ZIMCODD

ZIMBABWE COALITION ON DEBT AND DEVELOPMENT

WEEKLY ECONOMIC REVIEW AND UPDATE

09 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 (23.02.2021)	Week (02.03.2021)
ZWL83.8868 per USD1	ZWL83.8891 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 (01.03.2021)	Week (08.03.2021)
Positive cases 36 115	**Positive cases** 36 289
Recovered 32 905	**Recovered** 33 872
Deaths 1 468	**Deaths** 1 487

COVID -19 Vaccinations

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

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Notable Issues This Week

Refinancing of collaterised sovereign debt

The refinancing of the US$1.4bn comes at a time the economy is reeling from the effects of unsustainable public debt (Public and Publicly Guaranteed (PPG) which stood at 89% of GDP in 2019) and the monetary authorities seem ill-equipped to manage the same. Debt/loan refinancing entails the contraction of a new debt tranche with Afreximbank to pay off an older, and maturing debt tranche. The strategy is suitable when the term structure of interest rates is such that interest rate on the new loan is lowered thereby reducing the debt servicing costs (periodical debt repayment instalments). Refinancing of loans is also a strategy meant to consolidate loans as well as altering the debt/loan structure as a way of freeing some financial resources. Given Zimbabwe's unsustainable public debt overhang, the refinancing of the US$1.4bn loan seem an ideal strategy given limited capacity to service debt. However, the refinancing exercise does not exempt Zimbabwe from fully servicing the loan but buys time and seeks better repayment conditions. Considering this, government ought to devise viable means of servicing and extinguishing outstanding debt as a way of not only opening access to new credit lines and lower the total PPG/GDP ratio, but also as a means of re-shaping the country's dented debt servicing profile.

No Watungwa, banks are making money

According to Bankers Association of Zimbabwe, the banking sector in Zimbabwe is composed of the Commercial banks, Building Societies, and the Savings Bank. In total there are 19 operating banks as of October 2019. The Banking sector is governed under the Banking Act and falls under the direct supervision of the Reserve Bank of Zimbabwe. The recent synopsis has noted that the sector is making more money, to an extent of exceeding what it did during the peak of the economy in 2014 and making returns higher than their regional counterparts. Going back in 2019, Zimbabwean banks performed exceptionally well with return on equity at 33, 02 percent, which was higher than most of the countries in the world. According to the 2021 Monetary Policy Statement (MPS), banks made $34, 2 billion (US$414 million at the 2020 year-end official exchange rate of 82) in profits for the full year to December 2020 and has been one of Africa's top performers. Despite such a commendable performance of the sector, the claims by Bankers Association of Zimbabwe president, Ralph Watungwa, indicates that the local banks are not making money. This is in contrary to the recent Monetary Policy Statement.

POT OF GOLD FOR ZANU PF, MDC

The Political Parties Finance Act seeks to ensure that there is equal access to resources for political participation in the country through according political parties' resources to finance their activities. Ideally, the initiative is welcome in any multi-party democracy where the funding of political parties would save them from bankruptcy and be able to exercise their political rights and freedoms freely. The initiative is good as it allows for campaigning and participation by all political parties in lieu of one political party in government having unfair economic advantage over others. However, a closer inspection of the Political Parties and Finance Act shows an inclination towards the ruling party (ZANU PF) which habitually has more votes and seats in parliament than other political parties.

COVID-19 Tracker

Zimbabwe continues to mobilise resources internally and externally to respond to the devastating impacts of COVID-19 advancement of the Zimbabwe COVID-19 Preparedness and Response Strategy. The 2021 budget allocated ZWL7 billion 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. US$100 million from the '2020 national budget surplus' has been allocated for the procurement of vaccines.

Pledges honoured, resources received and resources expended.

Overall

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

For the week ending 5 March 2021:

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

Major Concerns

The State of the Nation Address announced on 1 March, relaxed the lockdown regulations paving way for the opening up of the economy and phased return to school for children. Whilst the majority of Zimbabweans welcomed the relaxation of the national lockdown regulations, there are still concerns with the lack of social protection mechanisms, unclarity over vaccine procurement and distribution.

- This week saw the relaxation of lockdown regulations & the announcement of allowed the re-opening of schools in a phased approach by the cabinet. 600 million was availed for the preparation of schools opening. However, many schools have indicated that the resources availed are inadequate to ensure access to PPE and water and sanitation facilities. Schools in marginalised Matebeleland and cyclone hit Manicaland have been adversely affected.

