ZIMCODD

ZIMBABWE COALITION ON DEBT AND DEVELOPMENT

WEEKLY ECONOMIC REVIEW AND UPDATE

18 January 2021

Notable Issues This Week

Fiscal Policy

COVID-19 ALLOWANCES FOR CIVIL SERVANT EXTENDED

The extension of COVID-19 allowances for Civil Servants is a welcome move by the Government given that the purchasing power of their salaries is continuously eroded by incessant inflation. Whereas the government's decision to extend the payment of COVID-19 allowances increases the disposable income of Civil Servants there is need to increase the tax-free salary threshold to match the poverty datum line. Thereby ensuring that all Zimbabwean Civil Servants are able to enjoy a dignified standard of living. The achievement of the vision to become a middle-income status country is enhanced if the majority of civil servants retain their historic position as the mainstay of the country's upwardly mobile middle class. This is contrary to government's ideological commitment to the achievement of balanced budget via austerity measures and stripping of the State's capacity. Increased Civil Service remuneration is a vital stimulus into the Zimbabwean economy with downstream benefits in terms of liquidity and increased aggregate demand. It must be aligned to the Poverty Datum Line.

Monetary Policy

ZIMBABWE`S INFLATION DOWN TO 384 PERCENT IN DECEMBER

The inflation rate dropped from 401.66% in November 2020 to 384.59% in December 2020, second highest in the world after Venezuela's inflation rate of 1 813%. Zimbabwe inflation remains the highest in Africa after Sudan (212%) and Angola (25.1%). The drop in the inflation can be attributed to the introduction of the Dutch Foreign Exchange Auction on 23 June 2020, which has seen the inflation climbing down from 837% in July 2020 to 384.59% in December 2020.

Sectoral Policy

INCENTIVISE ARTISANAL AND SMALL-SCALE GOLD MINERS (ASGM) TO PLUG GOLD LEAKAGES

The Newsday reported that Henrietta Rushwaya[1] was released on bail pending her trial[2]. A consistent feature of corruption in Zimbabwe is proximity to powerful elites or formal bureaucratic authority. As such Rushwaya's case casts the spotlight on the need for root to branch interventions to plug illicit financial flows and gold leakages especially in the ASGM sector. We therefore recommend that the state should formalise ASGMs and also equate the local gold price to the international price. Payments to ASMs should be in foreign currency to incentivise miners to sell the mineral on the formal market in preference to the attractive parallel market offering instant nostro cash to miners and dealers. ZIMCODD is also concerned about growing number of fatal incidents that have claimed lives of artisanal and small-scale miners in a context of weak social security, safety and human rights protection mechanisms.

[1] Henrietta Rushwaya is the former President of the Zimbabwe Miners Federation

[2] http://www.newsday.co.zw/2021/01/rushwaya-granted-bail/

Weekly Tracker

FOREX AUCTION RESULTS
12 January 2021 ZWL82.0914 Per USD1.00

YEAR ON YEAR INFLATION RATE	
OFFICIAL	**OFFICIAL**
November 401.66%	**December** 384.59%

2021 Economic Growth Projections	
Zim Govt 7.4%	**World Bank** 2.9%

COVID 19 RECOVERIES	
10/01/2021 Recovered 12 582	**17/01/2021** Recovered 16 512

COVID 19 DEATHS	
10/01/2021 Deaths 507	**17/01/2021** Deaths 713

COVID 19 RESOURCE TRACKER
29/12/2020 **PLEDGED RESOURCES** ZWL584 615 346 **HONOURED RESOURCES** ZWL337 221 916 **RESOURCES SPENT** ZWL217 700 901

Fiscal Policy

Making the 3.5 billion COVID-19 Relief Funds work for vulnerable households

Greater transparency and accountability around COVID-19 relief funds enhances public trust and participation in collective measures to battle the pandemic. However, the lack of public information and feedback around Covid Relief Funds for the vulnerable undermines public confidence in the National COVID-19 Response Strategy. It also undermines citizens' willingness to comply with COVID-19 containment measures. Citizens' inability and at times unwillingness to comply with current COVID-19 regulations, reflects the worrisome extent of the breakdown in public trust and the inadequacy of public support measures to assist citizens to comply.

