ZIMCODD
ZIMBABWE COALITION ON DEBT & DEVELOPMENT

Special Drawing Rights (SDRs): A chance to reshape socio-economic development in Zimbabwe

The advent of the COVID-19 pandemic unexpectedly disrupted the global economy and not only affected the livelihoods of many but worsened the circumstances of the vulnerable. The pandemic's coping mechanisms such as lockdowns widened inequality gaps with respect to income, market access, education, and health care. Zimbabwe, with an estimated 60% informality level, in debt distress, and facing high corruption and inflation levels failed to adequately cushion its vulnerable and marginalized communities from the dire impacts of the COVID-19 pandemic. As such, many were plunged into extreme poverty, for instance, the World Bank estimated that the pandemic added about 1.3 million Zimbabweans into extreme poverty in 2020 –scaling the number of people in extreme poverty to 7.9 million in 2020, translating to 49% of the population.[1] This was due to job and income losses in urban areas, a deterioration of social services in rural areas, and poorly financed social infrastructure. The vulnerability was also exacerbated by the fragile ZWL which kept losing its value massively in the parallel market from 2020-2021.

Amidst all these socioeconomic challenges, the country received a lifeline in the form of Special Drawing Rights (SDRs) from the International Monetary Fund (IMF). On August 23, IMF undertook a general allocation of SDR 456 billion (the largest in its history) – equivalent to US$650 billion to all its 190 members. Zimbabwe received its share of SDR 677.4 million or 0,124 % of the total IMF allocation translating to about US$961 million. These SDR allocations were meant to support the sustainable recovery of the global economy through the building of confidence and providing the growing global need for reserves. If prudently managed and allocated to due areas, the SDRs can reduce member countries' exposure to exchange rate volatility and liquidity constraints associated with the balance of payment (BoP) pressures. They will also help to alleviate foreign currency shortages and replenish diminishing foreign exchange reserves and fund essential imports, for instance, COVID-19 vaccines.

More so, the SDRs were also crucial in reducing IMF member countries, particularly the developing world's overdependency on public borrowing which is costly. A granular analysis shows that the SDRs have significantly impacted foreign exchange reserves for many African countries, a good example is that of Zambia, its gross international reserves have grown while Zimbabwe's is reported to have increased by six times.[2] Although there are no set conditions attached to the use of the SDR by the IMF, the government professed that a large chunk of these SDRs would fund efforts to stabilize the local currency, improve foreign currency reserves, set a contingent fund for future emergencies, infrastructure upgrading and support social interventions (vulnerable groups, education, health, and housing development). Furthermore, the government announced that the SDRs will be used to support the domestic productive sector, that is, manufacturing, agriculture, and mining.

However, Zimbabwe is struggling with massive abuse, misuse, embezzlement, and diversion of public resources for private gain as shown annually by the Auditor-General's audit reports. Also, over these

[1] https://africanthinker.com/2021/06/world-bank-report-flags-rising-poverty-in-zimbabwe/
[2] https://www.cnbcafrica.com/2021/putting-sdr-to-good-use-in-africa

Contact Details
9 Bargate Road, Mount Pleasant, Harare
Email: zimcodd@zimcodd.co.zw
Tel/Fax: +263-242-776830
Website: www.zimcodd.org
Facebook Page: ZIMCODD
Twitter @zimcodd1

years, the central government and RBZ have earned a consistent track record of policy inconsistencies -reneging on the prior announcements. This alone raises grave concerns about the transparency in the use of SDR funds. According to the finance minister, Prof. Mthuli Ncube, the Treasury has so far withdrawn US$311 million from its USD 961 million SDR fund as follows[3]:

Sector	Amount Allocation (USD)
1. Health a) COVID 19 vaccines b) Vaccine roll-out **c)** COVID-19 medical and testing equipment	 - 71 million - 6 million - 10 million
2. Agriculture productive social protection scheme for rural and peri-urban households	80 million
3. Road Development Programme and Emergency Road Rehabilitation Programme (ERRP)	144 million
TOTAL WITHDRAWALS	**311 million**

As alluded to earlier, prudent utilization of the SDRs can help build an economy that is resilient to global shocks and volatility. Thus, it increases the chances of a more certain future for women and youths. Nevertheless, the effects of the SDR windfall are yet to be felt across sectors of the economy more than 9 months since the funds were injected. Below is a brief rundown of these allocations:

Health: The US$87 million allocated towards the health sector has made little impact as the infrastructural and administrative gaps in the health sector continue to widen. For example, Hauna District in Manicaland Province is reportedly in a dire situation, with one functional ambulance. Despite it being a district hospital, its current state has made them appear like a clinic extension. The allocation towards extenuating the pandemic was commendable. However, the country could be sitting on stocks of vaccines as vaccination urgency lapsed and the intended herd immunity (60%) was never attained.

