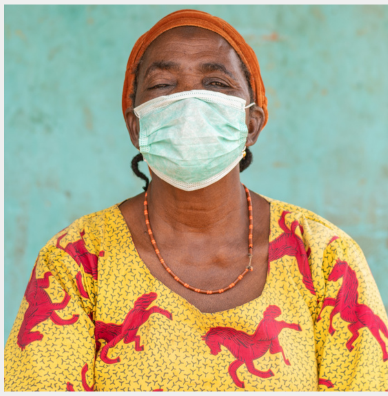
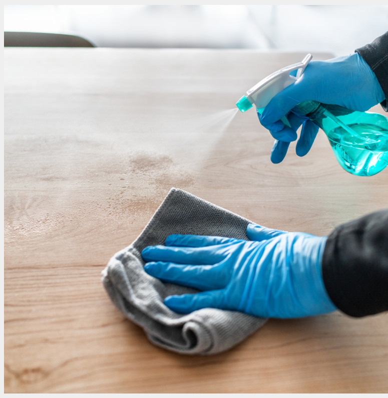
Zimbabwe's fiscal response to the COVID-19 pandemic.

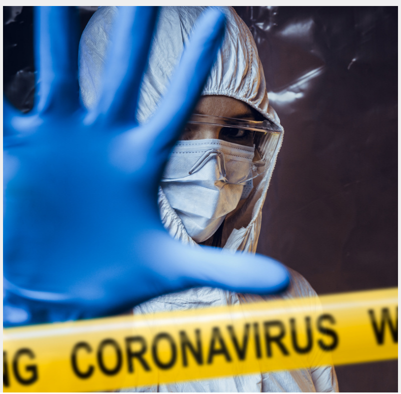
Zimbabwe Coalition On Debt And Development
ZIMCODD

TAX JUSTICE NETWORK AFRICA

Coronavirus disease (COVID-19) is an infectious disease caused by the SARS-CoV-2 virus. Most people infected with the virus will experience mild to moderate respiratory illness and recover without requiring special treatment. However, some will become seriously ill and require medical attention.







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1. Introduction

In the wake of a ravaging COVID-19 pandemic, governments the world-over initiated unprecedented surges in public spending and procurement to fight the pandemic. The use of lockdowns to restrict movement as a result of widespread infections led to livelihood disruptions especially for Zimbabwe's largely informal sector. The COVID-19 stimulus package was announced and implemented during a time that the country was already plagued by other socio-economic stresses including hyperinflation. This review seeks to track government fiscal policy measures in light of the COVID-19 pandemic between October 2020 and June 2022. Building on the formative analysis of the government's fiscal response in the first year of the pandemic and the scorecard which tracked specific budget allocations.

2. Background

The 31st of December 2022 marked the 3rd anniversary of the first officially recorded case of COVID-19 and between the first official case and now, the pandemic has disrupted livelihoods across the globe; especially for the poor. While the world has moved on and has adapted to living under the "new normal", the pandemic has brought permanent livelihood disruptions. Moreover, Zimbabwe's health sector remains fragile and under-resourced, both in terms of financial and human resources. In the 2020 budget, the Ministry of Health and Child Care was allocated ZWL 6.6 billion (about USD264 million) constituting 10% of the total budget, which is far below the 15% threshold set by the Abuja Declaration of African countries to improve their health sectors (WHO, 2011). Moreover, the subsequent budget allocations for 2021 and 2022 for the health sector were 13% and 14.9% respectively[1]; which still fell short of the requirements of the Abuja Declaration. Since health expenditure under normal conditions should be at least 15% of the national budget, the allocations under COVID-19 conditions meant that government was spending far less than it should towards health.

Moreover, the health sector was in a state of extreme disrepair with frequent strikes and a massive brain drain. The Zimbabwe Coalition on Debt and Development (ZIMCODD) noted that, approximately 2 200 nurses left for greener pastures in 2021 alone[2]. According to the Ministry of Health and Child Care, there are 1.6 physicians and 7.2 nurses for every 10,000 people (Government of Zimbabwe, 2020) against WHO recommendations of 4.45 doctors, nurses and midwives (health workers) per 1000 population needed to meet the Sustainable Development Goals.

