

ZIMCODD

ZIMBABWE COALITION ON DEBT AND DEVELOPMENT

WEEKLY REVIEW

10 AUGUST 2021

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 (27.07.2021)	Week (03.08.2021)
ZWL85.6402 per USD1	ZWL85.7286 per USD1

Consumer Price Index

June	July
3.88%	2.56%

July Year on Year Inflation

56.37%

Food Poverty Line (FPL) for 1

\$ ZWL 4,379.00

Total Consumption Poverty Line

ZWL \$ 6,126.00

Covid-19 Cases

Week (01.08.2021)	Week (08.08.2021)
Positive cases 109 546	Positive cases 116 327
Recovered 76 665	Recovered 88 829
Deaths 3 583	Deaths 3 900

National Recovery Rate

Week (01.07.21)	Week (08.08.21)
70%	76%

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1. COVID-19 Resource Tracker Issue NO. 68

Overview

The COVID-19 Resource tracker is a ZIMCodd initiative to keep track of all resources pledged, received and expended by the Government of Zimbabwe in response to the COVID-19 pandemic from March 2020 to date. The aim of the COVID-19 Resources Tracker is to strengthen transparency and accountability by the government on COVID-19 resources while empowering citizens with information to hold the government to account for the allocation and utilisation of COVID-19 resources. The tracker is updated on a weekly basis.

Overall:

Total Pledges = US\$851,789,802
Honoured Pledges = \$643,724,503
Amount Spent = \$580,555,028

For the week ending 03 August 2021:

Total Pledges = US\$ US\$894,118
Honoured Pledges =US\$-
Amount Spent = US\$53, 000,000

The full tracker is found on: <http://zimcodd.org/wp-content/uploads/2021/08/Tracker-Issue-68.pdf>

2. Debt Watch

Public and Publicly Guaranteed External debt including RBZ external guarantees at 31 December 2020 amounted to US\$10.5 billion which is about 71.2% of GDP. Of that amount, arrears alone make up over US\$6.5 billion (77%) of total external debt.

3. The Irony of the Heroes and Defense Forces Day

Zimbabwe celebrates the Heroes and Defence Forces Day on the 9th and 10th of August respectively. The two holidays rightly celebrate the liberation struggle and the unforgettable contributions of the gallant sons and daughters who took arms to liberate the nation. Zimbabwe went into war with its former colonial master, Britain to obliterate the racist colonial system which reduced black Zimbabweans into second class citizens in their own country. Zimbabweans across the political divide must therefore unite around these holidays and reinvigorate a weakening sense of patriotism. Hyper-partisanship and unresolved grievances around issues such as electoral disputes, festering inequality and untamed corruption have taken a huge toll on the nation's shared sense of pride in the liberating gains of the Chimurenga war. They

have also undermined public confidence in the public role of the military amidst the increasingly unaccountable role of the military in the country's economic and political affairs.

Even so the liberation struggle that ushered in independence, was expected to correct the inherited colonial imbalances and annihilate the same social and economic injustices that have become commonplace in present day Zimbabwe. The majority of Zimbabweans are still struggling. The pandemic has exposed the weakness of the social protection systems that are supposed to cater for the vulnerable, whilst the Government's neo-liberal policy obsessions have continued to shrink the Government whilst concurrently expanding taxes and increasing the national debt for the benefit of a few. If Zimbabwe is to make the celebrations of the Heroes and Defence forces day more meaningful, she has to re-orient her governance system and craft progressive and inclusive policies to address social and economic inequalities.

4. Supplementary budget for Child protection services urgently needed

Zimbabwe's commitment to child protection services which is significantly low as evidenced by allocations from 2017 (US\$ 1.35 million), 2018 (US\$ 1.6 million in 2018), 2019 (US\$ 1 million) and 2021 (US\$ 1.2 million). At the same time the Mid-Term Review Budget was anchored on unrealistic stability and growth henceforth failed to give an incremental budget to the social welfare department. Governments' failure to release an incremental allocation towards social protection services attests to the cruelty of ongoing austerity measures at a time when the combined impacts of the pandemic and economic decline have affected children of school going age in many unprecedented ways. Approximately 2.6 million children are in need of assistance as Severe Acute Malnutrition (SAM) has increased from 0.2% in 2018 to 1.4% in 2019¹. Despite such increase in SAM the government in 2019 reduced its allocation to Child Protection Services, a clear anomaly in government spending prioritization. As of November 2020, approximately 3 526 children had received ZWL\$ 400 which was later reviewed to ZWL\$ 1 500 in January 2021 – an amount too meagre to make meaningful changes to the lives of children. On the other hand, good governance and the concept of meritocracy has been under threat from the militarization of state institutions thereby putting corporate governance in intensive care unit as some military personnel lacks the prerequisite skills to lead.

