ZIMCODD

ZIMBABWE COALITION ON DEBT AND DEVELOPMENT

Weekly Tracker

WEEKLY ECONOMIC REVIEW AND UPDATE

23 February 2021

Forex Auction Weighted Rate

Previous week (09.02.2021)	Current week (16.02.2021)
ZWL82.3720 per USD1	ZWL83.7573 per USD1

2020 Corruption Index

2019	2020
24/100	24/100
Global Rank 158 out of 180	**Global Rank** 157 out of 180

Annual Inflation Rate

November	December
401.66%	384.59%

Covid-19 Cases

Previous week (15.02.2021)	Current week (21.02.2021)
Positive cases 35 172	Positive cases 35 862
Recovered 30 601	Recovered 32 126
Deaths 1 400	Deaths 1 441

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

Please Connect with us, visit: http://www.zimcodd.org/ or follow us on Twitter, Facebook
Website: www.zimcodd.org |Twitter: @zimcodd1 | Facebook: zimcodd

Contents

Notable Issues This Week

Fiscal Issues

Government to spend US$ 6.7 million on distribution of COVID-19 vaccine

The government's fiscal support to fight Covid-19 has been largely erratic and devoid of well-thought tactic and strategy amidst unrelenting allegations of colossal corruption and looting of Covid-19 resources. As a sign of a confused stratagem, the Chief of Treasury reversed government's initial intention to make private citizens pay for own vaccination, before announcing a US$100 million purse for the acquisition of Covid-19 vaccines.[1] Of the US$100 million, no funds have been released towards Covid-19 vaccines as the government gleans over 200 000 doses of Chinese vaccine (Sinopharm) donation. This donation is adequate to vaccinate 100 000 people[2] – constituting a mere 0.7% of the population. Whereas it is apparent that more resources are required to acquire more vaccines, the Ministry of Health and Child Care despicably announced a US$6.7 million budget for the distribution of Covid-19 vaccine.

Monetary Issues

Forex allotment to productive sectors increases 11.4%

The continued gap between the formal exchange rate market of ZWL$83.75 and the black-market rate of ZWL$ 130 to a US dollar, is a clear indication of the formal exchange rate

[1] The availability of these resources is questionable as the government proceed to call for a crowd fund to finance the acquisition of Covid-19 vaccines.

[2] Each individual gets 2 doses, three weeks apart

market being deficient in meeting all the foreign requirements of the economy, hence the black market covers for the gap. It is therefore recommended that, the RBZ increase the supply of the foreign currency, by opening up to more players in the market. Despite the informal sector playing a critical role in the economy, as the source of livelihoods of the majority rural and urban poor, the RBZ formal exchange rate is still no aligned to on the ground market realities. Resultantly, the black market will not die out in the near future, since it is the major supplier of forex to these informal traders. The RBZ, though its Financial Intelligence Unit, should continue to monitor the companies who are abusing the formal foreign currency market, through arbitrage tendencies like over-valuing suppliers' invoices in a bid to get more forex on the auction system.

Policy and Regulatory Issues

Mining without An Economic Empowerment Act worsens communities' plight

A Chinese group of companies, is investing USD80 million in building a coke oven battery in Hwange. The group owns Chilota Collieries, which is already conducting coal mining in Hwange. Tutu is said to be targeting the export market for the coke[3]. Given that the country targets a USD12 billion economy by 2023, investments in the mining sector are of great importance. However, we note that the government has done partial repeals to the Indigenisation and Economic Empowerment Act and restricting it to diamonds and platinum[4]. The partial repeals suggest that host coal mining communities can no longer receive pledges and dividends to their Community Share Ownership Trusts (CSOTs) from mining companies. The question here is, beyond the financial contribution to Treasury, how can host mining communities meaningfully benefit from mining activities in their locality as provided for in Section 13(4) of the Constitution.