- Concerns over rampant corruption and weak accountability mechanisms enjoins government and all stakeholders to invest in ensuring accountability and transparency to safeguard the 600 million from corruption at the expense of the children.
- Level 4 lockdown measures require informal sector operators to comply with WHO regulations. However, many actors in the Informal economy will struggle to adhere to WHO regulations due to the economic burdens of lockdown periods. An estimated 70% of productive Zimbabweans earn their livelihoods in the informal economy.
- While the government's nationwide vaccination programme continues, it remains unclear as to how much the government has expended towards the purchase of vaccines and the roll out programs. Media reports indicate that the government will avail further 1.2 million doses to be purchased from China yet information about the purchase is not clear.

Recommendations to the Government

1. Governments must develop Schools re-opening plan. While the government prepares for the inevitable reopening of schools, it is worrying that citizens have not been consulted and updated on the state of preparedness, and precautionary measures that are being put in place by government to ensure a safe and timely return of all school-going children to their respective schools. There is need for the government to work with relevant stakeholders in ensuring that necessary measures are put in place before the reopening of schools. It is also important for the government to allocate more resources towards ensuring that the poorest districts and provinces are safe for both the learners and teachers
2. It is prudent for the Ministry of Finance and Economic Development to provide regular updates on how much funds have been utilized in the procurement of vaccines and on the rollout program.
3. Despite the decline in cases, there is need for long-term plans to ensure that preventive measures including the purchase of PPEs and other essentials necessary to curb the pandemic are consistently availed. Where possible these must be locally produced to benefit local industries. There is also an urgent need for responsible authorities to prioritize the release of the outstanding Auditor General's Report.
4. The call for transparency and accountability in public finance management remains. There is need for government to disclose all sources of revenue and ensure that citizens are aware of such developments. If the funds were borrowed from international banks, there is need for debt transparency and ensure that citizens are aware of the debt conditionalities.
5. It is imperative for government to create a well- structured opening plan for borders and implement it in order to avert over population at stagnant borders as was the case a few months ago when land borders were open before being closed again.

Fiscal Issues

Refinancing of collaterised sovereign debt

The refinancing of the US$1.4bn comes at a time the economy is reeling from the effects of unsustainable public debt (Public and Publicly Guaranteed (PPG) which stood at 89% of GDP in 2019) and the monetary authorities seem ill-equipped to manage the same. Debt/loan refinancing entails the contraction of a new debt tranche with Afreximbank to pay off an older, and maturing debt tranche. The strategy is suitable when the term structure of interest rates is such that interest rate on the new loan is lowered thereby reducing the debt servicing costs (periodical debt repayment instalments). Refinancing of loans is also a strategy meant to consolidate loans as well as altering the debt/loan structure as a way of freeing some financial resources. Given Zimbabwe's unsustainable public debt overhang, the refinancing of the US$1.4bn loan seem an ideal strategy given limited capacity to service debt. However, the refinancing exercise does not exempt Zimbabwe from fully servicing the loan but buys time and seeks better repayment conditions. Considering this, government ought to devise viable means of servicing and extinguishing outstanding debt as a way of not only opening access to new credit lines and lower the total PPG/GDP ratio, but also as a means of re-shaping the country's dented debt servicing profile.

Worryingly, the contraction of sovereign collaterised debt weakens the nexus between public debt, sustainability, and the fiscal position of the economy. Collaterised loans also entice government to overborrow whilst overprotecting the creditor thereby limiting borrowing policy leg room when the need arises. That all Zimbabwe's collaterised loans are with Afreximbank questions the effectiveness of Parliament's oversight role on debt assumption. The deliberate forfeiture of information on collaterised loans imply that there could be more sovereign collaterised loans attached to gold and other valuable minerals. The IMF (2019) notes that Zimbabwe continues to accrue debt without sticking to laid out procedures as per the Public Debt Management Act and the Public Finance Management Act. Observing constitutional provisions on the assumption of public debt and restoring parliament's oversight powers goes a long way in abating excessive debt contraction. Also, limiting self-directed borrowing powers of the executive promotes prudency in debt acquisition.