5. Banks Sit on Idle US\$1.7 Billion

Whilst the Foreign Exchange Auction System (FEAS) is in dire need of US\$ liquidity; the Treasury Secretary recently revealed that US\$1.7 billion is lying idle in banks. This not only points to an 'incomplete market,' but exposes the weaknesses of the FEAS as a forex market. It also showcases the knock-on effects of the legacy challenges broadly reflected by the lack of market confidence. Bids worth US\$200 million remain unpaid – pointing to the illiquidity of the FEAS. By design, the FEAS is supposed to provide fair and predictable access to forex (US\$) for corporates. Compulsory surrender requirements on export earnings and local US\$ sales partly finance the FEAS. This explains the understatement of export returns as well as the smuggling of minerals as a way of limiting losses associated with formal reporting of exports. Although the Treasury Secretary would have anticipated banks to lend US\$ to corporates, the uncertainty around currency reforms exposes banks if they issue out US\$-denominated loans. Legacy issues around government's tendency of turn-coat currency reforms have undermined overall confidence in the local banking sector. That explains why most of the US\$ is unbanked whilst the banked US\$ is largely transitory. Ideally, banks keep the US\$ deposits to meet call demand by clients. All the same, the RBZ no longer plays the lender of last resort with respect to the foreign currency (US\$) thus any US\$ exposure require banks to seek other avenues of closing such gaps which might not be tenable. From a credit risk perspective, few corporates record viable USD sales – making it untenable for banks to extend US\$ loans. For better availability of forex on the markets, government must disband the FEAS and adopt a market-oriented

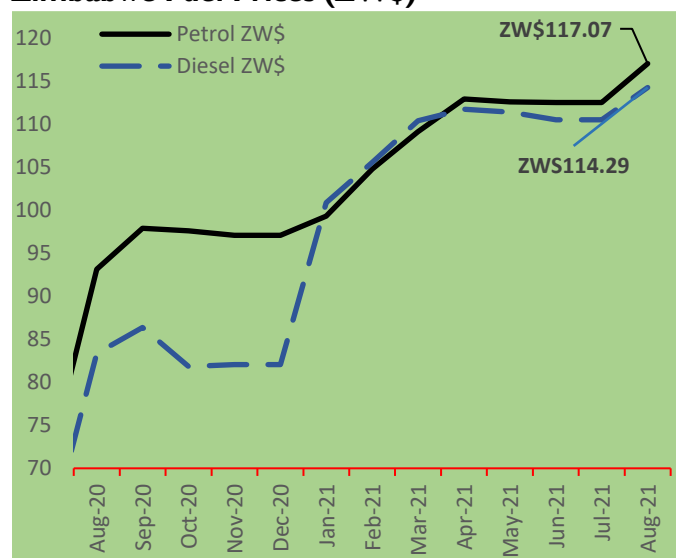
¹ www.reliefweb.int/report/zimbabwe/humanitarian-action-children-2020-zimbabwe

market, invest in building confidence in the financial sector, stamp out corruption and, make sound currency reforms to safeguard the integrity of the country's banking and financial sector.

6. Fuel Increase Pile More Misery for the Poor

As it has become a norm of adjusting prices on the 5th of every new month since the beginning of 2021 (save for July 2021), the Zimbabwe Energy Regulatory Authority (ZERA) has provided a new fuel price sheet to be followed by fuel operators in August.

Zimbabwe Fuel Prices (ZW\$)



The maximum pump price for a litre of petrol is now ZW\$117.07, up by ZW\$4.52 from ZW\$112.55 per litre in July. In forex, a litre of petrol is now going at US\$1.37 from US\$1.33 last month.

Also, maximum pump price for a litre of diesel is now pegged at ZW\$114.29, up by ZW\$3.75 from ZW\$110.54 charged last month. In US\$, a litre of diesel is up by US\$0.03 from US\$1.30 in July to US\$1.33 in the month under review.

According to ZERA, fuel operators may however charge prices below the cap.

With no further comment on the reasons for price hikes from ZERA, we believe that changes in the global oil prices have necessitated this month's hike given that no review was implemented last month. Statistics from investing.com² show that Brent oil price is up 47% since we started 2021. In June, prices gained 8% followed by a 2% increase in July. The irony is that rising oil prices have negative consequences on countries like Zimbabwe which are net fuel importers. Apart from external factors, the exchange rate also determines pump prices for local sales. Though registering marginal declines, the local unit is losing value against the greenback on the RBZ auction since the beginning of the year. Since fuel is imported using hard currency, domestic prices must move in tandem with exchange rate developments.