Political Issues

The power of Cartels in Zimbabwe and the role of parliament

Economically, cartels have manipulated economic institutions of governance to further their rent-seeking intentions leaving out the general public wallowing in abject poverty. While the state of hospitals is in disarray amid the effects of the Covid-19 pandemic as well as competing challenges of food insecurity and economic downturn in the country, the power of cartels through resource laundering, embezzlement of public funds, corruption and looting of public funds has left the country in a state of penury with critically under-funded social sectors[5]. The impacts are equally pronounced in some African countries like South Africa where key

[3] https://www.herald.co.zw/chinese-firm-invests-us80m-in-coke-oven/

[4] http://www.xinhuanet.com/english/2018-03/19/c_137050661.htm

[5] Organised Crime and Corruption Reporting Project. *2021. Report: Zimbabwe Captured by Economic Cartels*. https://www.occrp.org/en/daily/13842-report-zimbabwe-captured-by-economic-cartels

institutions of economic governance have been captured by the political elites who seek to fatten their pockets and finance their political agenda at the expense of public service delivery.

1) COVID-19 Resource Tracking

The Government of Zimbabwe (GoZ) announced a US$100 million resource package to support a national vaccination initiative. Various factors including adversarial relationships with the International community constrain Zimbabwe's efforts to mobilise resources to respond to the devastating socioeconomic and health effects of the COVID-19 pandemic. The 2021 national budget set aside ZWL7 billion to recruit additional health personnel, procure PPEs, testing kits and sundries required to fight COVID-19. The government has also budgeted ZWL3.5billion to cushion 500 000 vulnerable households whose beneficiaries include the disabled, informal sector workers, returning residents and children living on the streets.

COVID-19 Resources

Total Pledges = US$653,891,159; **Honoured Pledges** = $488,231,492; **Amount Spent** = $282,344,503

For the week ending 19 February 2021:
Total Pledges = US$0; **Honoured Pledges** =US$14,500,000; **Amount Spent** = US$15,093,065

Major Concerns

- Zimbabwe is targeting to achieve a head immunity by vaccinating at least 60% of the population or10 million people. However, the proposed roll out plan indicates a segmented and phased approach. The first level targets; frontline workers; those in the security sector, health sectors, ZIMRA and immigration officials constituting only about +/-8% of the population. Over 90% of the population who are outside formal employment bear varying risks of exclusion.
- Systematic tracking and monitoring of the vaccination programme will help limit the risks of corruption, politicization, gender discrimination and other identified risk factors
- A number of unresolved and multi-layered socio-economic challenges underly the COVID pandemic and heightens its impacts. Clear long-term strategies to prepare for a Post-COVID future are needed to guide the transition from perpetual lockdowns to stability and shared prosperity.
- Government will need to balance COVID-19 financing against a pool of other social and economic challenges hence the need for transparent and accountable Public Finance Management.
- Growing public mistrust of authorities. High profile cases of corruption and mismanagement of public resources have weathered public trust in authorities over the years. Public compliance and adherence to COVID-19 regulations will be enhanced by trust building efforts to address challenges of partisanship; censorship and centralization.
- Strengthening weak institutional and accountability mechanisms and promoting a culture of integrity in public service is also critical

Recommendations to the Government

- A just and equitable vaccination programme for all. A clear vaccine roll-out strategy that ensures inclusivity and accessibility of the vaccine by all should be devised.
- Leadership is critical to help the country navigate through this complex situation. A clear strategy involving both immediate and long-term interventions to ensure that resources are effectively allocated to address the competing demands.
- The Executive should publish how it's sourcing and spending COVID-19 resources through a government gazette. This calls for the government to publicly disclose all COVID-19 vaccine grants, procurements and contracts. The role of the parliament is critical in this context to ensure there is fiscal scrutiny.