Resources announced under various COVID-19 Funds and relief measures have not been accompanied by clear access and distribution mechanisms. Information on eligibility criteria, application processes, waiting periods and other relevant aspects of available support is presently unavailable online or in the public sphere thus leading to remarkable public uncertainty. Numerous press reports of corruption and partisanship in processes of beneficiaries' identification and allocation of resources add to this uncertainty. Resort to lockdown measures is unsustainable in the absence of complimentary measures to build public trust and confidence. Regular public feedback on COVID-19 Funds and improved access to public information for Parliament, the Press and independent monitoring bodies are indispensable to Zimbabwe's success in addressing the COVID-19 pandemic.

The International Food Policy Research Institute (IFPRI) provides applicable guidance for enhancing the efficiency of social safety nets during COVID-19 lockdown:

i) **Temporary elimination of conditions on assistance.** Whereas the norm is to assess the eligibility of beneficiaries given a set criteria; setting aside such conditions during a pandemic enables more people to benefit. This accelerates the pace of mitigating societal challenges during the COVID-19 lock as experienced in Ethiopia. Zimbabwe still retains a colonialist welfare approach to social protection based on means testing. This approach has proven ineffective, inequitable and inefficient to implement. A shift towards Universal Basic Income particularly for targeted populations such as young boys and girls in resource poor and marginalised areas has greater potential to address the social and economic impacts of pandemic. A temporary elimination of conditions on assistance whilst long-term steps towards UBI are construed is vital to get much needed support into the hands of those in need early and more transparently.

ii) **Strengthen and expand outreach or targeting.** This suffices from the recognition that safety nets evade the poorest and most vulnerable (migrants, orphans, urban poor, the disabled, the elderly) in societies. Thus, effort must not be invested in expanding outreach only, but targeting the rightful recipients. Some distribution methods exclude deserving cases (for instance, the poor might not have mobile gadgets to receive cash transfers) thus appropriate methods must be adopted. Also, the newly poor might not be in previously updated records hence the need to continuously update records. Also, some deserving recipients might not have knowledge of COVID-19 safety nets thus awareness must be spread wide and deep into societies.

iii) **The form of assistance matters as much as speedy distribution**. Context relevant social safety nets can be availed with a view to ensuring that the support gets to the target population in time to meet pressing needs. A range of options can be availed including grocery vouchers redeemable at large retail and local distributors including tuckshops and General Dealers. Cash transfers though effective and less prone to accountability deficits are undermined by significant transaction costs and currency discrepancies. Cash transfers might also be affected by inaccessibility of markets and banking services during lockdown though they are cost efficient with respect to distribution. Whilst weighing these modes of delivery and prioritizing speedy distribution, it is compelling for government to avail safety nets in the rightful form and format to the appropriate beneficiaries.[3]

iv) **Strengthen fiscal support for the social assistance response.** Government might require financial aid to supplement its own commitment towards social safety nets given slowing economic activity – limiting resources available for COVID-19 safety nets. Whilst the 2021 National Budget nominally prioritises social service delivery expenditure toward health and education in light of the pandemic – the spend per capita is still too low in comparison to the level of need. Expanding the fiscal space to fund a bolder social protection response to COVID-19 without increasing the tax burden on the poor or entrenching heavy indebtedness is a critical challenge for government. Fiscal space cannot be expanded without adequate policy space. Bold moves such as implementing the thinking behind the Sovereign Wealth Fund act in order to ringfence Mineral Revenue under the 12 Billion Mining Industry vision to fund Universal Basic Income are achievable. Other possibilities such as the imposition of a Wealth Tax and the removal of harmful Corporate tax incentives could strengthen the fiscal base for government to fund a more robust social response.

v) **Put women and young girls at the center.** Women and young girls, shoulder a disproportionate burden of the costs of pandemic whilst undertaking the bulk of care-work, child rearing and food sourcing. It is therefore priority to design gender sensitive programs with mechanisms to ensure that the barriers limiting women and young girls access to resources and support are eliminated. These barriers can be addressed through a Universal Basic Income approach as well as through the facilitation of women and young girls in decision making positions.

