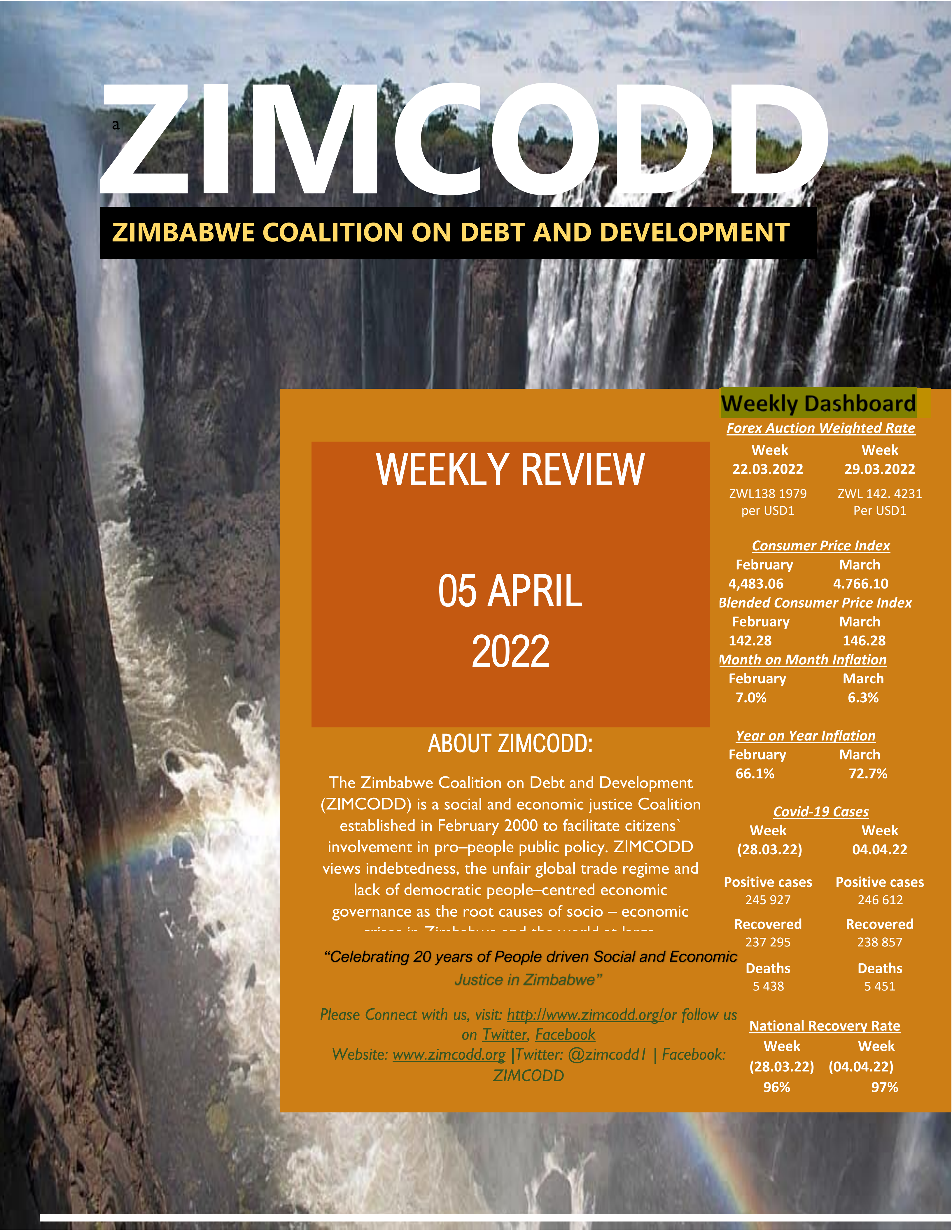

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ZIMCODD

ZIMBABWE COALITION ON DEBT AND DEVELOPMENT

WEEKLY REVIEW

05 APRIL 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 22.03.2022	Week 29.03.2022
ZWL138 1979 per USD1	ZWL 142. 4231 Per USD1

Consumer Price Index

February	March
4,483.06	4.766.10

Blended Consumer Price Index

February	March
142.28	146.28

Month on Month Inflation

February	March
7.0%	6.3%

Year on Year Inflation

February	March
66.1%	72.7%

Covid-19 Cases

Week (28.03.22)	Week 04.04.22
Positive cases 245 927	**Positive cases** 246 612
Recovered 237 295	**Recovered** 238 857
Deaths 5 438	**Deaths** 5 451

National Recovery Rate

Week (28.03.22)	Week (04.04.22)
96%	97%

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1. Monetary Policy Committee resolutions: Will they work?

