ZIMCODD

ZIMBABWE COALITION ON DEBT AND DEVELOPMENT

WEEKLY ECONOMIC REVIEW AND UPDATE

8 April 2021

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

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Weekly Dashboard

Forex Auction Weighted Rate	
Week (23.03.2021)	**Week (06.04.2021)**
ZWL84.1197 per USD1	ZWL84.3970 per USD1
Total Consumption Poverty Line	
Feb 2021	**Mar 2021**
ZWL5 187.00	ZWL5 312.00
Inflation Rate	
Feb 2021	**Mar 2021**
321.59%	240.55%
Month-on-month inflation	
Feb 2021	**Mar 2021**
3.45	2.26
Covid-19 Cases	
Week (29.03.2021)	**Week (06.04.2021)**
Positive cases 36 822	**Positive cases** 36 934
Recovered 34 603	**Recovered** 34 758
Deaths 1 520	**Deaths** 1 525

COVID -19 Vaccinations

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

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Notable Issues This Week

CALL FOR SUSTAINABLE MANAGEMET OF COVID-19 DEBT CONTRACTION

Treasury recently entered into a debt agreement with the Arab Economic Bank for US$10 million to help finance the national response to COVID-19. Parliamentary involvement in the sustainable management of the national debt is crucial to restore public confidence in the State's debt management capabilities. At present, the vast majority of Zimbabwe's debt stock is in interest repayments – a sign of unsustainable debt management. COVID related debt contraction will be enhanced by Parliamentary debate and stakeholder consultation to ensure that Zimbabwe prioritises more sustainable resource mobilisation actions without adding to the national debt burden. By and large government must refrain from unwarranted borrowing and spending of public resources as excessive amounts of foreign debt will hinder the country's capacity to invest in financial prospects, whether through education, infrastructure, or health care, as available resources are spent on debt repayments.

RESPONSE TO MONETARY POLICY COMMITTEE RESOLUTIONS

Whilst the MPC's influence is limited to the Monetary Policy realm there is need to underscore that monetary policy interventions will not have the desired effects without the urgent redress of key economic fundamentals. These fundamentals enjoin Government to enhance the MPC's efforts by:

i. Creating a more business friendly environment, through the dismantling of opportunities for rent-seeking and arbitrage by political elites within the forex allocation and broader economic sphere.

i. Resolving the national debt overhang. Heavy indebtedness limits Government's fiscal space and push the Government towards more expensive and unsustainable domestic and international credit lines. Sustainable debt management and restructuring as well as increased Parliamentary oversight and scrutiny are critical to turn around Zimbabwe's debt position.

ii. Integrating the "informal sector" into the mainstream economy. Government must cease the counter-productive war on the informal sector and instead facilitate the inclusion of Small to Medium Enterprises through smart public investment, redistributive taxation, market access and equitable access to scarce foreign currency reserves.

iii. Reforming the tax code towards a more just and equitable tax code. At present Zimbabwe's tax codes incentivizes wealth and taxes hard work. A fairer tax code will stimulate compliance and domestic revenue consolidation including from the Informal sector where most Zimbabweans subsist. In particular a Wealth Tax will enable a just transfer of resources that are concentrated in the hands of a few to increase liquidity and productivity in the economy.

PRAZ TENDER REGULATIONS MUST EXTEND TO SECURITY SECTOR
The call to tighten tender processes through the amendment of the Public Procurement and Disposal of Public Assets Act (Chapter 22:23) by PRAZ as well as aligning it to the 2013 constitution is critical for the attainment of a robust public procurement system. Nonetheless, the proposed amendments are not sufficient to infuse transparency and accountability on the security sector, in-spite of its growing role in the national economy. Proposed amendments will exempt the security sector from issuing public notices on procurement of certain goods, works and services. It is imperative to note that, historically the majority of procurement activities of the security sector have not been availed for Parliamentary or public scrutiny. The security sector perennially receives the largest national budgetary resource allocation amongst all other sectors. Additionally, the Reports of the Auditor-General whose role is to shed light on the use and management of public resources has not been leveraged to given indication of the Security sector's performance in public finance management. Therefore, there is need to extend the transparency and accountability spotlight on the security sector including in particular procurement processes for all activities that are not deemed vital for national security.

1. COVID-19 Resources Tracker

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

Zimbabwe continues to mobilise resources internally and externally to respond to the devastating socioeconomic effects of COVID-19. Among other efforts, the government in the 2021 national budget has set aside 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.