COVID-19 allowances for Civil Servants extended

The extension of COVID-19 allowances for civil servants is a welcome move by the government given the inflationary pressures on the purchasing power of local currency salaries. However, a just resolution to the inflationary challenges is an increase at par with the rate of inflation. The monthly inflation for November 2020 was at 3.15%, thereafter surging to 4.22% in December. In concurrence with the same, the food poverty line[4] increased by 6.5% from ZWL 3 279 per person per month in November 2020 to ZWL 4 670 according to the latest ZIMSTAT estimates. The ZWL is also depreciating gradually against the USD, mounting inflationary pressure on the local currency. The government has failed to enforce business and industry to observe the official exchange rate in their pricing pointing to weak confidence in the auction system. Additionally, since 2018 the government observes strict fiscal consolidation implying restrained spending on salaries worsening the plight of civil servants.

Whereas the government's decision to extend the payment of COVID-19 allowances increases the disposable income of Civil Servants there is need to increase the tax-free salary threshold to match the poverty datum line. Thereby ensuring that all Zimbabwean Civil Servants are able to enjoy a

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[3] Beneficiaries in towns made do with cash transfers but those in remote areas might require food.

[4] The money required by an individual to afford food capable of producing a minimum of 2 100calories of energy per day.

dignified standard of living. The achievement of the vision to become a middle-income status country is enhanced if the majority of civil servants retain their historic position as the mainstay of the country's upwardly mobile middle class. This is contrary to government's ideological commitment to the achievement of balanced budget via austerity measures and stripping of the State's capacity. Increased Civil Service remuneration is a vital stimulus into the Zimbabwean economy with downstream benefits in terms of liquidity and increased aggregate demand. Government as the country's largest employer sends important signals into the labour market of the collective need to reinforce constitutional provisions for the right to a fair and reasonable wage by benchmarking remuneration to never fall below the poverty datum line.

Concern over rate hikes: Is government complicit?

The Harare City Council announced rate hikes of about 2800%. This is consistent with rate hikes across a range of other public services and utilities including public transport, vehicle road licensing and medical facilities. It has become a form of unregulated privatisation, as public utilities and departments seek to secure their viability by passing on the costs for services directly to the public in the form of charges or indirectly by bring in private suppliers at various points of the chain. In the end, citizens are double taxed even as the State reneges on its Constitutional obligations.

Bus		
Distance	**Old Fares/Rate (ZWL$)**	**New Fares/Rate (ZWL$)**
1 – 20km	16	30
21 – 30km	24	45
31 – 40km	32	60
Commuter Omnibus		
1 – 20km	32	60
21 – 30km	48	90

Table-1: Treasury approved new ZUPCO bus and omnibus fares from 18 January 2021
Source: Ministry of Finance

The latest wave of price hikes in rates comes at a time the economy is reportedly experiencing price stability given the stable exchange rate of the ZWL against the United States Dollars (USD). Some Government departments are now charging or giving preference to provision of services paid for in USD, in spite of the fact that the vast majority of the working poor in the country do not earn in USD. Government has also approved hikes in other critical services like electricity and power charges and increased taxes on fuel culminating in a ballooning cost of living for the general public.

Price hikes in the current context of over-taxation for the majority working poor, dollarization and the privatisation of public goods and services must be countermanded by stronger consumer protections and effective regulation of strategic sectors of the economy in the public interest. Devolved platforms for multi-stakeholder engagement to inform pricing and other economic policy developments are indispensable to responsive policy making. The need to transform the Zimbabwean economy to give greater say about economic developments to marginalised players such as the informal sector is self-evident given that an estimated 70% of the working poor derive their livelihoods from the informal sector. Ultimately, this relies on government's commitment to creating an inclusive policy environment where all stakeholders including informal sector players contribute towards the formulation, implementation and regulation of a shared economic vision.

