

Weekly Economic Review

25 April 2023

RBZ Interbank Rate

WEEK
18.04.23

ZWL 978.948
per USD1

WEEK
28.03.2023

ZWL 1000.6
Per USD1

Consumer Price Index

FEB
273.65

MAR
274.01

Blended Inflation

FEB M.O.M.
-1.6%

FEB Y.O.Y
92.3%

MAR M.O.M.
0.1%

MAR Y.O.Y
87.6%

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1. Summary

The week's review analyses the latest lithium ore policy approved by the Cabinet, a perpetual decline of the local currency against the US dollar, the Reserve Bank of Zimbabwe (RBZ) comfortably selling precious gold at a loss, and Treasury's proposal for deeper debt talks with the West. It also covers two detailed articles for further reading which focus on the housing crisis in Zimbabwe and the importance of public participation in fighting climate change.

2. Weekly Economic Review and Analysis

2.1 National Lithium Ore Policy: A Step in the Right Direction

The global economies particularly advanced countries like the US and the European Union (EU) are witnessing a seismic shift from fossil fuel dependency toward electric vehicles (EVs) and clean energy technologies. Mineral commodities such as lithium are significantly benefiting from this shift. With high energy density, lithium is used in the production of rechargeable lithium-ion batteries which have become one of the main energy storage solutions in modern EVs. This has seen global demand for lithium skyrocketing, expected to reach approximately 2.5 million metric tonnes (MT) by 2030 up 756% from 2020 levels of about 292 000 MT.¹

Zimbabwe holds Africa's largest lithium reserves and the fifth-largest deposits globally. With rising demand, the base metal has great potential to transform the nation's fortunes. However, the rushed acquisition of local lithium mines by foreigners and the massive exportation of unprocessed lithium ores by artisanal miners has posed major obstacles to the development of the lithium sub-sector. Cognizant of the foregoing, the government through a statutory instrument (SI 213 of 2022) imposed a ban on the export of raw lithium in 2022.² Now, authorities have approved the Lithium Ore Policy as follows:

- Any individual or entity which owns a lithium concession can mine lithium ores for either processing at its own Approved Processing Plant (APP), or for sale to those with approved processing plants locally;
- Any individual and or entity wishing to process lithium ores will be required to construct an APP locally;
- Ore movement permits for lithium ores will only be issued where such ores are destined for a local APP;
- Lithium ores can only be stored at the mining site where such ores were mined, or at a local APP;
- Any entity will require a Lithium Ore Purchase License to buy ores from miners. A local APP will be a condition of getting the Lithium Ore Purchase License.

1. <https://www.statista.com/statistics/1220158/global-lithium-demand-volume-by-application/>

2. <https://www.reuters.com/world/africa/zimbabwe-bans-raw-lithium-exports-curb-artisanal-mining-2022-12-21/>

- All players in the Lithium sector whether miners or holders of APP shall submit a summary of monthly reconciliations of Ore movements to the Ministry of Mines and Mining Development; and
- For any material to qualify as a concentrate for approval for export, it shall meet the minimum set technical specifications and the minimum selling price as set by the Minerals Marketing Corporation of Zimbabwe regularly.

This Lithium Ore Policy (LOP) which seeks to prioritize local beneficiation of lithium is a step in the right direction as it is in sync with global dynamics. For instance, Chile, the world's second-largest lithium supplier is set to nationalize its lithium industry to boost its economy and protect its environment³ while Mexico has already nationalized its lithium deposits to maximize benefits from the "new gold"⁴. Zimbabwe's LOP has also great potential to empower and transform the livelihoods of local artisanal miners in lithium-rich communities while generating direly needed foreign currency through the exportation of processed lithium and lithium products.