2) Monetary Policy Statement in a nutshell

- **BANK POLICY RATE UP FROM 35 TO 40%:** Banks will now be borrowing at a higher rate than was the case before.
- **STATUTORY RESERVES UP FROM 2.5% TO 5%:** Banks now have to keep double the reserves (percentage of deposits) they were keeping before. This improves the ability of banks to navigate through shocks caused by more cash withdrawals but it also limits the ability of banks to lend.
- **CASH WITHDRAWAL LIMITS INCREASED ZWL1000 to $2000:** The transacting public have been given the opportunity to withdraw double what they could withdraw before.
- **MOBILE MONEY LIMITS UNCHANGED:** Mobile money transactions have been kept at $5000 per day and $35000 for the week.
- **$50 NOTES COMING:** The Governor announced that $50 notes will be injected into the economy.
- **RESERVE MONEY GROWTH TARGET DOWN FROM 25% TO 22.5%:** The Governor revised downwards money growth target from 25% to 22.5%. This is in line with the inflation targeting anchor of 10% by December 2021. As the Governor noted, curtailing money supply manifests in curtailing inflation.
- **REITERATION SI 65 A OF 2020 PAY INTEREST ON DEPOSITS:** Banks must uphold statutory instrument 65 A of 2020 which compels them to pay interest on depositor funds. This may be targeted at minimizing velocity of money (i.e., how quickly money can be moved out of the banking system).

3) Contractionary Monetary Policy marginalises Informal economy and increases inequality

The RBZ Governor presented a contractionary monetary policy principally aimed at reducing the money in circulation through a number of instruments. To explain the contractionary monetary policy simply we must look at the key instruments announced in the Statement. These instruments include increasing the bank policy rate from 35% to 40%, doubling statutory reverses from 2.5% to 5 5%, maintaining mobile money limits, and increase in the daily cash withdrawal. The thinking behind these measures is that - more money in the economy chasing goods and services is inflationary. Hence the Government's preferred way to solve this problem is to reduce the amount of money in the economy. In this regard the Policy makes bank lending more expensive, thus encouraging depositors to move money around less and forcing the banks to keep more of their money on hand than loan it out. These moves will create the effect of there being less money in the economy. This is largely what the goals of the latest monetary policy statement amount to. The goal is to curtail the recent uptick in inflation.

Taken together the contractionary measures aid economic stabilisation at the expense of increasing structural inequalities. They also overshadowing growth in the unbanked and undercapitalised informal sector. 70% of productive Zimbabweans are thought to derive their livelihoods in the informal sector. Increasing productivity and creating decent jobs in the informal and other sectors should be an explicit policy objective of both monetary and fiscal policy in Zimbabwe. This is a missed opportunity within the context of lockdowns and pandemics to enhance the social security role of the informal sector by helping households and small business keep more of their money and access cheaper capital for production.

A number of factors including the reality of a multi-currency basket restrict the range of policy instruments at the RBZ's disposal. However, an expansionary monetary policy oriented towards increasing liquidity on the market, ramping up latent production capacity particularly in the informal sector and increasing labour income for marginal workers, would have been preferable to mitigate the impacts of the COVID induced economic slowdown. Such measures would also compliment fiscal policy measures to consolidate domestic resource mobilisation through presumptive taxes aimed at the informal sector.

The current macroeconomic environment is characterised by low aggregate demand. As such the monetary policy could have done more to stimulate aggregate demand by putting more money in the pockets of the consumers. Measures such as lowering the costs of borrowing for Small to Medium Enterprises; Smallholder Farmers and food producers; Artisanal and Small-Scale Miners amongst other key productive sectors could have gone a long way. As would a moratorium on interests due on household and small business debt service repayments would have also gone a long way to save households and small businesses from escalating debt burdens following lockdowns. In this regard the MPS is a mixed opportunity for the kind of imaginative policy measures necessary to make lives better for Zimbabweans.

4) Bank withdrawal limit raised from ZWL$1000 to ZWL$2000

The RBZ governor has raised cash withdrawal limits by 100%, which is from ZWL$1000 to ZWL$2000. Although this figure appears to be very huge nominally and at face value, it does not bode well with market expectations. With the price gouging in the economy, consumers now require huge amounts of cash to enable them do transactions. Although the limit has been doubled, it will not extinguish the long queues in the banking halls as people now require a lot of money to do few transactions. This cash withdrawal limit continues to disadvantage consumers as the market is charging premiums on other payment modes like Ecocash and swipe. Additionally, the RBZ limits on Ecocash has also been a backlash on the consumers, the capped $5 000 per transaction limit prohibits bigger transactions. As much as the RBZ is encouraging the consumers to use other payments methods like bank transfers for bigger transaction, the majority, especially rural farmers and rural folks who do not have bank accounts. With the RBZ mulling on introduction of the higher denominations like the $50, the transacting public will continue to face cash shortages and incur higher transaction costs when they use other payment modes.

