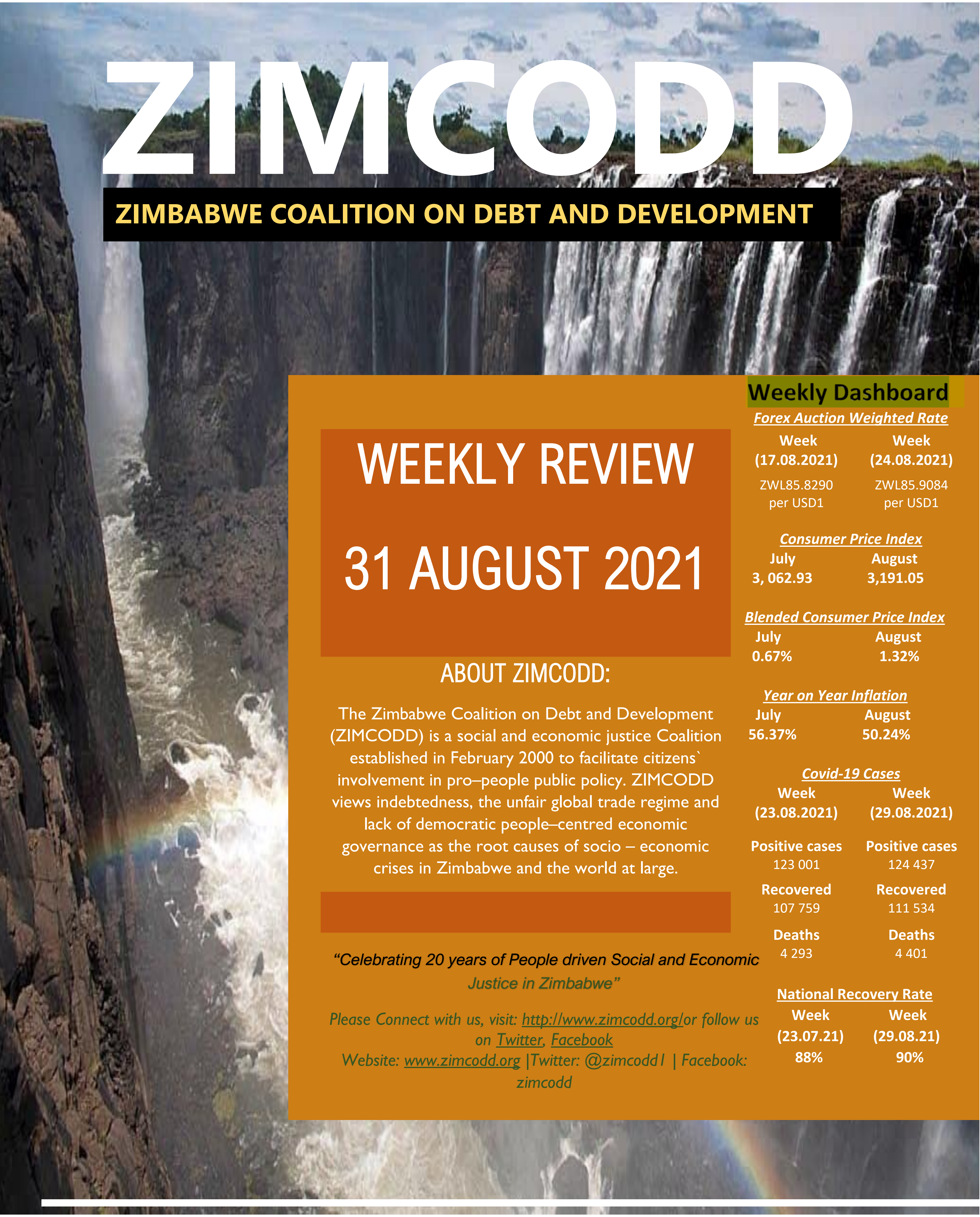

ZIMCODD

ZIMBABWE COALITION ON DEBT AND DEVELOPMENT

WEEKLY REVIEW

31 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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Website: www.zimcodd.org |Twitter: @zimcodd1 | Facebook: zimcodd

Weekly Dashboard

Forex Auction Weighted Rate

Week (17.08.2021)	Week (24.08.2021)
ZWL85.8290 per USD1	ZWL85.9084 per USD1

Consumer Price Index

July	August
3, 062.93	3,191.05

Blended Consumer Price Index

July	August
0.67%	1.32%

Year on Year Inflation

July	August
56.37%	50.24%

Covid-19 Cases

	Week (23.08.2021)	Week (29.08.2021)
Positive cases	123 001	124 437
Recovered	107 759	111 534
Deaths	4 293	4 401

