ZIMCODD

ZIMBABWE COALITION ON DEBT AND DEVELOPMENT

WEEKLY REVIEW

01 JUNE 2021

ABOUT ZIMCODD:

The Zimbabwe Coalition on Debt and Development (ZIMCODD) is a socio – economic justice coalition established in February 2000 to facilitate citizens` involvement in making pro–people public policy. ZIMCODD views indebtedness, the unfair global trade regime and lack of democratic people–centred economic governance as root causes of the socio – economic crises in Zimbabwe and the world at large.

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

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Weekly Dashboard

Forex Auction Weighted Rate

Week (18.05.2021)	**Week (26.05.2021)**
ZWL84.6494 per USD1	ZWL84.7259 per USD1

Month-on-Month Inflation

April 1.58 May 2.54

Consumer Price Index

April 2,803.57 May 2,874.85

Food Poverty line For 1 Person

April $4,099.95 May $ 4,139.10

Covid-19 Cases

Week (18.05.2021)	**Week (30.05.2021)**
Positive cases 38 664	**Positive cases** 38 944
Recovered 36 435	**Recovered** 36 591
Deaths 1 586	**Deaths** 1 594

COVID -19 Vaccinations

First Vaccination
31/05/21
1 000 000

National Recovery Rate 94%

1. Contents

1. COVID-19 Resource Tracker Issue No.58

Overview

The COVID-19 Resource tracker is a ZIMCODD initiative to keep track of all resources pledged, received and expended 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 for the allocation and utilisation of COVID-19 resources. The tracker is updated on a weekly.

Overall

Total Pledges = US$842,221,689; Honoured Pledges = $635,474,503; Amount Spent = $519,305,028

For the week ending 27 May 2021:

Total Pledges = US$250,000; Honoured Pledges =US$-; Amount Spent = US$-

For more information on the COVID-19 resource trucker visit www.zimcodd.org/covid-resource-tracker/

2. An analysis of Statutory Instrument 127 of 2021 from a social and economic justice perspective

On the 27th of May 2021, the government of Zimbabwe published Statutory Instrument 127 of 2021 (SI 127 of 2021) which sets out the offences (referred to as civil infringements) and penalties associated with the infringement of the Exchange Control Act [Chapter 22:05]. The SI comes against the background of runaway parallel market foreign exchange rates of around **US$1: ZW$120** against the average weighted official exchange rate of **US$1: ZW$ 84.7259** as at 26 May 2021. Below is a summary of some of the foreign exchange offences set out in the instrument;

i. **Sell of goods at an exchange rate above the stipulated official exchange rate**

   It is now illegal for businesses to sell, display or offer goods and services at an exchange rate above the official exchange rate. Offering discounts for payments in foreign currency to encourage payments in foreign currency is prohibited. This means that no businesses is allowed to sell goods or services at a parallel market rate price.

ii. **Selling goods and services exclusively in USD**

Service providers are prohibited to sell goods and services exclusively in foreign currency unless authorised by law. This means that there are certain authorised businesses who are allowed to exclusively sell goods and services in foreign currency and the rest are compelled to accept all payments in Zimbabwean Dollar only.

iii. **Issuance of receipts in Zimbabwean Dollar for payments made in foreign currency**

Business operators are now prohibited to issue receipts in Zimbabwean Dollar for goods or services purchased in foreign currency. Therefore, if a product or service has been purchased in foreign currency, the service provider should issue a receipt in the currency a purchase was made.

iv. **Banks liable for lack of due diligence**

SI 127 of 2021 provides that financial institutions are liable for the mistakes or incorrectness of information submitted by their customers during an application for foreign currency. In the event that the information is misrepresented or incorrect, the bank will be liable to pay a fixed penalty of the amount of ZW$ 5 million.

An analysis of the provisions from a social and economic justice perspective

The publication of SI 127 of 2021 in general can be seen as the government's reactionary and desperate way of dealing with the surging inflation fuelled by parallel market foreign exchange rates. The basic explanation to this is that the official exchange rate is unrealistic and does not speak to the existing market forces and expectations. Due to the acute foreign currency shortages the government is currently faced with; the government is trying by all means to compel the market to comply with the unrealistic official foreign exchange rate which strengthens and gives unrealistic value of the local currency to the United States Dollar.

The need for businesses to apply for authorisation for the exclusive selling of goods and services in foreign currency breeds economic inequalities between the business communities in Zimbabwe. Given the political economic nature of the policy landscape in Zimbabwe, it is high probable that only those politically exposed businesses will be authorised for exclusive trade in foreign currency. Therefore, those without political connections can be shunned out despite their eligibility. Furthermore, Zimbabwe's public sector is characterised by systemic corruption where authorisations can be made because public office bearers are benefitting from the process.

