ZIMCODD

ZIMBABWE COALITION ON DEBT AND DEVELOPMENT

WEEKLY REVIEW

3 AUGUST 2021

Weekly Dashboard

Forex Auction Weighted Rate

Week (20.07.2021)	Week (27.07.2021)
ZWL85.6373 per USD1	ZWL85.6402 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 (25.07.2021)	Week (01.08.2021)
Positive cases 97 894	**Positive cases** 109 546
Recovered 65 913	**Recovered** 76 665
Deaths 3 094	**Deaths** 3 583

National Recovery Rate

Week (25.07.21)	Week (01.08.21)
67%	70%

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"

Please Connect with us, visit: http://www.zimcodd.org/or follow us on Twitter, Facebook
Website: www.zimcodd.org |Twitter: @zimcodd1 | Facebook: zimcodd

Contents

1. COVID-19 Resource Tracker Issue NO. 67

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$ US$850,895,684
Honoured Pledges = $643,724,503
Amount Spent = $$580,555,028

For the week ending 27 July 2021:
Total Pledges = US$-
Honoured Pledges =US$-
Amount Spent = US$53, 000,000

The full tracker is found on: http://zimcodd.org/wp-content/uploads/2021/07/Tracker-Issue-67.pdf

2. Debt Watch: Zimbabwe debt now at 71.2% of GDP

In his mid-term Budget Review, finance minister Prof. Mthuli Ncube highlighted that total Public and Publicly Guaranteed External debt including RBZ external guarantees as 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. Call for Transparency and Accountability in the Use of SDR Funds

ZIMCODD) continues to create spaces and pushing for transparent and accountable use of Special Drawing Rights (SDR) Funds. A virtual breakfast meeting was conducted on 29 July 2021 with parliamentarians following the International Monetary Fund's decision to Issue (SDRs) worth *US$1 billion* to Zimbabwe. The SDR funds are expected to help boost reserves, and rescue the nation from the socio-economic distress that has been exacerbated by the COVID-19 pandemic.

ZIMCODD cautiously welcomes the development as SDRs represent one of the most viable, and debt-free mechanisms for raising financial resources to combat the COVID-19 pandemic not only in Zimbabwe but in the rest of the economically vulnerable countries in Africa. However, transparency and accountability over the use of the resources remains equally important given the risks of corruption and illicit financial flows. The following are reflections, analysis and demands from the citizenry in relation to the use of SDR Funds:

Accountability Institutions: Parliament, must ensure that it effectively exercises its oversight role as mandated by Section 298 of the National Constitution and guard against any possible abuse and misuse of these resources. The roll-out plan, programming and expenditure of all special drawings must be presented to parliament by the Ministry of Finance. The Parliamentary Portfolio Committee on Public Accounts must be hands on, monitoring the appropriateness of the implementation and expenditure. It should be given sanctioning powers to apprehend officials that misappropriate SDRs.

Debt Sustainability: For economically vulnerable countries such as Zimbabwe, there is always a temptation to use the SDRs to settle the country's international obligations including the World Bank, African Development, European Investment Bank, Paris Club creditors and lenders as well as China which is now the country's major lender. Parliament should be well alert to ensure that the funds are not used to pay off odious debts that the country owes to financial institutions.

Revive the Crippled Health Sector and Invest in Infrastructure: The receipt of SDRs will certainly free up vital fiscal space for the Government of Zimbabwe to boost its spending on health. In other words, SDRs could provide the fiscal space to increase the capacity of the public health system which was already crippled before the emergency of the pandemic and oversee the effective distribution of vaccines. Citizens also demanded that the funds be channelled towards productive sectors which boost infrastructure while creating jobs for citizens.

SDRs are a necessity but not sufficient: Ultimately SDRs are a necessary but not a sufficient condition to resolve heavy indebtedness. In order for them to effectively contribute to debt sustainability in Zimbabwe, they should be deployed along with other mechanisms clamping down other deep-rooted challenges including illicit financial flows corruption as well as enhanced domestic resource mobilization.

Specific Account for SDR Funds: In order to monitor well the SDR funds, citizens demanded that a specific fund account that is closely monitored by parliament must be set up for the SDR funds.

Social Protection Mechanisms: SDR have come as a Global COVID-19 Response Plan to help address the socio-economic impacts of the pandemic and as such must be channelled towards providing social protection packages to those who have been made more vulnerable by the socio-economic shocks of the pandemic particularly the informal sector.

