ZIMCODD

ZIMBABWE COALITION ON DEBT AND DEVELOPMENT

WEEKLY REVIEW

25 JANUARY 2022

ABOUT ZIMCODD:

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

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

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Weekly Dashboard

Forex Auction Weighted Rate

Week (11.01.2021)	Week (18.01.2022)
ZWL108. 6660 per USD1	ZWL112. 8228 per USD1

Consumer Price Index

November	December
2,374.24	3,977.46

Blended Consumer Price Index

November	December
131.64	134.35

Month on Month Inflation

November	December
5.76%	5.76%

Year on Year Inflation

November	December
58.40%	60.74%

Covid-19 Cases

	Week (16.01.2022)	Week (23.01.2022)
Positive cases	226 078	228 254
Recovered	207 102	213 299
Deaths	5 247	5294

National Recovery Rate

Week (16.01.22)	Week (23.01. 22)
92%	93%

Contents

1. 'Behavioural Economics' and Taming Inflation in Zimbabwe

Government has enacted a number of currency reforms in the past decade including measures such as the well-received basket of currencies; the introduction of the bond notes and coins as an export incentive; to the abolition of the basket of currencies in 2019 leading to the introduction of the Zimbabwean dollar. The same period had several exchange rate regimes such as the 1:1 (*gedye gedye*) and the interbank rate. These measures have morphed into the present-day introduction of a foreign exchange auction market – a flawed exchange regime that has perpetuated price distortions, manipulation of the auction market, wild parallel market premiums and incessant inflation. The introduction of the bond notes and coins, the 1:1, and the return to a 'floating' exchange rate caused losses and loss of value to the populace to an extent that the market lost confidence in the local currency. Prior to 2009, savings were lost during the 2008 hyperinflation era and no currency reform has managed to preserve the lost value to Zimbabwean consumers. Those memories are still fresh in the minds of many. Behavioral Economics helps us to understand why most workers, economic agents and institutions alike avoid keeping the ZWL as it loses value and instead prefer the USD as a store of value. Additionally, no matter the currency reforms enacted by the government, the USD will remain intact as a sanctuary for storing value in a volatile economic context. This is why, even the government itself is opting for USD payments for most of its services, shunning the ZWL – a sign that the local currency is not attractive. It might take stringent measures for the behavior of Zimbabweans to be favourable to the ZWL. Key amongst these are radical measures to transform the economy towards inclusive, job creating economic growth alongside economic governance reforms to restore confidence in existing macro-economic fundamentals.

2. Enough to Unfruitful RBZ Meetings with Industry.

In the week under review, the Reserve Bank of Zimbabwe (RBZ) met with captains of industry to discuss ways to curb inflation growth and exchange rate depreciation. This was a follow-up to the meeting held on October 2021 concerning the same subject. The parallel market premiums that were hoovering under 25% in early January 2021 went on to close the year above 90%. Currently, a US dollar (US$) is trading at an average of between ZW$180 - ZW$210 in the parallel market against ZW$112 in the official (auction) market. The parties to the meeting agreed to increase the use of local currency in business transactions to increase its value. According to RBZ Governor John Mangudya, "66% of the total money in the banking system is the local currency. Even the duty revenue from ZIMRA is about 30% local currency".[1]

One of the strategies that authorities will undertake to increase demand for local currency is by ensuring the availability of goods and services traded in local currency at most times to reduce reliance on the US$. The meeting also discussed ways to increase locally produced goods. "We also discussed how to increase locally manufactured goods" added the RBZ Chief. The bank further highlighted that it would continue with the investigation against businesses that are

[1] https://www.sundaymail.co.zw/rbz-moves-to-tackle-price-stability-exchange-rate

manipulating local currency while ensuring sufficient forex on the auction market to support the Zimbabwe dollar.

Most Zimbabwean households have found themselves trapped in a cost-of-living crisis as already exorbitant prices of basic goods and services continue to rise. It is difficult to expect ZW$ depreciation and inflation to slow down. In many ways, the assumptions that underpinned the discussion between RBZ and industry were illusive. For instance, the parties are of the view that the macroeconomic environment was stable over the last 12 months. Yet during that time the RBZ was forced to review its annual inflation projections three times from 10% expected as per the February 2021 Monetary Policy Statement to between 25-35% and finally to between 52-58%. Despite these upwards reviews, the Bank failed to meet its target as inflation went on to close 2021 at 60.7% with monthly outturn at over 5%. The same can be said for the local currency that saw parallel premiums climbing over 90% way above the generally accepted global thresholds of at most 25%. Poverty levels increased in 2021 due to the negative effects of COVID-19 restrictions on the informal sector, a sector estimated to constitute over 60% of the total economy and largely employ women and youths, a group constituting the greater portion of the total population. In light of this, it is difficult to label a country experiencing staggering parallel premiums and the highest inflation in the region as stable.

