WEEKLY REVIEW

16 AUGUST 2022

Weekly Dashboard

Forex Auction Weighted Rate

Week	02.08.2022	10.08.2022
Per USD1	ZWL 458.3653	ZWL 478.6358

Consumer Price Index

Month	June	July
	8 707.35	10 932.83
Blended	205.39	238.43

Inflation

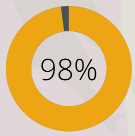
Month	June	July
M.O.M.	30.7%	25.6%
Y.O.Y.	191.6%	256.9%

COVID-19 Cases

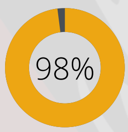
Week	09.08.2022	15.08.22
Positive	256 492	256 561
Recovered	250 160	250 733
Deaths	5 587	5 588

National Recovery Rate

09.08.22



15.08.22



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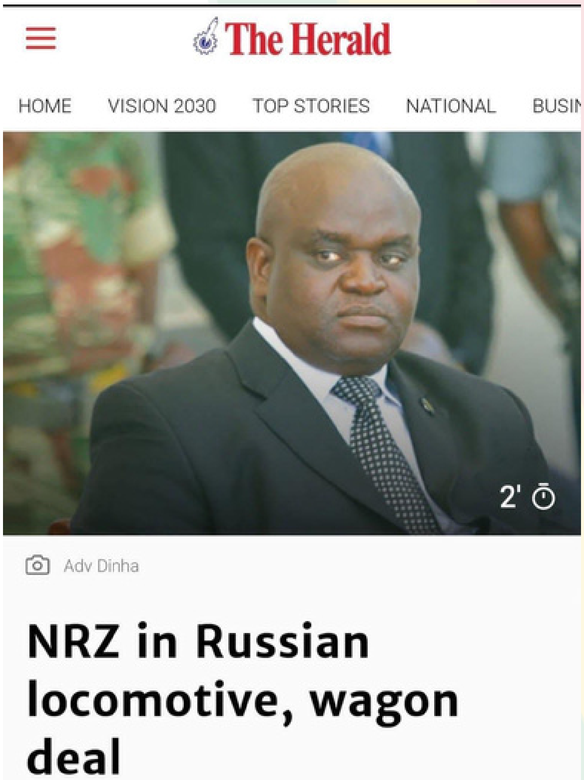
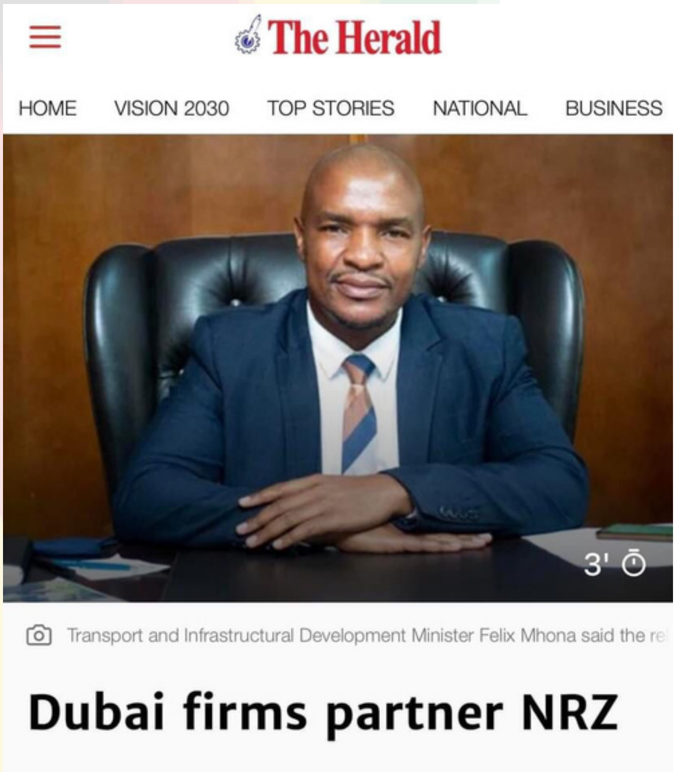
1. Structural Reforms and The NRZ Tale





2. Has Zimbabwe Given Up on Image Building, Engagement and Re-engagement?

The Zimbabwean government's ambitions to re-engage with the west and promote the ease of doing business has been off the rail since 2018 when the government launched the Transitional Stabilisation Programme (TSP). The TSP which was intended to give footing to the National Development Strategy 1 (NDS1) successfully-failed to establish a strong foundation as the government refused to accept the anomalies in the TSP which could have been utilised to enhance implementation learning and recalibration of the entire re-engagement objective so as to attain the intended goal.