It is therefore strongly recommended that the RBZ should introduce higher denominations to increase convenience to the transacting public. Given the prevailing inflation trend and price increases, the introduction of higher denominations is unavoidable, though thorough consideration needs to be done in checking the possible money growth and inflationary pressures on the economy.

5) New Monetary Policy Committee appointed

The Minister of Finance (MoF) appointed new members of the Monetary Policy Committee (MPC) on 20th February 2021 with immediate effect, a day after dissolving the previous committee effective 31 January 2021. According to information posted on RBZ Twitter handle on Friday 19 February 2021, the MPC was dissolved following "*the appointment of most of its members to various entities and which appointments were deemed to be in conflict with the operations of the bank and the MPC.*" Concerns have been raised with the processes of appointments and dissolution of the former MPC. The previous committee's tenure expired on 31st January however, there were no planned replacements by then to smoothen the transition and integration of new members into the system. The announcement *dissolving* the old committee was only done on the 19th, a day after the delivery of the Monetary Policy Statement (MPS).

The RBZ can be applauded for appointing an estimable Team of experts from the academia, Civil Society and the business community.

An outline of the Committee's mandate and priorities in the present economic moment would increase public and stakeholder confidence particularly in the independence and integrity of a central bank routinely encumbered by political interference. We therefore recommend as follows.

- The new Committee must first make a performance assessment of previous Committees, understand their performance indicators, that is, to what extent were objectives achieved?
- If objectives were not achieved; What were the key reasons for non-achievement?
- What lessons can be drawn and applied as a way forward?
- After that, the new Committee must then publicize its own performance indicators which must be objectively verifiable.

6) Forex allotment to productive sectors increases 11.4%

A total of US$38, 586 million, reflecting an 11, 44 percent jump from the previous auction was allotted to the productive sectors on the recent Tuesday's Reserve Bank of Zimbabwe (RBZ) weekly Foreign Currency Auction Trading System. This saw the small to medium enterprises (SMEs) auction getting a sum of US$2, 9 million allotted with consumables, raw materials, machinery and equipment. The prime objective of the RBZ auction is to improve access to funds required by companies to import critical raw materials. This should ultimately translate to cheaper and affordable basic goods in the economy. Although this RBZ Foreign Currency Auction Trading System has brought about sustainable formal forex trading, predictability and the prevailing stability, the ordinary person in the street is yet to experience the goodness of the stability in this market. The continued gap between the formal exchange rate market of ZWL$83.75 and the black-market rate of ZWL$ 130 to a US dollar, is a clear indication of the formal exchange rate market being deficient in meeting all the foreign requirements of the economy, hence the black market covers for the gap.

It is therefore recommended that, the RBZ increase the supply of the foreign currency, by opening up to more players in the market. Despite the informal sector playing a critical role in the economy, as the source of livelihoods of the majority rural and urban poor, the RBZ formal exchange rate is still not aligned to on the ground market realities. Resultantly, the black market will not die out in the near future, since it is the major supplier of forex to these informal traders.

The RBZ, though its Financial Intelligent Unit, should continue to monitor the companies who are abusing the formal foreign currency market, through arbitrage tendencies like over-valuing suppliers' invoices in a bid to get more forex on the auction system.

