WEEKLY REVIEW

30 NOVEMBER 2021

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ZIMCODD
ZIMBABWE COALITION ON DEBT & DEVELOPMENT

WEEKLY DASHBOARD

FOREX AUCTION WEIGHTED RATE

WEEK	16.11.2021	23.11.2021
RATES PER US$1	ZWL105.6965	ZWL105. 6684

CONSUMER PRICE INDEX

MONTH	SEPTEMBER	OCTOBER
	3, 342.02	3,555.90
BLENDED	-	-

INFLATION:

MONTH	SEPTEMBER	OCTOBER
M.O.M.	4.7%	6.4%
Y.O.Y.	51.55%	54.49%

COVID-19 CASES

WEEK	22.11.2021	29.11.2021
POSITIVE	133 647	134 226
RECOVERED	128 465	128 703
DEATHS	4 699	4 706

NATIONAL RECOVERY RATE

WEEK	(14.11.21)	(14.11. 21)
	96%	96%

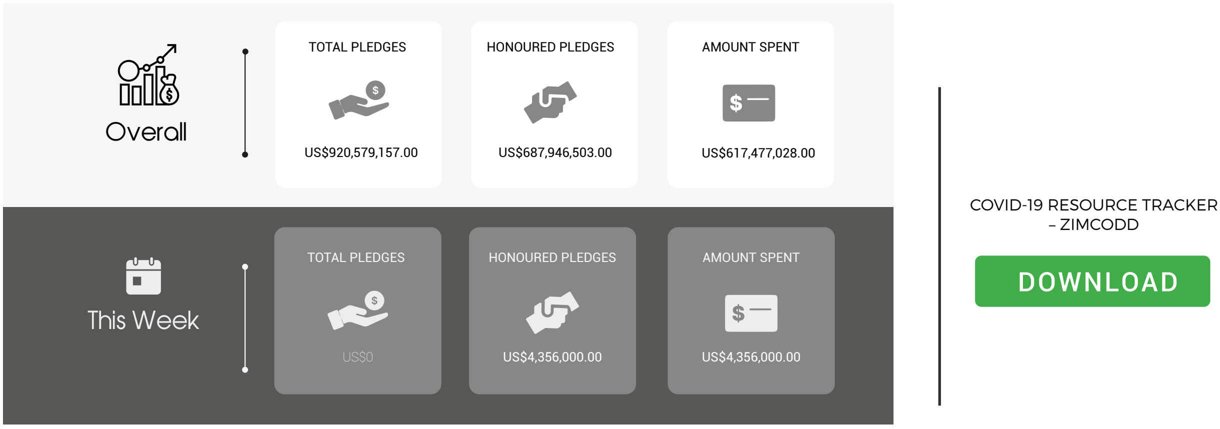
ABOUT ZIMCODD

The Zimbabwe Coalition on Debt & Development (ZIMCODD) is a social & economic justice Coalition established in February 2000 to facilitate citizens involvement in pro-people public policy. ZIMCODD views indebtedness, the unfair global trabe regime & lack of democratic people-centred economic governance as the root cause of socio-economic crises in zimbabwe and the world at large

CONTENT

1. COVID–19 RESOURCE TRACKER ISSUE NO. 81

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 basis.



2. 2022 NATIONAL BUDGET DOES NOT DO ENOUGH TO STABILIZE THE ECONOMY

The 2022 National Budget envision an economy growing by 5.5% in 2022, a moderation from 7.8% that is expected for 2021. This growth rate is premised on the conditions that exchange rate and inflation will slow down, COVID-19 cases rescinding, better rainfall patterns, and higher commodity prices and commodity demand among other assumptions.

