



ZIMBABWE

STATEMENT BY
THE MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT,
HON PROF. MTHULI NCUBE

ON PAYMENTS TO THE MARKET FOLLOWING THE
IMPLEMENTATION OF THE VALUE FOR MONEY PROCESS ON
GOVERNMENT PROCUREMENT CONTRACTS

19 SEPTEMBER 2022

BACKGROUND

1. Macro economic stability has been a major downside risk to the budget and the economy. Inflation has taken a huge toll on the economy in the past 8 months and the Government of Zimbabwe has taken relentless and significant steps to stabilize the exchange rate and control inflation.
2. As you are aware, his Excellency the President announced through the Presidential Policy Statement various measures that were targeted at the exchange rate and the broader macro economy. These and subsequent supportive policy measures announced by the Ministry of Finance and Economic Development and the Governor of the Reserve Bank of Zimbabwe in the past 8 weeks have signaled to the market, Government's total commitment to maintaining price stability, and restoring market discipline, which in turn will engender market confidence.
3. On the 18th August 2022, the Ministry of Finance and Economic Development issued a statement to the public to the effect that we were now instituting a Value for Money Process on all payments to suppliers and contractors to Central Government, Departments and Agencies.
4. This followed a careful analysis, where Treasury observed that certain pricing behaviours and trends in the supply chain to MDAs pointed to weaknesses in the procurement framework, and that these loopholes have contributed to distorted pricing practices by the market.
5. These behaviours were effectively directly driving inflation in the economy, making inflation control difficult, as market behaviour were in fact creating and sustaining adverse inflation expectations.
6. It was therefore a necessary and urgent imperative for the Government through Treasury to institute additional comprehensive measures to further

strengthen procurement systems and to improve management of payment cycles for Government contracts.

Ladies and gentlemen this statement today is to give an update to the market on the progress made since the announcement of the value for money process four weeks ago.

MEASURES TAKEN TO IMPROVE THE PRICING FRAMEWORK FOR GOODS AND SERVICES SUPPLIED TO GOVERNMENT MINISTRIES DEPARTMENTS AND AGENCIES

7. Government has noted with concern pricing of goods and services offered by suppliers to Ministries, Departments and Agencies as well as Parastatals and Local Authorities. The pricing framework adopted by suppliers has been characterized by a behavioural tendency for forward pricing models and benchmarking prices to front loaded parallel market exchange rates. These pricing models are leading to extortionist pricing of goods and services supplied to the Government Ministries, Departments and Agencies not anchored on economic fundamentals. We have seen supply contracts with prices clearly determined using forward parallel market exchange rates some as high as ZWL2000 per USD. The extortionist pricing of goods and services supplied to Government is in most cases not anchored on economic fundamentals.
8. Government has also noted with concern the fact that substantial differences in pricing are obtaining in the market for goods and services supplied to the Government as compared to other customers. Government systems are being primed to flash out instances of overpricing of goods and services offered to Government Ministries Departments and Agencies, MDAs
9. Furthermore, it has been noted that MDAs through the various procurement management units, have not been exercising due diligence, especially

regarded the value for money in terms of pricing. They have merely following procurement rules without due regard to established value for money practices already enshrined in the Procurement laws of the country. Tenders have been awarded without due regard to price checks on the basis that prices have passed a competitive bidding process. Some examples are a tender for laptops which purportedly cost close to USD10 000 each which is way above general market prices for high specification laptops, whilst in other spheres a 2kg pack of chicken was claimed to be worth USD30 when market prices is a maximum USD6 for the same. We have seen a bag of cement being priced at an equivalent of USD18 per bag on some construction projects. Such ladies and gentlemen is the extent of overpricing which is rendering the Government budget inadequate and our position as government is that this is not acceptable.

10. The combined effect of the above behaviours has resulted the rapid erosion of Budgeted resources and hence the need for Government to come up with a raft of measures to deal with the menace.
11. One of the key steps was the Treasury Circular issued to MDAs, which also followed the announcement by the Ministry of Finance and Economic Development of the establishment of a value for money audit process to be embedded into the procurement cycle for all goods and services.
12. Furthermore, Government through the Treasury, is now very strict in enforcing measures to enhance economic stability
13. The value for money process will now result in punitive measures being taken against any Government officials found to be complicit to overpricing and procurement malpractices while suppliers will be blacklisted and excluded from future supply contracts. All existing contracts are now being subject to a value for money audit before payments are made.

14. In light of the above Government started enforcing measures to enhance economic stability by suspending all inflated payments and ordering an audit exercise to revalidate all running contracts and renegotiate prices with various suppliers. As expected there has been resistance to this exercise but we have seen Accounting Officers and progressive suppliers have seen the merit of this exercise and there is now a reasonably high level of compliance.