National Recovery Rate

Week (23.07.21)	Week (29.08.21)
88%	90%

Contents

1. COVID-19 Resource Tracker Issue NO. 71

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$866,457,157
Honoured Pledges = $643,724,503
Amount Spent = $580,555,028

For the week ending 27 August 2021:
Total Pledges = US$ 40, 000,000
Honoured Pledges =US$ 15, 000, 000
Amount Spent = US$ 15, 000, 000

The full tracker is found on: http://zimcodd.org/sdm_downloads/tracker-issue-71/

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

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$6.5 billion (77%) of total external debt. Shelter Afrique, a Pan-African Banking Institution released US$ 11 million for the construction of low costing houses and is also funding the construction of 10 000 houses to be distributed across the country[1]. In addition, US$ 11 million was received from Afreximbank for the retooling of Sable Chemicals[2]. While these loans were secured for a noble cause, ZIMCODD calls upon the government to be

[1] https://www.herald.co.zw/us11m-for-low-cost-housing-released/
[2] https://www.herald.co.zw/sable-chemicals-secures-us11m-for-retooling/

transparent in the expenditure of these loans. The parliament must be furnished with the granular details of how it is being used.

3. SDR Allocation Should be used to Advance Social Welfare

Last week Zimbabwe received US$961 million from the International Monetary Fund in Special Drawing Rights (SDRs) to help boost the country's reserves and build resilience to withstand the negative socio-economic impacts of the COVID-19 pandemic. The pandemic has worsened existing underlying conditions of poverty and inequality within and between communities.

A retrospect of the year 2020 shows that the Zimbabwean economy was facing economic difficulties even before the outbreak of the virus. The first case of COVID-19 was recorded on Friday, 20 March 2021 and the country went on its first national lockdown and mask-wearing mandate on Monday, 30 March 2020. While one would have expected the negative impacts of lockdown on the economy to be significantly felt in April 2020, March 2020 annual inflation was recorded at 676.4%, up by 155.39 percentage points from the December 2019 level of 521%. From a month-on-month perspective, prices were up by 26.59% in March 2020. The local currency, the Zimbabwean dollar, closed March 2020 trading at ZW$40 and ZW$25 to US$1 in the parallel (alternative) markets and official market respectively. This gives a black-market premium, a percentage difference between parallel and official rates, of 40%. Global best standards dictate that for exchange rate stability to hold, black market premiums should not exceed the 20% threshold. Further, the 2019 Zimbabwe Vulnerability Assessment Committee (ZimVac) Rural Livelihoods Assessment (RLA) report[3] projected that 59% of the rural population translating to 5.5 million people would be cereal insecure during the Jan-Mar 2020 hunger peak period.

The foregoing paragraph illustrates the suffering and pain that was borne by the average citizen before the pandemic struck the nation before the addition of the effects of COVID-19 on social welfare. Zimbabwe's economy is highly informalized, with some conservative estimates such as the 2018 IMF report[4] positing that the sector is the largest in Africa, contributing about 60% of all economic activity. By completely shutting down this sector, tens of thousands of households were exposed to poverty. The National Treasury could not provide enough cash transfers to cushion the majority of the exposed groups. Of this little state support, some funds were swindled by public officials or utilized for unintended purposes as was shown by the latest Office of Auditor General (OAG) Special COVID-19 report.

While the performance of the social environment continues with its southwards journey, the overall Zimbabwean economy is projected to head north. In his Mid-term Budget Review presented to Parliament on the 29th of July, Finance Minister Professor Ncube revised upwards the 2021 growth rate of national output (GDP) from 7.4% that was initially anticipated in November 2020 to 7.8%. This shows the weaknesses of using GDP as a measure of citizens'

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[3] https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/documents/files/zimvac_2020_food_and_nutrition_security_update_report_february_2020