7) US$ 6.7 million COVID-19 vaccine distribution budget raises serious concerns

Although the US$100 million purse for the acquisition of Covid-19 vaccines[6] is yet to be released; a US$6.7 million budget for the distribution of Covid-19 vaccine announced by the Ministry of Health and Child Care has raised serious concerns. These concerns echo longstanding concerns with tendencies towards unfair-remuneration of Chefs at the expense of frontline workers; unfettered corruption and partisan information and communication processes. The reversal of austerity measures and revitalisation of public service delivery capacities are required to reduce the risks of corruption associated with outsourcing and procurement of functions that the public sector should have capacity to undertake. Likewise, the devolution of integrated disaster risk reduction and Civil Protection functions is required to stem the corruption, unresponsiveness and inefficiency presently associated with the centralised management of COVID-19 resources. Public confidence and participation in the National COVID-19 Recovery Plan can only be enhanced through broad-based citizen consultation and involvement in decision making.

The US$6.7 million, exempt of the cost of acquiring any vaccines, is distributed as shown hereunder:

Overall Budget	Cost USD
Planning and Training	909,165.00
DSA and lunch for vaccinators	1,442,600.00
Fuel for outreach teams	21,000.00
Preparedness assessments	118,700.00
Support supervision	234,850.00
Coverage survey	200,822.00
Post Implementation evaluation	19,460.00
Advocacy and communication	1,268,450.00
Vaccine distribution	30,750.00
AEFI Surveillance	46,620.00
Data collection and tools	1,216,360.00
PPE	1,200,000.00
Waste Management	70,000.00
Total Cost	**6,778,777.00**

8) The power of Cartels in Zimbabwe and the role of parliament

Cartels refer to corrupt business alliances which comprises individuals with rent-seeking interests who collude to further their economic, political or social agenda through manipulating institutions of governance for their favour[7]. Unfortunately, Zimbabwe is one of the countries in Africa that

[6] The availability of these resources is questionable as the government proceed to call for a crowd fund to finance the acquisition of Covid-19 vaccines.

[7] United Nations Conference on Trade and Development. 2013. *The impact of cartels on the poor.* Intergovernmental Group of Experts on Competition Law and Policy Thirteenth session Geneva, 8–12 July 2013; Vilakazi, T & Roberts, S. 2019. Cartels as

have suffered the malevolent effects of cartels in its political, social and economic spheres of governance. By virtue of their unlimited powers, cartels have become the default mode of governance in the country thus inevitably substituting the conventional means of governance. The term has been equated to state capture in most African countries like South Africa. Politically, cartels have undermined democratic governance, justice and political rights for the general citizens in Zimbabwe[8]. Political participation, justice and equality have been neglected in Zimbabwe where Cartels have used violence to victimise political opponents and consolidate their grip on power (Ibid). Despite claiming to have a constitutional democracy in the country, lawlessness and impunity by the cartels have become the norm where the law is only used to suppress political opponents whilst those aligned to the political alliance evade prosecutions. This is evidenced by the capture of key state institutions for justice and enforcement of the law that birth the selective application of justice.

Economically, cartels have manipulated economic institutions of governance to further their rent-seeking intentions leaving out the general public wallowing in abject poverty. While the state of hospitals is in disarray amid the effects of the Covid-19 pandemic as well as competing challenges of food insecurity and economic downturn in the country, the power of cartels through resource laundering, embezzlement of public funds, corruption and looting of public funds has left the country in a state of penury with critically under-funded social sectors[9]. The impacts are equally pronounced in some African countries like South Africa where key institutions of economic governance have been captured by the political elites who seek to fatten their pockets and finance their political agenda at the expense of public service delivery. Vilikazi (2019) alludes that economic cartels in Africa have destabilised markets, widened domestic fiscal instability, increased shortages of basic commodities and public funds have continued to disappear without a trace as a result of the laws, institutions and policies that are created to push their agenda of profiteering at the expense of the public. The power of cartels has undoubtedly undermined the investment drive as economic policies are inclined to favour their businesses. This has resulted in the creation of monopolies in key economic sectors, as well as faulty and flawed public procurement systems which undermine the overall efficiency of government.