4. Mid-Term Budget and Economic Review lets the nation down

Fiscal processes must be for the people, to serve their interests and address their challenges. In particular fiscal instruments such as the National Budget and the Mid-Term Budget and Economic Review (MTBER) gives the government an opportunity to realign fiscal measures adopted by the government in the past with prevailing realities and unforeseen consequences. This usually results in the introduction of supplementary fiscal measures or sharpening of fiscal instruments. The MTBER announced in the 29th of July was a missed opportunity for the Government of Zimbabwe to undertake an urgent realignment of Fiscal Instruments to address pressing social and economic challenges for the majority of Zimbabweans.

The 2021 MTBER was presented at a time when approximately 49% of Zimbabweans are in extreme poverty whilst vulnerability has increased owing to job and income losses related to COVID-19. Disposable income has remained subdued as wage growth is overrun by inflation leading to suppression of aggregate demand. Social services such as the health and education sectors are in need of a face-lift whilst social safety nets are too meagre to make any meaningful changes to the lives of the disadvantaged.

Unstable macro-economic fundamentals continue to affect the businesses and the livelihoods of the majority of Zimbabweans currently subsisting in the informal economy with limited public support, criminalisation, and poor access to markets, financing and social security. Key infrastructure needs like power (electricity), water and roads are amongst the infrastructure gaps that require attention. The economy continues to record revenue leakages from the smuggling of minerals thereby reducing the revenue going to the state coffers. Amidst all these needs, the MTBER failed to provide a supplementary budget. The presentation of the MTBER rather showed that government is divorced from the obtaining social and economic realities and that the Treasury is engrossed with the need to balance its books at the expense of addressing the difficulties affecting the people. The inequities of the MTBER discounts the essence of people centred fiscal processes and calls for a spirited revision of government's neoliberal values.

5. Inflation still too high

As the prices of many necessities remain out of reach for the average citizen, it is worth highlighting the journey the nation has travelled so far. In 2018, newly appointed finance minister Prof. Mthuli Ncube embarked on aggressive austerity measures (belt tightening in official propaganda). At the same time Government also initiated a slew of domestic resource mobilisation mechanisms including the introduction of the infamous Intermediated Mobile Money Transfer Tax (IMMT) now popularly known as the '2% tax'. The Chief goal of austerity was to expand the fiscal space -ability to increase revenue without jeopardizing the economy, whilst domestic resource mobilisation efforts seem geared to redistribute wealth upwards from the 'have nots to the wealthy few.' The Transitional Stabilization Policy (TSP) (Oct 2018-Dec 2020) propelled these neo-liberal policies, further resulting in the growth of the national debt, disposal of national assets especially in the extractive sector and further deregulation of the economy. During this period, Treasury also implemented currency reforms including the re-introduction of the Zimbabwe dollar. In response to the limited fiscal space relative to expanding spending needs[1], Government resorted to money printing to cover budget shortfalls. RBZ statistics show reserve money[2] surging by 169.9% in 2019.

The excessive growth in money supply exerted massive exchange rate depreciation pressure. The Zim dollar plummeted by about 85% on both the interbank and alternative markets and via exchange pass-through fuelled price growth. In that year, annualized inflation rate surged from 42.1% recorded in December 2018 to close 2019 at 521%. Wages and salaries especially of civil servants were largely constant. Also, those in the informal sector and rural areas without reliable income flows were severely exposed to economic hardship. The economy was officially in hyperinflation as companies were directed to report their financials under IAS 29. The IAS 29 is an accounting standard used in hyperinflationary economies.

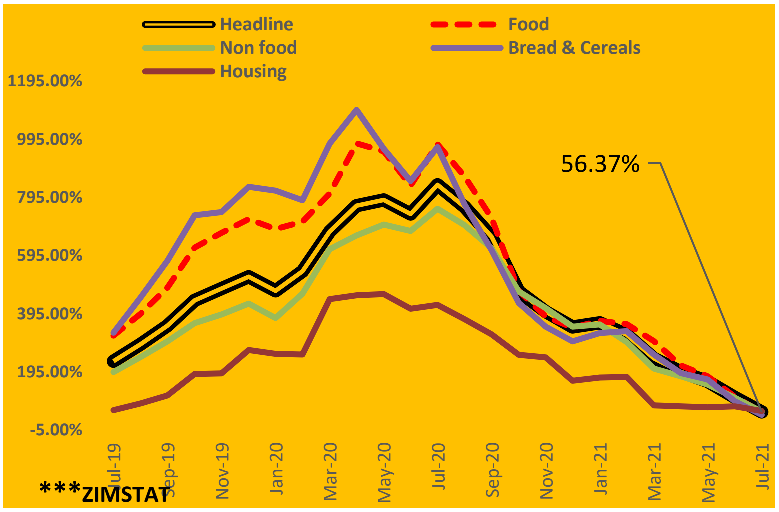
The latest statistics released by Zimbabwe National Statistics Agency (ZimStats) show annual inflation for July as measured by the all-items Consumer Price Index (CPI) plummeting by 50.27% to settle at 56.37%

[1] The economy was marred by *inter-alia* acute forex shortages, severe energy deficit, drought and Cyclone Idai which devastated infrastructure.

