government must follow legal controls and policy stipulations on debt contraction;
- Robust public debt management strategies must be adopted to instil strict budgetary discipline to contain unsanctioned borrowing and spending;

- Genuine international engagement must be prioritized as should, the requisite political, institutional and governance reforms;
- Parliament must be assigned the final powers of okaying/declining debt acquisition;
- Constitutional and legal instruments defining the debt acquisition process must be strengthened;
- Stringent borrowing limits and laws prohibiting unilateral assent to public debt by the executive must be established to enhance transparency and accountability,

3. Taming high inflation economic priority

High inflation is undesirable in any economy. It comes with insistent price increases, loss of value of the currency, making it the biggest impediment to favourable consumer confidence, savings and economic recovery in Zimbabwe. The major driver of inflation in the country has been the growth in money supply which is not moving at the same pace with the real sector growth.

Most economies aim to target inflation to be less than 3% per annum. Although Zimbabwe has recorded a significant fall in annual inflation from 363% in January to 322% for the month of February 2021, it is still having the second highest inflation in the world after Venezuela. However, this is commendable given the soaring inflation rate which stood at 785.55%, in May 2020, making it one of the highest inflation rates in the world, according to the Zimbabwe National Statistics Agency. Taming triple digit inflation has remained the government's key priority on the road to economic stability and recovery. The government has set a target of reducing inflation to less than 10% by December 2021 and limit money supply growth to within 22,5% per quarter.

Despite the fall in the inflation, the prices for goods and services in the economy have continued to increase marginally every month, making the life of the majority of citizens harder by each day. Considering that, the civil servants, pensioners and other workers, are getting their salaries and wages in the local currency, the prevailing inflation trends and price increases are leaving them in a worse off state by each day.

It is therefore recommended that the government should consider introducing bigger denomination in circulation to increase consumers convenience and security. However, this should come with checks and balances on the money supply growth. Additionally, the government is encouraged to facilitate the increased use of 'plastic' money with mobile money dominating the economy, and should be coupled with consumer-focused regulations and policies to encourage formal banking and protect the transacting public from hidden feed and undue charges.

Monetary Issues

4. Corrupt firms banned from the forex auction

Nefarious and rent seeking dealings on the auction rate system by some rogue companies warrants urgent corrective action by monetary authorities. Some well-knit networks are using letter-box companies to buy the foreign currency at an official rate and selling on the parallel market at a higher rate. They then go back to the auction system to offload the local currency.

Some of the companies are involved in transfer pricing, also known as transfer mispricing. This refers to trade between parties at manipulated prices to sway the market and deceive tax authorities. Resultantly, these murky schemes fuel high exchange rates at the parallel market and cause increases in the prices of goods and services. The cycle continues and benefits a corrupt few at the detriment of the economy. Such arbitrage tendencies are not acceptable as they derail government efforts to stabilize the economy.

Although the auction system has managed to stabilize the exchange to about ZW$83,89 to US$1 on the formal auction market, the parallel market has maintained a gap averaging ZW$120 to a US$1. This has been attributed to the fact that, the auction system failing to meet the demand of the foreign currency requirements in the economy, hence the incentive of arbitrage tendencies in the market. It has been also noted that State firms and government departments are collecting a significant amount of funds allocated at the Reserve Bank of Zimbabwe (RBZ)'s foreign currency auction system weekly, crowding out the private sector. These private sectors then troop to the black market to access the foreign currency, hence the continued premium in that market.

12 companies allegedly involved in transfer pricing have been removed from the foreign exchange auction system. It is suspected that these companies channel part of the funds from the auction to the parallel market. It is therefore strongly recommended that; the government should intensify its efforts to flush out all the corrupt companies which are engaged in such arbitrage tendencies. There is still high probability of so many other companies engaged in under hand dealings in the auction system.

The government should consider broadening the participants in the auction system to ensure equitable access to foreign currency for marginalised groups such as Cross-Border Traders and local manufacturers subsisting in the informal economy. Bridging the gap between the enclaved formal and informal economies in Zimbabwe requires innovative mechanisms to facilitate access to inclusive capital and technological transfers from the formal to the marginalised rural and informalized sectors. Whilst some formal sector players could access lines of credit from banks, forex from the Auction System and take advantage of the digital economy the informal sector was significantly locked down. The market system is of limited utility to address structural injustices. Broader actions to facilitate the financial inclusion of informal sector traders including quotas and group applications will go a long way to stimulate economic activity in the informal sector.