Overall

Total Pledges = US$767,475,257; Honoured Pledges = $563,228,071; Amount Spent = $304,881,082

For the week ending 1 April 2021:

Total Pledges = US$1, 000,000; Honoured Pledges =US$1,000,000; Amount Spent = US$0

Major Concerns and recommendations

1. **Bridging information gaps vital to increase uptake of vaccination** The Ministry of Health and Child Care is making efforts to accelerate the national vaccination programme including extending vaccination points to rural areas. However, national statistics of vaccinated people indicate a low uptake of the state-run free vaccination programme. There is still a long way to go for Zimbabwe to vaccinate at least 60 percent of the population in order to achieve herd immunity. Increasing access to information on vaccination benefits is crucial to convince skeptical members of society. Likewise, challenging and factually disputing fake news aimed at dissuading

vaccine acceptance remains a collective national challenge in the age of ubiquitous social media. Community and schools driven

2. **Parliamentary oversight and scrutiny over COVID procurements critical.** Unresolved challenges within the public procurement system give rise to concerns over the high risks of corruption and mismanagement of COVID-19 resources. These concerns are especially pressing given the nation's earlier experience with the Drax procurement scandal in which then Minister of Health and Child Care Dr Obadiah Moyo was relieved of his duties after being charged with criminal abuse of office over allegation of corruptibly awarding a $US60 million contract for COVID-19 supplies. Parliamentary oversight and scrutiny of major public procurement process is vital to safeguard against corruption involving state procurement processes.
3. **Publish publicly accessible digital register of COVID-19 vaccine contracts.** Government has set aside US$100 million and an additional US$7 million for logistics to procure COVID-19 vaccines and equipment. These funds will be expended through various tenders. In this regard the assurance of a publicly accessible digital register of COVID 19 vaccines and equipment tenders would go a long way to increase transparency and accountability. It will also serve as a deterrent against rent-seeking behaviour.
4. **Sustainably manage COVID-19 debt contraction.** Treasury recently entered into a debt agreement with the Arab Economic Bank for US$10 million to help finance the national response to COVID-19. Parliamentary involvement in the sustainable management of the national debt is crucial to restore public confidence in the State's debt management capabilities. At present, the vast majority of Zimbabwe's debt stock is in interest repayments – a sign of unsustainable debt management. COVID related debt contraction will be enhanced by Parliamentary debate and stakeholder consultation to ensure that Zimbabwe prioritises more sustainable resource mobilisation actions without adding to the national debt burden. By and large government must refrain from unwarranted borrowing and spending of public resources as excessive amounts of foreign debt will hinder the country's capacity to invest in financial prospects, whether through education, infrastructure, or health care, as available resources are spent on debt repayments.
5. **Government must develop a secure and functional COVID-19 vaccination certificate system.** Recent reports of the issuance of fake COVID-19 vaccination cards at a cost of between US$25 and $50 points to a loophole requiring urgent attention to safeguard citizens. A secure and functional vaccination certificate system will also enhance the integrity of the national vaccination programme by ensuring accurate vaccination coverage statistics. Furthermore, the public must be conscientized and investigations should be carried out and law enforcers should ensure that those profiteering from fake vaccination certificates face the full wrath of law.
6. **Crossboarder Traders deserve a special COVID-19 relief support.** Cross-border Traders are amongst the Sectors most affected by 2 years or perpetual lockdowns and boarder closures. With the recent announcement of issuing of COVID-19 vaccination certificates linked with passports and travel documents, it is prudent that the government ensures that informal traders should be supported to adequately prepare for anticipated opening up of boarders. Support measures required include free testing facilities for registered Crossboarder Traders and income substitution to help Traders re-invest in their businesses.
7. **Government must revamp social protection mechanisms.** While the cost of living continues to rise, as shown by the recent statistics by the Zimbabwe National Statistics Agency (Zimstat) the vulnerable continue being at the bottom of the food chain as the few that benefitted last received these funds in 2020. An efficient, just and equitable social protection system is urgently required to ameliorate the negative impacts of the COVID-19 pandemic on poor and vulnerable groups. A universal basic income is highly recommended as a means to safeguard poor

and vulnerable Zimbabweans from falling deeper into the poverty trap. The legislated Sovereign Wealth Fund could be modified to facilitate the transfer of revenue from the 12 billion mining industry into the hands of Zimbabweans who need help. The rampant abuse and mismanagement of public funds particularly government's safety nets to cushion the vulnerable during the pandemic remains a major concern. Digital tools and the entrenched mobile banking culture offer viable pathways towards addressing distribution challenges associated with public funds.

