

ZIMCODD

ZIMBABWE COALITION ON DEBT AND DEVELOPMENT

WEEKLY REVIEW

12 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 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	Week
29.03.2022	05.04.2022
ZWL142 4231 per USD1	ZWL 145. 8721 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	Week
(04.03.22)	11.04.22
Positive cases 246 612	Positive cases 247 010
Recovered 238 857	Recovered 240 496
Deaths 5 451	Deaths 5 460

National Recovery Rate

Week	Week
(04.04.22)	(11.04.22)
97%	97%

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1. New ZWL100 Banknotes: Much Ado About Nothing

In the week under review the Minister of Finance and Economic Development, Prof. Mthuli Ncube, gazetted Statutory Instrument (SI) 68A of 2022. This SI instructed the Reserve Bank of Zimbabwe (RBZ) to introduce a new ZWL100 banknote.¹ Before this, the highest banknote denominations in circulation were the ZWL50 notes which were introduced around July 2021. The launch of ZWL100 notes comes at a time when the country is experiencing a significant surge in price inflation. According to the 2022 Monetary Policy Statement released by RBZ in February this year, authorities have been targeting an average first quarter (Jan-Mar 2022) inflation growth below 4%. The latest inflation statistics released by the Zimbabwe National Statistics Agency (ZimStat) showed that prices increased by 72.7% (year-on-year) in March 2022 after they gained by 66.6% in the prior month while from a month-on-month (MoM) perspective, prices grew by 6.3% in March. Considering that monthly prices rose by 5.34% and 7% in January and February respectively, MoM inflation averaged 6.2% in the first quarter, way above RBZ's target.

In the foreign exchange market, both the official and alternative markets, the local currency continued on a losing streak. Last week, the ZWL lost 2.37% of its value against the US dollar (US\$) on the RBZ auction market settling at US\$1: ZWL145.87 from US\$1: ZWL142.42 recorded in the previous week. The RBZ conducts its forex auction once per week on Tuesdays. In the alternative markets this week, the ZWL massively depreciated, with US\$1 sold for an average of ZWL300 from an average of ZWL260 last week. Consequently, the average parallel market exchange rate premia shot to over 105%.² The perpetual decline of the domestic currency particularly in the parallel market means that prices will continue with their northward trajectory, forcing authorities to introduce even higher denominations of banknotes as they scramble to increase the portability of the ZWL. Portability (ability to easily carry money around) is considered by economists as one of the key characteristics of money. This is the economic intuition behind the introduction of the ZWL100 banknote. If portable, money brings transacting convenience to the public thus increasing their confidence in it.

¹<https://www.263chat.com/download/statutory-instrument-68-of-2022/?msclkid=bd2442a5b58a11ecaecd0b36d77bf8d5>

² Parallel market exchange rate premium is the percentage difference between parallel and official exchange rates. A 105% premium means that US\$1 is 105% above the price for the same dollar in the official market.

Authorities have announced that the introduction of the ZWL100 banknote will not cause inflation. This is true, for both liberal and conservative economists, that as long as the RBZ exchanges these banknotes with electronic (RTGS) balances held by banks, the effect on the money supply should remain neutral and this is non-inflationary, *ceteris paribus*. However, experience has shown that whenever higher denominated banknotes are introduced, the smallest banknotes get rejected especially in the informal sector -a sector that constitutes at least 60% of the total economy. This causes prices; mostly of some small yet essential items; to increase though marginally as notes in the lower denominations vanish. Furthermore, given that we are reliving experiences from the 2007/8 period, socio-economic trauma is repeating itself, this could trigger a general panic by economic agents and negatively inform inflation expectations.

Therefore, printing higher-denomination banknotes without a laser focus on addressing the root causes of ZWL depreciation and subsequent inflation growth in Zimbabwe will only exacerbate the situation. It is also the public's view that while higher denomination banknotes are a welcome development as they were long overdue to lower transacting costs, the ZWL100 note is an insignificant denomination given that a loaf of bread is now priced above ZWL200. The time is now for ZWL500, ZWL1000, and ZWL2000 banknotes because the inflation level has reached levels beyond the reach of many people.