The Minister of Finance indicated that the macroeconomic fundamentals are strong, therefore, the economy is strong. However, the assertions of the Treasury Chief do not stand up to scrutiny. Typically, in a stable economy, the local currency is valuable as it performs both an investment (store of value) function and a transactional (medium of exchange) function. Subsequently, prices of goods and services will be low to encourage aggregate spending in the economy. Also, there is a sustainable fiscal balance (financial position) to dampen inflationary impacts that emanate from monetization of budget deficits as well as averting the crowding-out of private investment that comes from excessive domestic borrowing. The external position (Balance of Payments) of the country should be favorable, buttressed by robust domestic production alongside value addition and beneficiation. In short, a stable economy has relatively better standards of living and is resilient to both endogenous and exogenous factors.

The realities on the ground show that the economy is still fragile and highly susceptible even to smaller shocks. Although GDP is expected to grow by 7.8% in 2021, a growth rate that lacks a human face is meaningless. Despite the so-called recovery, poverty levels are burgeoning driven by the rising cost of living. Since its official introduction in 2019, the local currency is yet to find a stable path with parallel premiums -the percentage difference between official and parallel rates- now hovering above 90% against the best practice (threshold) of 25%. The massive depreciation of ZW$ is fueling prices. The latest statistics show November 2021 annual inflation at 58.4% up from 54.5% recorded in October 2021. The government continues to shift goalposts on its inflation projections, now at a range of between 52%-58% by year-end from the 10% projected in the 2021 Monetary Policy Statement released in February.

The auction market in its current form is inefficient as it is failing to discover the true ZW$ price and failing to attract other new players. The RBZ has emerged as the sole supplier of forex when it should otherwise largely operate as a referee in the forex exchange market, not as a player. As such, the bank is most of the time overwhelmed by forex demand leading to a rising forex backlog. It will be hardly possible to strike a clearing price when the Bank goes for weeks allocating forex that is not available. Apart from the auction, prices are being fueled by a high money supply level in the economy that was largely triggered by the GMB's over ZW$60 billion purchase of grains from this year's bumper harvest.

Apart from the monetary side, the economy is battling perennial electricity shortages. Electricity is a key industrial enabler; its shortage is an albatross to business activity (production). The country's main thermal stations have outlived their lifespan hence frequent breakdowns. Also, the energy mix is not efficiently diversified thus exposing the country to climate change shocks. Further, there are existing inefficient policies subduing economic activity. For instance, exporters are being forced to involuntarily liquidate 40% of their export earnings in exchange for an overvalued Zimbabwean dollar. This is detrimental to the economy as it increases underhand dealings like smuggling as well as non-banking of incomes earned (cash transactions).

A perpetual loss-making trend by State-Owned Enterprises (SOEs) and parastatals is also constraining the fiscus thus disturbing economic stability. The continued emerging of variants of the COVID-19 virus risks returning countries to hard lockdowns. And given the status quo, the Treasury which over-relies on taxation will suffer a blow as economic activity slows down. Although being ranked as one of the countries running successful vaccination programmes in Africa, the country is way off its herd immunity target of 60% by year-end. There will be also pressure for booster shots for those who have been vaccinated for periods exceeding 6months as is the case now in developed nations. More so, Zimbabwe is an agrarian economy that relies on rainfalls as it has only 10% of irrigable land. There is a need for more investment in climate-smart agriculture to fight the impacts of climate change on this sector.

Many macroeconomic challenges are bedeviling the economy which requires a strong policy response from the government. Nevertheless, a little was offered in the 2022 budget. The auction market should be reformed as it is failing to achieve its objectives of stabilizing the ZW$ and prices. Every year the government proposes the need to reform SOEs including their ownership model to increase efficiency. However, this remains a pie in the sky as progress is moving at a slow space.

Due to its structural make-up, Zimbabwe is depending on commodities, and they are being exported in their raw form. Generally, prices of commodities are too volatile because they are susceptible to global fluctuations. Therefore, the government should put forward policies that encourage value addition and beneficiation of these minerals to increase export earnings as well as employment of local people. Many other issues need immediate attention such as unsustainable public debt, electricity supply, fuel costs, improving the quality of public institutions, reducing corruption, public service delivery, and responsible budgeting. Therefore, with all these challenges in place, any growth that may ensue will be short-lived and fragile.