However, the government must ensure that awarding lithium licenses is a transparent process and that license costs are affordable in order not to crowd out the poor majority. In 2021, Chinese giants Zhejiang Huayou Cobalt, Sinomine Resource Group, and Chengxin Lithium Group acquired local lithium mines and projects worth a combined \$678 million and are currently developing processing plants. Government must ensure that such big companies with approved processing plants (APPs) buy lithium ores from local artisanal miners at competitive prices to avoid exploitation. Also, the public expects authorities to strictly adhere to the lithium policy unlike in previous years where diamond, chrome, and black granite policies have been inconsistently implemented.

2.2 ZWL Continues on A Free Fall

The Zimbabwe dollar (ZWL) continues plummeting against the US dollar in both official and alternative markets. In the week under review ending 24 April 2023, the local unit erased 2.2% to settle at ZWL/USD 1000.68 which is slightly lower than a 3.4% loss incurred in the prior week ended 10 April 2023. Cumulatively, the ZWL had shed 31.6% of its value in the official interbank market since the beginning of the year to date. The Reserve Bank of Zimbabwe (RBZ) exchange regulations allow businesses to add a 10% margin above the official interbank rate thus effectively putting the rate for pricing purposes in the week under review at ZWL/USD 1100.75. However, since businesses are driven by the profit motive, they are benchmarking ZWL prices at or above the prevailing parallel exchange rate to reduce exchange rate losses. The disregard for exchange regulations by corporates is largely driven by perpetual foreign currency liquidity challenges in the official markets.

3. <https://www.msn.com/en-ae/news/other/chile-to-nationalize-lithium-mining-world-s-second-largest-supply/ar-AA1afNEI>

4. <https://internationalbanker.com/brokerage/mexico-nationalises-its-lithium-industry/>

This illiquidity is forcing many formal businesses which are failing to access the RBZ forex auction market to join their informal counterparts in the expensive and too volatile alternative markets to meet operational forex demands. Statistics show that the local unit is massively deteriorating against the US dollar in parallel markets. For instance, ZWL bank transfers are currently trading at about ZWL2000 per US\$1. When this is compared to the official rate, the average gap (parallel market premium) exceeds 100% which is way above the conventional threshold of 20% required for sustained stability to hold. In year-to-date (YTD) terms⁵, ZWL is down 55% in the parallel market which is relatively higher than the 41.7% decline realized for the same period in 2022. Many factors are driving ZWL's free fall including among others excessive election-linked fiscal spending, unsustainable money supply growth, dwindling market confidence, adverse ZWL inflation expectations, rent-seeking behaviors, and rigid exchange rate management.

With the poor majority largely earning in ZWLs, unabated depreciation of the same is exerting astronomical pressure on ZWL prices (reducing purchasing power). Thus, significantly constraining household budgets, widening income inequality, and plunging citizens into extreme poverty. This shows that the blended (weighted average) inflation produced by authorities – the latest March 2023 figures show a monthly inflation rate of 0.1% – is masking the cost-of-living crisis. Blended metrics are also affecting financial reporting, asset valuation, business contracts, interest rate setting, indexation, pay setting, wage negotiations, research and analysis, and estimation of production costs among many others. All these can obliterate market confidence by severely jeopardizing the credibility of the government and its policies.

As such, authorities must publicly disseminate separate USD and ZWL inflation statistics. To stabilize the ZWL, it is high time that authorities maintain fiscal discipline, fully liberalize the exchange rate, adhere to principles of transparency & accountability, and implement prudent, market-driven policies/reforms to thwart prevailing pricing distortions emanating from lack of competition and disruptive innovation.

2.3 RBZ Selling Gold Coins at A Loss

In July 2022, RBZ introduced gold coins into the market in a clear attempt to stabilize the volatile exchange rate. At the time, the local unit of exchange had lost over 75% of its value against the US dollar in year-to-date (YTD) terms in both forex exchange markets. Consequently, price inflation mounted by a staggering 196.16 percentage points from 60.74% recorded in December 2021 to close July 2022 at 256.9%. These statistics vividly show that the intuition behind gold coins was to provide the market with an alternative lucrative asset for value preservation to reduce US dollar demand pressures.