Formal businesses and connected individuals view the economy as stable because they are enjoying easy access to overvalued ZW$ on the auction market unlike the general public and informal businesses that relies on the expensive black market. This has created massive arbitrage opportunities -buying from low markets and selling in the high markets to make riskless profits- a move that worsens currency instability. Despite getting forex from the auction, formal businesses are also benchmarking their local prices against the black-market rate leading to punitive ZW$ prices. The majority of the population earns in fragile local currency and the real value of salaries have remained sticky upwards in 2021. Further, other companies accessing forex from the auction are externalizing it hence subduing the exchange rate stabilizing effect of forex allotments on the auction.[2] As highlighted in the last week's ZIMCODD Weekly Review, there is a need to completely revamp the auction market to ensure that all economic agents have easy access to the stable US$. It is imperative for the Bank to run auction transactions transparently with respect to the disclosure of forex bidders, bidding how much, and at what bid rates. This is key in deterring corruption such as favouritism and insider trading. In its current form, the auction is designed to benefit corporates at the expense of citizens. Therefore, as long authorities continue to maintain this inefficient auction, it will be difficult to stabilize the ZW$.

It is also highly unlikely that the moral suasion being pursued by the Bank will bring positive results. Given the frequent volatile economic episodes experienced since 1980, the government has shown that it cannot be trusted at its word. The memories of the 2007/8 record of hyperinflation for a country in peacetime continue to hound Zimbabweans. Those with their investments and savings entirely in local currency filed for bankruptcy as the value was completely wiped away. Yet to recover from hyperinflationary shock, the RBZ's policy inconsistencies and failed currency reforms of 2019 injured the public's confidence in ZW$ and trust in monetary authorities. Consequently, consumer and business confidence in the local currency will not come from persuasion but through progressive reforms such as long-term currency reform.

[2] https://www.theindependent.co.zw/2022/01/07/rogues-wreak-havoc-on-forex-auction-rbz/

3. A Mining Vision without a Human Face

The government is targeting an achievement of a US$12 billion mining sector by 2023, a 344.4% jump from US$2.7 billion estimated in 2017. Over the years, the mining sector has emerged as the key sector as it now contributes over 60% to export receipts, employs many youths in artisanal mining, and constitutes at least 12% of national output/Gross Domestic Product (GDP). Broadly, GDP is the total market value of goods and services produced within the boundaries of a country in a specified period usually a year. The mining sector is also key to the attainment of Zimbabwe's Vision 2030 -becoming an upper-middle-income country with a per capita income of at least US$3,500. Preliminary statistics from the Ministry of Mines and Mining Development show that in 2021, mining brought in foreign currency to the tune of US$6 billion.

The exponential growth of export earnings from the mining sector last year came at the back of increased re-opening of the global economy particularly major economies like the US, China, and the European Union (EU) driven by rigorous COVID-19 vaccination campaigns. This helped to mount global demand pressure for minerals like platinum. It is estimated that one-fifth of everything humans use either contains platinum or requires platinum in its manufacture.[3] Again, green energy minerals like lithium and nickel are benefiting from the current global seismic shift to clean energy away from fossil fuels like crude oil and coal. There are other precious minerals like gold that are benefiting from the uncertainties around the COVID-19 pandemic and global inflation wave gaining momentum. For starters, gold is a safe-haven asset during periods of unforeseen contingencies, a characteristic it derives from its long history of use as a currency. The mining output particularly in the gold sector has also benefited from increased investments that saw closed mines like Shamva Mine re-opening.

Nevertheless, the citizens are not feeling the exponential growth of mining activities as they are facing an excruciating economic environment characterized by currency instability, skyrocketing prices, and extreme poverty. This is so because the mining sector activities are baptized in full-scale secrecy especially concerning the awarding of mining contracts, mining rights and claims, the conclusion of private mining deals, and accounting of mining revenues. Mining ventures like Great Dyke Investments[4] are receiving unsustainable tax incentives in a country that is facing a deadly global COVID-19 pandemic amid an extremely limited fiscal space. These multinational corporates are architects of tax avoidance techniques like transfer pricing[5] -legal methods of minimizing income tax owed. The government also admits that it is losing at least US$100 million per month through gold smuggling alone.[6] Further, since 2019, the national budget has set aside funds for enrolling an electronic cadastre system but there is no progress to date. A cadastral system is vital in the identification and delineating of individual claims of all mine owners serving as a basis for the awarding of titles or patents. This system is crucial in reducing corruption by cutting down double allocation disputes.