Monetary Policy

New Forex Rules to Lift Mining

The 2021 national budgetary announcements pins the Zimbabwean economic growth prospects on mining sector among other sectors of the economy. The government is looking at growing the mining sector exports to US$12 billion by 2023. In 2020, the mining sector registered growth of about 14% compared to 2019, and has contributed about 12.7 % growth in exports in the same period which accounts for about 65% of the Zimbabwe export earnings.

The policy shift by the Central bank to remove the statutory requirement that compelled exporters to sell their foreign currency earnings in 60 days is a welcomed move as it will provide a legroom for the miners to plan. Mining companies were forced to liquidate their foreign currency within 60 days, which made them consider using their foreign currency on the things they may not really need at that particular time. The mining companies have some statutory obligations, like taxes, electricity and rates which they are required to pay in US dollars. In addition, these companies require working capital for more than 60 days, which made their operations difficult given the fact that they cannot keep the foreign currency for more than 60 days in their nostro accounts.

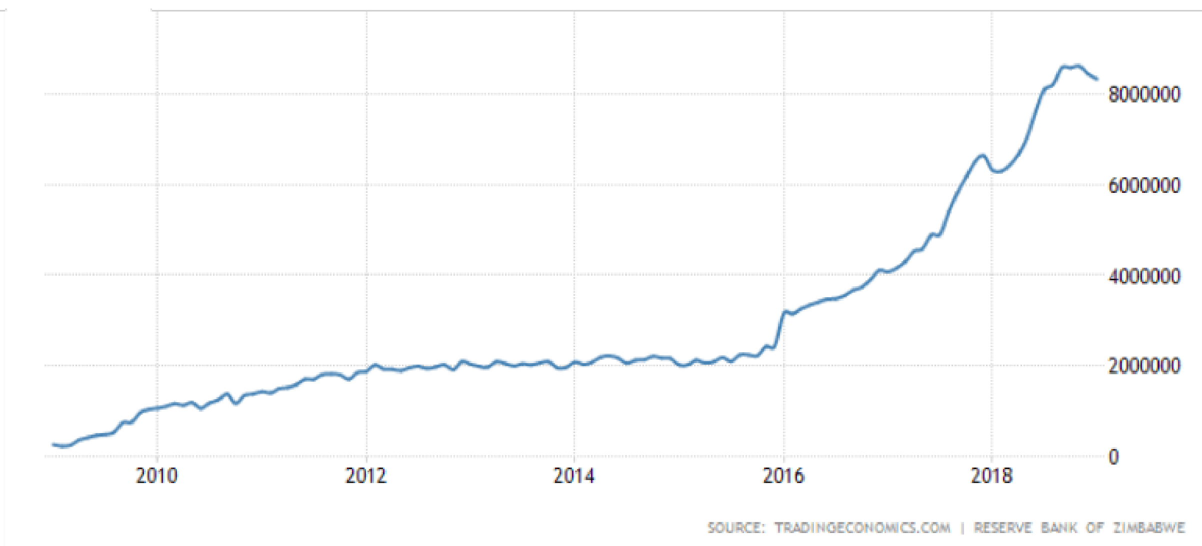
Recommendations

It is therefore recommended that the government should:

1. Make sure that the mining sector pays a decent wage to the workers since they are now required to keep their forex earnings in US Dollars
2. The government should increase surveillance on the operations of these mines to curb corruption and externalization of foreign currency
3. Policy, implementation and other loopholes in revenue collection must be closed to ensure that mining companies pay their tax obligations.

New Bank Notes on Cards

The Reserve Bank of Zimbabwe (RBZ) has approved introduction of $50, $100 and 200$ bank notes this year, with the $50 expected anytime soon. Currently, the bank has $2, $5, $10 and $20 notes in circulation. Money supply growth has been a persistent challenge in Zimbabwe's economy. Since the introduction of the initial 300 million bond notes, money supply growth has risen to between 600 – 800 million. The Reserve Bank Governor has previously indicated that the country needs about 1 – 1.5 billion bond notes to meet cash needs in the economy.