[2] Reserve money (also known as central bank's money or high-powered money) is the base level of money supply in the economy comprising of currency (notes & coins) in circulation and banks' deposits at the central bank (RBZ). It is the most price-sensitive level of the money supply as it is injected directly and at the discretion of the RBZ. Also, components of base money largely function more as a 'medium of exchange' than the 'store of value'.

from 106.64% recorded in the preceding month. This basically implies that prices have mounted 56.37% from the level they were in the same period last year (July 2020).

Zimbabwe Annual Inflation



From a month-on-month (MoM) perspective, ZimStats data shows that prices have increased by 2.56% between June 2021 and July 2021. The Reserve Bank of Zimbabwe (RBZ), whose primary role is to manage price growth, is targeting an annual outturn below 25% by December 2021, with a single-digit monthly outturn of under 5%.

Prices began moderating in second half of 2020 after treasury started spending sustainably, RBZ curbing excessive reserve money growth, reigning of mobile money transactions, and introduction of the forex auction market to help in ZW$ price discovery. During that period (July-Dec), reserve money grew by a moderate 15.8%, ZW$ gained nearly 20% of its value in the parallel market and inflation receded from a post-dollarization high of 837.5% recorded in July to close the year at 348.56%.

Despite annual inflation continuing on a downward trajectory in 2021, monthly inflation remained elevated. Liquidity (ZW$) growth continues burgeoning, emanating from heightened government spending. Public spending priorities such as grain procurements, national COVID-19 vaccination drives, 70% salary hike awarded to Civil Servants increases the money in circulation without stimulating productivity in the economy. This tends to result in a situation where too much money will be chasing too few goods -a cycle of inflation.

Recommendations

- **Government must maintain sustainable spending**, RBZ to curb reserve money growth. This will clamp runaway parallel exchange rates which are hurting average citizens' earnings in local currency yet most expenditures are quoted in hard currency.
- **Liberalize the auction market**. The auction-rate is now overvalued and no longer reflects true market valuation as evidenced by surging parallel premiums.
- **The vaccination rate must be increased**. There is a need to undertake awareness campaigns to reduce vaccine hesitancy and skepticism. This will accelerate economic re-opening and expand domestic production.

6. Agriculture is critical for socio-economic development

Agriculture is a critical tool which government can use to advance socio-economic development as the sector employs the majority of citizens, formal and informal sector alike. Most importantly, agriculture is a key determinant of rural livelihood and poverty levels.

In 2020, farmers countrywide managed to harvest under 910,000 metric tonnes (MT) of staple maize against a national annual requirement of about 2.2 million MT for both human and livestock consumption.

This 2020 output was 25% below the 5-year national average and a low yield of 0.57 tonnes per hectare was achieved.

Despite a local industry in dire need of forex to smoothen the importation of critical inputs, Zimbabwe National Statistics Agency (ZimStats) statistics show that 34.4% of US$ 1 billion was spent on maize and maize meal importation to support the vulnerable members of the society. About 60% of the population, both rural and urban dwellers, require food support particularly during lean periods.

The rural folks were the ones who felt the greater punch of the drought. Pasture conditions severely deteriorated affecting livestock production. Thanks to recurrent drought, staple maize became scarce in the market exerting massive inflationary pressures. A glance at an all-items consumer price index (CPI) tracked by ZimStats shows that the food basket was the key driver of headline inflation between 2019 and 2020. Consumer incomes were wiped away by raging inflation, plunging millions into abject poverty.

Nevertheless, this year, the country is projected to have attained its biggest grain harvest since 1984 driven not only by better rainfall received across most parts of the country, but also by rigorous implementation of conservation agricultural practices (Pfumvudza/Intwasa), early distribution of farm inputs, and strengthening of extension services. Estimates from the Ministry of Agriculture indicate that at least 1.5 million hectares were put into maize production and about 2.7 million MT tonnes are expected to be harvested.

The Grain Marketing Board (GMB) is expected to procure about 2 million MT of grains from farmers to the tune of at least ZW$60 billion, comprising of 1.8 million MT of maize and the balance being traditional grains like sorghum. The parastatal is buying maize and traditional grains at competitive prices of ZW$32,000 and ZW$38,000 per tonne respectively.

