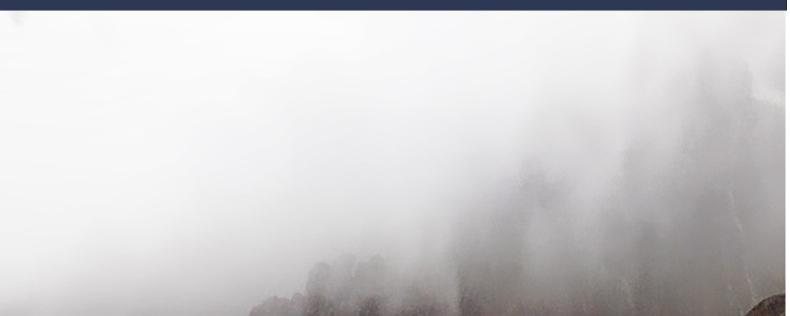
WEEKLY REVIEW

24 May 2022



Weekly Dashboard

Forex Auction Weighted Rate

Week	10.05.2022	17.05.2022
Per USD1	ZWL 165 0000	ZWL 258 5404

Consumer Price Index

Month	March	April
	4.766.10	5.507.11
Blended	146.06	160.13

Inflation

Month	March	April
M.O.M.	6.3%	15.5%
Y.O.Y.	72.7%	96.4%

COVID-19 Cases

Week	16.05.22	22.05.22
Positive	249 431	250 702
Recovered	242 537	243 093
Deaths	5 484	5 495

National Recovery Rate

16.05.22

98%

22.05.22

97%

ZIMCODD

ZIMBABWE COALITION ON DEBT & DEVELOPMENT

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1. National Human Capital Development Under Threat

Human Capital Development (HCD) describes the process of improving the country's citizens' performance, capabilities and resources. According to the Organization for Economic Cooperation and Development (OECD), HCD is, 'the knowledge, skills, competencies and other attributes embodied in individuals or groups of individuals acquired during their life and used to produce goods, services or ideas in market circumstances.' It is therefore, one of the integral variables of national development and growth which determines the course of any nation. All governments have the obligation to fully develop and harness the potential of its citizens for the attainment of national development.

The success of National Development Strategy 1 (NDS 1) priority seven with its emphasis on education is critical for the achievement of HCD in Zimbabwe. However, the emergence of the COVID-19 pandemic since 2019 coupled by the ongoing cost-of-living crisis have significantly reduced positive educational outcomes for millions of Zimbabwean children. Parents across the country are struggling to pay for their children`s school fees, leading to a massive drop in the number of Zimbabwe School Examination Council`s Examination (ZIMSEC) registration in 2021. A worrisome 2.03% decrease in examination students was witnessed in 2021 with 49 128 candidates registering to write as compared to 50 287 in 2020. This trend mirrors last year's figures where 30 000 students failed to register for their ZIMSEC Advanced levels examinations.[1] Stronger social protection policies and robust education support measures going beyond the vastly overwhelmed Basic Education Assistance Module (BEAM) are required to cater for millions of students in need.

Approximately 4 million children are in need of BEAM but only 160 782 managed to receive government assistance pointing to the meagre spending towards HCD. As of August 2021, the government has provided education support totalling ZWL 432 834 468 for 160 782 children. Across the country only 2022 primary schools and 722 secondary schools received BEAM. From the 160 782 children, the government paid for approximately 51 221 boys and 51 390 girls from primary school at a total cost of ZWL 290 773 596 as well as 30 540 boys and 81 761 girls from secondary schools at a total cost of ZWL 142 060 872.

1. https://zimcodd.org/wp-content/uploads/2021/12/ZIMCODD-Weekly-Review-07.12.2021_.pdf

To redress this anomaly and offer organic policy alternatives, ZIMCODD carried out a rapid survey to determine if the government has increased BEAM uptake and if it is paying BEAM on time in 2022. The rapid survey covered the following areas: Lupane District, Gwanda District, Beitbridge District, Insiza District, Chiredzi District, Binga District, Epworth, Glen View, Masvingo Urban, Gutu District and Chitungwiza. The survey established that while the government was paying BEAM, many schools had not received fees for the first team although a few had with the last payment having been done in March. The survey also determined that, the number of children under BEAM has not reached a million. A clear indication of either government`s unwillingness to support the vulnerable children or resource constraints.