The mining sector and illicit financial flows in Zimbabwe

The Center for Natural Resource Governance noted the severity of illicit financial flows in the extractive industry, especially the artisanal mining sector. Of late, the major mining outfits are also involved in illicit activities. The criminalization of the informal miners explains their secretive operations and the selling of minerals to unregistered dealers who in turn smuggle the minerals offshore. The government's failure to recognize artisanal miners despite their contribution to the mining sector has perpetuated the illegal earning and spending of mineral proceeds without any fiscal record. In addressing illicit financial flows, government ought to formalize artisanal miners and register their operations so that they contribute meaningfully to the fiscus. The same informal miners are supposed to benefit from empowerment policies that are meant to avail skills and machinery to the artisanal miners as part of the drive to formalize their operations. Also, in curbing illicit flows, the government must revise the foreign currency retention thresholds for miners. The higher the retention rate, the higher the propensity of understating mineral export proceeds and smuggling minerals. Illicit financial flows thus require apt friendly policies that do not deprive miners of their hard-earned foreign currency. The forex retention policy pegged at

40% contradicts the on-going Ease of Doing Business reforms as well as the legal provisions protecting private property. Another policy initiative relates to the adoption a cadastre system meant to address the opacity of mining operations. This has remained a policy initiative in the pipeline for long and require urgency in its operationalization.

Monetary Issues

Banks are making money, Depositors must be paid interest

According to Bankers Association of Zimbabwe, the banking sector in Zimbabwe is composed of the Commercial banks, Building Societies, and the Savings Bank. In total there are 19 operating banks as of October 2019. The Banking sector is governed under the Banking Act and falls under the direct supervision of the Reserve Bank of Zimbabwe. The recent synopsis has noted that the sector is making more money, to an extent of exceeding what it did during the peak of the economy in 2014 and making returns higher than their regional counterparts. Going back in 2019, Zimbabwean banks performed exceptionally well with return on equity at 33, 02 percent, which was higher than most of the countries in the world. According to the 2021 Monetary Policy Statement (MPS), banks made $34, 2 billion (US$414 million at the 2020 year-end official exchange rate of 82) in profits for the full year to December 2020 and has been one of Africa's top performers. Despite such a commendable performance of the sector, the claims by Bankers Association of Zimbabwe president, Ralph Watungwa, indicates that the local banks are not making money. This is in contrary to the recent Monetary Policy Statement.

The sterling financial performance of the banking sector is driven by non-interest income mainly comprised other non-interest income (translation gains on foreign currency denominated assets, revaluation gains from investment properties) as well as fees and commissions. Furtherance to that, the Zimbabwe banking sector has been accused of overcharging by both local and international customers in a way compensating their inefficiencies that by overcharging consumers.

It is therefore strongly recommended that the RBZ should closely monitor the banks activities, to provide interest on deposits. The banking public is being short-changed by the banks, with no interest on their deposits. In turn the banks loans out such money and make huge returns and no cost. The banking sector is not sweating their assets and in turn short-changing the general banking public. The RBZ should regulate the exorbitant charges by the banks.

Tobacco farmers to get 60 percent of earnings in forex

As we are approaching the harvest season, the government has announced the foreign currency retention for the Tobacco farmers. It has been announced that farmers will retain 60 percent of their earnings in foreign currency this year, while the remainder will be liquidated at the prevailing exchange rate. This has also been the case with the cotton farmers. Although the government has settled at this rate, the farmers groups has requested to retain around 70% to 80% in foreign currency. This request was necessitated with increased input prices and widened gap between the official exchange rate and the black-market rate. Farmers are ripped of the value of their money, especially when they liquidate their hard-earned foreign currency at the official exchange rate of 1:83. Input suppliers, on the other hand use the black-market rate of 1:130, leaving farmers disadvantaged. They are robbed of about 30% of their value, through the black-market rate whenever they make their purchases. That money is huge, in terms of the opportunity cost on the farmer.

Given the cost structure of the farmers, it is therefore strongly recommended that the government should reconsider its position and increase the foreign currency retention of the tobacco farmers. Most if not all service providers now require hard currency and therefore the great need for hard currency to the farmers. The government should motivate the farmers, so that next season, they will go back into the farms. Farmers need support, especially in the midst of the Covid-19 pandemic, they need a boost in their livelihood options and as such, an increase in the foreign currency retention will help in a great deal.

Auction rate is the real market rate

The government of Zimbabwe, through the Reserve bank of Zimbabwe (RBZ) introduced the auction rate on the 23rd of June 2020. This was in response to persisted unstable exchange rate, influenced by the parallel market arbitrage tendencies. The instability in the exchange rate had been singled out as the major source of skyrocketing prices in the economy, bringing inflation to the second largest in the world after Venezuela. For a while now, the official exchange rate is averaging 1: 83, while the parallel market rate is trading between ZWL$110 to ZWL$ 130. Despite the stability in the exchange rate, prices have started to go up in the past two months, with fuel increasing In US dollars, the new price of Diesel 50 is US$1,27 from US$1,21 while petrol is now pegged at US$1,26 from $1,23.