3. TAX JUSTICE ISSUES AND THE 2022 NATIONAL BUDGET

Several tax justice issues in the 2022 National Budget require reconsideration by the Parliament before the budget can be passed.

Even though the Zimbabwe Revenue Authority (ZIMRA) surpassed set revenue targets in 2021, the Minister still introduced new tax burdens on citizens. Zimbabwe is listed as one of the most taxed countries in the world. This scuttles business confidence and retards Foreign Direct Investment (FDI). A review of the taxation regime to accommodate the corporate sector and to ease the tax burden on under-remunerated citizens is long overdue.

The 2022 National Budget retained the 2% Money Transfer Tax (MTT) for all electronic money transfers – a double tax that directly affects the poor and suppresses aggregate demand in the economy. Shockingly, the MTT now constitutes 10% of the total tax revenues, a sign of a tight tax base. This tax certainly militates against broader financial inclusion particularly given the cost of transferring money across various platforms. Either the government could scrap the MTT or at least reduce it as a way of relieving citizens.

The 2022 National Budget proposes to increase withholding tax from 10% to 30% in 2022. This disproportionately impacts SMEs and the informal sector as they will lose earnings and overall growth potential. SMEs and the informal sector are the sources of employment for the generality of Zimbabweans and deserve to be supported by the government.

The 30% withholding tax implies that prices for services and goods shall be inflated with costs passed on to consumers in order to cover up for the extra tax thereby increasing the costs of living.

The budget also introduced a US$50 tax on new cellphones redeemable once proof of duty payment is availed. This tax is anti-poor and negatively affects the digitization of the economy. It contributes to the financial exclusion of the poor who rely on mobile devices for electronic mobile transactions. Also, the tax perpetuates inequality in the education sector as reduced access to phones due to the tax reduces the uptake of online learning by the disadvantaged. Online learning remains the new-norm with respect to learning in the COVID-19 era. The cellphone tax also shows that Zimbabwe is failing to embrace the inclusive Digital Era Governance (DEG) and leans towards the traditional Public Administration and New Public Management thereby infusing structural impediments to the fourth industrial revolution which is sustained by DEG.

The 2022 National Budget moved the minimum taxable income from Z$10 000 to Z$25 000 against the current poverty datum line of about Z$45 000. This pauperizes civil servants as their salaries cannot match their monthly living costs. Aligning the minimum taxable income to the Poverty Datum Line (PDL) is vital to ensure a minimum standard of living amongst Civil Servants especially as inflation worsens. Unfortunately, the budget is silent about such inflation adjustments thereby exposing civil servants to negative welfare benefits as inflation continues to soar. Given the continued civil service unrest owing to poor salaries, the best move for government is to pay USD salaries as per the record set in the payment of a USD bonus. Other fiscal incentives to cushion civil servants from the impoverishing salaries are urgently required as part of a robust and inclusive social security system.

The 2022 National budget also introduced a tax of USD Two cents for both petrol and diesel, an additional cost on the already expensive Zimbabwean fuel. Fuel is sold in the USD, a currency that is not earned by the majority of Zimbabwean workers, thereby exposing citizens to the extra duty of sourcing USD to acquire fuel. High fuel costs have an inflationary effect – in that the extra fuel cost is passed onto the customer through increased prices thereby reducing the welfare of citizens.

Compulsory liquidation of either domestic USD sales and export proceeds through the foreign currency Auction Market is a tax on SMEs which require some reprieve for them to grow and reach set earnings thresholds before they can be justly taxed. SMEs create jobs and require this support. Also, the 40% and 20% compulsory liquidation of USD export earnings and domestic USD sales defines an imminent loss of value for corporates. This tax has inadvertently contributed to a rise in smuggling and understatement of exports as a way of circumventing the punitive taxes. Government must therefore reconsider these liquidation thresholds if not, scrap them off totally, as the tax favors importers at the expense of exporters – an injustice that disincentives local productivity and stifles export oriented growth.