Education Infrastructure: Schools in remote and resettlement areas do not have buildings, classrooms, libraries, and laboratories. The current infrastructure gaps were exposed by the COVID-19 pandemic as most schools could not support e-Learning. Most rural schools do not have internet access, the same situation affects schools in towns and cities that are not classified in the A or B categories.

Agriculture Sector: The SDR funds edified ongoing dam construction strides as the government pushed 10 major dams in the country. Also, the SDR funds were directed towards irrigation schemes, key feet in adapting to worsening dry conditions linked to climate change. Such investments are meant to scale food production which has remained low in the face of low rains. These efforts are however polluted by partisan allocation of agriculture support programs such as the Presidential Agriculture

[3] https://www.herald.co.zw/zim-draws-down-us311m-from-imf-kitty/

Scheme and the distribution of Pfumvudza Agriculture inputs. In line with NDS1 Priority 3 premised on moving the economy up the value chain, the SDR allocations are yet to do much in fostering agro-processing and the creation of viable agriculture value chains capable of creating employment and value in the sector.

Industry Support: The revolving funds for supporting cotton and leather industries sidelines the re-tooling needs of the greater manufacturing industry. Obsolete technology is suppressing capacity utilization, the same as the competency of Zimbabwean industries. If SDRs would be used to fund the greater divide of the industry, a magnification of capacity utilization would suffice to lead to a recovery of the economy, job creation, and a sound contribution to DRM.

Infrastructure Development: Zimbabwe`s infrastructure remains a major impediment to investments. Despite efforts being done to revamp road networks, the national infrastructure does not sustain the aspirations of Vision 2030. Water and Sanitation infrastructure is wanting as most urban areas got persistent water challenges. Also, social amenity systems have been dilapidated. Housing infrastructure needs attention as urban housing is increasingly a nightmare for many.

Contingency Funds: By definition, contingency funds are a reserve set to ameliorate fiscal unexpected disruptions caused by either revenue shortfalls or expenditure overruns. Considering the circumstances of Zimbabwe, contingency funds are of less importance as there are innumerable challenges requiring funding. The health and education sectors are dysfunctional and are in a state of emergency. The levels of vulnerability triggered by macroeconomic instability and COVID-19 are worse enough to call for the use of contingency funds.

International Reserves: Normally reserves are used to stabilize the local currency, and maintain export competitiveness and general liquidity of the economy. In the Zimbabwean case, there is no correlation between international reserves and local currency performance as the ZWL has failed to bring about economic stability. The ZWL continues to lose value against major currencies thus if the international reserves were used as ascribed, the ZWL value could have stabilized in the international market. In any case, the fall of the ZWL is seemingly a 'freefall', thus re-deployment of these reserves to needy economic sectors is imperative.

In a nutshell, the prioritized areas so far are exclusionary of other key sectors that need capital injection. For instance, the Women Development Fund, Youth fund, Investments, and small and medium enterprises programmes. Although the Women and Youth banks were established, most of the youth and women have been unable to access the funds from these financial institutions which have set bank charges too high and their collateral security demands are proving a daunting task for concerned groups. In most cases, the small and budding businesses cannot meet the demands, which automatically excludes small and informal business which makes up a huge portion of the "employed" population.

Possible prescriptions for resourceful and impactful SDRs use:

- Stakeholder consultative meetings to ascertain the priority areas based on the people's needs.
- Reasonable frequent full updates and reports on progress made both at local and national levels.
- Reconsider other key areas which are critical to economic development for example women and youth participation and inclusion in the SDRs disbursement.

Contact Details
9 Bargate Road, Mount Pleasant, Harare
Email: zimcodd@zimcodd.co.zw
Tel/Fax: +263-242-776830
Website: www.zimcodd.org
Facebook Page: ZIMCODD
Twitter @zimcodd1

- Increased transparency on SDRs usage to attract new investments from international financial institutions. Full disclosure will be more useful to the critical stakeholders and the public for the government to regain public trust. Under-reporting equally defeats the purpose of disclosure.

Contact Details
9 Bargate Road, Mount Pleasant, Harare
Email: zimcodd@zimcodd.co.zw
Tel/Fax: +263-242-776830
Website: www.zimcodd.org
Facebook Page: ZIMCODD
Twitter @zimcodd1