ZIMCODD calls on the Ministry of Education and Finance to prioritise education by rejuvenating BEAM and ensuring that vulnerable children particularly girls and children from resource poor and vulnerable backgrounds get an equal opportunity to learn. The socio-economic transformation that Zimbabwe requires is embedded in the youths who remain a conduit pipe of development if the government adequately invests in them. The Office of the President and Cabinet (OPC) as a meta-governance institution responsible for overseeing policy formulation, implementation and evaluation must utilise its Executive authority to ensure the prioritisation of HCP - if the nation is to witness the success of the NDS1 and become an upper-middle income society by 2030.

2. Toll Fees Reviewed upwards

ZINARA reviewed toll fees with effect from Monday 23 May 2022 and the new toll-fee structure is as follows:

Class	USD	Old Toll Fees (ZWL)	New Toll Fees (ZWL)	% Change
Motorcycles	Exempted	Exempted	Exempted	Exempted
Light motor vehicles	2	300	520	73%
Minibuses	3	450	780	73%
Buses	4	600	1040	73%
Heavy Vehicles	5	750	1300	73%
Haulage Trucks	10	1500	2600	73%
Residential discount per term	40	6000	10400	73%

The revised toll fees went up by 73% across the board whilst the USD toll fees remained the same. The toll fee increase is partly an inflation adjustment and also an implicit acceptance by the authorities of the ZWL's depreciation. Increasing toll fees by 73% without complimentary measures to counter the negative impacts of rising transport costs on basic commodities, goods and services will only worsen an already severe cost of living crisis.

The 73% on one aspect of the transport basket in addition to rises in other elements particularly petrol and diesel exceeds the 20% salary adjustment awarded to civil servants early 2022. A reasonable salary increment is one whose margin exceeds the inflation rate if workers are to be insulated from the effects of inflation. Regular salary adjustments to match inflation movements are now indispensable to protect the majority working poor whose salaries are now below the poverty datum line.

Incessant inflation continues to discount the value of salaries thereby worsening vulnerability in the economy. The new toll fees will be factored in the pricing of products and services thereby adding to the inflationary pressure. The likely price boom will be augmented by unrestrained fuel price hikes which in-turn increase the prices of goods and services. Ever-increasing prices must be matched by equitable salary increments; thus, government must take steps to protect not only the workers but ordinary citizens who are bearing the brunt of rapidly increasing fuel, data and power charge increases.

3. Pomona Waste Management Deal

The city of Harare entered into an agreement with Geogenix BV which aims to turn waste to energy by generating 22 megawatts of electricity to be sold to Zimbabwe Electricity Supply Authority (ZESA). The investment was given ‘National Project Status’ and will be headed by the company’s Zimbabwean representative, Delish Nguwaya, infamous for his proximity to the first family. Nguwaya was also implicated in the controversial Drax Scandal as well as other corrupt dealings.

The deal with Geogenix BV was reached without public consultation and without going through the correct public procurement processes. It has not been subjected to any oversight by parliament. Processes to solidify the deal were expedited with undue and unaccountable pressure on Council officials by the Executive.

Numerous clauses in the Pomona Waste Management deal are highly prejudicial to Harare City Council, residents of Harare and the nation at large. According to the agreement Harare City Council is scheduled to pay US$40 per tonne of waste, with an estimated daily delivery of 550 tonnes. Should Harare fail to meet the minimum quantities, the city will still be invoiced as though it made the deliveries to meet the minimum annual guaranteed waste quantity. Should Harare fail to hand over the Pomona dumpsite by the due date, according to the agreement, Geogenix BV may choose to terminate the agreement and the Council would be required to pay US$3.5 million to cover all costs and expenses.