The re-engagement drive is anchored on the reform thrust which became the gospel of the 2nd republic since its emergence in 2018. Like a preacher who practice what he or she does not preach, the 2nd republic has been found wanting on the reform thrust. The reform promises have not been met with reform implementation thereby making the whole reform thrust a high sounding nothing. All the targets that the government had set for re-engagement in the NDS1 have not been met as both image building and re-engagement successfully-failed. A glimpse of Zimbabwe`s performance in image building and re-engagement is presented hereunder.

NDS1 KRA	KRA Variables[1]	Indicator/Measurement	2021 NDS1 Target	2021 Actual Score	2022 NDS1 Target	2022 Actual Score
Image building, International Engagement and Re-engagement	Image building	Good Country Index	98/153	111	96/153	114/153[2]
		Country Brand Ranking Global Travel and Tourism	116/189	To be updated	121/189	160/189[3]
		Competitiveness Ranking	113/140	127	113/140	
		Global Happiness index	136/191	148	126/191	144/191[4]

- Zimbabwe seeks to boast and reignite her image through scoring better in Good Country Index which was at 100 out of 153 in 2019 and 111 out of 153 in 2021 with a baseline target of 96 out of 153 in 2022. However, despite Zimbabwe`s ambitions her 2022 score shows that she regressed by three to 114 out 153 indicating poor performance.

- Zimbabwe`s image building was also undermined by her performance in the Global Happiness Index cluster despite a positive improvement by four positions from the 2021 score. Zimbabwe failed to satisfy the 2022 target, she had targeted to be number 126 out of 191 but she however become number 144 an improvement from the 148 experience in 2021. An evaluation into the Zimbabwean communities and cities makes one wonder the sincerity of improvement given the political polarisation in the country, poor governance, impunity and unsustainable cost of living.

1. These are the disaggregated variables that are pinned to an objective.
2. https://index.goodcountry.org/
3. https://www.bloom-consulting.com/en/country-brand-ranking
4. https://www.africanews.com/2022/03/21/world-happiness-report-check-out-africa-s-top-10/#:~:text=Botswana%2C%20Rwanda%20and%20Zimbabwe%20are%20the%20latest%20African,%28146%29%20fall%20to%20bottom%20of%20the%20global%20ranking

NDS1 KRA	KRA Variables[5]	Indicator/Measurement	2021 NDS1 Target	2021 Actual Score	2022 NDS1 Target	2022 Actual Target
Image building, International Engagement and Re-engagement	International engagement & re-engagement	Country Risk Index	Grade CC Medium Risk	Grade E. The highest-risk political and economic situation	Grade CC Low Risk	Grade E. The highest-risk political and economic situation
		Removal of Sanctions	100%	0%	100%	0%

- On Country Risk Index (CRI), the government failed to meet the prescribed NDS1 target which was Grade CC Low Risk and secured a place in the Grade E realm which is the highest-risk political economy situation usually associated with failed states. An examination of government`s performance in 2021 shows no improvement as reflected in the above table.

- On sanction removal, no sanctions have been removed, a clear indication of government`s failure to meet the indented target culminating into unrealised goals.