According to the SI, the civil penalty or punishment for the following offences; sell of goods at an exchange rate above the stipulated official exchange rate; issuance of receipts in Zimbabwean Dollar for payments made in foreign currency; and unauthorised sale of goods and services exclusively in USD attracts a fixed penalty of ZW$50,000 fine or an amount equivalent to the value of the foreign currency charged for the goods or services in question. In as far as the penalty charge might be deterrent to small and medium enterprises, the bigger question remains, 'to what extent is the fine deterrent enough for big business?' in the case of big businesses, the ZW$50, 000 is "peanuts" to part ways with compared to the huge profits they would have made. How then did the government arrive at such a figure? It would have made economic sense if penalties could be determined by the size of the business and not imposing a blanket penalty charge which can only restrain small businesses.

On another note, there is no guarantee that SI 127 of 2021 will be successfully implemented. History has it that legal provisions in Zimbabwe suffers from non-compliance and ultimately lack of implementation in many cases due to lack of enforcement capacity, design loopholes or weak incentives for compliance. Reference can be made to the dismal failure of Statutory Instrument 142 of 2019 where the government abandoned the multi-currency regime and prescribed a mono currency regime premised on strengthening the Zimbabwean dollar in a bid to curb parallel market activities influencing surging inflation. Despite the existence of SI 142, parallel market thrived and inflation rose to unprecedented levels. Statutory Instrument 127 of 2021 might also suffer the same fate given that the macroeconomic fundamentals which boost public and business confidence are not in place.

The historical occurrences in Zimbabwe's macroeconomic environment have shown that speculation usually accompany policy announcements like SI 127 of 2021. Given the provisions made to control the exchange rate distortions, there is a high likelihood that speculation can cause artificial shortages of goods and services which Zimbabwe do not have the capacity to produce massively as a country. It's a probability that service providers will blame the crisis to shortage of foreign currency for imports. This might deprive ordinary citizens' access to basic life necessities and in the event that the goods are made available, they might be charged at exorbitant prices which might be beyond the reach of many given the rising levels of poverty.

Recommendations:

1. The government of Zimbabwe should come up with a flexible official foreign exchange rate that speaks to the market realities.
2. There is need for the government to consider pegging civil penalty charges depending on the size of business which would have infringed the provisions of SI 127 of 2021 rather than providing a blanket penalty charge of ZW$50,000 which might not be deterrent enough for unscrupulous big businesses.
3. There is an urgent need for the government of Zimbabwe to restore public confidence in the monetary policy regime to deal with speculation by both businesses and the general public.
4. The government should come up with mechanisms to weed out corruption in application of foreign currency processes for businesses which seek authorisation for exclusive trading in foreign currency.

3. Who Gets What, When and How: Understanding the Politics of Public Resource Management in Zimbabwe?

In the 1930s, an American political scientist by the name Harold Lasswell defined politics as a competition about who gets what, when and how. For Lasswell the core of politics in developed democratic nations "rivets around the money - around the rate of taxation and utilization of collected money"[1]. This definition resonates with David Easton who regarded politics as the "authoritative allocation of values". Values in this regard refers to resources although in Easton`s view it was broad to include ideas and philosophies. To this end, it is clear that the administration of public resources is shrouded in politics despite the fact that this might be detrimental to national development and growth. This narrative presents the reality of the Zimbabwean public resource management and can be substantiated by the government`s move to purchase "35 new off-road double cab Toyota vehicles for top bureaucrats in the Home Affairs Ministry" which will cost at least "US$ 1 million"[2] at a time when the same ministry "terminated a tender to install advanced border control system to enhance security". Zimbabwe has porous borders and currently the Mozambique crisis is intensifying, Zimbabwe`s proximity to Mozambique requires that it strengthen its boarders to defend its territorial integrity and sovereignty in line with the principles of international law. Nonetheless, this is not the first time that the government has used the sacred cow model in determining how to use public resources. Scared cow model refers to the use of wholesome populist policies configured to advance political expediency. Last week the government gave 18 Isuzu double cab cars to chiefs this is despite the fact that Zimbabwe had already recorded the B.1.617.2 variant which is associated

[1] Harold Laswell. (1950). *Politics: Who Gets What, When and How*, New York, P Smith

[2] https://www.theindependent.co.zw/2021/05/28/ministry-to-splurge-us1m-on-cars/

with the third wave that is regarded as more lethal. Instead of channelling that money to reinforce the health infrastructure the government deemed it fit to purchase cars.