Despite rampant corruption in the mining sector, the government announced that it has invested about US$75 million in Kuvimba Mining House last year to fund the compensation of pensioners who were affected by the 2019 failed currency reforms.[7] However, this is a new revelation since the 2021 national budget has not explicitly revealed that the government will invest in mining

[3] https://www.totalmateria.com/page.aspx?ID=CheckArticle&site=ktn&NM=237
[4] http://www.zela.org/zelas-analysis-of-great-dyke-investment-s-5-year-income-tax-exemption/
[5] https://www.investopedia.com/terms/t/transfer-pricing.asp
[6] https://www.chronicle.co.zw/us100-million-gold-smuggled-out-of-zimbabwe/
[7] http://www.zimtreasury.gov.zw/index.php?option=com_phocadownload&view=category&id=65&Itemid=790

shares to pay pensioners.[8] By this move, the government has shown that it is tolerating and perpetrating mining corruption. To date, the real owners of the Kuvimba Mining House remain a mystery. Initially, the government announced that it owns 100% of the empire before it announced that it received a donation of shares in this mining house to pay for compensation to former commercial farmers.[9] In 2020, the finance minister announced that he used sophisticated algorithms in determining who should benefit from COVID-19 social cash transfers.[10] These are the same algorithms that are now being used in paying victims of failed currency reforms, raising questions around budget transparency in Zimbabwe. Communities continue to lose their ancestral lands paving way for unsustainable mining activities yet the benefits to affected host communities are close to zero. As such, until there is transparency in mining, the benefits will only be for the rich and the "connected" few. The majority poor will continue to face environmental degradation, pollution, farmer-miner conflicts, as well as human-wildlife conflicts. This is a trend that a progressive government should fight to avert. There is a need for stable, inclusive & sustainable economic growth and development.

4. Mega-deals a Spectre that never stops haunting Zimbabwe

In Zimbabwe, the term mega-deal has become synonymous with political gimmicks calibrated to strengthen the iron grip of power, of the incumbent and to entice the electorate. The first and second republic all ride on the euphoria of so-called mega-deals which only become popular towards elections, and little comes out of them despite the growing unsustainable debt. According to the American Enterprise Institute, Chinese financing in Zimbabwe has sharply grown over the last five years. In 2010, the figure stood at US$ 100 million. In 2015 that figure reached US$ 5.79 billion, after passing the one billion mark in 2012. However, the growing investments have not translated into any meaningful development that have benefited the citizens owing it to myriad dynamics that perpetuates exploitation and extreme poverty which include but not limited to rent-seeking, economies of affection corruption, poor negotiations by the government as well as Chinese economic and political muscle (geopolitics). The only thing that has been tangible and affected the citizens is the growing external debt which is now hovering at US $ 13.2 billion. It is against this background that citizens and various pressure groups have questioned the utility of mega-deals in bringing about societal transformation and development. There is also a possibility of exaggeration from the governments' side, as was the case of the construction of a US $ 7 billion tourism city. In April 2018, The Herald published a story on its front page titled "*Chinese company to build $7bn tourism city*" which was later retracted following clarification that it was not a mega-deal but a series of memorandums of understanding which are statements of intent and nowhere near an actual commercial transaction, especially one of that scale and magnitude.

The government last week signed the Citrus mega-deal, which according to the government will revive the agricultural sector. However, despite the glamorous details of the mega-deal, it must be treated with caution and skepticism as previous mega-deals have little progress to show. This is because in 2012 the government announced that China Railway was going to inject US$1.2 billion, to resuscitate the National Railways of Zimbabwe (NRZ) by developing a high-speed train which was to operate between Harare and Bulawayo. Ten years later, transport crisis has become the order of the day. There is no high-speed route to talk about between Harare and Bulawayo. The NRZ is actually failing to pay its employees and has become a haven of inefficiency,

[8] http://www.zimtreasury.gov.zw/index.php?option=com_phocadownload&view=category&id=65&Itemid=790
[9] https://www.bloombergquint.com/business/zimbabwe-says-it-was-given-kuvimba-stake-to-compensate-farmers
[10] http://www.zimtreasury.gov.zw/index.php?option=com_phocadownload&view=category&id=65&Itemid=790

ineffectiveness and a conduit pipe of revenue leakages thereby relies on the government to bail it out every now and then.