The Monetary Policy Committee (MPC) of the Reserve Bank of Zimbabwe (RBZ) met on the 1st of April 2022 to deliberate on the developments in the domestic and international macroeconomic environment, particularly the effects of deteriorating global geopolitical factors exacerbated by the Russia-Ukraine war.

According to a statement released by RBZ, the MPC reiterated the need to clamp down on inflation growth by putting in place additional policy measures to curb activity in the parallel exchange rate market and help reduce mounting inflationary pressures.

The MPC resolved to review the RBZ's benchmark policy (interest) rate from 60% to 80% per year. This policy rate was last revised upwards in October 2021 when it increased from 40% to 60% and was maintained before the April 2022 MPC meeting. The benchmark policy rate is a key lending rate of the central bank of a country. It is a monetary policy instrument that is used to regulate the availability, cost, and use of money and credit. A low policy rate regime is considered conducive to economic growth even though it generally fuels inflation. As such, to tame inflationary growth, the central bank hikes the interest rate it charges to commercial banks for using its accommodation window. This, in turn, reduces loans extended by banks to the private sector (reduced market liquidity) and also discourages borrowing by banks for speculative purposes. The intuition behind this is inspired by Monetarism, for example the economic perspective that inflation is always and everywhere a monetary phenomenon.

However, the high cost of borrowing will also feed into the industrial cost of production thus fuelling inflation pressures. Zimbabwe already lacks deep domestic financial markets to support the industry in large part due to financial repression mechanisms like capital controls. External financing is also limited as the country has poor credit standing as a result of previous debt defaults and accumulated arrears. Blocked funds to the tune of US$3.8 billion accrued at the peak of forex shortages in 2019 when the RBZ failed to facilitate payments for goods and services supplied by foreign firms also affects the competitiveness of domestic firms as they struggle to source direly needed supplies and spare parts produced abroad. These burgeoning costs of borrowing are happening at a time when global supply chains have been severely disrupted by the ongoing Russia-Ukraine war. It therefore remains questionable whether the move by RBZ to hike its policy rate to 80% will stabilize price inflation given the status quo.

“Further liberalising the foreign exchange market by allowing banks to conduct foreign exchange transactions of up to US$1 000 under an arrangement agreed upon between banks and the Bank and in terms of which individuals with free funds and entities/corporates holding foreign exchange in their foreign currency accounts (after meeting the statutory surrender requirements) shall be free to sell foreign currency to banks on a willing-buyer-willing-seller basis” reads the RBZ statement. Nevertheless, the foregoing statement is ambiguous with deliberate intent as it is not clear at which exchange rate the banks and individuals will be trading their free funds. On one hand, one can argue that the monetary authority will allow traders to use the auction determined rate but bypass the cumbersome procedures of accessing forex from the auction. On the other hand, one can argue that there is going to be another interbank rate where economic agents trade their free funds. Hence, from an outsider's perspective, this is a mere admission by RBZ that forex demand on the auction market is outweighing supply as holders of free funds are not willing to trade at an overvalued auction rate. In simple terms, the auction market system is not working as seen by widening parallel market exchange rate premia.

Furthermore, the MPC reviewed upwards the minimum deposit rates for ZWL savings and time deposits from 10% and 20% per year to 12.5% and 25% respectively. By hiking the interest rate earned on these deposits, the RBZ is seeking to encourage ZWL savings by increasing the opportunity cost of holding cash. However, given the huge gap between official and parallel market exchange rate, it is not attractive for one to save in a fragile local currency. As such, people would prefer to buy hard currencies with ZWL earnings for value preservation.