2. IMF Calls for More Taxes as Citizens Face Cost-of-living-crisis

In a detailed report for the recently concluded Article IV Mission (Staff Monitored Program) to Zimbabwe, the International Monetary Fund (IMF) called on the government to raise tax earnings, end currency controls and limit government spending. To increase tax earnings, the government needs to undertake revenue mobilization efforts to increase revenues by about 1.5 percentage points of GDP over the 2021-2026 period. To achieve this, the Fund proposes value-added tax (VAT) on e-commerce as the government is collecting fewer revenues than its counterparts in the region. Its estimations show that in 2020, Zimbabwe's revenue collections were 2.3 percentage points of GDP below the revenue collections among countries in sub-Saharan Africa. This explains the calls for broadening the tax base by streamlining and limiting VAT exemptions and zero-rating³ as well as eliminating income tax exemptions on interest income. The government should also enhance tax administration and compliance by matching tax and customs data while updating the mining fiscal regime to make it more effective and transparent.

However, the calls by IMF for government to increase taxes are at odds with the public's lived realities where poverty levels are rising and inequality gaps widening. Latest statistics from the Consumer Council of Zimbabwe (CCZ) show that in March 2022, an average urban family household of six (6) needed about ZWL93 000 to not be considered poor, a 138.5% jump from ZWL39 000 recorded in May 2021. While the cost of living has ballooned, the average salaries have remained sticky upwards. Going by CCZ statistics, it means a majority of civil servants are trapped in poverty as they are earning an average salary of ZWL40 000 per month. As such, eliminating VAT zero-rating as being championed by IMF will trap millions of households into a vicious cycle of poverty.

It is becoming difficult to follow advice from these neoliberal institutions like IMF as it lacks a 'human face' most of the time. In the 1990s, the same institution advocated for the Economic Structural Adjustment Program (ESAP) reforms which were pinned on austerity measures. The

³ VAT zero-rating denotes goods or services that are taxable for VAT, but with a tax rate of zero.

ESAP era saw the birth of deregulation, deindustrialization, informalization, rising unemployment and increased privatization of social services like education and healthcare. In essence ESAP brought degeneration for the ordinary citizen and the country has not been able to recover ever since. Again, in October 2018, Treasury introduced IMF-style austerity measures and currency reforms that lead to increased exchange rate depreciation, rising inflation, and increased poverty and marginalization.

The recent calls by IMF for more taxes in a tightening economy usher in the second coming of ESAP. This, however, would be a disaster since the country is already facing macroeconomic volatility. ZIMCODD believes that the government can increase revenue collection without increasing taxes. This can be done through curbing public sector corruption to reduce the wasteful spending of public funds, reforming parastatals to increase efficiency, plucking illicit financial flows, particularly in the extractive sector, strengthening value chains, import-substitution, formalization of the informal economy, strengthening institutional and legal frameworks, and migration to a progressive tax regime as opposed to the current regressive regime characterized by high presumptive taxes and 2% tax (Intermediated Money Transfer Tax, IMTT) among other punitive taxes.

3. Policing the Police: Examining ZACC's Suitability as a Watchdog Institution

In a contrariety and dramatic irony that has left the country in shock, the Zimbabwe Anti-Corruption Commission (ZACC) failed to account for approximately US\$12, 589,351 that was availed to institution for the period 2012-2017 as discovered after an audit. The Office of the Auditor-General (OAG) released a disclaimer opinion stating that her office has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, she did not express an opinion on the financial statements of ZACC. In short, the Auditor-General did not manage to audit ZACC as the necessary audit documents were not availed to her office.

The basis for the disclaimer opinion emanated from the fact that ZACC had unsupported expenditure, incomplete cash records (cash and cash equivalents), suspense account, trade payables, property, plant, and equipment to mention but a few. Although, the unavailability of supporting documents sounds light and simple, the ramifications of such actions are detrimental and devastating to prudent public finance management as well as public trust. ZACC's failure to account the millions of dollars that was given to it between 2012-2017 is a clear testimony of its failure to the accountability and transparency litmus test that is prerequisite for any watchdog and ombudsman institution.