The contract creates considerable financial obligations for Harare City Council to pay Geogenix in foreign currency (US$) for a period of thirty (30) years.

This is ironic as Harare waste collection costs are in the local currency (RTGS) in a context with huge disparity and inconsistency in the exchange rates of the local currency and the United States dollar. In an application before the High Court, Allan Markham, Harare North MP, asserts that, "Harare City Council does not have capacity to meet this obligation without falling deep into an intractable debt trap or resorting to other developmental funds. The cost of the project is unsustainable." Harare City Council is likely to default on its contractual obligations as it is already failing to collect refuse.

In an attempt to achieve an upper middle income economy status by 2030, The Government of Zimbabwe identified devolution as a key pillar. Under devolution, citizens are involved in setting the development agenda in their communities. Decentralization can empower and enable the citizens especially poor and marginalised groups, permitting greater choice and control over their rights. Enabling legislation to operationalise the Constitutional provision for devolution to take place in Zimbabwe is long overdue. Numerous deals and unaccountable financial arrangements involving Council lands, assets and service have proliferated in the absence of functional devolution. These have been collectively harmful to the present and future prospects of many Councils especially the highly compromised Harare City Council.

There must be a move to devolve power and allow citizens to make choices that are in their best interests. To this end, it must be stressed that parliament, as representatives of the citizens must be able to exercise their oversight role in all issues concerning public finance management. Through its issuance of the contract with Geogenix BV, the government continues to disregard prudent public finance management and sound public procurement processes with impunity. For the sake of constitutional and developmental progress the Ministry of Local Government, Public Works and National Housing must facilitate rather than undermine devolved efforts by Councils to safeguard public resources and to deploy them in the public's informed best interests.

4. Cushion the public and the economy from the negative multiplier effects of rising fuel prices

In the week under review, the Zimbabwe Energy Regulatory Authority (ZERA) reviewed upwards the maximum pump prices of fuel. A litre of diesel is now costing US$1.74 (ZWL499.56) from US$1.71 (ZWL283.87) while that of petrol is now costing US$1.68 (ZWL481.02) from US$1.64 (ZWL271.85).

The publishing of Zimbabwe dollar prices of fuel in Zimbabwe is now ceremonial as this ZWL fuel market has become extinct. The fuel sector has fully dollarized thanks to the introduction of the Direct Fuel Import (DFI) scheme by the Reserve Bank of Zimbabwe in 2019 at the peak of fuel shortages in Zimbabwe which saw motorists long winding fuel queues.

These are the days when the RBZ's was insistent about maintaining the unsustainable fixed exchange rate regime (US$1: ZWL1) leading to acute forex shortages as fuel demand outstripped fuel supply. Under the DFI scheme, importers are allowed to use their free funds (US dollars) to import fuel and trade it in foreign currency. Despite promising to facilitate the importation of fuel to be sold in ZWL, authorities allowed the fuel sector to fully dollarize yet the majority of Zimbabwe's motoring public, businesses and industries have constrained access to forex.

The ongoing Russia-Ukraine war is fuelling market jitters about a potentially huge supply shock to food and energy markets which will push global prices upwards. With Zimbabwe being a net importer of crude oil, it means that the country is a price taker of these high global prices hence perpetual increase in domestic fuel prices. Russia is one of the largest global producers of crude oil, accounting for about 30% of global crude oil exports. Due to its invasion of Ukraine, large oil-consuming Western countries like the United States, Canada, and United Kingdom have completely banned the importation of fuel of Russian origin while the European Union, the largest common market in the world, will likely agree on an embargo on Russian oil imports "within days".[2]

Before the start of the Russia - Ukraine war on the 24th of February 2022, the prices of fuel in Zimbabwe were exorbitant, way above the regional average. Last month, ZIMCODD indicated that this is because the fuel sector is one of the closed sectors in Zimbabwe monopolised by a few fuel importing companies, which are also large players in the fuel retailing business. In addition, government fuel taxes and levies, constituting nearly 40% of the pump prices are adding to the exorbitant price of fuel. Just like what is happening in the pricing of grains above the market prices by the Grain Marketing Board (GMB), the fuel prices being set by ZERA are way above import parity prices. This probably reflects that the energy regulator is captured by vested interests with an unrestrained ability to impose punitive fuel prices under the guise of responding to the negative impacts of the Russia-Ukraine war. There is more to punitive fuel price increases in Zimbabwe than the dynamics in the global crude oil market.