The quarterly reserve money growth which was targeted at 7.5% through the first half of 2022 was revised downwards by the MPC to 5%. Reserve money is the base level of money supply comprising currency and commercial bank deposits at the central bank. It is popularly known as the central bank’s money because it is injected directly and at the discretion of the central bank. Economists view reserve money as the most price-sensitive level of the money supply as its components largely function as a medium of exchange than a store of value.

Generally, to avert unsustainable price growth, the quantity of money in circulation should move in tandem with economic activity in the real sector. To achieve this, Treasury should eliminate quasi-fiscal activities which are leading to excessive liquidity (ZWL) growth in the economy. Quasi-fiscal activities are mostly associated with countries following populism, a policy discourse associated with command economics, and a fixed exchange rate regime. However, this is unsustainable for Zimbabwe as it lacks adequate reserves to support and manage its exchange rate during periods of speculative attacks.

While the move to reduce ZWL in circulation is commendable, it is going to be a mammoth task for RBZ to achieve its liquidity targets in 2022. The country has received erratic rainfall patterns that have affected the 2021/22 cropping season. To cushion citizens, the Bank will be forced to buy forex to facilitate the importation of food and other commodities, a process that will increase the supply of ZWL. The country also faces a prolonged election season that is historically associated with unsustainable fiscal spending.

From the foregoing analysis, one can conclude that the RBZ faces the difficult task of stabilizing the currency and prices. Some of the measures put forward by MPC like the exorbitant policy rate are inflation-inducing given the unsustainable level of public debt above 85% of GDP and a mounting global inflation wave fuelling imported inflation. Therefore, there is a need to expedite the refinement of the current auction system to ensure increased bidding transparency. Also, there is a need for increased central bank independence to allow the Bank to reign in excessive money supply growth. Complimentary fiscal policy measures to reduce taxes, especially on energy imports like fuel, and offer targeted subsidies to cushion the vulnerable groups are also needed to relax the impacts of sustained inflationary pressures. Finally, there is a need for authorities to accumulate reserves through eliminating public corruption and illicit financial flows prejudicing the country billions of dollars monthly particularly in the mining sector.

2. An analysis of SDR spending by the government

The government of Zimbabwe received nearly US$1billion worth of Special Drawing Rights (SDR) funds from the International Monetary Fund as part of the general SDR allocation pegged at US$650 billion to 190 member countries. The SDR allocations were meant to support the sustainable recovery of the global economy through the building of confidence and providing the growing global need for reserves. Although the IMF did not set conditions on the SDR funds, the Minister of Finance and Economic Development and the Governor of the Reserve Bank highlighted that the SDR funds were to be used to stabilize the local currency, support social interventions such as vulnerable groups, education, and health as well as infrastructure development. They also professed the support for the productive sector, that is, industry, agriculture, mining, infrastructure (roads and housing), improving foreign currency reserves, contingent funds, and macro-economic stability.

The recent update by the Minister of Finance and Economic Development on how the SDR funds have been deployed is the first of its kind thus the table below presents the allocations made and a commendation on the sincerity of the same.

Date of Drawdown	Amount	Use	Commendation
7 Oct 2021	17.5 m	Sinopharm Vaccine	The number of vaccines bought and the price per vaccine not provided.
	300 000	Syringes	The source and price per syringe not provided.
	800 000	Ambulances	The number of ambulances purchased was not provided, same as the source and price per ambulance.
	Total 35.6m	Health	The total does not tally the breakdown provided, creating a difference of US$17 million.
7 Oct 2021	16.95m	Agriculture	The use, suppliers and prices are not provided.
7 Oct 2021	17.7m	Transport	The actual use of the 17.7m in the transport not provided and if suppliers were involved, they are not provided.

9 Dec 2021	70m	Reserves and currency stabilization	The currency has continued to plummet against the greenback and the reserves failed to meet the demand for foreign currency.
2022	35m	Health	There has been any noticeable change in the provision of health services. The actual use was not defined.
	10m	Education	The education sector remains downtrodden and the actual use of the 10m remains unknown.
	30m	Export revolving fund	The targeted sector is not known and how the fund is managed to avoid looting.
	20m	Irrigation equipment	The recipients and manner of choosing them remains unknown and whether recipients are to pay back or not.
	30m	Industry Retooling – Agro-processing etc	Retooling is critical in improving capacity utilization, job creation and expanding exports.
	20m	Infrastructure	Specific projects not defined and the cost per project.