Farmers have also significantly benefitted from their sales of black gold (tobacco). This year, farmers are expected to deliver over 200 million kgs of tobacco. Tobacco Industry and Marketing Board (TIMB) statistics show that between April 7 (beginning of 2021 marketing season) and July 14 (closure of the season for non-contracted), small non-contracted farmers delivered 12.37 million kgs to the auction floors valued at US$34.83 million. About 60% of this value was paid directly to farmers in hard currency while the balance (40%) was paid in local currency at the foregoing RBZ auction rate. This has lifted thousands of rural folks out of poverty. This illustrates the benefits of strong agriculture performance to the welfare of citizens. The Zimbabwe Vulnerability Assessment Committee (ZIMVAC) Rural Livelihoods Assessment Report for 2021 shows a substantial improvement in nutrition across the country as 99% of people have gone without experiencing food insufficiency. The report also posited that the prevalence of food insecurity across the country had gone down from 56% in 2020 to 27% this year.

In light of the above benefits of agriculture to social and economic development, ZIMCODD recommends the following:

- Always ensure early distribution of farm inputs to farmers especially the vulnerable members of the society. Also, there is a need for constant intervention to make sure that market prices of inputs are affordable.
- Timely payment of deliveries by GMB is critical as it increases participation. Though the reports that government is now paying ZW$1.5 billion it owed to cotton farmers last year, the value of the money has significantly plummeted.
- Continue implementing conservation agricultural practices. This is the right thing to do as currently, the country lacks vibrant irrigation infrastructure. Hence, over-reliance on rainfall makes farmers susceptible to climatic changes.
- Government must prioritize investment in irrigation and strengthen extension services. It is estimated that irrigation can increase the yield of most crops by between 100% and 400%.
- Prioritize strengthening of the Zimbabwe Mercantile Commodity Exchange. This will be key in determining the true market value of commodities thus unlocking value for farmers.

7. Use of public resources for 2023 Elections partisan agendas condemned

The power of incumbency and unaccountable use of public resources to service partisan interests is visible in the ruling Government's efforts to consolidate its political position in preparation for the 2023 elections. However, this comes at the expense of the other public interest priorities during this time of pandemic, economic decline and political instability.

Towards the end of May, the government gave 18 Isuzu double cab cars to Chiefs[3] and another 19 to members of the POLAD on Friday 30 July[4]. In Zimbabwe political self-interest rather than the common good plays a critical role in determining the distribution of public resources. The first 18 cars were given to Chiefs, because they are the gatekeepers of rural areas, the custodian of tradition and thought leaders to many people in the rural communities. Thus, their strategic advantage in enabling the government to consolidate for 2023 should never be underestimated. An orthographic projection of the Zimbabwean election history clearly shows that the opposition parties have failed to win elections due to ZANU PF sophisticated rural area campaign strategy of capturing Chiefs and Headmen using public resources. The pampering of Chiefs and Headsmen with gifts sponsored by tax payer's money have become a fixture in Zimbabwe's pre-electoral contexts. However, this year the government has doubled down on this strategy by going further to spoil members of the POLAD. POLAD might be a different group, but what makes it similar to the Chief's scenario is that all the members of POLAD are political gatekeepers despite the fact that some lead small parties. Politics is a game of numbers and every vote counts henceforth the government has already started the process of securing the votes of POLAD leaders and their parties.

At the beginning of the year the government announced that it had set aside US$ 100 million for the procurement of 20 million vaccines but as of 2 August the COVID-19 vaccines budget had run out as US$ 93.2 million had been used[5]. The amount spent and the set target do not tally, this is a cause of concern which should be investigated by the relevant oversight bodies. At the same time the government has spent approximately US$1, 665, 000[6] for the 37 ISUZU double cab cars for chiefs (18) and POLAD members (19) at a time the pandemic is ravaging the economy and causing untold sufferings among communities. Hypothetically, if the money had been used for the purchasing of vaccines it could have bought 333 000 doses of Sinopharm[7] and gone a long way in pandemic management. Nonetheless, this is not the case as power corrupts, like Lord Action expressed this opinion in a letter to Bishop Mandell Creighton in 1887 "Power tends to corrupt, and absolute power corrupts absolutely"[8].

The governments' priorities have been corrupted by the need to tighten its grip on power while neglecting its social contract with the people as would have resulted in a priority option for the provision of affordable public services to the mass. To this end, there is need for strong and independent institutions to monitor and report on the use of public resources to promote partisan agendas especially in the context of the upcoming elections in 2023.

[3] https://iharare.com/pres-mnangagwa-hands-over-brand-new-cars-to-traditional-chiefs/

[4] https://www.zimetro.co.zw/teachers-criticise-mnangagwa-for-giving-cars-to-polad-clowns/

[5] https://www.newsday.co.zw/2021/08/zim-covid-19-budget-dries-up/

[6] Each ISUZU D Max Double cab cost approximately US$ 45 000 after duty

[7] At US$ 5 each.

[8] John Emerich Edward Dalberg Acton, first Baron Acton (1834–1902).