3. The Debt Curse crippling service delivery in Zimbabwe’s local authorities

Zimbabwe is undoubtedly facing a debt crisis with unsustainable external arrears. This debt is crippling the country’s ability to mobilize resources to fund various developmental programs. The shrinking fiscal space has also motivated the government to resort to domestic borrowing as evidenced by soaring local debt. Treasury estimates public and publicly guaranteed debt at ZWL$1.3 trillion and US$13.2 billion inclusive of internal and external debt as at June 2022. In 2021, a fiscal deficit which was financed by domestic borrowing was over ZWL$30 billion. This over-reliance on domestic borrowing is crowding out private investment and the effects are evident in poor infrastructure, high poverty prevalence and weak domestic financial markets in the country. While local authorities play a greater role in promoting sustainable economic growth and development (maintaining water & sanitation infrastructure, housing, waste disposal, road rehabilitations, public lighting), the government has not significantly invested in local authorities for effective delivery of their mandate. Between 1990 and 2019, resources for financing local authority programs through the national budget have rarely exceeded 1% of the total budget. The implication is that local authorities must be self-financing to meet their infrastructure requirements. However, most city councils are trapped in debt which is inhibiting their ability to internally mobilize resources to fund their operations. As a result, the state of infrastructure and service delivery in local authorities continues to deteriorate evidenced by perennial water woes, poor street lighting, local roads with growing potholes and mushrooming of garbage dumpsites in residential areas.

5. These are the disaggregated variables that are pinned to an objective.

The urgent need to restore service-delivery will require significant public administration reforms. Service-delivery, particularly in the social sectors was historically severely constrained by the economic crisis. Both Zimbabwe's health and education systems, which after achievements in the post-independence period were considered as one of good practice examples in Africa, are now characterized by inadequate provision and maintenance of equipment and dilapidated infrastructure, significantly lowering access and quality of services. The human resource situation in these sectors has been compounded by further emigration of skilled labour. To rectify this, there is need to review the composition of overall public sector spending, reinvigorated efforts and capacity to address economic and administration reforms, inclusive of strategy, public expenditure management and addressing human resource management including improving service conditions in the social sectors.

As with the central government, local authorities continue to accumulate debt, yet they are currently failing to service their debt to their numerous creditors. This has not only further eroded the fiscal space but also consolidated the current vicious cycle of debt. The major drivers of the debt crisis in the country include a development strategy that relies heavily on borrowed funds due to weak domestic resource mobilization, lean tax base, and poor mineral resource governance and poor public debt governance due to weak institutions and ineffective public debt management frameworks.

However, based on the annual Auditor General findings, the Executive's commitment to good governance, prudent financial management, transparency and accountability in public finances including public debt remains questionable. Therefore, sound Public Finance Management anchored on transparency and accountability in public finances and debt management remain a pre-requisite for economic growth and development. In view of the foregoing, ZIMCODD recommends that:

- There is a need for local authorities to foster public-private partnerships -appreciating land-value "sharing" as opposed to land value "capture".
- The government should increase intergovernmental fiscal transfers (devolution funds) to boost the local authorities' revenue base. The government must also resuscitate the Public Sector Investment Programme (PSIP) to finance local authority capital expenditure.
- When borrowing, local authorities must consider quality of the investment, its feasibility relative to local economic circumstances, and its appropriateness for the local needs and possibilities.
- The government must ensure that the political environment must be less toxic to foster confidence, trust, and a predictable policy environment for infrastructural investors to come on board and partner with local authorities.
- The Government and the Ministry of Finance and Economic Development should ensure a that Zimbabwe adopts a people-led and people-centred national and local budgets. This is a budget that prioritises the realisation of constitutionally enshrined rights over the achievement of private led and economic growth targets.

- Through the government's reengagement mantra, the government should facilitate access to external financing which is critical in augmenting limited domestic resources and ultimately speed up economic growth, job creation, and improvement of living standards for citizenry.
- While the Government has introduced a raft of measures, through the 2022 National Budget statement and the Mid-Term Budget and Economic Review to correct the debt burden, without the political will to implement economic reforms, the debt curse will continue to haunt Zimbabwe. Fundamentals such as a debt audit, judicious and legitimate expenditure and borrowing should therefore be in place.

4. Government is the chief architect of the current macroeconomic volatility

Zimbabwe is struggling with macroeconomic volatility particularly currency and prices since 2019 when authorities reintroduced the Zimbabwe dollar (ZWL) which was disbanded after the record hyperinflation period of 2007/8. During these years, the monetary authority (Reserve Bank of Zimbabwe: RBZ) came up with various exchange rate management systems to save an embattled currency including a highly unsustainable fixed exchange rate regime for a country like Zimbabwe facing a persistent foreign currency deficit. In June 2020, a Dutch Foreign Currency Auction System was introduced, failed big as parallel market exchange premia kept burgeoning, and the system was ditched in June 2022 in favor of the now Willing-Buyer Willing-Seller (WBWS) interbank market. Again, the parallel market rates maintained an unsustainable upward trend. Why?