Far from its mandate, ZACC has proven to be well acquainted with governance deficiencies, as the unavailability of adequate documentation and paperwork are nothing but a manifestation of rent-seeking, corruption, and economies of affection⁴. It is such malpractices that validate the catch and release phenomena. The number of arrests by ZACC and actual prosecution do not tally. However, it is understandable that arrests do not automatically lead to prosecution but the continuous growth of a lack of prosecution by ZACC makes citizens sceptical about its capacity in handling corruption. This scepticism is further aggravated by the recent OAG findings which go against ZACC's mandate. ZACC was established as a result of the Anti-Corruption Commission Act [Chapter 9:22] with the mandate of combatting corruption, economic crimes,

⁴ This points to management and operations incapacity within its structure.

abuse of power and improprieties in Zimbabwe through public education, prevention and prosecution after thorough investigation.

To this end, the failure of ZACC to undertake its mandate is a wakeup call for citizens and journalists, that even watchdog institutions need to be monitored religiously. Their inefficiencies bring a lot of rhetoric questions such as:

- If ZACC cannot account for public funds who will monitor it?
- Is ZACC sincere when it says its fighting corruption and improprieties?
- Is there any action that ZACC is going to take against the responsible personnel?

The hope of the nation now lies in the citizens, journalists, and Civil Society Organisations (CSOs) to police the police by constantly monitoring the ZACC performance and resource utilisation.

4. IMF Applauds Zimbabwe on Meeting NDSI Targets

Acknowledging the International Monetary Fund (IMF), The Herald showcased a headline insinuating that Zimbabwe met several targets of the National Development Strategy (NDS) I for 2021 amidst calls for a financing plan and crystalizing of policies if all targets are to be met. Besides the indication that government instituted Illustrative Active Policy Scenario (IAPS) congruent to medium-term growth objectives consistent with NDSI, the article does not provide specific milestones made in meeting the targets for the 14 NDSI Priority Areas. Of importance is the fact that the NDSI (2021-2025) took from the Transitional Stabilization Programme (2018-2020) which grossly missed its targets thereby setting a brittle background for NDSI. Pursuant of an independent monitoring mechanism meant to bridge the information gap created by the failure of government to provide timely NDSI monitoring, and implementation progress reports as enshrined in the blueprint, a Civil Society Monitoring Mechanism (CISOMM) was set up in 2021 under the leadership of ZIMCODD. The augural NDSI CISOMM report being launched on the 13th of April 2022 covering the exploits of the NDSI for 2021 shows apostasy of the NDSI from its set targets. Disregarding the diplomatic grandeur employed by the IMF in pointing out the derailed mission of the NDSI, the NDSI CISSOM Report notes regression in poverty and income per capita levels in 2021; unstable macro-fiscal environment leading to massive depreciation of the ZWL against the greenback manifesting as unmanageable inflation in the economy; policy discord and inadequacies; an inept foreign exchange market; worsening corruption and other reform malfunction stifling progress in the social space. In 2021 the education and the health sectors remained suppressed from the effects of COVID-19 and the mitigatory measures fell short of extinguishing poor service in these social sectors. Arguably, notable the economy had a positive growth of 7.8% despite its exclusionary posture. Other critical sectors that require upliftment include transport, infrastructure, and utilities; structural transformation and domestication of value chains; expediting low-cost housing delivery; re-directing and re-orienting engagement and re-engagement; adequately funding devolution and expanding social protection given worsening poverty; capacitating the fight against corruption and natural resource governance.

5. Ghost Workers: A Testament of Government's Failure in Rationalising the Wage Bill

The findings of the Auditor-General on the Appropriation Accounts, Finance and Revenue Statements and Funds Accounts for the financial year ending December 31, 2020, stated that

approximately ZWL 2.5 billion was siphoned through the wages bill. The OAG reports established that:

“Total employment costs paid by the Salary Service Bureau (SSB) were 9% of what the Commission paid which was 91%. The total employment costs reported by the Commission amounted to \$2 732 262 069 which did not agree with the total on the SSB payroll print out figure of \$221 446 282 resulting in an unreconciled variance of \$2 510 815 787 for the same period. As a result, I could not confirm the accuracy of the expenditure on compensation of employees’ costs disclosed in the financial statements.”

The failure by the Public Service Commission (PSC) and SSB to reconcile and rationalise the wages bill is a testament of the failure of the Transitional Stabilisation Program (TSP) which the government glorified. According to section 253 of the TSP, which outlines the Public Service Wage Policy, the government intended to reduce the wages bill from 68.9% to 50%. The primary objective behind this was to eliminate ghost workers and broaden the fiscal space which had contracted due to unaccounted wage bill expenditures. Nonetheless, the findings of the OAG present contrary views. The government has failed again to account for ZWL 2.5 billion that was siphoned through the wages bill.