8. **Auditor General's 2020 Report must be released.** The Auditor General's Office must urgently expedite its mandate, as codified in section 106 of the supreme constitution and read together with Chapter 22:18 of the Audit Office Act, to audit the accounts, financial systems and financial management of all departments, institutions and agencies of Government. The 2020 Report is expected to shed light on COVID-19 social protection funds, economic stimulus funds, debt borrowings and other COVID-19 earmarked resources. Public scrutiny and debate over the Report will greatly enrich transparency and accountability in Public Finance Management.

2. Response to Monetary Policy Committee Meeting Held On 26 March 2021

The Monetary Policy Committee (MPC) meeting held on the 26th of March 2021 outlined major monetary policy milestones made by the Reserve Bank of Zimbabwe, notably;

- The monetary targeting framework; and
- The introduction of the foreign exchange auction system.

The MPC further upheld the "… *current conservative monetary targeting framework anchored on 22.5 percent reserve money quarterly targets,"* among other resolutions.

The RBZ's relative success in containing reserve money growth and the stability of the exchange rate, respectively is commendable.

1. **Address lack of market confidence in the ZWL.** People are shunning the ZWL purely because of distrust. And that distrust is fueled by a number of current and historical factors. In particular, market actors lack confidence in the Government's political will and the RBZ's independence to stem money supply growth. An increase in money supply without economic growth theoretically translates to inflation (holding other things constant). The consequence has been that, market actors tend to buy and hold USD in preference to local currency not only because of its intrinsic value but also because of the unpredictability of the ZWL. Currently the reserve money target stands at 18 percent against a quarterly target of 22.5 percent.
2. **Increase the inclusivity of the Foreign Currency Auction System.** The auction system, despite bringing stability to the exchange rate, has not done enough to equitably extend liquidity to all sectors of the Zimbabwean economy. Access to foreign currency is vital for many import dependent sectors of the economy. For those in the informal sector or an estimated 70% of the working poor secure and predictable access to foreign currency is critical to starve off the exorbitant parallel foreign currency market and increase business competitiveness for many Small to Medium Sector Enterprises. The Auction system should therefore be transitioned to a more inclusive market through the expansion or ringfencing of quotas to ensure access particularly to Small and Medium Sector Enterprises which tend to require lower volumes and quicker turnaround to meet pressing orders.

3. **Address key economic fundamentals.** Whilst the MPC's influence is limited to the Monetary Policy realm there is need to underscore that monetary policy interventions will not have the desired effects without the urgent redress of key economic fundamentals. These fundamentals enjoin Government to enhance the MPC's efforts by:
   iv. Creating a more business friendly environment, through the dismantling of opportunities for rent-seeking and arbitrage by political elites within the forex allocation and broader economic sphere.
   v. Resolving the national debt overhang. Heavy indebtedness limits Government's fiscal space and push the Government towards more expensive and unsustainable domestic and international credit lines. Sustainable debt management and restructuring as well as increased Parliamentary oversight and scrutiny are critical to turn around Zimbabwe's debt position.
   vi. Integrating the "informal sector" into the mainstream economy. Government must cease the counter-productive war on the informal sector and instead facilitate the inclusion of Small to Medium Enterprises through smart public investment, redistributive taxation, market access and equitable access to scarce foreign currency reserves.
   vii. Reforming the tax code towards a more just and equitable tax code. At present Zimbabwe's tax codes incentivizes wealth and taxes hard work. A fairer tax code will stimulate compliance and domestic revenue consolidation including from the Informal sector where most Zimbabweans subsist. In particular a Wealth Tax will enable a just transfer of resources that are concentrated in the hands of a few to increase liquidity and productivity in the economy.
   viii. Reforming the banking and financial sector. Most Zimbabweans and their informalized business operations are unbanked. This contributes in part to the proliferation of the 'black market'. It also marginalizes unbanked Zimbabweans from accessing resources from the formal banking and financial sector markets. A lot more can be done to increase the accessibility of the banking and financial sector. Government must compel Banks to accept, Public guarantees, group loan schemes, equity and other alternative investment schemes to enable more Zimbabweans to access inclusive financing from the banking and financial sector.

3. Towards a more inclusive Foreign Exchange Auction System

The Foreign Exchange Auction System (FEAS) was launched on the 23rd of June 2020 to enhance transparency and efficient allocation of foreign currency, promote market confidence, improve access to forex and stabilize the exchange rate and inflation. In line with the National Development Strategy 1, a market-based exchange rate system shall be established – presumably based on the progress made by the FEAS in stabilizing the exchange rate.

Under the FEAS, the Reserve Bank of Zimbabwe is the market maker – selling foreign currency through a bidding process and repeatedly buying foreign currency in the intervening time at the previous auction-determined rate. The overall impact of the FEAS has been obscured by the enduring trust deficits, alleged sustainability concerns, domination of few market players and confidence deficiency in the market. Although the FEAS has experienced a number of 'teething' challenges the initiative has by and large made a distinct contribution towards stabilising the currency situation in Zimbabwe.