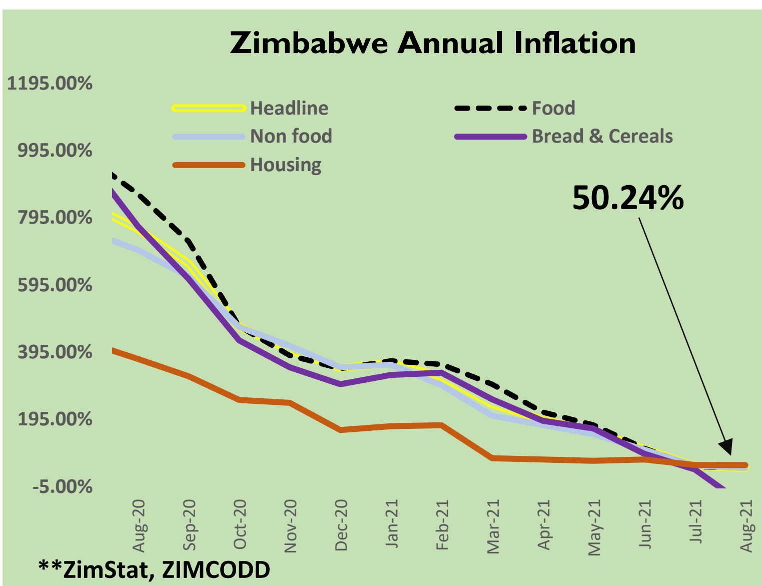
[4] https://theconversation.com/zimbabwes-shattered-economy-poses-a-serious-challenge-to-fighting-covid-19-135066

welfare. Considering aggregate variables like GDP growth alone might be misleading as numerous communities across the nation remain marginalised and underdeveloped. Social infrastructure remains acutely inadequate while service delivery is dilapidating at a faster rate.

Cognizant of the above, the government must prioritize this IMF SDR allocation on the programs that will facilitate the upliftment of social matrices. Growth without equity is meaningless. For quite a prolonged period now, most economic policies have been largely anti-poor while heavily promoting corporate interests. Since the 2021 GDP was projected to significantly recover from last year's severe dip with or without the SDR allocation, it becomes inevitable for authorities to use the windfall on those welfare-enhancing programs they could not initially afford to implement because of shortage of funds. These programs include *inter alia* constructing state-of-the-art roads, schools, and clinics in rural areas especially the resettlement areas, drilling boreholes to increase easy access to clean water, and revamp social safety nets such as the BEAM facility for the underprivileged students.

4. Zimbabwe Inflation Continues to Skyrocket

The latest inflation statistics released by the Zimbabwe National Statistics Agency (ZimStat) show that on an annual basis (Aug 2020-Aug 2021), prices of goods and services have gained by 50.24%. Though this was a decrease of 6.13 percentage points from the July outturn of 56.37%, it represented the slowest decline in annual inflation in 12 months. Monthly prices (July 2021-Aug 2021) surged by 4.18% in August, up by 1.62 percentage points from the 2.56% recorded in July -the biggest jump in monthly inflation since January 2021 when the outturn came in at 5.43%.

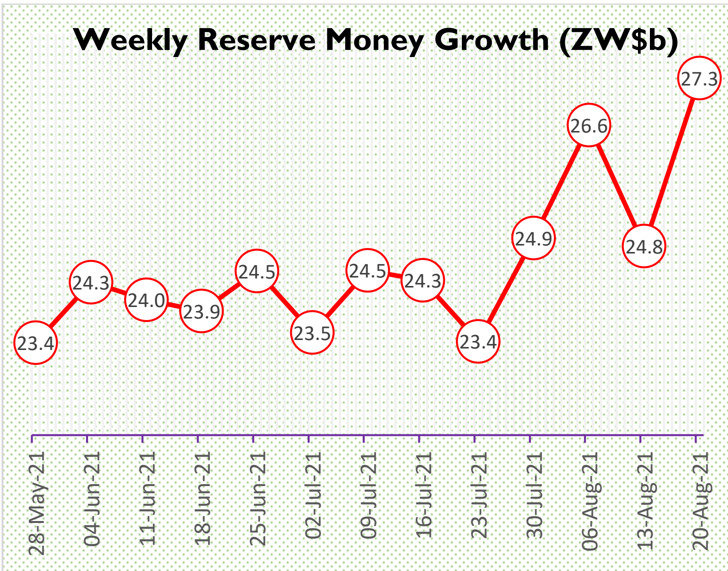


The Mid-term Monetary Policy presented early August, maintained the policy (interest) rate for short term loans at 40% as well as a Reserve Money (RM) quarterly growth target of 20%.