In a bid to reduce fuel import bills and cushion the economy from fuel crises, Zimbabwe introduced a fuel import substitution scheme in 2011 to blend petrol with ethanol. Since then, the blending ratios have been fluctuating depending on the availability of ethanol in the local market. Green Fuels, a company partly owned by the government is the sole producer of blending ethanol in Zimbabwe. After halting petrol blending in January 2022 due to adverse weather conditions such as rains which resulted in inaccessibility of cane fields by machinery, the regulator re-introduced blending on the 25th of April 2022 at E10 (10% ethanol).

2. https://www.reuters.com/article/us-ukraine-crisis/eu-oil-embargo-in-days-as-ukraine-isolation-drives-russia-closer-to-china-idUSKCN2N923C

The blending ratio has now been increased from E10 to E15. At the same time, the price of petrol has also jumped by US$0.04. This is surprising because the government had initially promised citizens that prices of blended petrol will decline by US$0.07 as it increases the blending ratio from E10 to E20 by the end of May 2022.[3] Hence, instead of bringing relief to motorists, commuters, and businesses, the fuel import substitution scheme is actually working against Zimbabwe and its economy. The ethanol market itself, is also a closed sector with little competition hence the high prices of this critical product. By not opening the ethanol sector to outside competition or promoting the participation of more domestic players, the government through ZERA is again protecting the vested interests of monopoly capital, who are only after abnormal profits not consumer welfare or the growth of the Zimbabwean economy.

A progressive government would urgently undertake structural reforms to root out pricing distortions in the fuel market. The continued pursuit of command economics militates against the achievement of Vision 2030 - becoming an upper-middle-income country with a per capita income above US$3 500 by the end of the year 2030. For instance, command exchange rate management through the auction system was leading to overvaluation of the ZWL thus promoting rent-seeking behaviours, poor compliance with existing regulations, and round-tripping. Consequently, with forex demand outstripping forex supply on the auction market and the economy also being largely informal, ZWL deteriorated massively against the greenback in the alternative markets thus fuelling price inflation. Another example is command agriculture, a scheme that is not transparent as it is largely difficult for one to ascertain the actual cost and beneficiaries of this scheme. This is tantamount to a waste of public resources at a time when the government is facing a very limited fiscal space. If one is to dwell on the theory of opportunity cost, they would realize that these wasted and abused public funds would be used for the provision of quality and affordable social services as well as safety nets to cushion the vulnerable and marginalized communities. This is key for stable, inclusive, and sustainable economic growth to be attained in line with ambitions set out in the National Development Strategy 1 (NDS1).

Therefore, to cushion the public and the economy from the negative multiplier effects of rising fuel prices, there is a need for the government to embrace and promote competition -allowing the participation of many players in fuel importation & retailing business as well as the ethanol sector. In other words, the energy regulator should always strive to strike a balance between the affordability of fuel and profit margins of businesses, not the current set-up that is disproportionately tilted towards the latter. Also, the government should further reduce taxes and levies it is collecting on imported fuel. More so, there is a need for sustainable and investor-friendly policies that promote exploration in the extractive sector. Had these policies been in place over these years, oil and gas exploration in Muzarabani could have been completed by now and the nation probably in full swing petroleum mining thus reducing dependency on imports.

3. https://africa.cgtn.com/2022/05/18/zimbabwe-resumes-petrol-blending-to-reduce-fuel-price/