Cash shortages contribute to the continued existence of a multi-tier pricing system which significantly disadvantages the majority who receive their salaries and wages via their bank accounts. These people in-turn incur transaction costs in order to access cash for payments such as bus fare or purchases on the cash driven informal market economy. Although the introduction of bigger denominations will increase the convenience of doing business by meeting the cash needs in the economy, it will exert inflationary pressures on the economy. Reserve Bank assurances of transparency and accountability in relation to the printing of bond notes will in this case be put to the test. However recent experience indicates that constraints put in place to guard against the tendency towards money supply growth are inadequate given the compromised independence of the RBZ.

Zimbabwe`s inflation down to 348 percent in December

Despite the drop in the Zimbabwe inflation from 401.66% in November 2020 to 384.59% in December 2020, it remains the second highest in the world after Venezuela's inflation of 1 813%. Zimbabwe inflation remains the highest in Africa after Sudan (212%) and Angola (25.1%). The drop in the inflation can be attributed to the introduction of the Dutch Foreign Exchange Auction on 23 June 20202, which has seen the inflation climbing down from 837% in July 2020 to 384.59% in December 2020.

High Inflation experienced in the country has eroded the purchasing power of salaries and wages of the majority of workers who receive their salaries in the local ZWL$. Coupled with high unemployment rate in the country, it has increased vulnerability and poverty especially in the urban areas where many people are engaged in informal trading to make a living. It has also made planning difficult for most businesses, and has forced them to hedge in form of charging the prices of their goods and services in US Dollars. Dollarization has had a disproportionately negative effect, especially on the civil servants and elderly, who are receiving their pensions in the local ZWL$.

Sectoral Policy

Develop a just and equitable land valuation and disposal system for urban state land

The Daily News reported that the government is working on modalities to rein in 15 land barons who are believed to be owning over 80% of the residential stands in the country[5]. The same article also states that the Zimbabwe Anti-Corruption Commission (ZACC) is keen on investigating the land barons. The newspaper article also states that the land barons might have acquired the various pieces of land from the state at deflated prices. Unfortunately, this land is being sold at exorbitant prices to desperate home seekers. In most cases, the land barons sell the land without providing proper services such as water and sewerage reticulation, road access and electricity. The proliferation of land barons highlight the state's increased incapacity to provide low cost housing for its citizens. However, the state is seen to make noise when Councils demolish houses that are built on illegal stands[6] or wetlands. Thousands of desperate home seekers have already been duped of life time savings and most structures face the demolition axe after desperate home seekers were sold stands in illegal places. It is unfortunate that some demolitions took place during the rainy season and the affected home seekers will not receive any compensation/refunds from the land barons. The contradiction between the constitutional provisions for the right to housing and efforts to impose the rule of law can only be harmonised through multi-stakeholder dialogue and engagement in pursuit of a more just and equitable urban land and housing policy framework. Such a policy must take into consideration historical factors undermining the just and equitable land and housing policy; presently pressing and emerging problems

[5] www.dailynews.co.zw/governemnt-to-go-after-15-land-barons/

[6] https://www.herald.co.zw/council-demolishes-illegal-structures/

relating to housing and the needs of the future in a world beset by growing population pressures and shock events.

Recommendations

- The government should put in place a just and equitable land valuation and disposal system. Under this system, provisions should be put in place to discourage speculative holding of land through blocking the disposal of any residential land acquired from the state in any period less than 10 years since the date of acquiring it from the state.
- ZACC should expedite the investigation and prosecution of the cases of land barons. The immediate closure of such cases would be deterrent to would be offenders. Home seekers should also form or work with existing Residents Associations who can then sue the land developers when such eventualities occur.

Incentivise Artisanal and Small Scale Gold Miners to plug gold leakages

The Newsday reported that Henrietta Rushwaya was recently released on bail pending her trial[7]. Rushwaya was arrested at the Robert Mugabe International Airport when she was found in possession of 6kgs gold in her hand bag without a valid export certificate[8]. In many ways the arrest of Zimbabwe Miners Federation President, for allegedly attempting to smuggle gold is indicative of how the systematically illicit manner in which Artisanal and Small-Scale Gold Miners (ASGMs) are selling their gold with the support of powerful elites. Rushwaya's case is still awaiting trial nearly three months after her arrest. Given that the ASGMs are the major producers of gold in Zimbabwe and that the country is expecting gold to be a major contributor to the country's USD12 billion mining economy, a national conversation and indications from government of steps to be undertaken to address illicit financial flows and corruption in the gold value chain is desperately in need. However, the delays in expediting the case for whatever reasons is pointing to a hypothesis that Rushwaya is politically connected and therefore untouchable. Going by this narrative, it may therefore mean that in Zimbabwe, gold smuggling is perpetuated by those with strong political umbilical cords. If this is really the case, then the country is being deprived of much needed taxes that could be used to improve service delivery.