1. https://www.veritaszim.net/sites/veritas_d/files/2022 National Budget Statement 25 Nov 2021.pdf
2. https://www.newsday.co.zw/2022/03/zim-lost-2-200-health-workers-in-2021-alone-zimcodd

The COVID-19 pandemic was preceded by crippling industrial action[3] by healthcare workers particularly doctors and nurses and by the time the pandemic took its toll, healthcare workers were reporting for duty twice per week citing incapacitation. Further, the World Bank (2021) reports that 500 000 Zimbabwean households have at least one member who lost her or his job, causing many households to fall into poverty and worsening the plight of the existing poor. A ZIMCODD Policy Digest concurs with the above assertion by noting that "extreme poverty increased by 1.3 million from 6.6 million in 2021 due to COVID-19 leaving 7.9 million people in need of assistance”.[4]

In addition, for the generality of the population, the COVID-19 pandemic evolved against the backdrop of a difficult macro-economic environment and climatic shocks brought by Cyclone Idai and recurrent droughts. The scale and magnitude of Cyclone Idai`s destructive capacity was catastrophic and considered to be one of the most devastating disasters. As of 14 April 2019, at least 334 people had been reported dead and over 257 people were reported missing due to the cyclone. 270 000 people were affected, including 129 600 children.[5] Approximately 7 000 people had their houses destroyed. The total reconstruction cost was estimated to be over US$ 50 million.[6] Thus, the pandemic came when Zimbabwe was still in a reconstruction mode coupled with funding gaps.

The nation was also struggling with increased fragility of the re-introduced local currency (ZWL) and incessant price inflation which widened inequalities and plunged the majority into abject poverty. In 2019, before the pandemic hit Zimbabwe, annual inflation averaged 237% as the ZWL erased about 85% of its value in parallel (alternative) markets. Due to foreign currency shortages as the ZWL was overvalued in official markets, businesses in Zimbabwe were forced to engage in forward pricing and (or) benchmarking their prices at parallel market rates to reduce exchange rate linked losses. Addressing the question of whether the stimulus package was an effective social protection tool, this analysis shows that the initial stimulus of ZWL 18.2 billion[7] was aimed at resuscitating business with only a small proportion (about 7.5%) going towards direct social protection.

In 2020, the pandemic hit the nation thus further exacerbating the tight economic situation. The ZWL lost a staggering 80% and 48% of its value against the USD in 2020 and 2021 respectively. As a result, annual inflation mounted by an unsustainable 390% on average during this period. With the economy estimated to be at least 60% informal and this informal sector employing 70% of the population, hard lockdowns significantly disrupted economic activity in the informal sector.

3. https://www.thezimbabwemail.com/health/chiwenga-fires-all-striking-nurses/

4. https://zimcodd.org/storage/2022/03/February-Policy-Digest-_2022.pdf

5. Bismark Mutizwa 2021. An Investigation into Organisation Capacity for National Disaster Management in Zimbabwe: The Case of the Department of Civil Protection. International Journal of Humanities, Management and Social Sciences, vol. 4, no. 1, pp. 11-22

6. Bismark Mutizwa 2021. An Investigation into Organisation Capacity for National Disaster Management in Zimbabwe: The Case of the Department of Civil Protection. International Journal of Humanities, Management and Social Sciences, vol. 4, no. 1, pp. 11-22

7. About 182 million at the time of announcement

This disproportionately affected the majority of citizens particularly poor households and disadvantaged groups like people with disabilities (PWDs), women and youths largely working in informal set ups. Furthermore, the disruption of the school calendar and the subsequent introduction of virtual learning largely affected young learners particularly those from marginalized rural communities facing the digital divide and erratic income flows.

Despite the government's mantra that "Zimbabwe is Open for Business", the pandemic hit Zimbabwe at a time when Foreign Direct Investment (FDI) was on a downward trend since 2018. The FDI for 2019 was USD250 million, a 65.24% decline from 2018[8] while 2020 witnessed an FDI value of USD150 million, a 39.74% decline from 2019. FDI estimates for 2021 stand at USD70 million, a further decline from 2020 figures as the pandemic hit hard.[9] This further strained the financial system as the country did not have sufficient foreign exchange liquidity to meet its foreign currency commitments even under partial dollarization (RBZ, 2022).

The liquidity crunch was further compounded by a staggering USD13.5 billion external debt.[10] The huge debt burden therefore, reduced the capacity of the state to fund recovery programs given that most lines of credit had been closed for the country due to unserviced debts. In 2020, the external debt stood at USD8.1 billion and out of this, about USD5.9 billion is accumulated arrears, interest arrears and penalties which constitute about 72.8% of external debt.[11] This means the principal debt is a mere US$2.2 billion; highlighting the country's poor debt servicing capacity. The failure of the fiscal mechanism to repay external debts when they fall due is a worrying signal for people's recovery.

Global multilateral financing mechanisms have also closed the door for Zimbabwe due to poor repayment history and the country received only USD1.6 million from the World Bank in 2020 with no debt relief in sight.[12] In August 2021, the International Monetary Fund (IMF) allocated 677 436 012 Special Drawing Rights funds (about USD961 million) to Zimbabwe, which the finance ministry allocated towards health, education, vulnerable groups; productive sectors that include industry, agriculture and mining; infrastructure investment covering roads and housing; and foreign currency reserves and contingency fund, to support our domestic currency and macro-economic stability. The SDRs were to be utilised over a period of three years with an amount of US$311 million expected to be disbursed towards the following social programmes:

- Procurement of COVID-19 vaccines (US$71 million);
- Vaccine roll-out programme (US$6 million); and
- Procurement of COVID-19 related medical and testing equipment (US$10 million).