The prices of most of the goods are following the trends in the black market, with some companies pegging their prices following the black-market rates, despite accessing the foreign currency on the cheaper official auction. This has called many people to have questions on the reliability of the official exchange rate. Despite, the monetary authorities, insisting that the auction rate depicts the correct market trends contrary to the contrived perception that the parallel market signifies the "real exchange rate".

It is against this back drop that, the RBZ is strongly recommended to liberalize the foreign exchange market. The issue of having the RBZ as the sole supplier of foreign currency to the market is not sustainable. The foreign currency supplied by the RBZ is not enough to meet all the forex requirements in the economy, hence some of the economic agents resort to the black market where there are "no rules" to buy the hard currency. After the national vaccination programme, the economy is going to open up, and there will be more demand of foreign currency, and this is likely to push further the black-market exchange rate, creating a huge gap between the official and the black-market rate.

Policy and Regulatory Issues

Without a formalised ASM sector, gold leakages will continue

The Daily news reported that the Minister of Mines shared that government is in the pro cess of amending the Gold Trading Act, Mines and Minerals Act and the Precious Stone Act to curb gold leakages in the country[1]. The smuggling is resulting in government failing to provide adequate social services to citizens of the country. The two major drivers of smuggling are higher prices

[1] https://dailynews.co.zw/zimbabwe-to-address-gold-leakages/

paid by South Africa and Dubai buyers per gram of gold. In foreign markets, the payment is instantly made in foreign currency as opposed to the retention rate in Zimbabwe where part is made in local currency and part is in USD. We also note that since the Artisanal and Scale Gold Miners (ASGMs) are informal, they do not sell their gold to the government buyers. Because of their informality, the gold from the ASGMs is not traceable and therefore linked to smuggling by politically well-connected syndicates. Given the Henrietta Rushwaya's alleged gold smuggling case, one wonders how many times she managed to smuggle without being caught and how many other syndicates are smuggling without being caught. While it is important to amend the Gold Trading Act, the Precious Stone Act and the Mines and Minerals Act, we recommend that the government's immediate concern should be formalising the ASM sector. This should be followed by matching the international gold prices with local prices. Parliament should also conduct an inquiry to understand how gold is smuggled from Zimbabwe, the actors involved and how they are escaping the arms of the law.

Corruption by political elites intolerable

The NewsDay reported that the Minister of Lands and Agriculture ordered the Joint Operations Command to investigate the theft of maize from the fields of Masvingo Development Trust[2]. The Trust is being supported by Tongatt Hullets to grow 700 hectares of sorghum and 1500 hectares of maize. Interestingly, the article reported that last year it is alleged that ZANU PF Provincial leadership misappropriated about 1 446 tonnes of maize. The disappearance of the maize indicates that there is a tendency by the politically connected in committing acts of corruption without any fear of being held accountable. The fact that the police has not acted on this case signifies how the politically connected could be abusing the system for their benefit. The case adds to the various corruption cases by high ranking ZANU PF officials such as Prisca Mupfumira, July Moyo, Obediah Moyo, among others. We therefore recommend that there is a need for the Special Anti-Corruption Unit, the Zimbabwe Republic Police and the Zimbabwe Anti-Corruption Commission to immediately act on this case. Failure to do so may spoil the public partnership agreement between the Trust and Tongatt Huellets. It would also send signals to would be offenders that ZANU PF are immune from prosecution on corruption. On the whole, it also questions the seriousness of the Second Republic in fighting corruption.

Stakeholder Engagement is key for social mining licence

263chat reported that Unki Mine scored very low on stakeholder engagement and disclosure of payments to politicians and government in the Initial Certification Audit of the Initiative of the Responsible Mining Assurance. It is the first mining company in Africa to publicly commit to be independently audited against the Initiative for Responsible Mining Assurance[3]'s (IRMA). According to the assessment, Unki scored 75%, a score that means that the company has met the set requirements for the four principal (Business Integrity, Planning for Positive Legacies, Social Responsibility and Environmental Responsibility) and 40 critical requirements areas of the IRMA Standard. Despite scoring a high score, critical areas that the company still needs to address include the disclosure of payments to politicians or political parties, royalties to government and stakeholder engagement. The lack of transparency on payments to politicians may mean that the

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[2] https://www.newsday.co.zw/2021/03/minister-orders-joc-to-probe-maize-theft/

[3]The IRMA is a social and environmental standard for responsible mining

money is diverted from meaningful community projects to political processes that benefit well connected individuals at the expense of the host mining communities. If such information is made available, communities may use it to effectively negotiate for programs that are inclusive and address the situation of marginalised groups. We therefore recommend that there is a need for the company to disclose the amounts that it is paying to politicians for their campaigns. The disclosure of such payments can be a spring board for transparent and effective stakeholder engagement.