5. YTD means from the beginning of the year to the current date

Also, gold coins would work as RBZ's additional zero-interest earning open market operation (OMO) tool to mop excess ZWL liquidity in the economy. Official statistics show that during this period, broad money (total money) supply growth was highly unsustainable spiking by 154% from ZWL475.36 billion to close July 2022 at ZWL1.21 trillion.

While the introduction of gold coins was a noble idea to deepen financial markets and clamp incessant ZWL decline, selling gold in ZWLs at an overvalued official rate is tantamount to selling the precious yellow metal at a loss thus promoting rent-seeking. For instance, parallel market exchange premia are currently at over 100%. This huge gap allows one to sell a few US dollars in the parallel market to buy cheap RBZ gold coins being sold in fragile ZWLs and later resell them domestically or abroad at competitive global gold prices thereby making riskless profits. The cycle continues where the rich are easily amassing wealth aided by state institutions while the poor majority are being trapped in abject poverty. It is therefore the public position that RBZ must stop selling gold at a discount at a time the nation has limited reserves in its vaults. These reserves (foreign currency or gold) are crucial in supporting the volatile local currency, buffer to stabilize the balance of payment position, and use during unforeseen contingencies like climate-induced natural disasters.

2.4 Zimbabwe to Engage the West Over Debt

Zimbabwe is struggling with a huge debt overhang which is hindering economic progress. Official statistics show that as of September 2022, public debt stock stood at US\$17.6 billion with US\$14.04 billion being external debt. Of this external debt, nearly 45% (US\$6.3 billion) are penalties and arrears. A huge chunk of these arrears is owed to the Paris Club (54.5%), World Bank (21.1%), and the African Development Bank (10.2%). The domestic debt stands at US\$3.6 billion with a larger portion (97.2%) being owed to former farm owners (FFOs) who were affected by the chaotic and bloodbath fast-tracked Land Reform Programme of the early 2000s. Zimbabwe then signed a Global Compensation Deed in 2020 to compensate these FFOs for farm improvements as per the dictates of the Constitution.

Composition of Public Debt (US millions)

Type	Source	Creditor	Total Amount	% Share	Arrears & Penalties	% Share
External Debt	Bilateral	Paris Club	3552	25.3%	3437	54.5%
		Non-Paris Club	2200	15.7%	509	8.1%
	Multilateral	World Bank	1475	10.5%	1333	21.1%
		AfDB	671	4.8%	644	10.2%
		European Investment Bank	372	2.6%	361	5.7%
		Others	69	0.5%	26	0.4%
	RBZ	-	3370	24.0%	0	0
	Blocked Funds	Cash Payments	32	0.2%	0	0
		Treasury Bonds	1049	7.5%	0	0
		Other Creditors	1251	8.9%	0	0
		Total	14041	100%	6310	100%
Domestic	Govt Securities	Pvt Sector	89	2.42%	0	0
	T/Bills	Pvt Sector	71	1.93%	0	0
	T/Bonds	Pvt Sector	18	0.49%	0	0
	FFO	Pvt Sector	3500	95.0%	0	0
	Arrears	Pvt Sector	6	0.16%	6	100%
		Total	3684	100%	6	100%

Source: Public Debt Management Office (PDMO), ZIMCODD

Zimbabwe's failure to service its debts when they fall due resulted in borrowing sanctions from multilateral lenders - the nation can no longer access concessionary borrowing terms. Hence, it is now resorting to risky collateralized borrowing (mortgaging mineral commodities for debt) which is fuelling unsustainable resource extraction and displacement of citizens from their communal land to pave way for mining activities. Faced with this reality, authorities developed an Arrears Clearance, Debt Relief, and Restructuring Strategy (ACDRRS) and have started engaging creditors for a debt resolution. The first high-level debt dialogue co-chaired by AfDB President Adesina was conducted in Harare in February 2023.⁶

The government committed to a plan to clear external debt arrears and implement economic, governance, and land tenure reforms.⁷ As a follow-up to the debt dialogue held in Harare, Prof. Mthuli Ncube during the recently held IMF-World Bank Spring Meetings announced plans to hold deeper debt discussions with the West - UK, USA, and the European Union.⁸ These Western countries are Zimbabwe's major creditors. While this is a welcome development, it remains to be seen if there is an adequate political will to fully implement robust policy reforms like electoral reforms in an election year. But, be that as it may, the initiation of these dialogues is a step in the right direction with the potential to bring a lasting solution to Zimbabwe's decades-long debt distress post-election period.