An orthographic projection of how Zimbabwe uses public resources testifies to the fact that public resources are used for political expedience rather than for national growth and development. At a time when COVID-19 is still hovering upon Zimbabwe and the world at large, the government saw it fit to concentrate on consolidating power for the upcoming elections rather than rejuvenating the livelihoods of the marginalized and vulnerable communities. Hypothetically, if the government had used the supposed US$ 1 million that has been reserved for cars for the bureaucrats only and not to mention that which was spend on the 18 cars given to chiefs. It could have purchased 200 000 doses of Sinopharm at US$ 5 each and 30,303 doses of Sinovac at US$ 30 each. Zimbabwe is currently experiencing water challenges with local authorities failing to provide safe and clean water to communities' proper utilization of resources would have culminated in the drilling of 666 boreholes. In line with the NDS1 ambition to build decent houses for Zimbabweans the money is enough for the construction of 40 low income houses at US$ 25 000 each. Zimstats released new economic statistics on the 26th of May for the month of May 2021. It noted that food poverty line for one person had increased from ZWL $ 4,099.95 in April to ZWL $ 4,139.10 in May coupled with a month-on-month inflation which has increased from 1.58 % in April to 2.54% in May. The increase on month-on-month inflation and food poverty line for one person is not being met by an increase in government cushioning allowance. This is detrimental to the ordinary Zimbabwean who is still recovering from the shocks induced by COVID-19. To this end, the government needs to re-orient its public resource management and desist from administering public resources for political expediency. A robust needs assessment on all government projects should be carried out before any project is funded, only projects that are people-centred and respond to people`s needs in helping them overcome COVID-19 aftermath should be given priority.

4. Economic Recovery A Dream or A Reality?

Since late 1990s Zimbabwe has been experiencing a decrease in economic growth attributed to a myriad of conflicting and complementing factors. A number of economic blue prints and strategies have been implemented but to no avail. Policy researches by academia, international boards and civil society organisations have all pointed out to policy inconsistence, lack of supporting legal, regulatory and institutional frameworks, lack of political will, unrealistic objectives, financial constraints and corruption to mention but a few are the reason for policy failure. Some of the notable policies that become the center of debate in the academia spheres over their impact in respect to success or failure are the Economic Structural Adjustment Programme (ESAP) 1990-1995, Zimbabwe Programme for Economic and Social Transformation (ZIMPREST) 1996-2000, Millennium Economic Recovery Programme (MERP) 2001-2003, The National, Economic Revival (NERP), Short Term Emergency Recovery Programme (STERP), Zimbabwe Agenda For Sustainable Socio-Economic Transformation (ZIMASSET) 2013-2018 and the Transitional Stabilisation Programme (TSP) 2018-2020. These policies generated a lot of sentiments, facts and numerous recommendations were advanced. Interestingly on the 26th of May 2021, the government of Zimbabwe admits to policy failure claiming that it wanted to use the National Development Strategy 1 (NDS1) as an example of its determination to change and learn from its mistakes[3]. According to Minister Mutsvangwa:

> *"Noting that previous economic blueprints, albeit with similar targets, have fallen short on implementation, NDS 1 is premised on the need for bold and transformative measures that will ensure achievement of the country's vision of an empowered and prosperous upper middle-income society by 2030,[4]"*

[3] https://www.newsday.co.zw/2021/05/govt-admits-policy-failures/

[4] https://www.newsday.co.zw/2021/05/govt-admits-policy-failures/

Although in strategic management and policy implementation problem identification is the nerve-center for policy recalibration and success the Zimbabwean case is different. This can be projected by government`s inconsistency in the legal and regulatory frameworks which are supposed to be sustaining the economic blue prints. Although, one of the objectives of the NDS is to strengthen macroeconomic stability, characterised by low and stable inflation, as well as exchange rate stability. The introduction of SI 127 of 2021 is a threat to economic recovery. This is because it will take back the country to the economics of regulation while other nations are focusing on the implementation of post-COVID-19 recovery plans. Zimbabwe continues to perambulate on the path of economics of experimentation instead of focusing on value addition, production and curbing illicit financial flows. Even so, it is critical to note that, the Forex Auction System failed the day it was established as the role of the Reserve Bank is not to allocate foreign currency but to implement monetary policies that enhance balance of payment which effectively means boasting exports and reduce imports. SI 127 of 2021 is bad law and bad economics as retailers will simply stop pricing in US$ thus effectively ending the partial dollarisation era. This can be substantiated by one of the biggest supermarkets, OK supermarket which has already stopped taking US$[5] and inflating RTGs prices to match the parallel market rate. Currency traders on the informal market are already back in business this is because the RBZ cannot command an artificial exchange rate obtaining in a controlled auction system. The truth is that many informal businesses are getting their foreign currency on the parallel market at US$ 1- ZWL 125. Therefore, it is against this background that Zimbabwe`s economic recovery remains a dream.