Finally, it is also worth noting the government seems keen to collect USD taxes compared to Z$. The low confidence associated with Z$ calls for currency reforms that can introduce a stable currency supportive of value storage and promote savings.

4. SOCIAL PROTECTION PROVISIONS IN THE 2022 NATIONAL BUDGET

Social protection remains, the bedrock of human capital development, national inclusivity and growth. Social protection is at the core of the government`s fiduciary responsibilities. The modern State is premised on the concept of social contract by which the State derives legitimacy and autonomy from the people and in return is obliged to create inclusive policies that cater for and subsides for the mass. To this end, an effective social protection system is one that is calibrated to ameliorate social and economic inequality as well as to facilitate the full enjoyment of human rights.

In 2022 the government will use US$ 80 million of the SDR funds towards support for the Agriculture Productive Social Protection Scheme for rural and peri-urban households (US$80 million). In Zimbabwe social protection covers the following:

- The Basic Education Assistance Module (BEAM).
- The Harmonized Social Cash Transfer Programmes;
- Drought Mitigation Programme;
- The Health Assistance Programme;
- The Child Protection Services;
- The support of the elderly and people living with disabilities.

Child Protection: According to the 2022 national budget, BEAM assisted 446 844 vulnerable children with school fees culminating in an outlay of ZWL 2 billion. This was also complimented by development partners who assisted 175 592 children. These figures fall short of the 4 million children who are presently in need of child protection services. The educational inequality gap will likely extend if greater support is not deployed towards child protection measures. In 2022 the government doubled the outlay figure culminating in an allocation of ZWL 4.1 billion. Hypothetically, if one is to estimate the number of the children who got assistance last year and multiply by two equals to 893 688 children a figure way below the half of the 4 million children in need of assistance. Therefore, the government needs to prioritise education with the intent to bridge educational inequality and harness optimum human capital development for national growth.

Food Deficit Mitigation Strategy: Between January to September 2021, the government provided food assistance to 735 455 households with grain worth approximately ZWL$1.6 billion in rural areas. In urban areas the government managed to support 50 986 households under the Cash for Cereal programme at a cost of ZWL$252 million. Although government's efforts are commendable, it is critical to note that, the COVID-19 pandemic contributed to increased levels of extreme poverty, from 1.3 million from 6.6 million in 2019[1] alone. To this end, the government`s assistance was just a drop in an ocean as majority of Zimbabwean rural and urban areas relied on the assistance of local and international organisations. An addition of those who benefited from the government's rural and urban assistance program culminates to 786 441 which is 10% of those in extreme poverty. Therefore, given the above scenario, the proposed ZWL 2 billion will not be sufficient to cater for all those who are in extreme poverty as it is just 174 800 000 that was added.

Sustainable Livelihoods: The ZWL 160 million allocated in the 2022 National Budget for sustainable livelihoods is inadequate considering that approximately 7.9 million Zimbabweans are living in extreme poverty. Furthermore, there is need for transparency and accountability in the allocation of the money as the government is on record for abuse of public funds.

Harmonised Social Cash Transfers: In 2021, the government made cash transfers amounting to ZWL 875 million to 70 000 households in 26 districts. The harmonised social cash transfers were made via mobile money with the intention of helping those in extreme poverty. However, the harmonised cash transfers were found wanting with respect to beneficiary selection model. The beneficiary selection model depends on a "sophisticated algorithm" which critiques have argued fails to locate many children in need. Therefore, for 2022 the government announced its ambition to increase 10 districts from its current 26 districts to benefit approximately 97 000 households. This is to be complemented by an increase of ZWL 1,125,000,000. However, inflation distortion will likely reduce the material impact of this increased support.

Health Assistance: The 2022 national budget acknowledges that ZWL 70 million disbursed towards 12 000 individuals in 2021 between January and September through Assisted Medical Treatment Orders. To this end, the failure of the government to state the 2022 allocation figure is a cause of concern as worries are that the government might just allocate the same figure. The findings of the Auditor-General Report on COVID-19 aggravates the situation as the report notes that the entire public sector is in a deplorable state with infrastructural backlog that militates against optimum health delivery.