The high policy rate along with the low RM, signal the fragility of the local currency and its need for immense support to remain afloat. A relatively high policy rate is expected to deter borrowing for speculative purposes.

Despite the hawkish policy rate stance by the Bank, inflation continues to rise thereby inflicting misery on the average citizens. The key category in the all-items consumer basket being tracked by ZimStat, the Food Category, saw a 3.08% jump in August peaking up from another 2.52% recorded in July. This rise comes even though the country realized its largest production of staple maize since the Land Reform Program of the early 2000s and is the second-highest in history only behind the 1984 output of 2.95 million. Estimates show that farmers have harvested about 2.7 million tons of maize this year, against a national annual requirement of about 2.2 million tons for both livestock and human consumption. With this high output, one would expect food prices to decrease significantly as domestic supply in the open markets increases and also cereal imports nosedive which has not been the case.

Inflation pressure is being fuelled by excessive ZW$ depreciation, particularly in the parallel market. Currently, US$1 is costing ZW$150 which is up from ZW$140 in July and ZW$130 in June while remaining 'fixed' at around ZW$85 in the official market. The exchange rate overrun in the alternative markets is emanating largely from excessive liquidity (ZW$) growth in the economy from heightened government spending.



The Weekly Reserve Money Growth graph shows a rising momentum of reserve money supply in the economy and a threat to price stability.

Typically, the quantity of money in circulation in an economy should move in tandem with the quantity of output being produced in the real sector.

This is crucial to avert a situation where there will be too much money in circulation but chasing too few goods.

However, while the increased fiscal spending especially on grain purchases is fuelling depreciation and inflation in the immediate term, the Strategic Grain Reserve will provide a strong safety net especially to the vulnerable urban dwellers at risk of the excesses of profiteering businesses. Be that as it may, the government should prioritize stability of both the ZW$ exchange rate and general prices especially the basic commodities. Ensuring low inflation will be the best way for authorities to cushion the population and lift many out of poverty.

5. No to Following Parallel Market Rates

The failure of the auction market to bring exchange rate stability across the whole economy (formal or informal) speaks of the price distortions that exist in the economy. The unfortunate stance taken by government in ruling out further devaluation of the Zimdollar against the USD shows a lack of appreciation of the weaknesses of the foreign currency Auction Market system adopted since June of 2020. Getting the fundamentals right is not and must not be equated to 'following the parallel market.' The segregatory nature of the auction market (serving corporates and organizations on the priority list) also promotes the parallel market as non-listed corporates and organization get their foreign currency from the street. Heeding the need to open up the market goes a long way in reducing the parallel market premiums. It goes without saying that the continuous availability of foreign currency for all economic agents goes a long way in stabilizing the exchange rate. Whereas US$500 million drawn from the Special Drawing Rights (SDRs) has been earmarked to support the local currency, it is the sustainability of the funding in the medium-long term that is important. Government must look beyond the SDR and build own-sustainability in funding the auction market. The current unfair and unsustainable funding regime of the auction market through export earnings surrender requirements and local USD sales surrender requirements has slowed the auction market with some bids remaining unpaid for weeks on end. Although the SDR injection might give life to the auction market, it shall be short-lived as more bids will be filed against the US$500m and shortly afterwards, bids will start piling again. Some of the US$ injection might still be lost through the corrupt nature auction market. It is imperative for the government to consider an open market system as the hands of the RBZ dabble in setting the exchange rate in the auction market – reducing the confidence in the market.

6. Schools Reopening: Are the Parents, Teachers and Learners Ready?

Although it was a known fact that at some point learning would resume, teachers, parents and learners never thought that they would be given a five-day ultimatum. The word ultimatum in this scenario is used deliberately to reflect on the different consequences associated with the failure of either party to meet the 30th of August or the 6th of September deadline. On Tuesday the 24th of August, the Minister of Information, Monica Mutsvangwa made an announcement during the post cabinet briefing that the government had decided that schools; which were closed due to the third wave of COVID-19; be opened on Monday the 30th of August and 6th September respectively[5]. While it is a noble idea that schools reopen, parents feel ambushed by the government as some were caught unprepared with no school fees[6]. On the other hand, teachers feel like the government has not yet met their demands for salary increase and learners are terrified of exams as the year was characterised by COVID-19 induced hiccups. A baseline survey carried out by ZIMCODD reveals that parents, teachers and learners were not ready for schools reopening due to a number of reasons which include but not limited to; unavailability of school fees, poor wages (teachers), anxiety of the COVID-19 3rd wave and unprepared learners who feel that justice has not been done to their syllabus. Parents noted that, while we welcome the reopening of schools as it was long overdue, the government should have at least announced 2 weeks before to enable us to prepare for school fees and grocery for those in boarding schools. Even though, it is difficult to meet the needs and demands of everyone, the government should have at least carried out a random consultation process so as to accommodate the views of all stakeholders before making a decision. This is emanating from the fact that, a good policy is hybrid in nature, taking into account the citizens views before policy pronouncement.