5. Government debt bleeds Kwekwe

Public service delivery has become problematic in Kwekwe as Kwekwe City Council is said to be failing to effectively discharge its mandate because of outstanding rates which are estimated at more than ZW$600 million[6]. The mayor for the city of Kwekwe, Madam Angelina Kasipo reported that the government, commerce and industry were the biggest debtors owing ZW$405, 181,744 while residents accounted for ZW$258,251,115. These revelations are coming at a time when the country's economy is heavily hamstrung by the COVID-19 pandemic with its fiscal legroom heavily constrained. It is also coming at a time when the city of Kwekwe is under a lockdown which was effected on the 21st of May 2021 in a bid to contain the malignant Indian variant of the COVID-19 virus. The greatest challenge for the local authority is to deliver viable services. It is imperative to note that in this regard citizens continue to suffer as they will bear government consequences of its failure to honour its debt through poor service delivery.

Another critical point to note is that, from the statistics presented, two-thirds of the debt is owed by government while a 1/3 is being owed by Kwekwe residents. The greatest part of industry is not operational in-fact, closed and cannot even pay its workers. Although these companies are closed, they are still accruing debt. In this quandary, the council is faced with the following binding constraints:

- The council cannot sue the government;
- The council cannot sue a dead industry;
- The council is left with one option which is turning to the people, the residents. However, with the advent of COVID-19 it should be noted that residents' capacity to pay rates has been heavily compromised. At this point, turning to residents will only further plunge citizens in abject poverty.

[5] https://www.techzim.co.zw/2021/05/ok-zimbabwe-has-stopped-receiving-usd-payments-because-of-si-127/

[6] https://www.newsday.co.zw/2021/05/govt-debt-bleeds-kwekwe/

The million-dollar question is how can local authorities wean themselves from the debt trap? The solution to this situation lies at three strategic levels viz:

(1) The local authority should exercise its mandate – the point at which local authorities can recover is upon liquidation. As such, the council should retain its role in issuing industry an approval to liquidate only after industry clears its arrears.
(2) Resource Allocation – it is of paramount importance to look into how the government allocates its finances amidst competing and multi-layered social, economic and political challenges including debt repayment. There is therefore need to engage the government on revisiting how money is allocated to local authorities through the national budget. ZIMCODD recommends:
    - UCAZ as a representative body of urban local authorities which is mandated to represent and protect the interests of urban councils should engage the government representing the financial challenges constraining the local authorities. UCAZ should therefore collate statistics in relation to what government departments are owing to local authorities & present a composite position to the Ministry of Finance with a clear recommendation that the monies through the national budget, must be remitted to the Ministry of Local Government and not via various government departments as per the status quo, which should in turn give that money to local authorities.
(3) Resource Mobilization at local authority level – local authorities should explore innovative ways of engaging the private sector in municipal service provision. Practically this means:
    - Exploring ways of engaging the private sector in municipal service provision such as Public Private Partnerships. To this effect, a cost benefit analysis is necessary to factor in social and economic costs vis-à-vis benefits to the local authority.
    - Exploring municipal bonds as an avenue of financing strategic investments in local authorities. Local authorities should not borrow on the open market where cash is expensive. Instead, leverage on land, which is one of the strategic assets local authorities have, sell and use those municipal bonds to develop the land and sell it as developed land.

6. Peoples Demands on DEBT

This is a continuation of the demands to the government and parliament of Zimbabwe from the one presented in the previous weekly review:

1. Both parliament and the government of Zimbabwe have a role to play in ensuring that the country's debt levels remain sustainable and within the constitutional and statutory limits governing public debt management. Citizens therefore reiterate that as a signatory to the SADC Protocol on Finance and Investment, Zimbabwe is also bound by the SADC debt sustainability threshold. Annex 2 of the protocol compels member states to maintain public debt to GDP ratio to levels at or below 60 %. Despite this provision, Zimbabwe set its debt to GDP ratio at 70% in violation of the regional benchmark.
2. Despite having such comprehensive national and regional frameworks, it suffices to say that compliance with the legislative provisions, in particular relating to loan acquisition and debt management, has generally been low. Citizens are therefore worried that it is not a secret that in Zimbabwe, the bulk of Zimbabwe's national debt was and continues to be acquired without Parliamentary approval or even following the constitutional and statutory frameworks. Citizens demand that their Parliament takes to task the government over its debt management policy.

3. Citizens demand that for there to be transparent, effective and accountable debt and loan management in Zimbabwe, Parliament as empowered by section 300 of the Zimbabwean constitution, make final decisions on government borrowing and state guarantees, Limits of State borrowing, public debt and guarantees. This will ensure transparent debt management in the country.
4. The citizens of Zimbabwe have high expectations of the country's mineral resources which can contribute over 68% of the national export receipts to transform their material conditions. Therefore, as the country explores options for settling the national debt, citizens reiterate that the use of mineral resources on debt repayments should not be an option either.
5. Zimbabwean citizens strongly discourages the government from either exploiting natural resources for debt repayment or mortgaging mineral resources for future debts to avoid worsening the resource curse.