6. www.tellzim.com/zimbabwe-structured-debt-dialogue-is-a-step-in-the-right-direction/

7. <https://www.reuters.com/world/africa/zimbabwe-committed-debt-arrears-clearance-president-says-2023-02-23/>

8. <https://www.bloomberg.com/news/articles/2023-04-13/zimbabwe-will-hold-deeper-talks-with-rich-nations-over-debt#xj4y7vzkq>

3. Articles for Further Reading

3.1 Housing Crisis Now a Wicked Problem

A wicked problem is a problem, usually social or cultural, that is challenging or impossible to solve either because not enough is understood about the problem, the number of stakeholders involved, the number of varying opinions, the economic burden, or the impact of these problems with other problems.

A review of the housing challenge in Zimbabwe fits squarely under the prism of a wicked problem as the political, economic, and social dynamics surrounding the challenge go beyond what is on the surface. One of the major challenges is the use of housing, stand, and land allocation for political expedience. Wholesome populist policies take precedence over national housing demands and housing aspirations prescribed in the National Development Strategy 1. A factor that facilitates and sustains housing challenges thereby creating a vicious cycle of unfulfilled demand. Some of the challenges undermining effective housing in Zimbabwe are presented hereunder:

Stand Backlog Waiting Lists

Housing backlog and waiting lists have reached alarming levels across the country with local authorities failing to meet the demand for stands. Optimum allocation of stands has been affected by a myriad of challenges which include; nepotism, corruption, wholesome populist policies, economies of affection, and partisan politics. Currently, Bulawayo City Council's waiting list is at 130 000, while Harare City Council is expected to be between 180 000– 200 000. At the same time, the national housing backlog stands at two million. This points to the scale and magnitude of housing shortages in the country as well as housing inequality.

Emergence of Land Barons

The emergence of land barons has been the major driving force of illegal settlements and demolitions as they are purported to be allocating state land to people without the state's consent. At the same time, the land baron has been at the apex of allocating wetland stands to people something which is in contrast with the Environmental Management Act [Chapter 20:27]. Nevertheless, it is interesting to note that, the majority of the housing cooperatives and land barons are linked to the ruling party. Some are a result of wholesome populist policies and announcements that are made at political rallies.

Wholesome Populist Policies

Political interference and wholesome populist policies remain major impediment to public infrastructure financing in local authorities. This can be evidenced by former President RG Mugabe when he ordered 92 local authorities to write off domestic debt water bills and rates incurred between 2009 - 2013. The revenue lost by the 92 local authorities is estimated to be around US\$2 billion. It is critical to note that, since then local authorities have never recovered. The impact of debt cancellation has a bearing on service delivery and servicing of the stands as it robs local authorities of much-needed revenue.

Corruption

Corruption has remained one of the major impediments to inclusive housing stands allocation in Zimbabwe. A key informant from Harare City Council stated that council officials are at the apex of corruption in stand distribution. They can temper with the waiting list and parcel huge hectares to their own land development organizations. The issue of land developers has generated so much controversy regarding how the tender process is done. An official from the Ministry of Local Government stated that some of these issues are beyond council officials' pay grades. There are just given orders from above and act accordingly. The 2021 Auditor-General Report also laments weak land internal control mechanisms in local authorities saying that the majority of councils are operating without a land bank register for effective accountability of land reserves.