5. RBZ issues $400 million Treasury Bills (TBs)

Amid lack of external credit support to meet Zimbabwe's budgetary needs, the Reserve Bank of Zimbabwe has resorted to issuing TBs in a bid to raise funding to support key development operations. The previous TBs auction in held in August 2019, raised a tune of ZWL$ 30 million.

The Reserve Bank of Zimbabwe (RBZ) last week floated a tender seeking to raise $400 million through issuing a 270-day Treasury Bills (TBs) to fund cash flow management and government programmes. In the interim, the local currency has been defenceless against the US dollar on the weekly foreign currency auction market since the turn of the year all of which could also discourage the market's appetite for the debt instruments and the TBs may find no takers on the market. Furtherance to that, the continued issuance of TBs puts Zimbabwe in a quandary position given huge debts, both internal and external, it is struggling to service. These TBs negatively affects the prospects of economic growth due to the crowding out of private sector and fiscal indiscipline. Instead, the local financial institutions, should channel such resources to the real sector to enhance productivity in the economy.

Treasury Bills (TBs) are negotiable instruments issued by Government through the central banks to finance the government's short-term liquidity requirements and they are normally issued for the periods ranging from 30 to 365 days. In some instances, TBs are used to mop-up excess liquidity in an overheating economy in a bid to contain inflation. Recurrent government borrowing from the local market is not sustainable as it tends to choke the economic growth prospects of the country and crowds out the private sector.

Amidst that, Zimbabwe inflation is still hovering in unpleasant zones at 321.59% as of February 2021 year-on-year.

Policy and Regulatory Issues

6. Progress of the IMF's Staff Monitored Programme

Government's efforts to advance an institutional reform agenda and enact policies that proffer inclusive growth through creating a conducive business environment for the private sector have met with limited success. The Transitional Stabilization Programme (TSP) which aimed to spearhead stabilization of macro-fiscal fundamentals, integration into the international community, promote good governance, restructure State Owned Enterprises (SOEs) and to enact public sector and productive sector reforms achieved little progress. This was recently confirmed by the IMF's Staff Monitored Programme (SMP) which tracks progress in the implementation of economic programmes and proffer technical advice. Besides the budget surpluses[1] (attained in 2019 and 2020) and the actual act and effort of crafting the TSP and the National Development Strategy 1 (NDS1), the policy framework has failed to meet the SMP expectations. The currency reforms and foreign exchange regimes (Interbank Market and the Auction System) have failed to permanently stabilize the exchange rate and inflation. The SMP is going to question the bulging and unsustainable total PPG, the faked and distortionary open forex market (auction market), weak institutional reforms and slow restructuring of SOEs. It is prudent for government to invest political will in policy implementation as no amount of engagement with international institutions will reform, restructure, and grow the economy.

7. Policy consistency is the back bone of a sustained mining sector socioeconomic development

[1] The budget surpluses were attained by merely constricting expenditure in inflationary environment leading impoverishing workers.

The Zimbabwe Independent Newspaper reported that the government made an about turn when they made an announcement that they had reverted to charging mining fees in local currency[2]. The announcement to revert to charging the fees in local currency came after the government had indicated that it was moving to charge mining fees in foreign currency. The new fees in USDs would have indicated an 800% rise and it would have hamstrung the operations of Artisanal and Small-Scale Gold Miners. This is one of the many policy reversals that government has announced. For instance, the Second Republic amended the Indigenisation policy in December 2020, only to reverse it after a public outcry by players in the mining sector. The policy reversal on mining fees potentially indicates that the government does not adequately consult strategic stakeholders when they make policies. The lack of consultation which manifests in policy inconsistency has the adverse effect of keeping investors in "wait" and others may withhold expansion plans. In a capital-intensive sector such as mining, the policy inconsistency has the potential effect of making the country fail to attain its USD12 billion-dollar economy[3]. One wonders how investors can invest in a sector with high policy uncertainty and inconsistency. Government must adequately consult relevant stakeholders prior to policy announcements. Government should also weigh the effect of policy reversals prior to making such announcements.

8. Effective Parliamentary oversight is key for achievement of strategic projects

The Zimbabwe Independent Newspaper reported that the government is on the verge of cancelling the USD600 million ZimMal[4] contract for the Matabeleland Zambezi Water Project[5]. In 2018, the government engaged China International Water and Electric Corp in 2018 to construct the Gwayi-Shangani dam. The paper further reported that the government has cushioned the deal to ZimMal by backing the project cost repayments with 18 gold claims. Given how important the issue of the water project is to the people of Matabeleland, one wonders why the government has taken 17 years to assess the progress of the project and decide on the contract? Despite gold being an economic mineral, one also wonders how the government had secured the deal with 18 gold claims when the exact value of the gold in the claims is not known. The fact that the company has failed to kick start the project in 17 years shows that there is a high risk of the creation of rent seeking activities by ZimMal. We therefore recommend that there is a need for government to provide regular progress reports in national budget statements and take decisive action on non-performing companies. There is also a need for parliament to conduct an enquiry to understand how the company got the tender and failed to perform. This is important given that despite getting mining claims, the company failed to kick start the project.