Nine months on; the FEAS has failed to instil confidence in the economy, improve the access to foreign currency and stabilize exchange rates, prices, and inflation amongst innumerable challenges. Noting the documented damaging effects of the FEAS, government must move to a market exchange rate system for the setting of non-distortionary exchange rate, and imbue an efficient distribution of the scarce resource.

A few policy proposals are suggested towards the achievement of a more inclusive and efficient FEAS capable of redistributing scarce foreign exchange to stimulate all sectors of the Zimbabwean economy:

1. **Address the price and exchange rate distortionary effect.** The FEAS has failed to outdo the multiple pricing system in the economy as economic agents continue to peg varied prices depending on the method of payment assumed (Z$ notes, mobile money, electronic payment, and US$ cash). The pricing distortions are a function of exchange rate distortions that were supposed to be erased by the EAS. This has worsened the plight of the lowly paid transacting public whose welfare is discounted given the ensuing distortions.
2. **Stem the rent-seeking and corrupt conduct of certain corporate actors.** The FEAS has become a self-enriching conduit for well-positioned corporates. Corporates have capitalized on the weak/non-existent post-disbursement monitoring framework by proceeding to sell commodities at the parallel market rate after accessing foreign currency at a lower rate in the FEAS market. The Financial Intelligence Unit is seemingly ill-equipped to quell the rot.
3. **Address the FEAS- parallel market revolving door.** The FEAS considers bids from economic participants whose businesses are in the priority list. Also, bids submitted are not met in full by the RBZ leaving room for the corporates to finance their imports through the parallel market. Some Corporates that bid in the FEAs market get their ZWL$ from the parallel market through the liquidation of US$ at attractive rates. Effectively, the same corporates that are benefitting from the lower FEAS rates also capitalize on the parallel market premiums.
4. **Resolve the question of appropriation of export proceeds.** Government has systematically appropriated USD export proceeds from exporters as a way of financing the FEAS. Legal instruments have been designed to coerce exporters to relinquish their export proceeds at the extortionary rate – contravening property and investment rights of investors.
5. **Artificial exchange rate stability.** The RBZ as the market maker in the FEAS has a way of manipulating exchange rates to gain the sort-after exchange stability. Setting rates artificially low enables government to access the scarce forex at low prices though the exercise repels investment and productivity.
6. **Safeguard against the potential negative impact of the FEAS on the public debt position.** The RBZ has had to access capital from the debt market in order to finance the liquidity of the FEAS market. In principle such borrowing must needs be premised upon considerations of overall sustainability and the Bank's own capabilities to manage the debt. Hence it remains contingent upon Government and the RBZ to report on the performance of credit lines aimed at shoring up the nation's currency volatility.

4. PRAZ Tender regulations must extend to Security Sector

The Zimbabwean public procurement has been afflicted by cases of corruption and mismanagement of public funds propelled by economies of affection, weak watchdog institutions, legal frameworks and rent-seeking. Accordingly, Transparent International`s corruption index ranked Zimbabwe 157$^{th}$ out of 180 with a score of 24 out of 100 which is below the continent`s average of 32[1]. The index utilizes experts and business people reports as well as perceived levels of public sector corruption. It is imperative to note that Transparency International`s corruption index can be supported by a series of corruption events which took place in 2020 and 2021 as well as the call by the Procurement Regulatory Authority of Zimbabwe (PRAZ) in 2021 to reinvigorate tender processes[2].

The call to tighten tender processes through the amendment of the Public Procurement and Disposal of Public Assets Act (Chapter 22:23) by PRAZ as well as aligning it to the 2013 constitution is critical for the attainment of a robust public procurement system. Nonetheless, the proposed amendments are not sufficient to infuse transparency and accountability on the security sector, in-spite of its growing role in the national economy. Proposed amendments will exempt the security sector from issuing public notices on procurement of certain goods, works and services. It is imperative to note that, historically the majority of procurement activities of the security sector have not been availed for Parliamentary or public scrutiny. The security sector perennially receives the largest national budgetary resource allocation amongst all other sectors. Additionally, the Reports of the Auditor-General whose role is to shed light on the use and management of public resources has not been leveraged to given indication of the Security sector's performance in public finance management. Therefore, there is need to extend the transparency and accountability spotlight on the security sector including in particular procurement processes for all activities that are not deemed vital for national security.