Despite the information gaps in the update provide by the Minister of Finance Economic Development, the disbursement of the SDR funds focused more on the needy sectors, that is the social sector (health and education) as well as the capacitation of the agricultural sector given the climate change challenges. What remains is a granular presentation of the number of units bought especially for ambulances and the un-disclosed use in the transport sector. The publication of the SDR use is a positive step towards transparency and accountability.

3. All Zimbabweans Must Benefit from Mineral Resources

In the week under review, Zimbabwe registered a big milestone in the mining of Platinum Group Minerals (PGMs) with the addition of a South Africa-based company, Tharisa Capital. The company which has increased its shareholding to 66.3% from 26.8% in a US$27 million new shares deal will invest about US$250 million in the first phase of the Karo project.[1] The mine will be developed over the next 24 months to produce 15 000 ounces per annum over 20-year mine life. This is a huge step in the government's quest for a US$12 billion mining sector economy by 2023 with PGMs expected to contribute US$3 billion, second place from gold estimated to generate US$4 billion annually.

Currently, Zimbabwe has 3 PGM producing mines; Zimplats in Chegutu, Unki Mine in Shurugwi, and Mimosa Mine in Zvishavane. According to the World Platinum Investment Council (WPIC), output from these 3 miners rose by 6% from 448 000 ounces in 2020 to 475 000 ounces in 2021 thanks to the processing of semi-finished inventory backlog through South African smelters and refineries. There are also other ongoing PGM projects in Zimbabwe like Bravura Holdings in

[1] https://www.herald.co.zw/tharisa-to-invest-us250m-in-zim/

Selous and Great Dyke Investment (GDI) which is set to become the largest PGM miner capable of 860 000 ounces per annum when fully completed.

PGMs have become one of the top forex generators, contributing about US$1.4 billion to 2021's US$6.3 billion total exports, only US$200 million away from the top earner, gold exports. Earnings from minerals are expected to continue surging this year driven by the ongoing Russia-Ukraine war. Minerals such as copper, lithium, nickel, and aluminium reached all-time highs in March 2022 as fears of shortages in a global economy that is already facing increased mineral demand as it continues with its rebound from the COVID-19 pandemic sent prices rallying. Global producers are still receiving minerals of Russian origin. However, if the UK, EU, or the USA announce sanctions directly targeting these minerals, many producers will be forced to stop orders and suspend pre-existing contracts. The artificial shortages created by the shunning of Russian minerals will keep global mineral commodity prices elevated at least through the first half of the year.

Since 2020, the gold sector has also benefited from increased global uncertainties posed by the COVID-19 pandemic. As a footnote, gold is a safe-haven asset during these times, a characteristic it derives from its long history of use as a store of value and medium of exchange. Before the war, many global central banks were increasing their gold purchases, a move that is likely to continue, thanks to the sanctioning of Russia's US$ denominated foreign currency reserves and the quest by Russia to save its currency from the jaws of Western sanctions by accumulating gold reserves. While the Russia-Ukraine war is reversing the move away from fossil fuels, countries will invest heavily in green energy to reduce their energy dependence and attain energy security. This entails an increased production of green energy in the medium to long-term period thus boosting prices of green-energy supporting minerals like lithium and nickel which are used in the manufacturing of batteries for electric vehicles (EVs).

Zimbabwe boasts significant reserves of these minerals. Hence, the nation is expected to largely benefit from elevated global prices. However, Treasury coffers continue to dwindle in the face of rising global mineral prices as mining revenues are being siphoned through illicit financial flows (IFIs). For instance, the government estimates that it is losing about US$100 million (US$1.2 billion) per month (year) of gold revenues through smuggling. It is also unfortunate that the fewer revenues received by the government are abused, misused, embezzled, and diverted for private gain by public officials with impunity, as indicated yearly by public records from the Auditor-General's audit reports on the Consolidated Revenue Fund and procurement patterns of government ministries, departments, and agencies (MDAs). The continued dragging of the Mines and Minerals Amendment Bill between the corridors of the Legislature and the Executive since 2016 illuminates the embrace of porous mineral resource governance by these authorities. Therefore, there is need for political will and thorough stakeholder engagement to fast-track direly needed amendments to the existing archaic Mines and Minerals Act of 1961. Also, Parliament should give oversight to the private mining investment deals to ensure that they don't only benefit the investor but all stakeholders particularly the mining host communities and marginalized communities of Zimbabwe.

