Investing in People for Social & Economic Justice

Monetary Policy: Beyond the Foreign Exchange Market

This week's analysis goes beyond the foreign exchange market developments to look into other monetary policy issues in the Zimbabwean economy especially the growing role of Artisanal and Small Scale Miners (ASM) in sustainable development and the call for addressing gross public trust deficit.

Artisanal and Small Scale Mining (ASM) contributes 65.3% of Gold Deliveries in 2018

The government is increasingly becoming more aware of the role of ASM in economic development and poverty alleviation. There are approximately 500 000 Artisanal and Small Scale Miners (ASMs) in Zimbabwe and over 1 million people are dependent on the subsector[1]. In 2018, ASMs contributed 65.5% of gold deliveries to Fidelity Printers and Refineries. According to the Monetary Policy Statement, the gold deliveries from small scale producers increased by 64.5% from 13.2 tonnes in 2017 to 21.7 tonnes in 2018. This amount is obviously an underestimation of their production levels considering that ASM is criminalised in Zimbabwe. An attempt has been made to increase the foreign currency retention threshold for ASMs to 55% consistent with the bigger mining houses, however, there is no guarantee that the foreign currency will be made available when needed. The proposed 30 day amortization period for redeeming the forex retention may push off the ASMs to smuggling and other alternative markets where they access 100% foreign currency for their proceeds. The ASM may not need the foreign currency for importation but further devaluation of the RTGs dollar, places the USD as a much stable currency. Individuals are already using the USD as a source as a source of investment.

The contribution made by the ASMs under the unfavorable conditions characterized by "hide and seek" operations is therefore a clear testimony that once decriminalized and supported, it can turn around the economy. This should be a quick win for the government in terms of boosting foreign currency and export performance. However, lack of political will to establish a comprehensive framework for legalizing ASM remains a challenge. This could be due to responsible policymakers' personal interests, corruption and money laundering enabled by the informal status of the ASM sub-sector. The informality of ASM does not only sabotage the potential for turning around the economy but also have negative effects on the country' s social, environmental and fiscal well-being.

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[1] Ministry of Finance and Economic Development, 2019 Budget Statement, November 2018

ZIMCODD, therefore, reaffirms its position that the government must promulgate an enabling legislative and regulatory framework that decriminalizes the ASM sector. This should be supported by objective, consistent, transparent and non-discriminatory regulatory mechanisms which offer easy access to mining titles and legal production channels. The expeditious enactment of the long awaited Mines and Minerals bill which captured the decriminalization of the sector remains a priority in mines and mining development.

The government should use statistics highlighted in the monetary policy as a basis for incorporating ASM as a strategic component for rural development which needs both technical and financial support.

In consultation with mining communities and civil society organisations, the government should create frameworks for collaboration between ASM and large mining companies benefiting communities, ASMs, private companies and the government.

Growing public mistrust hinders future development prospects.

It is extremely difficult for Zimbabwe to navigate the economic terrain in an import dependency economic situation worse still where there is gross public mistrust. It is important to note that any currency is as strong as the level of public trust in that currency. Speculation, arbitrage and hedging thrive in a situation where there is public trust deficit. Going forward, the monetary authority should deliberately invest in active citizen engagement on implications of the proposed monetary policy especially on the following;

a. The foreign currency retention thresholds

Whilst the monetary policy is clear on foreign currency retention allocations by sector, the 30 day foreign currency retention period after which it is liquidated at the going rate is de-incentivizing. On one hand, the government is mistrusting the beneficiaries whilst the beneficiaries remain skeptical of the government's intention. Farming as a business for instance is seasonal and the one month amortization period is obviously inadequate. In this case, the bank would clarify and ensure that the policy is implemented on a case by case basis taking into consideration these dynamics. Big companies particularly Multinational Corporations (MNCs) will maneuver this provision considering that most of them have intermediary companies in other countries which would be used to generate the required invoices.

b. Restrictions on buying of foreign currency from the interbank market

Informal trading by nature involves buying and selling of commodities, most of which originates from other countries. By setting invoices as a pre condition for purchase of foreign currency discriminates the informal sector players who for instance may not have the bonafide invoices to justify the need for foreign currency but still in need of it. Failure to access foreign currency will force them to source from the "black market." Since the policy is hinged upon a willing buyer willing seller basis, most foreign currency will be channeled to the black market.

As inflation soars, economic crisis deepens

The government, through the Monetary Policy, underestimated the annual inflation rate to the conservative 42.9%. Whatever the case might be, it is a fact that inflation is rising and if not addressed, will take the country to hyperinflation levels. This is undesirable for an underperforming economy especially one that is highly dependent on imports. As inflation soars amid the worsening economic crisis, the majority of people are at the risk of living below the poverty datum line. The unemployed (mainly youth) and low income earners such as pensioners are further impoverished. In broader terms, inflation rate together with the devaluation of the Bond Note by 2.5 further erodes people's disposable incomes. Previous experiences have conditioned citizens to guard against personal loses associated with policy changes and inconsistencies. Public participation is an important component of good governance and inclusive development. The central bank should therefore engage citizens in the implementation, monitoring and review of the monetary policy. This will go a long way in combating the growing public mistrust in general and inflation rate in particular.

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