Organisational Incapacity

The economic crisis in the country has undermined the organizational capacity of local authorities. The majority of local authorities are no longer able to fulfill their mandate due to financial constraints. Consequentially, they are now using their land as a mode of payment either for a loan or any other service that they might have received. Redcliff Municipality is a case point, the Municipality entered into an agreement with Livetouch Investments (Private) Limited for the sale of land valued at US\$847 962 in exchange for vehicles. The vehicles involved in the transaction were four (4) Toyota Hilux, one (1) Toyota Fortuner, one (1) Backhoe loader, five (5) Nissan NP300 trucks, one (1) Grader, one (1) Skip bin loader, Toyota 18-seater bus, one (1) Toyota Quantum Ambulance and a Fire tender. However, the challenge to this arrangement is that there are no proper value-for-money audits on the land and the services being provided. In most cases, there is a discrepancy between the value of what local authorities receive and what they pay.

Conflicting Legal Frameworks Governing Housing

The housing sector is governed by a myriad of conflicting legal frameworks which include but not limited to the following: National Constitution, Zimbabwe National Human Settlements Policy of 2019, National Development Strategy 1, The National Budget, Devolution and Decentralization Policy, Civil Protection Act (Chapter 10:06), Communal Lands Act (Chapter 20:04), Disabled Persons Act (Chapter 17:01), Environmental Management Act (Chapter 20:27), Forestry Act (Chapter 19:03), Housing and Building Act (Chapter 29:07), Housing Standards Control Act (Chapter 29:08), Mines and Minerals Act (Chapter 21:05), Older Persons Act (Chapter 17:11), Transport Act, Urban Councils Act (Chapter 29:15), Water Act (Chapter 20:24), Zimbabwe National Water Authority Act (Chapter 20:25), Public Health Act (Chapter 15:09), Rural District Councils Act (Chapter 29:13) and Traditional Leaders Act (Chapter 29:17). These local frameworks are also reinforced by the United Nations Sustainable Development Goals as well as Africa Agenda 2063. Although these legal frameworks were established to enhance decent housing, the majority of the frameworks conflict thereby undermining efforts to redress the same challenge they were established to address.

While ZIMCODD acknowledges that, the housing crisis has become a wicked problem, it believes that if urgent action is taken the challenge can be resolved. ZIMCODD calls for robust structural reforms anchored on good governance. This will be critical in flashing out corruption, land barons, wholesome populist policies, clearing the housing waiting list, and enhancing local authorities' organizational capacity. Unless and until the above challenges are addressed the housing ambition prescribed in the NDS remains a wish.

3.2 Importance of Climate Action

Zimbabwe is one of the Southern African Development Community's (SADC) climate change hotspots. Climate change has decimated and shifted livelihoods, leaving already vulnerable communities exposed to diseases, cyclones, frequent droughts, and rising temperatures. The government's response to climate change's impact is inadequate compared to the effects felt by affected communities. In this way, the urban people, and vulnerable groups particularly youths and women who reside in urban high-density areas are disproportionately impacted by climate change. They have limited access to decent jobs and lack stable access to food and nutrition. Furthermore, the effects of climate change on certain rural areas' productivity can encourage people to move to cities, which accelerates population growth in urban areas particularly high-density suburbs. Urban areas are already home to more than 50% of the world's population and by 2050, the percentage is expected to reach almost 70% (UNFP,2018).

To attain climate neutrality, public participation is crucial. Yet, engagement must be carried out in a meaningful way for the participating institutions and citizens to have the desired effects. Especially in the context of urban development, citizen-led mitigation and adaptation are essential for the advancement and acceleration of climate policy action. For instance, enhancing their knowledge and ability to shape environmental and climate change policy, will greatly help young people so that local solutions can flourish. To speed up bottom-up climate mitigation and adaptation initiatives in the urban environment, the top-down method necessitates the creation of concrete action plans for public involvement and engagement.

The need for public participation in climate action is not new, despite increased focus in recent years. Giving citizens a voice in climate change-related decision-making has long been recognized and supported by intergovernmental organizations and authorities, as seen by the 1992 Rio Declaration, the 2015 Paris Agreement, the 2020 European Climate Pact, and the European Green Deal. Similarly, to this, the scholarly literature generally agrees on the advantages of public involvement in environmental decision-making. They include raising fresh perspectives based on local knowledge and skills, encouraging social learning, and increasing community acceptance and support for climate initiatives. Additionally, it has been found that meaningful engagement is essential for ensuring that policies are developed in a socially responsible manner.