4. The Rejection of the Mines and Minerals Bill

The Mines and Minerals Bill (MMB) which sailed through parliament was rejected by the President and is set to be re-tabled[2]. The President rejected the MMB stating that it was not in alignment with the constitution. However, the President did not specify which section of the MMB was not in alignment with the constitution, thereby making an ambiguous rejection.

Legally, the President is empowered to reject bills, through section 131(6)(b) of the Constitution which stipulates that, the only reason why a President may refuse to sign a bill into law is if he views it to be unconstitutional or in non-alignment with another piece of legislation. In that scenario, he would have to send the Bill back to the national assembly for revision or Constitutional Court so that its constitutionality may be decided.

Assessing the Constitutionality of the Bill

This section examines some of the key provisions in the bill with the intention of determining their constitutionality.

Cadastre system

According to section 14-18 of the MMB, there shall be a cadastre system. A cadastre system is a comprehensive electronic record management and keeping process that accounts for all mining rights and titles. The cadastre is headed by the cadastre registrar who is the Permanent Secretary of Mines. The cadastre system will allow the government to track and examine the utilisation of all mining claims, thus complementing the 'use it or lose it policy'. In this regard, the cadastre system will compliment section 194 of the Zimbabwean Constitution which seeks to promote a culture of good public administration by ensuring transparency and accountability through providing the list of all those who would have been allocated mines. The profiling of all beneficiaries will infuse compliance to operational standards by title holders. It will also be expedient in preventing double allocations, and infusing good corporate governance in mining operations.

The cadastre system further ensures that, mining corporates are obligated to be registered with the Zimbabwe Stock Exchange (ZSE), a positive stride with respect to transparency and accountability. This will help to curtail illicit financial flows as proceeds from the mining industry will be accounted to local authorities. Nevertheless, the cadastre clause overlooks the principle of good governance which calls for separation of powers which is essential in conflict management. The Permanent Secretary of Mines is the Chairperson of the Mining Affair Board (MAB) as well as the registrar of the mining cadastre. Thus, wielding a lot of power in the hands of an individual. It is this clause, that is against the principles of good public administration and also the Public Entities Corporate Governance Act [Chapter 10:31]. Therefore, the section must be aligned with good governance principles. However, this must not take years as other sections of the bill are in alignment with the constitution.

Use it or Lose it Policy

[2] https://www.herald.co.zw/president-rejects-bill-2/amp/#aoh=16490480658665&referrer=https%3A%2F%2Fwww.google.com&amp_tf=From%20%251%24s

Section 401 of the MMB relates to the "use it or lose it" policy. This policy is crafted to ensure comprehensive utilisation of all resources, it is also meant to ensure that the beneficiaries of mining claims have the capacity to undertake mining operations that will in return benefit that nation. As it will stop mining claim holders from prejudicing the country by holding mineral claims for speculative purposes. Thus, holders of mining claims will be forced to undertake mining operations and this will increase resource production and add extensively to revenue generation. The MMB also prescribes that, after every six months claim holders must submit their work plans to the MAB for review - a critical step towards monitoring, transparency and accountability in the financial sector. This is in alignment with Money Laundering and Proceeds of Crime Act [Chap. 9:24].

Curbing mineral leakages

Positive strides to curb mineral leakages are also prescribed in section 27 of the MMB which notes that, "an exclusive prospecting licence shall not entitle the prospector to remove or dispose any mineral except for purpose of having it assayed or for determining its nature and must get permission to do so from the Cadastre Registrar". This will ensure transparency in mining operations. Allegations of mining operations taking place under the guise of exploration have been reported in Zimbabwe, a good example is that of Marange. It is alleged that in 2012 after extensive investigations the government discovered that, Nan Jiang Africa Resource in Devure a Chinese company was already mining diamonds with an exclusive prospecting license. The same allegation was levelled against De-beers diamond company, as it is alleged to have looted diamonds from 1993-2006 under the guise of exploration.