5. Zimbabwe fuel prices – highest in the SADC Region

Zimbabweans got another notification of fuel price increase on the 5th of April 2021. Diesel 50 was unchanged at USD1.32 whilst Blend E10 was reviewed upwards to USD1.34 from USD1.30 the previous month. This has been the norm since the beginning of the year as there has been similar upward reviews on the 5th of each month. Consequently, there has been a net effect of 7.31% increase in the price of Diesel 50, and a 10.74% surge in that of Blend E10 between January 5 and April 5th, 2021.

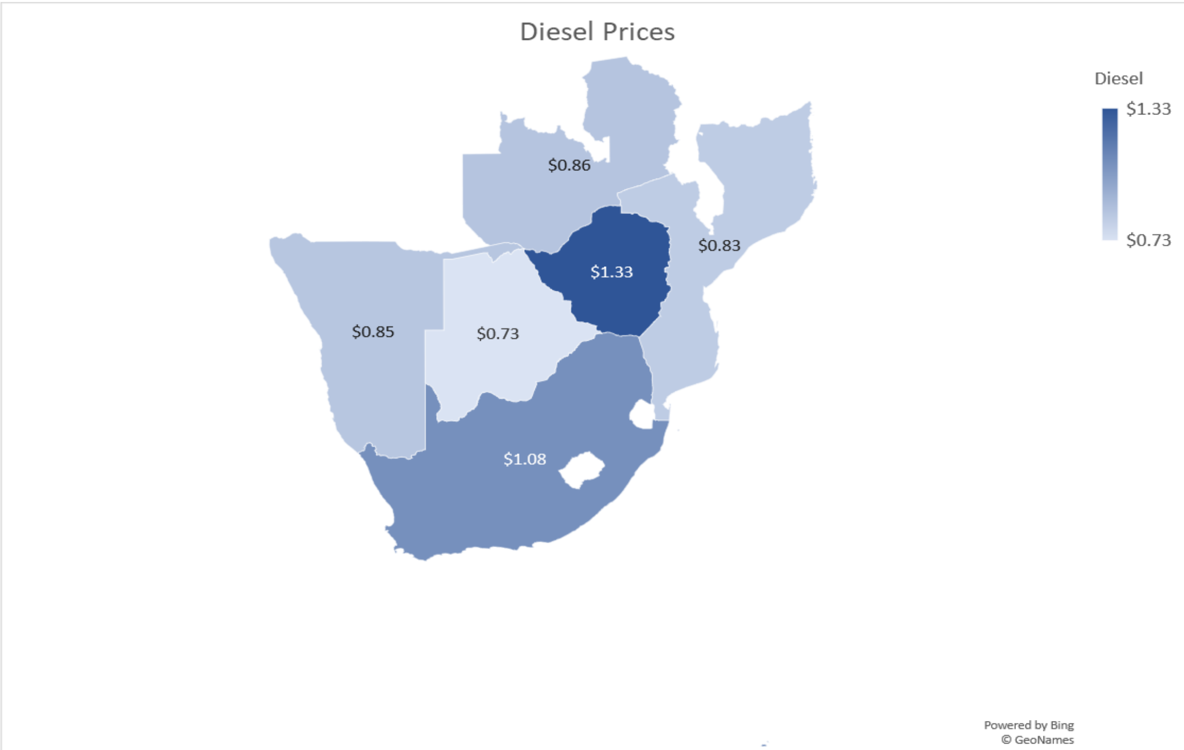
Several factors account for the high fuel cost. In particular higher duties and levies take a high toll. In this regard Zimbabweans have to pay for: i. Petroleum Importers' Levy at USD 0.05 per litre; ii. Excise at USD 0.30 per litre; iii. Carbon tax; iv. ZINARA Road Levy; v. NOCZIM Debt redemption; vi. Strategic reserve; vii. Cost of ethanol (due to mandatory blending requirements); and viii. Dealers' margins.

There have been similar increases witnessed in other countries too and oil prices have also been on an upward trajectory, since the easing of lockdown regulations. For example, Brent crude oil closed 2020 at USD 51.80 per barrel and has since surged 19.98% to USD 62.15 as at 5 April 2021. This suggest that oil price trend is correcting to its pre-Covid level. The consequence of which is a subdued increase in domestic fuel prices, judging by the trend this year. Unfortunately, no similar benefits were enjoyed during the complete lockdown period when oil prices went as down as trading at negative USD37 per barrel on 20 April 2020.

Figure 1: Diesel Prices in Selected SADC Countries as of 29 March 2021

[1] www.tizim.org/2021/01/corruption-perceptions-index-2020/

[2] https://www.theindependent.co.zw/2021/04/01/praz-proposes-strict-tender-processes/



Source: GlobalPetrolPrices.com

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