To fix the collusive agreements by the cartels which have crippled democratic governance and economic justice in Zimbabwe and elsewhere in the region the parliament has a critical role to play as the constitutional representative of the people. The parliament has the responsibility to ensure that it formulates and enacts legislation that guards against the abuse of powers and colluding of cartels undermining competition and growth in the country. There is an urgent need

---

'fraud'? Insights from collusion in southern and East Africa in the fertiliser and cement industries, *Review of African Political Economy*, 46:161, 369-386, DOI: 10.1080/03056244.2018.1536974

[8] Maverick. 2021. *How Zimbabwe's cartels extract 'rent' from Zimbabwe's poorest and make the elites richer.* https://www.dailymaverick.co.za/article/2021-02-09-how-zimbabwes-cartels-extract-rent-from-zimbabwes-poorest-and-make-the-elites-richer/

[9] Organised Crime and Corruption Reporting Project. *2021. Report: Zimbabwe Captured by Economic Cartels*. https://www.occrp.org/en/daily/13842-report-zimbabwe-captured-by-economic-cartels

for legislation that impose stringent penalties on those found colluding for their personal benefit. The burden of the fine and punishment should be more than the gains obtained from the colluding deals and creation of monopolies. The parliament must take relevant action to ensure the depoliticization of the Zimbabwe Anti-Corruption Commission (ZACC). This can be done through legal frameworks that empower the Anti-Corruption Commission not only to instil competition but also to detect and deter cartels in the country. There is a need for international cooperation between Parliaments in the region and Africa at large to provide amenable solutions to the governance deficits brought by the shenanigans of the cartels.

9) Parliament should perform an oversight role on contract performance for strategic projects

The News Hawks reported that the Local Government Minister July Moyo and the President of Zimbabwe, Mr Mnangagwa, secretly entered into land deals with Augur Investments to construct the Airport Road[10]. In their capacity as public officials, the article stresses that the two men gave illegal immunity from prosecution to the company on vast tracts of land in Harare. What is interesting to note is that the company has failed to honour its contract through failure to complete the project. The immunity from prosecution strips the City of Harare (client) of the legal options for enforcing Augur Investments' contract performance. One then wonders whether the two men were aware that there is a high likelihood that the company would fail to honour its contract. Why then did they give the company immunity from prosecution? The issue of granting immunity from prosecution raises questions on the Minister's interests in the company. The story demonstrates how those with strong political connections are entangled in land deals. It illustrates how Parliament can effectively assess the performance of contracts on strategic projects. There is need for the implementation of constitutional provisions enabling local authorities devolved power and authority. This will enable Local Authorities to safeguard local resources and democratically determine their utilisation according to local priorities. There is also need to improve transparency around deals involving public wealth and resources. Parliament must do more to monitor contract negotiations and ensure adherence to agreed terms and conditions.

10) Mining without An Economic Empowerment Act worsens communities' plight

The Herald Newspaper reported that Tutu, a Chinese group of companies, is investing USD80 million in building a coke oven battery in Hwange. The group owns Chilota Collieries, which is already conducting coal mining in Hwange. Tutu is said to be targeting the export market for the coke[11]. Given that the country targets a USD12 billion economy by 2023, investments in the mining sector are of great importance. However, we note that the government has done partial repeals to the Indigenisation and Economic Empowerment Act and restricting it to diamonds and

[10] https://thenewshawks.com/land-barons-and-dodgy-deals-controversial-secret-arrangement-haunts-mnangagwa-minister/

[11] https://www.herald.co.zw/chinese-firm-invests-us80m-in-coke-oven/

platinum[12]. The partial repeals suggest that host coal mining communities can no longer receive pledges and dividends to their Community Share Ownership Trusts (CSOTs) from mining companies. The question here is, beyond the financial contribution to Treasury, how can host mining communities meaningfully benefit from mining activities in their locality as provided for in Section 13(4) of the Constitution. In the absence of an Economic Empowerment law, companies can practice Corporate social responsibility, which is not mandatory. It now means that host coal mining communities are missing out on complimentary service delivery from CSOTs. Therefore, we recommend that there is an urgent need for the country to craft an Economic Empowerment Law that clearly states how the host mining communities can benefit from mineral resources extraction in their areas.

[12] http://www.xinhuanet.com/english/2018-03/19/c_137050661.htm