Empowering citizens to actively participate in and jointly own their climate-neutral futures is very important even though it is still unclear how this might be accomplished. The actual design of public participation has not been the subject of any systematic empirical studies. Although it is important to engage citizens in climate action, a structural barrier to meaningfully involving citizens in climate change adaptation and planning is the absence of supportive policies, regulations, and planning tools. Additionally, other challenges faced by citizens are the lack of environmental awareness and denial of climate change, attachment to location, and self-perceptions.

Deliberative events, to start, show the active part that citizens can play in making decisions and creating a consensus-based strategy to address challenging issues, such as climate change and food systems. This structure is thought to be able to address the conflict between citizens and experts and break the generational impasse in representative democracy. In Zimbabwe, the local government should set up forums for interaction with citizens so that they can discuss climate change issues in the same way they discuss service delivery issues. This is very important because youths should assume leadership roles in developing solutions to this urgent issue of climate change.

There are numerous ways to do this, for example, by identifying gaps in youth engagement through research and data collection. Also, sensitizing the youth and local communities about climate change by enhancing awareness through robust training curricula that use local languages to ensure inclusion. Furthermore, widespread youth involvement in disaster preparedness and response, particularly at the grassroots level, can contribute to the development of a youth engagement movement. In addition, increasing the adoption of best practices in agricultural and environmental projects at the community and individual levels. To put youth front and center, we can also include youth participation in advocacy for swift action on the climate crisis.

Participatory budgeting, community members deciding how to distribute public funds, has long been acknowledged to involve residents in local governance and decision-making. Local authorities and rural district councils in Zimbabwe might adopt this concept to support climate change adaptation, all of which will be decided upon by locals. This budget ensures an increase in citizen awareness of the advantages of climate change adaptation and mitigation in a way that meets their needs. In other places, green participatory budgeting has been proposed to achieve a more equitable and environmentally friendly post-pandemic recovery.

Restoring natural environments for the most vulnerable communities by fusing ecosystem restoration with community development. For instance, Dangamvura residents have been engaging in urban agriculture, which has exposed the mountain to land degradation. A community-led, nature-based solution that addresses poverty, hunger, and climate change through the regeneration of trees and shrubs is tree planting and identifying suitable land for agriculture for the residents. By reserving the Dangamvura mountain, Mutare City Council can earn money by acquiring carbon credits.

Creating green jobs and climate-smart livelihoods is also very important as communities recover from COVID-19, we must address climate change and take steps to end poverty and inequality to prevent future crises. By assisting in the preservation and reconstruction of livelihoods while taking climate risks and climate-smart outcomes into account, we support sustainable economic activities. We support the development of inclusive market systems, climate-smart agricultural practices, and sustainable natural resource management to boost market access and sustainable agricultural production.

Encouraging youth participation is very important because Youth have already demonstrated a remarkable capacity for organizing around causes, they care about. To improve society and have a transformative effect on young people's lives, there is a need to create spaces for their activism.

It is crucial to be dedicated to empowering girls and boys as change agents and making sure their active involvement and opinions are considered in decision-making regarding climate action at the local, national, and international levels. Supporting increased climate action is very essential as this will take a tremendous amount of work to these targets.

Additionally, another way to empower citizens and show them that their opinions matter is through citizen science. One such initiative is tree planting, which involves the co-creation of an open platform with citizens to promote democratic participation in measuring and comprehending air quality and ultimately increase public awareness of the issue through community conversations and discussions. As a result, participants, or citizen researchers, not only reported changing their behavior because of having better perceptions of and practical knowledge about air pollution but also having more confidence in their own opinions. This is in line with the finding that citizen science promotes policymaking, particularly for underserved communities, and offers benefits beyond "simple learning."