Mineral beneficiation and value addition

According to section 307 (5), the Minister shall initiate or prescribe incentives to promote beneficiation in the country. Value addition and beneficiation is vital in the governance and development structure of the country. It allows the country to tap into vast revenue and potential that is embedded in value addition. The establishment of robust value addition and beneficiation system will culminate in the positive transmutation of the national GDP and job creation. In 2012, the Times of India carried a story which stated that: *"with imports of low-range rough diamonds from Zimbabwe expected to soar, it's going to rain jobs in Surat, the world's largest cutting and polishing centre*". This is because, it was anticipated that Zimbabwean diamonds worth about US$1.5 billion were going to create 600 000 in one province of India. This reflects the scale and magnitude of job transfer that Zimbabwe is losing to India through unprocessed diamonds. Therefore, establishing value chains and beneficiation mechanism will enable Zimbabwe to create jobs and improve conditions for mining-host communities.

Mineral Affairs Board (MAB)

The MMB also accounts for the amendment of the Mining Affairs Board (MAB). This is reflected by Section 6 which intends to amend Section 7 of the Mines and Minerals Act. Section 7 focuses on the composition of the Mining Affairs Board (MAB). The composition of the Board was no longer in tandem with the newly adopted governance structure. Thus, board re-constitution was long overdue as positions such as under-secretary and deputy secretary were no longer in existence. The land reform programme also resulted in the mushrooming of a myriad of farming associations which challenges the dominance of the Commercial Farmers Union which unquestionably had a seat on the Board. Therefore, re-forming the Board is a positive stride given its vital mandate in promoting good governance through oversight in the issuance and management of mining titles. However, the major drawback of this clause is the bills' silence on the quorum. The bill does not have provisions that specifies on the required quorum, it only states that the quorum shall be fixed before the board meeting by the board.

All in all, ZIMCODD notes that, all other sections of the MMB are in harmony with the constitution and legal frameworks of the country except for a clause in the cadastre system that overlooks the principle of good governance that calls for separation of powers which is essential in conflict management. The Permanent Secretary of Mines is the chairperson of the Mining Affair Board (MAB) as well as the registrar of the mining cadastre. A position that undermines separation of powers. This clause must be revised and the rest of the bill returned as it is, since it reflects the aspirations of the people generated through public hearings and consultative forums. Reform of the MMB is essential for the transformation of the mining industry and must not be further delayed.

5. Mental Health A Cause of Concern

In recent decades, with the downturn in the economy, the social wellness of Zimbabweans has been negatively affected. Many social amenities enjoyed previously, such as public pools, parks, recreational centers, in Zimbabwe are dilapidated and have been left derelict for years. Furthermore, Zimbabwean tourism is out of reach for Zimbabweans; prices are charged in United States dollars and the average Zimbabwean earns in RTGS$. Resultantly, a significant proportion of young Zimbabweans are turning to drugs and alcohol for recreation.

It is difficult to imagine a bright future for children in Zimbabwe, many of whom have found themselves disadvantaged in accessing education. This has been further exacerbated by the COVID-19 pandemic and accompanying lockdown restrictions. Many children who were out of school due to the pandemic have not been able to go back to school due to lack of finances. A heavy burden is placed on the girl child while at home as women and girls bear the brunt of unpaid care work, household chores, taking care of the elderly and the sick.

Many Zimbabwean youths are unemployed, or occupy insecure employment in the informal economy, putting them at risk of poverty. Scores of Zimbabweans have risked their lives crossing the Limpopo River into South Africa in search of greener pastures. Leaving the country has become the Zimbabwean dream. Those that have been unable to leave turn to drugs and/or alcohol as an escape. The few who have been able to secure employment struggle to meet their family's needs given poor earnings accompanied by exchange rate fluctuations and inflation. The stresses plaguing young Zimbabweans have led to increased cases of suicide and drug abuse.

Drug abuse has been worsened by the harsh economic climate coupled with the COVID-19 pandemic. The combination of the two has led to unbearable stress causing more and more people to turn to drugs. It is important that the government acts to tackle this pandemic by enhancing healthcare systems to provide for the needs of those suffering from drug and/or abuse. Law enforcement should also act in clamping down on drug syndicates especially at Zimbabwe's porous borders where the drugs are brought into the country.