7. The Curse of Host Mining Communities

Minerals and other natural resources are supposed to bring happiness and prosperity to host communities. However, this has not been the case in Zimbabwe as minerals and other natural resources have become a source of agony and poverty coupled with systematic displacement of inhabitants. The clash of villagers in Murehwa and Heijin a Chinese company is a clear testimony to the challenges being encountered by rich mining communities. Heijin was given "special mining grant to extract black granite"[7] and it now seeks to displace villagers to begin its operations. It is the same predicament which Mutoko villagers faces with another Chinese mining company called Shanghai Haoying Mining Investments. Minerals have become a source of misery for villagers as their discovery has been associated with displacements without consultation such is the brutal

[5] https://www.voazimbabwe.com/a/zimbabwe-covid-19-schools-reopening/6015946.html
[6] https://www.zimlive.com/2021/08/26/government-accused-of-ambush-over-short-notice-for-schools-re-opening/
[7] https://www.theindependent.co.zw/2021/08/27/chinese-miners-in-black-granite-frenzy-hundreds-of-villagers-in-murehwa-now-face-eviction/

manifestation of the so called opaque "mega-deals". The continuation of such, threatens vision 2030, attaining an upper-middle class economy by 2030 by infusing poverty through displacement and widen the inequality gap. It also exposes the government`s policy anomalies induced by greedy, self-interest and economies of affection. If the government was serious about national development and growth, they would provide alternative land to mining communities and begin to develop the land before mining companies commence their operations. However, the government`s silence is a threat to social protection and violation of state fiduciary responsibilities given to it through social contract.

8. Is An Upper Middle-income Society in Zimbabwe Attainable by 2030?

President Emmerson Mnangagwa noted that, despite the COVID-19 pandemic the country made significant achievements towards the attainment of Vision 2030. Adopted in 2018 when he came into power, the Vision seeks to grow the country into an upper middle-income economy by 2030. The formation of the New Dispensation in 2018 was believed to provide an opportunity for reconstruction and transformation of the economy to one which is capable of creating maximum opportunities for people to live a full and dignified life, taking advantage of the immense and diverse domestic resource endowments, tapping into investment prospects from international markets. This was backed by a number of economic blueprints set to ameliorate the country's economic woes.

According to the President, the country made huge strides in rehabilitation and upgrading of infrastructure, including the ongoing Harare-Beitbridge highway, which stretches to Chirundu on the northern border with Zambia and is one of Southern Africa's main roads linking the region to ports in South Africa. Other achievements cited, were made in dam construction, which he said remains central to boosting national food security and production of agriculture raw materials.

The latest economic analysis for the country states that the COVID-19 pandemic and its impacts disrupted livelihoods, expanding the number of extremely poor citizens by 1.3 million, and increasing extreme poverty overall to 49% in 2020. The number of extremely poor citizens rose to 7.9 million in 2020 due to the COVID-19 pandemic and its impacts, according to the World Bank's latest economic analysis for the country.[8] The pandemic further disrupted provision of basic public services in health, education and social protection, which were already strained prior. This has affected poor citizens the most.

Good governance based on rule of law, human rights and freedoms, accountability, transparency, responsiveness, equity and inclusivity, efficiency and full participation of the people in socio-economic development, is the bedrock for a new democracy and development. However, Zimbabwe is currently crippled by poor public finance management and limited recourse to external financing. In order to achieve Vision 2030, the country will need to rely heavily on reallocating domestic resources to optimal public uses, mobilize humanitarian support to prevent increasing fragility and leverage private financing where possible to stimulate growth. This has so

[8] https://www.worldbank.org/en/country/zimbabwe/publication/zimbabwe-economic-update-covid-19-further-complicates-zimbabwe-s-economic-and-social-conditions

far not been the case and with the current trajectory, Vision 2030 seems more like an over ambitious goal and another one of government's empty promises.