The National Matebeleland Zambezi Water Supply Project is another testament of too-little-to show of the mega-deals. In 2012, the government announced that it had secured a mega-deal that will see the project being financed to the tune of US$ 1.2 billion. Ten years' later, project has not yet been finalized, attesting to the unfruitfulness of the deal that the government signed. Nevertheless, it is critical to note that, the Zambezi Water Project can now be classified as a wicked project, borrowing from Webber and Rittle wicked problem concept. The reasoning being that the project is now more than a century old having been started by the former colonial administration in 1912.

The ZISCO steel deal is another mega-deal that haunts the Zimbabwean citizens. This is because in 2017 the government announced that it had secured US$2 billion deal with Tian Li a Hong Kong subsidiary of R&F of China for the refurbishment of ZISCO steel. In a bid, to entice Tian Li, the government took over the US$494 million debt of ZISCO. This meant that the citizens were now going to pay for the debt which they did not directly benefit from. The then Minister of Industry Mike Bimha noted that in the next eighteen months ZISCO was going to produce a million tons of steel and create jobs. However, it is now ten years and the only thing that has come out of that deal is the US$ 494 million debt that was heaped upon the impoverished citizens. An orthographic projection into the deal shows that, the government was not being truthful to its citizens. This is because in 2017 China had shut down some of its steel plants because it had too much steel production capacity. China produces better quality steel at a lower cost, it defies logic for it to invest in expensive steel production abroad while it can produce cheap steel at home.

Moreover, misery and unhappiness are at the core of resource rich communities as they continue to languish in poverty while their resources benefit the minority. The government has systematically marginalized resource rich communities not only in economic governance but in the distribution of their resources. This is because the government enters opaque "mega-deals" with multinational corporations and foreign governments without engaging the citizens. The worst part is that some of these mega deals are as a result of resource-backed loans which do not even benefit the citizens. To this end, it is against the principle of devolution which seeks to empower local communities in economic governance, established by a myriad of policies. These include the: Constitution of Zimbabwe (2013), Provincial Councils and Administration Act (29:11), Urban Councils Act (29:15), Rural District Councils Act (29:13), 2022 National Budget Statement, National Development Strategy 1 (NDS1) (2021-2025) and Devolution and Decentralisation Policy.

Despite the existence of a myriad of legislatives that speak to empowerment of local communities. Resource-rich communities have not only been excluded in decision making but are being evacuated from their ancestral land to pave way for Chinese mining companies. The latest in being the villagers from Muchesu, ward 12 in Binga who are being forced to relocate east of Binga to pave way for Monaf a Chinese company without adequate and sufficient compensation. The relocation of mining communities without adequate compensation has induced extreme poverty as it affects the villagers means of production. A good example is that of Chiadzwa villagers who were relocated to Arda Transau without adequate compensation.

To add on to their woes, villagers in Chiadzwa are not benefiting from their diamonds as mining companies are simply extracting without giving back to the community. Chiadzwa is famous for the missing US$15 billion. In 2016 the then president R.G Mugabe noted that Zimbabwe lost approximately US$15 billion in revenue due to corruption and foreign exploitation in the diamond sector[11]. Since then, nothing was done to guarantee transparency and accountability in the mining sector and Zimbabwe has lost approximately US$ 32.179 billion to illicit financial flows in the last two decades[12]. This has huge ramifications not only on mining communities but on national development and growth. Chiadzwa is in ward 30, under Mutare rural and there are 25 villages all which depend on one clinic which is in Chiadzwa village. For example, those from Zikani and Rombe village will have to walk for approximately 8 kilometers to access healthcare. A key informant interviewed, noted that some of the villages in Chiadzwa no longer practice farming as the land was given to mining companies. Chiadzwa is among the most vulnerable communities in Mutare rural. It is ironic that it relies on donations, yet it has vast deposits of diamond. This is propelled by the exploitative nature of the mining companies that are mining there.

Like Chiadzwa, Mutoko faces the same predicament. Mutoko is known for vast granite deposits. Chinese and other foreign national companies have been mining granite in Mutoko for too long but their mining activities have not translated to community development. In an interview with the News Hawks, Chief Mutoko lamented that:

> *"We are not benefitting anything from these miners, they are just taking away our precious stones. We want them to develop the community. We have clinics and schools which are under-developed, and they have to look after those developments[13]"*

The above assertion by Chief Mutoko points to the exploitative nature of mining companies that are operating in Mutoko. The situation is further aggravated by the fact that the mining companies are not only destroying the ecosystem of Mutoko by their unstainable mining activities in which they are just taking down trees and leaving mining pits without filling them which puts humans and livestock at risk. There are also not even "t*aking care of roads they used to transport black granite*". Mutoko has 43 schools which include 25 primary schools and 18 secondary schools. Among the 25 primary schools, 19 do not have clean water thus making basic education difficult for the children in Mutoko.