The previous periodic ZIMCODD analyses[6] constantly highlighted that the exchange rate instability in Zimbabwe is being triggered mainly by the actions of the government. Yet, the authorities were adamantly attributing the instability to the Russia-Ukraine war and human (rent-seeking) behaviors. However, if one is to check closely, it is clear that the ZWL and prices were under pressure well before the war in Ukraine. For instance, in 2021 alone (pre-war period), the ZWL was down by an average of 48% in parallel markets with price inflation closing the year at 60.74% against RBZ's closing target of between 25-35%. Also, for years, domestic fuel prices were well above the regional average and post-Ukraine war Zimbabweans continued to face exorbitant pump prices relative to their regional counterparts despite the region being a net petroleum importer due to high government fuel levies. As for rent-seeking behaviours, it remains the public's view that economic agents are homo economicus, that is, they behave in exact accordance with their rational self-interests of always attempting to maximize utility (consumers) and profit (businesses). As such, by concurrently pumping money supply in the market unsustainably and selling foreign currency at an overvalued official exchange rate, the RBZ created huge arbitrage and speculative opportunities that affected the stability of the local currency.

6. https://zimcodd.org/?smd_process_download=1&download_id=5659

From the fiscal front, the Treasury embarked on substantial infrastructure projects like roads and dam construction as well as wasteful Command Agriculture. These projects were financed largely using short-term financing (direct injection of cash) against the conventional norm of using long-term sources. By using cash, the government has increased idle ZWL balances sitting in the banks hence chanelling these balances into the black markets in search of a stable greenback. Also, the rich and connected took advantage of existing porous procurement systems by charging the government at high forward parallel market rates. Ironically, the authorities were paying these contractors at or above the parallel market rates yet forcing other economic agents to benchmark their prices at the official rates. Currently, the government accounts for about 70% of transactions in the economy. As such, it is clear that the government (Ministries, Departments, and Agencies: MDAs) is the chief driver of ZWL exchange rate depreciation against the US dollar.

After months of denying the foregoing facts, the Secretary for Finance and Economic Development on live television accused government MDAs of fuelling the black-market rates. "The unfortunate thing, Your Excellency, is that some of the pricing models are supported by procurement and also by line ministries. This is not acceptable and it has to stop Your Excellency," he said.[7] To add more weight, the President in the Sunday Mail admitted that the public sector is driving currency and price instability. A part of his column reads, "Many things have been going wrong in the (public) sector, which must show the way and whose buying power accounts for 70% of the demand for goods and services in our economy…. The public sector has been largely guilty of sins of omission. We have not always been a prudent procurer, a weakness which has levied very costly consequences to the whole economy."

It is welcoming to note that authorities have now realized that they are contributing a large part to the current problems. In the interim, the government has suspended processing payments to public procuring entities awaiting submission of reports of findings of the due diligence exercise on all running and future contracts with a special focus on pricing[8]. As such, it is the public's view that to stabilize the economy, there should be adequate political will now to reign in rampant public corruption especially in procurement and tendering processes. The perpetual violation of the Public Procurement and Disposal of Public Assets Act and existing impunity is fortifying fiscal indiscipline by line ministries as shown by the latest Treasury request for ZWL107 billion condonation for the 2019-2020 fiscal years and the unexplained US$10 billion over expenditures for 2015-18 period. So, without the political will to clamp corruption, the Value for Money Unit (VMU) which had been set up at the Treasury will remain a toothless bulldog that only exacerbates the status quo by creating a fecund ground for bribery and tenderpreneurship deals. Furthermore, there is a dire need to reconfigure the zWBWS interbank market to ensure that it is truly market driven with limited RBZ interference - taking into account all prevailing market dynamics. This is crucial because maintaining an overvalued official exchange rate promotes gratuitous rent-seeking behaviours in the market.

7. https://www.newsday.co.zw/2022/08/ministries-driving-black-market-ed/
8. https://www.theindependent.co.zw/2022/08/12/treasury-turns-guns-on-ministries/