Gender mainstreaming: The mainstream gender sensitive expenditures, with 70% benefiting women, had an allocation of ZWL 335.8 billion which is 36.21% of the total budget. These expenditures cover education, health, rural development, economic empowerment and social protection programmes. This will be complemented by fiscal measures that are tailor-made to benefit women and other disadvantaged groups. The measures include upward review of tax-free thresholds for PAYE, the 2% Intermediary Transaction Tax (IMT) and the Youth Employment Credits, as well as awarding of the 2021 annual bonus in foreign currency. However, in as much it appears glamorous, the government has a track record of proposing good methods which in turn are not implemented. In addition, the bundling, of the expenditure by the government is meant to water-down calls for women empowerment from various stakeholders as the number appears to be too big. There is need for a robust expenditure monitoring framework that unravels all the expenditure granular details.

1. Pandemic worsens extreme poverty in Zimbabwe: report - Xinhua | English.news.cn (xinhuanet.com)

5. THE NATIONAL DEBT QUESTION CONTINUES TO OVERSHADOW THE NATIONAL

Zimbabwe is facing severe challenges in mobilizing resources domestically to finance development programmes and social service delivery due to many factors that include burgeoning debt, institutionalized corruption, and a volatile macroeconomic environment among others. The country is presently in debt distress – a situation whereby a country is unable to fulfill its financial obligations and prompting the need for debt restructuring.

According to the latest statistics released in the 2022 National Budget, Zimbabwe's total Public and Publicly Guaranteed debt (PPG) as of September 2021 amounts to US$13.7 billion, a 28% growth from US$10.7 billion recorded as of December 2020. The PPG comprises external debt of US$13.2 billion and domestic debt of US$532 million. However, PPG excludes contingent liabilities like the US$3.5 billion compensation to former commercial farmers who were affected by the Land Reform Programme of the early 2000s. If included, this amount will push the debt threshold to over 90% of national output (GDP).

According to the Statement on Public Debt accompanying the Budget, the astronomical growth in debt was due to the government assumption of the RBZ balance sheet debt amounting to US$4.9 billion comprising of US$3.3 billion legacy debt/blocked funds, US$1.4 billion guaranteed debt, and US$72 million non-guaranteed debt. The Bank has become an instrument for authorities to borrow without limit knowing that the debt will be assumed by the public. In 2015, about US$221 million of RBZ debt was assumed under the RBZ Debt Assumption Act, the debt that benefited only a few connected individuals especially under the farm Mechanization Scheme of the Gono era. One would wonder how the borrowed loans were spent on infrastructure (health, road, ICT, human, etc.) continue to dilapidate, inflation is ballooning and poverty levels rising. The latest World Bank report released in June 2021 estimates that about 49% of a 15 million population is living in extreme poverty, a number that is expected to surge if no meaningful social safety nets are put in place.

Collateralized borrowing is exacerbating the debt situation. After IMF concluded its Article IV Mission to Zimbabwe, the Fund categorically indicated that it is not extending fresh lending to Zimbabwe because of debt distress. Statistics show that about US$6.6 billion of the total PPG are arrears, an indication of Zimbabwe's failure to settle its financial obligations when they fall due. As such, the country can no longer easily access concessionary borrowing until the arrears are cleared hence it is now resorting to collateralized borrowing from countries like China.

These resource-backed loans are greatly fueling unsustainable resource extraction in Zimbabwe where mining companies are displacing people from their cultural lands, mining in public lands such as Hwange National Park, causing land degradation and environmental pollution among other heinous actions. Ironically, the accrued loans are used to fund vanity projects such as upgrading airports, construction of buildings, and a VVIP hospital. This shows misplaced priorities from the government. For instance, people in Matebeleland particularly the City of Bulawayo are facing perennial water challenges yet the Zambezi Water Project which is dubbed "the only permanent solution" to water shortages was mooted during the colonial era. However, 41 years into independence, the project's progress is moving at a tortoise speed as the government was being seized with other white elephant projects which are out of touch of the majority poor.