Industry requires a holistic approach to macroeconomic stability

The Business weekly reported that the manufacturing industry is targeting a capacity utilisation of 61% by end of 2021[4]. Although COVID 19 is cited as the major constraint to production, the article alludes that the major driver of industrial growth is exchange rate stability. The article argues that access to foreign currency by importers has improved price stability and availability of raw materials. While it is a fact that the exchange rate has stabilised, domestic consumers are still facing high prices as inflation continues rising. We observe that fuel which is a major component in production is rising in USD terms almost on a weekly basis. Under such circumstances, the producers will simply pass on the cost to consumers. This in turn increases the cost of the consumer basket. We also observe that there are also other factors that are very important in the production equation. These factors include power availability and policy consistency. Given that the country is relying on imported power, the cost of the high-power is passed onto the consumers. We therefore recommend that for industry to achieve its projected growth, there is a need for a macroeconomic policy stability. This will require a wholistic approach in addressing inflation, exchange, power availability and the general policy environment.

Political Issues

Pot of Gold for ZANU PF, MDC

The Political Parties Finance Act seeks to ensure that there is equal access to resources for political participation in the country through according political parties' resources to finance their activities. Ideally, the initiative is welcome in any multi-party democracy where the funding of political parties would save them from bankruptcy and be able to exercise their political rights and freedoms freely[5]. The initiative is good as it allows for campaigning and participation by all political parties in lieu of one political party in government having unfair economic advantage over others.

However, a closer inspection of the Political Parties and Finance Act shows an inclination towards the ruling party (ZANU PF) which habitually has more votes and seats in parliament than other political parties. ZANU PF remains the major beneficiary to the funding of political parties which is disbursed by the treasury. It is noteworthy that political parties in the country are prohibited

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[4] https://www.ebusinessweekly.co.zw/industry-output-jumps-to-47-percent-czi-says-capacity-to-rise-to-61-percent-calls-for-measures-to-sustain-stability/

[5] Hatchard, J. 2009. "Funding Political Parties: The Political Parties (Finance) Act, 1992 (Zimbabwe)." *Journal of African Law*, 37(1), 101-103. doi:10.1017/S0021855300011177

from accessing funding from other donor communities of individuals outside their political party under the Political Parties and Finance Act. The general impression here is that the ruling party is put at a strategic position than other political parties on top of having free access to non-monetary state resources like the state media, state buildings, and vehicles for furthering their political activities. This yield social justice concerns as the political funding process is discriminatory to minority political parties who need more funding to further their political activities. Seemingly, other political parties in the country are discriminated against by only having a different political opinion from the ruling party. In light of this view, the Election Resource Centre (2014) remarked that the Political Parties and Finance Act in Zimbabwe does not promote justice and equal political participation as the funding provision is meant to fiscally paralyse the opposition political parties and strengthen the grip on power for the ruling party. This, therefore, means that the availing of ZWL$100 million to only ZANU PF and MDC on a proportional basis undermines the capacity of other parties like the MDC-A to effectively execute their political activities and enhance democratic governance. Ideally, in a democratic country, the government has the obligation to ensure that all political parties are given the room to carry out their political activities with the support of state resources which include monetary and non-monetary resources[6].

For the sake of justice, political participation, and democratic governance, there is a need to ensure that the Political Parties and Finance Act is amended to allow access to state resources for all political parties as in line with international best practices. In addition to that, all political parties should have access to non-monetary public resources like state media in their campaigning and political activities to enhance the quality of democracy, and political participation in the country. Affording an equal ground to all political parties remains at the core of effective governance and control of public resources towards development and poverty alleviation in the country.

[6] Election Resource Centre. 2014. *Political party finance: Which way for Zim?* The Standard, 27 July 2014. https://www.thestandard.co.zw/2014/07/27/political-party-finance-way-zim/