Ghost workers have always been problematic in Zimbabwe. In 2011 approximately 75 000⁵ ghost workers were unmasked on the wages bill, in 2013, 400⁶ ghost workers were also found on Zimbabwe Broadcasting Cooperation bill while in 2020, 10 000⁷ ghost workers were unearthed again. In 2019, the government was again prejudiced of approximately US\$ 4 million by ghost workers⁸. To the surprise of citizens, despite all the financial consequences that the ghost workers infuse on public finance management the government has failed to make an effort to address such malpractices. Therefore, there is a possibility that those with the power to curtail ghost workers are the ones who are benefiting from it.

6. Zimbabwe’s Perennial Water Crisis

The observance of human rights, including socio-economic rights, participation rights and non-discrimination rights, is critical to good water governance. International human rights norms demand that priority be given to water and sanitation for vulnerable groups such as the very poor, displaced, disabled and elderly, and for women and children within all these groups.⁹ Section 77 of the Constitution provides that every person has the right to safe, clean, and potable water. The human right to water and sanitation reflects the growing recognition of the significance of social and economic rights in addressing poor urban and rural women’s basic concerns as providers of food and care for young, sick and elderly family members.

Currently, children are at risk of contracting bilharzia. The Ministry of Health and Child Care sent out a message informing the public of free information and treatment against bilharzia at schools and clinics to children below the age of 15 years from the 4th to 9th April 2022. However, the messages were delivered telephonically days after the program started and close to the

⁵ <https://www.theindependent.co.zw/2011/02/10/zanu-pf-militias-among-75-000-ghost-workers/>

⁶ https://www.zimbabwesituation.com/news/zimsit_ghost-workers-at-zbc/

⁷ <https://www.herald.co.zw/10-000-ghost-workers-struck-off-payroll/>

⁸ <https://www.newzimbabwe.com/us4-million-lost-to-ghost-workers-local-govt-ministry-fleeced-the-most/>

⁹ Hellum, A. Kameri- Mbote, P. et al Water is Life. Available at <http://www.searcwl.ac.zw/downloads/water-is-life.pdf>.

program end date, giving little time for the population to respond adequately. The water situation in Zimbabwe is worse than in 2008, when Zimbabwe experienced the most devastating cholera outbreak in Africa in 15 years. Zimbabwe is plagued by water borne diseases such as bilharzia, cholera, typhoid and dysentery that have no place in the 21st century and that are most prone in poverty-stricken areas.

Numerous factors have contributed to the country's water problems, including the economic decline, droughts affecting water sources, the lack of maintenance of the old water infrastructure, the inability to procure the necessary chemicals to treat water sources, political struggles between the central government and opposition-controlled city councils and corruption.¹⁰ Zimbabwe's water and sanitation crisis has been worsened by the COVID-19 pandemic which increased demand for access to clean water. In addition, COVID-19 saw the introduction of a nationwide lockdown which not only saw the introduction of restricted movement but in turn restrictions to accessing water sources

The water crisis has affected Zimbabwean's rights to water and sanitation as well as other rights interlinked to this, such as, the right to life, food and health. Many common water sources are often contaminated, giving rise to water borne diseases and outbreaks. In Zimbabwe, household access to safe, drinking water is a privilege. Not only is access to potable water a challenge, but there is no adequate waste and wastewater disposal services. This often leads to further contamination of water sources, especially during the rainy season when waste gets washed away into rivers and dams.

The full realization of the right to water has the potential to combat poverty, promote health and food security, and ease the caring and household burdens that hamper African women's enjoyment of a wide range of social and economic rights. In Zimbabwe, women and school-age children, especially girls, spend long hours in queues at crowded boreholes or narrow water wells to access water that may not be safe. Some are forced to risk their lives in an attempt to secure water late at night or in the early hours of the morning before the boreholes get crowded. The response to the water crisis must be engendered in order to adequately respond to the concerns and experiences of socially and economically marginalized women in different social, cultural, and economic contexts.

¹⁰ Zimbabwe Events of 2021. Available at <https://www.hrw.org/world-report/2022/country-chapters/zimbabwe> .