PAYMENTS FOR GOODS AND SERVICES SUPPLIED TO GOVERNMENT MINISTRIES DEPARTMENTS AND AGENCIES

15. The Government of Zimbabwe remains committed to maintaining macro-economic stability and the elimination of harmful and destabilizing arbitrage conditions that have pervaded the economy at the expense of the generality of citizens.

16. The suspension of all payments to on contracts that are clearly based on speculative forward exchange rates has seen a rapid correction in the market with the official exchange rates on the auction and the WBWS exchange rates in the banks converging between ZWL605/ 1 USD to ZWL660 /1USD.

17. This correction has been supported by a significant and observed retreat of the unofficial exchange rates to levels below ZWL700/1 USD.

18. Whilst government supply contracts have been undergoing a validation exercise, we have continued to pay up on those that meet the Value for Money criteria.

In the last six weeks, government has paid a total of ZWL184 billion dollars broken down as follows:-.

WEEK ENDING	Amount Paid ZWL
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12 August 2022	25,376,799,988.14
19 August 2022	32,237,301,353.79
26 August 2022	16,700,762,707.89
02 September 2022	22,797,581,511.46
09 September 2022	10,816,796,786.53
16 September 2022	63,578,550,545.63

19. These payments have been made to various players in the market so it is not a fact that Government is not paying for goods and services. As we move ahead to implement the Value for Money process, we are committed to honouring all our obligations provided that they are priced correctly in the public interest and such payments will not adversely impact the exchange rate and cause inflation.

Let me close by saying that:-

Government is committed to the restoration of price and macro stability and the elimination of forward speculative pricing is a necessary step towards removing adverse inflation expectations, which have been feeding lack of confidence.

Following the implementation of the value for money process we expect all pricing in the market to be based on economic fundamentals. Speculative behaviour will no longer be accepted nor tolerated.

We therefore encourage all stakeholders in the economy to benchmark prices fairly for all consumers as this bolsters confidence in the economy.

The full ambit of government policy tools is being used to restore macrostability.

This is necessary if the objectives of the Vision 2030 are to be achieved

I Thank You,

Hon. Prof. Mthuli Ncube

MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT

19 SEPTEMBER 2022

END OF STATEMENT

SOME QUESTIONS THAT HAVE BEEN ASKED BY VARIOUS STAKEHOLDERS.

1. Why did it take long for Government to realise this and take action?

Overpricing might have been happening in the beginning it was not rampant and analysis only showed a massive change starting June and we had to stop this immediately after realising the pricing of goods and services was one of the major contributors to the instability. By paying for goods priced on forward speculative exchange rates Government purchases were in fact fuelling inflation, so the responsible thing to do is to stop everyone and restore normalcy

- 2. How is government looking at litigation costs? Is this exercise not against laws. Contracts were already signed and goods and services consumed. Why look back and not go forward?**

Whenever there is an observation of exorbitant pricing/ fraudulent activities it is only proper to stop. Payments have not been stopped so there should not be any litigation if fair pricing is followed. Contracts might have been signed but when there is realisation that this is not in the interest of ensuring value for money and protecting public funds from abuse indeed payments can be suspended pending further investigations or audit.

- 3. What framework is in place to punish officials involved as well as suppliers?**

You might have noted the recent blacklisting of some companies and more will be and will not be allowed to participate in government tenders. Furthermore, from results of the audit, there shall be measures to punish civil servants found to be complicit to these frauds.

- 4. For future contracts is use of audit department not preaudit? Laws do not permit that. How are you dealing with that? What is role of PRAZ in all this? How does it relate to the Value for Money Unit announced? Is the VMU not a duplication of non-functional existing structures? Who is playing this role as we are a month after announcement?**

Audit units have a role to play and will help set the pace for future contracts. Remember suspension was done on submitted payments which some showed issues hence the necessity of including the audit units. PRAZ is a regulator and in this even SPOC did not pick this issue hence need for an independent unit to look at such issues. The issues are currently being handled by the Expenditure Management Department and The Central Internal Audit Unit within the Ministry of Finance and Economic Development.

- 5. When is government going to start making payments.**

Payments have never stopped except where there are clear issues. So even as we speak there are MDAs who have submitted their due diligence reports and payments are being made. Also, there are items which do not require due diligence and such we have continued to pay. We note resistance by some MDAs and the Accounting Officers will be held to account.

6. Is there any plans to review current legislation on government procurement?

Indeed there is need to strengthen the existing laws especially on value for money procedures and putting additional safeguards and checks and balances

7. Why is government not using framework agreements for pooled procurement and direct procurement from primary manufacturers?

Government already started implementing this with initial targets being the Police, Prisons, Defence, Education and Health ministries.