Notwithstanding these global developments, the government has a moral duty to cushion its citizens from exorbitant prices. High fuel prices will lead to high transport fares, reducing the purchasing power of the vulnerable poor who are earning in local currency. Since the introduction of the Direct Fuel Import (DFI) scheme last year, the fuel market has completely dollarized. A dollarized fuel market amid ZW\$ exchange rate overrun especially in the parallel market, the main forex source for individuals and informal sector businesses, will only exacerbate the cost of living for the average citizen. From a social justice perspective, the government should foot a portion of rising fuel costs through the re-introduction of fuel subsidies. This is not only good for social welfare, but good for the corporate world as well since diesel is also an input used in industrial production.

² <https://www.investing.com/commodities/brent-oil-historical-data>

7. Child Marriage, A Threat to Gender Equality and Women Empowerment

For the past few days, the death of Memory Machaya (14) who died on the 15th of July while giving birth³ on church shrine and buried within 2 hours⁴ has provoked national outrage. It is alleged that the matter was reported to the police and no action was taken. It was not until CSOs and citizens made noise about the issue on social media thereby forcing the police to issue a press statement that they were now investigating the matter. This speaks volumes to the anomalies in the structural system of the country in respect to the rights of women. Investigations by ZIMCODD revealed that child marriage is a common practice in the apostolic sector especially around the Mafararikwa area in Marange. A myriad of dynamics intersects to place a child at risk of marriage, including poverty, family honour, social norms, customary or religious laws that condone the practice, the perception that marriage will provide protection, an inadequate legislative framework and the state of a country's civil registration system. One of the key informants noted that, it's so sad that the authorities will never give due attention to the matter and the perpetrators of this great injustice will continue to walk freely. It's unfortunate that religion which is supposed to set societal norms and protect the girl child has been used as a conduit pipe for violating the rights of the girl child as the so called "informers" are regarded as sacrosanct and their decisions are not questioned.

Early and forced child marriages are known to perpetuate the cycle of poverty. Every year, worldwide, it is estimated that 12 million girls are forced into marriage⁵. Over 700 million women worldwide alive today were married as children and that 1 in every 3 girls in the developing world is married by the age of 18. Judging from such statistics it is clear that early marriages are inimical to development and predisposes young girls to health complications such as HIV/AIDS, cervical cancer, fistulas and stunted growth in children born of young mothers, factors which also lead to an increase in both maternal and child mortality. To this end, progress must be significantly accelerated in order to end the practice by 2030 – the target set out in the Sustainable Development Goals. Without further acceleration, more than 120 million additional girls will marry before their 18th birthday by 2030⁶.

8. Nepotism, corruption and economies of affection, a concoction of governance epidemics

Zimbabwe's development trajectory remains under constant threat from nepotism, corruption and economies of affection. This concoction of governance epidemics has culminated in the rampant abuse of public resources by a narrow political elite and powerful bureaucrats.

The recent Auditor General's report on COVID-19 funds attest to this assertion as approximately US\$ 89 022 103 meant for vulnerable Zimbabweans heavily affected by COVID-19 was looted⁷. The money was meant for cushioning the elderly, people with disabilities, child-headed households, food insecure households, chronically-ill persons and small-to-medium enterprises whose operations have been affected by lockdowns. The report noted that, the US\$89 million could not be accounted for because of:

"The processes of identification and assessment of intended beneficiaries was not properly co-ordinated, resulting in unreliable databases of beneficiaries, processing of payments to duplicate beneficiary names and beneficiaries who had similar identity numbers, but of different gender and dates of birth.

³ <https://www.zimlive.com/2021/08/07/police-investigate-death-of-girl-14-during-child-birth-at-church-shrine/>

⁴ <https://www.zimlive.com/2021/08/07/police-investigate-death-of-girl-14-during-child-birth-at-church-shrine/>

⁵ <https://data.unicef.org/topic/child-protection/child-marriage/>

⁶ <https://data.unicef.org/topic/child-protection/child-marriage/>

⁷ <https://nehandaradio.com/2021/08/07/us89m-covid-19-funds-may-have-been-stolen-chiwenga-tried-to-conceal-report/>

However, abuse of public resources by public officials is not a new phenomenon in Zimbabwe year in year out the Office of the Auditor General continues to unearth abuse of public finances but no one has been brought to book. The 2017, 2018 and 2019 audits reports attest to this verdict.

ZINWA on the other hand, has made headlines and trend on social media platforms for wrong reasons. A tender scandal of USD\$ 109 million for the construction of Kunzvi Dam was controversially awarded to China Nanchang when there was a cheaper and more reputable bid at USD\$ 66 million⁸ from Sino Hydro. This presents a variance of US\$ 43 million which could have been channelled to procurement of more vaccines as well as improvement of the living conditions of the mass by strengthening social protection systems.