9. Government targets 13 agricultural entities for reforms

Government's stated intention to reform 13 Agricultural State-Owned Enterprises (SOEs) must be underpinned by broad-based Parliamentary-led consultations to safeguard the national

[2] https://www.theindependent.co.zw/2021/03/05/policy-inconsistency-riles-mining-sector/
[3] https://www.herald.co.zw/the-minerals-of-hope-us12bn-mining-sector-target-to-change-nations-fortunes/
[4] ZimMal is a Malaysian Company that was awarded the Matabeleland Zambezi Water Project in 2003
[5] https://www.theindependent.co.zw/2021/03/05/us600m-water-project-crumpling/

interest. The Zimbabwean experience with SOE reforms has predominantly undermined the public interest and left the nation worse off whilst enriching foreign interests and local elites at the expense of the nation. The TSP sought to restructure SOEs but no robust restructuring was achieved with only the GMB and ZESA being demerged and merged, respectively. The full privatization of Telone has remained rhetorical, same as the liquidation of Zimglass. Notable is the lack of transparency with respect to details on the privatization bids and the evaluation criteria. Regrettably, the restructuring of Zimbabwean SOEs take a cyclic approach, that is, either unbundling or bundling of entities – giving less viable options for robust and pragmatic restructuring exercise. The government must explore other innovative and results driven SOE reform strategies that redefine the government's involvement in the management of SOEs to enhance the efficiency and viability of SOEs. A gradual approach might be tenable as the economy requires capacitation for the transition. Going forward, replicating the Chinese ideology of 'grasp the big, release the small' in the restructuring of SOEs might suffice. Ideally, government must retain control of key and strategic SOEs on behalf of the nation. Host communities, workers and local investors including Zimbabweans in the diaspora must be allowed fair opportunities to own shares or equity in reformed SOEs. Innovative financing options to facilitate the inclusion of all Zimbabweans including equity crowdfunding, workers stock ownership plans etc must be put on the table and explored. However, adequate legal provisions must be availed for the operationalization of reform measures in a manner that expands opportunities and sustainably leverages sovereign wealth without undermining the public interest. The whole SOE restructuring exercise goes beyond rhetoric and calls for the democratic engagement, transparent management of resources and political will.

Political Issues

10. Government must constructively engage with MDC-A [6]

The call for unity, collective action, and non-violence to political parties by the MDC-A is welcome development for a country riven by political polarisation and unresolved tensions. Government must reciprocate this overture by the MDC-A by constructively engaging on areas of shared interest and common concern. It is time to re-think the competitive approach to politics and governance of the country and try to work together as Zimbabweans rather than as partisans.

When there is a polarised political climate in the country, the effects of polarisation are not only political but negate the socio-economic development of the general citizens who rely on the effectiveness of government to attend to their issues[7]. This particularly means that the ability of

[6] Daily News. 2021. *Chamisa, MDC-A Deserve Applause,* Daily News, 11 March 2021. Online at: https://dailynews.co.zw/chamisa-mdc-a-deserve-applause/

[7] Jilani, Z and Smith, J, A. 2019. *What Is the True Cost of Polarization in America?* Greater Good Magazine. Online at: https://greatergood.berkeley.edu/article/item/what_is_the_true_cost_of_polarization_in_america

the government to respond to pressing and usually complex predicaments like the Covid-19 pandemic facing the public is distorted leaving out many vulnerable communities' neediness as a result of lack of unity and collective policy-making. The call for unity and collective action will ensure the removal of the barriers to effective policy-making and ensures enhanced government responsiveness to the needs of the people. The country eyes to address the social and economic maladies through re-engagement and sustainable solutions to management and governance as encapsulated in the NDS 1 and vision 2030. It is imperative to note that the success of the development aspirations hinges on effective engagement and inclusion in the policy-making process to ensure that the government gunners adequate support and consensus in the policies and overall governance of the country. It is therefore commendable that the action and commitment shown by the MDC-A extend to the political parties and build consensus which will re-calibrate the politics of the country towards a healthy democracy. Further, individuals across the social and political divide should unite in the search for effective solutions and effectual governance in the country. The future of the country rests on the ability to recognise the need for peace, unity, and collaborations in attending to developmental challenges facing the country.