Rushwaya's case raises the need for the country to put a host of measures to plug gold leakages especially in the ASGM sector. We therefore recommend that the state should formalise ASGMs and also equate the local gold price to the international price. Payments to ASMs should be in foreign currency.

Political and Regulatory Frameworks

ZANU PF ANC diplomatic rift

There has been a long history of cooperation and integration between the two revolutionary political parties, the Zimbabwe African National Union – Patriotic Front (ZANU–PF) and the African National Congress (ANC). No one can discount the fact that South Africa has assisted Zimbabwe in various strategic sectors like trade, absorption of unemployed job-seekers from the country as well as the key supplies of the country's power. South Africa has also been engaging ZANU-PF through quiet

[7] http://www.newsday.co.zw/2021/01/rushwaya-granted-bail/

[8] https://www.herald.co.zw/breaking-rushwaya-arrested-at-r-g-mugabe-international-airport-for-gold-smuggling/

diplomacy which is proving not to be working towards ending the political and economic crisis in the country (Cotterrill 2020)[9].

Quiet diplomacy is understood as an approach in which member states refrain from taking action against another state in the event of any crisis especially political crisis in the country (Ibid). The escalation of the hostilities between the two parties[10] is therefore detrimental to socio-economic development and political stability in Zimbabwe which has already been facing protracted economic growth and political instability. The increase in the rift between the two parties could negatively impact on the livelihoods of Zimbabweans who are dependent upon social and economic integration between Zimbabwe and South Africa.

Although the diplomatic rift is unlikely to escalate to the extent of undoing deep-rooted cooperation between the revolutionary parties the fundamentals informing the relationship are presently in flux. Re-imagining regional cooperation to address cross-border collective action challenges such as containing the COVID-19 pandemic, reducing illicit financial flows and tax evasion, enhancing regional integration etc compel the strengthening and now weakening of Regional ties. Engagement and cooperation in ending the rift between the two parties is imperative so as not to risk destabilising the Southern African region through conflicts between neighbouring countries. Re-embedding the relationship on long-lasting shared liberation ideals of justice, equality, freedom and peace an issue of greater importance given the approaching headwinds of economic recession, xenophobic violence and recurrent climate induced crises. Both parties should therefore prioritise frank as well as constructive deliberations to enhance political or diplomatic sanity necessary for cooperation and development of the two countries.

[9] Cottrrill, J. 2020. *South Africa signals hardening of 'quiet diplomacy' with Zimbabwe:* Financial Times, 23 September 2020. Online at: https://www.ft.com/content/03528741-c2ab-4734-bf73-de18ae32aa28

[10] Mushava, E. 2020. *We're tired of Zanu PF antics.* Newsday, 12 January 2021. Online at: https://www.newsday.co.zw/2021/01/were-tired-of-zanu-pf-antics-anc/

Thought for the week

‘Essentially, what we've been debating over—certainly since the Great Depression—is what percentage of a society should be left in the hands of a deregulated market system. And absolutely there are people that are at the far other end of the spectrum that want to communalize all property and abolish private property, but in general the debate is not between capitalism and not capitalism, it's between what parts of the economy are not suitable to being decided by the profit motive. And I guess that comes from being Canadian, in a way, because we have more parts of our society that we've made a social contract to say, 'That's not a good place to have the profit motive govern.' Whereas in the United States, that idea is kind of absent from the discussion. So even something like firefighting—it seems hard for people make an argument that maybe the profit motive isn't something we want in the firefighting sector, because you don't want a market for fire.’ Naomi Klein