There is also a lack of debt transparency in Zimbabwe as the government is sometimes having to be challenged in the Courts to disclose debt information. For example, the government had signed various loans and guarantee agreements with Afreximbank without disclosing the terms and conditions of the loans to the national parliament as required by Section 300 of the Constitution. Further, Section 18 (2) of the Public Debt Management Act stipulates that

“Within sixty days after the government has concluded a loan or guarantee agreement, the Minister must cause its terms to be published by notice in the Gazette”. In 2019, the High Court then ordered the Minister of Finance to publish all loans accrued from Afreximbank. It was established that RBZ had borrowed a total of US$1.4 billion between December 2017 and December 2019 to which the Minister gave impartial and unsatisfactory explanations to justify the borrowing such as “importation strategic commodities and supporting currency reforms”.

The foregoing shows that until an independent national debt audit is undertaken, the country’s debt will continue to be shrouded in secrecy. An audit is key to inform people about the scale and nature of their country’s debts, which for developing countries like Zimbabwe are often not transparently publicized. Also, debt audit functions as a building block to a popular discussion about the legitimacy of certain debts and whether they should be repaid or not. There is also a need to devise and stick to a clear debt management strategy.

A debt strategy outlines how the government intends to borrow and manage its debt to achieve a portfolio that reflects its cost and risk preferences while meeting financing needs. The domestic debt maturity profile reflects the short-term nature of the domestic debt securities, as investors are preferring short-term instruments to hedge against inflationary pressures. The 2022 domestic debt maturity profile indicates that ZWL$31.3 billion (81%) of outstanding debt securities is maturing in 2022, with a corresponding interest bill of ZWL$5.1 billion. This will constrain the Treasury which is already facing a very limited fiscal space and reduced capacity to provide public service delivery. In 2020, the government spent more on debt servicing than what it originally set aside for social welfare.

6. COVID-19 FOURTH WAVE, IS ZIMBABWE PREPARED

The new COVID-19 variant called Omicron that was detected in South Africa has sent shock waves across the globe. The new wave is reminiscent of the malignant and inimical effects of the first wave which culminated in the incapacitation of many health systems in Europe with Italy being at the apex. Such bad memories, explain in part the panic and ban that has been placed on all airplanes coming from Southern Africa. This is because the Omicron wave is considered to be more contagious and lethal than that the first, second and third wave. Many are justifiably worried that Zimbabwe might not be prepared for the fourth wave and is incapacitated to handle the fourth wave and its impact. This is despite the fact that currently the national recovery rate is at 94%.

To date, Zimbabwe has received approximately 20 million vaccines through several interventions and has reserved ZWL 350 million (US$ 3.3[2] million) for vaccines in the 2022 national budget. This is to be reinforced by the contingency fund which has been set up to the tune of 10% of the national budget.

It is critical to embrace the qualitative aspect of preparedness and explore all critical facets of organizational capacity for effective pandemic management. A good example is how the Urban Mass Transportation System (UMTS) will likely impede efforts to fight against the pandemic. This is because ZUPCO does not have the capacity to provide sufficient transport for all citizens as it has 900 buses and 1150 commuter omnibuses and a few NRZ trains to serve a commuting public numbering in millions.

An under-developed public transport system will result in people failing to adhere to social distance and disregard the 100 people limit of gathering in public spaces as people will be crowded in queues waiting for transport. The situation is further aggravated by similar levels of under-preparedness observable in the public health system. According to the Auditor-General's Report, the Zimbabwean health sector is characterized by infrastructure gaps, dilapidating equipment, brain drain and demotivated workforce. Against this backdrop the million-dollar question is, "is Zimbabwe ready for the fourth wave?"

2. Using the official ruling exchange rate which is 105

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