However, not all mega-deals have failed to register relative progress. The Chinese Power Deal saw the successful expansion of the Kariba South, TelOne deal which led to the nationwide convergence, Parliament construction and Victoria Falls Airport expansion project to mention but a few. However, the project implementation process was embedded with anomalies as the government failed to produce granular expenditure details that would have helped in enhancing transparency and accountability. Also, the power crisis was not solved, and Zimbabwe is still experiencing constant power cuts, on internet data Zimbabwe has the most expensive data in

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11 www.news24.com/amp/news24/africa/zimbabwe/missing-15bn-diamond-revenue-fears-mugabe-might-spill-the-beans-20180604

12 Chikono, M. (2020) *Zimbabwe losses US$ 32bn due to illicit financial flows*. [Online]. Available at http://www.thezimbabwenewslive.com/zimbabwe-loses-us32bn-due-to-illicit-financial-flows/#:~:text=ZIMBABWE%20has%20lost%20in%20excess%20of%20US%2432%2C179%20billion,for%20the%20whole%20of%20the%20southern%20African%20region. [accessed on 13 June 2021].

13 https://thenewshawks.com/granite-miners-anger-mutoko-communities/

the region yet TelOne received US$ 98 million for the upgrade of its infrastructure. Thus, the failure to experience affordable and robust service delivery after claims of successful completion of the project by the government attest to the inefficacy of mega-deals in solving the public service delivery question.

5. SI 16 of 2022: Back to where we started

On Tuesday 14 December 2021, President Mnangagwa through Statutory Instrument (herein SI, 273 of 2021) launched the country's e-passport system aimed at enhancing security by preventing fraud and theft. He asserted that the move is in line with the government's vision of a modernized economy through the application of advanced information and communication technology systems. The SI further gave valid passports an expiration date, by stating that valid passports will remain in use until they stop being acceptable internationally by 31 December 2023. The SI read as follows:

"The fees payable for obtaining one passport shall be: —
(a) ordinary e-passport USD$100.00
(b) emergency or express e-passport USD$200,00
A normal fee of USD $20,00, shall be charged for every passport application fee processed at any CBZ Bank Branch Countrywide."

Previously, ordinary passport fees were pegged at US$53, urgent passports (3 working days) sat at US$253 and express urgent passports (24 hours) at US$318. At US$53, the ordinary passport was unattainable as it was not being produced and so those who required a passport and were privileged enough to afford one had to take the "express" route. In 2021, it was estimated that 7.9 million Zimbabweans are living in extreme poverty, therefore not only are the passport fees too high for the average Zimbabwean, but the fees are also only payable in United States dollars whereas the average Zimbabwean earns in ZWL. Over and above this, many people were up in arms about the US$20,00 application fee to be processed at CBZ bank. Citizens raised concerns about whether the process for choosing a bank had gone to tender and if not, why? CBZ bank is linked to business tycoon Kuda Tagwirei, who is a major shareholder at CBZ and has used his privileged access to the President to strike up corrupt lucrative partnerships.

The government buckled under pressure as people continued to raise concerns over CBZ receiving passport application fees and introduced SI 3 of 2022, which repealed SI 273 of 2021 and scrapped the application fee in its entirety as well as excluded the clause on the expiration of valid passports. The SI read:

"The fees payable for obtaining one's passport shall be—
(a) passport issued on non-emergency basis USD$100,00
(b) emergency passport USD$200,00"

This week the government back peddled and gazetted SI 16 of 2022, which repealed SI 3 of 2022, in which we saw the reintroduction of the US$20 fee, only this time, the provision read as follows:

"The following additional fee shall be charged for every electronically readable passport application to obtain a quick response (QR) code USD$20."

Again, the government has demonstrated a lack of concern for its citizens by charging citizens' exorbitant prices to obtain their Constitutionally enshrined right. Under the Constitution, section 66 guarantees freedom of movement and residence and stipulates that every Zimbabwean citizen has the right to a passport or other travel documents as well as the right to leave Zimbabwe. The issue of the non-attainable Zimbabwean passport remains a major concern as in previous weeks many videos were circulating on social media of Zimbabweans attempting to illegally cross the border into South Africa through the Limpopo River. The images and videos were a sad sight as many were captured drowning and a large number of Zimbabweans were arrested in South Africa for crossing the border undocumented. ZIMCODD calls on government to take appropriate measures in addressing the needs of Zimbabweans and to comply with its mandate in promoting, protecting and fulfilling the rights of the Zimbabwean people.