The Zimbabwean governance crisis is further exacerbated by ZACC, an ombudsman institution with a clearly defined constitutional mandate to address corruption but lacking the power to deter it. On Thursday the 5th of August 2021, the chairperson of ZACC Justice Loice Matanda-Moyo noted that corruption was rife in government, parastatals and other entities⁹. It is ironic that, even though ZACC is aware of the pervasiveness of corruption in government it has made little headway towards ending it. As a result, it is the masses who continue to suffer while the elite loot. There is no excuse for ZACC for not prosecuting corrupt public officials as it has sanctioning powers unlike other Commissions which only refer the matters to the police.

If Zimbabwe is to foster sustainable development and realize vision 2030, she has to embrace good governance, meritocracy and corruption eradication because currently she is perambulating on the wrong trajectory. Meta-governance if fully embraced and implemented can be the answer she has been waiting for as it will enable watchdog institutions to operate fully and independently.

9. Privatization of Fidelity Printers and Refinery

Harare: - Last week, Treasury chief Prof. Mthuli Ncube announced to Parliament that the Government has found 10 local gold companies that will have a majority shareholding in the country's sole gold refinery, Fidelity Printers and Refiners (FPR). The sale of a 60% stake is valued at US\$49 million, while the Reserve Bank of Zimbabwe (RBZ) will retain 40% ownership of the gold refinery company but retaining a 100% stake in the printing, minting, and gold financing business. Under the new FPR structure, the 60% private equity will be allocated based on the average volume of gold companies have delivered to the refinery over the past three (3) years. As per the initial privatization plan announced in December 2020, large-scale (primary) producers are expected to buy 50% shares while 7% will be available to small-scale miners through their representative bodies and the balance of 3% will be for gold buying agents.

The privatization of a gold refinery is in tandem with international best standards. For instance, the Rand Refinery of South Africa is privately owned by the 5 biggest gold producers.

The economic intuition behind the privatization of FPR is to unlock value, for both the government and gold miners in Zimbabwe. In recent years, the parastatal faced challenges in paying for gold deliveries due to forex shortages thus fuelling gold smuggling and illicit financial flows. Apart from delays in payments, the FPR price offering was way below the international offering, prompting rampant side marketing and gold smuggling. This has prejudiced the nation huge amounts of forex earnings annually. Some conservative

⁸ <https://www.theindependent.co.zw/2021/08/06/us109m-tender-scam-rocks-zinwa/>

⁹ <https://www.newsday.co.zw/2021/08/graft-rife-in-govt-zacc/>

estimates from the International Crisis Group¹⁰ indicate that Zimbabwe loses in excess of US\$1.5 billion in gold revenue annually due to corruption and smuggling.

If payment of gold deliveries was smooth, 2020 is the year the country was expected to benefit significantly from gold exports. During the year 2020, global gold prices were up 25% reaching their all-time high around July supported by the ravaging COVID-19 pandemic. Gold is a haven during times of uncertainty, a characteristic it derives from its long history of use as a store of value and currency. But, being that as it may, gold miners managed to deliver about 19.05 tons to FPR in 2020, down by 31.13% from 27.66 tons achieved in 2019. In 2019, the nation experienced one of its worst electricity deficits in more than a decade, with load shedding schedules running for an average of 15 hours per day yet more gold was delivered to FPR than in 2020 when the electricity situation had greatly improved thanks to import support and gold prices skyrocketed. From this observation, one can be satisfied that more gold was produced but siphoned out of the country illegally. The FPR estimates that in 2020, it lost about 11 tons of gold due to leakages.

So, privatization of the gold refinery will go a long way in correcting price imbalances between local and global offerings. As local prices mirror the global market, deliveries to official points of sale will balloon hence increasing capacity utilization of the refinery. It is reported that the Msasa-based refinery is yet to reach its 50-ton per year installed capacity since its establishment in 1988. Further, exports will jump thereby increasing forex balances in the economy, which is critical for the stability of the Zimbabwe dollar. According to RBZ Exchange Control regulations, all exporters (including gold miners) are obliged to cede 40% of their forex earnings, a portion of which is used to finance weekly forex auction trades.

Nevertheless, some imbalances must also be corrected for the nation to reach its full gold potential. For instance, the RBZ retention thresholds are too high, which increases operating costs for miners. Ceding 40% of forex in exchange for a fragile ZW\$ renders local miners uncompetitive hence a need to reduce the threshold to 10-20%. Also, public corruption must be ameliorated and more financial support should be given to small-scale miners, who for years now, have been the largest contributors to annual gold output.

¹⁰ <https://www.news24.com/fin24/economy/africa/zimbabwe-says-it-lost-a-third-of-its-gold-output-to-smugglers-20210622>