8. https://www.macrotrends.net/countries/ZWE/zimbabwe/foreign-direct-investment
9. https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=ZW
10. https://www.voanews.com/a/development-bank-agrees-to-help-zimbabwe-clear-13-5-billion-debt/6659038.html
11. Ibid
12. https://data.worldbank.org/indicator/DT.NFL.MLAT.CD?display=g&locations=ZW

There is however, no evidence of the disbursements at the time of compilation of this report. The public health response measures to contain the pandemic have shown that while necessary, they have also led to a disruption of economic activities and livelihoods resulting in increased poverty and vulnerability (UN, 2020). Without urgent collective responses to address the social and economic impacts of the COVID-19 pandemic, suffering will escalate, endangering lives and livelihoods for years to come. Zimbabwe has high levels of unemployment; hovering around 90% although the official unemployment rate stands at 11%.[13] The majority of the people considered to be employed in official statistics are engaged in low paying temporary insecure work and petty trade in the informal sector; a sector that was the hardest hit by the COVID-19 induced lockdowns. But as the lockdown persisted, many formal companies struggled to remain afloat leading to mass liquidations and retrenchments. Moreover, as the lockdown persisted, many companies found innovative and convenient ways of doing business remotely thereby reducing the need for human labour in a classical Luddite case. The UN Resident Humanitarian Coordinator for Zimbabwe (2020) asserted that “the pandemic is affecting socio-economic and gender groups differently with women, children, poor households, persons with disabilities and people living with HIV and AIDS most adversely affected”. Thus, the obtaining conditions even before the COVID-19 pandemic meant that an overwhelming majority of the population was at risk of hunger and starvation thereby necessitating social safety nets.

3. Governance of The COVID-19 Response Mechanism

The governance architecture of the COVID -19 response was an important consideration in the response to the pandemic. An inter-ministerial task team, presided by Vice President Constantino Chiwenga (who doubled as the health minister) sat at the pinnacle of the national response architecture and was in charge of overseeing the implementation of all essential steps to minimize transmission, enhance uptake of vaccines and ensure full recovery of businesses disrupted by the pandemic. The inter-ministerial task force was set up with nine working groups and their responsibilities included conducting risk and capacity assessments, creating Standard Operating Procedures (SOPs), guidelines and tools, identifying the most important priorities to scale up the implementation of priority activities and creating operational budgets and timelines for implementing identified priorities. The effectiveness of the task force is however, questionable given the lack of accountability surrounding the administration of the COVID-19 response fund and stimulus package. While these committees are still functional, their meetings are not as frequent as during the peak of the pandemic and are now limited to update meetings to reflect on the status of vaccination across the country.

13. https://www.bbc.com/news/business-42116932

4. Economic Response to COVID-19

Zimbabwe's fiscal response to the COVID-19 pandemic was underwritten by a large number of statutory instruments that were regularly introduced whenever changes were effected. Moreover, the national budget statements for the years 2021 and 2022 as well as the respective mid-term budget reviews show a significant commitment to fiscal resource mobilisation towards the COVID-19 response on the part of government. The bedrock of the fiscal response was the announcement of the ZWL18.2 billion (about USD180 million) stimulus package on 30 March 2020. Subsequently, the government gradually increased spending towards employee benefits with the expansion of the "COVID-19 allowance" from USD75 to USD150 for serving members of the public service and from USD30 to USD 100 for pensioners in January 2022.

The COVID-19 allowance was initially introduced as a way of cushioning civil servants in the wake of the pandemic of which ZWL6 billion was expected to restore production in the smallholder agricultural sector. The government of Zimbabwe through the Ministry of Finance and Economic Development issued a statement that it was putting aside ZWL500 million (US$ 5 million) towards supporting efforts to curb the spread of the virus and mitigate the effects of the COVID-19 pandemic with a further ZWL50 million (about USD500 000) targeted at the Premier Service Medical Aid Society, the health insurer for government employees. The announcement was followed up by the announcement of a much larger package of ZWL18.2 billion (about USD180 million), of which ZWL6 billion was expected to restore production in the smallholder agricultural sector.

The ZWL18.2 billion Economic Recovery and Stimulus Package was allegedly aimed at revitalizing the economy and providing relief to individuals, families, small businesses and industries impacted by the economic slowdown caused by the COVID-19 pandemic. The Economic Recovery and Stimulus Package, valued at 9% of GDP sought to achieve two aims: to improve the country's economic performance and ensure recovery from COVID-19-induced shocks and secondly, to provide relief to individuals, families and businesses affected by COVID-19. The idea was to provide liquidity support to all the productive sectors of the economy and protect employment through prevention and minimization of COVID-19 effects.

Despite the tentative allocation of part of the Economic Recovery and Stimulus Package towards social protection, the Zimbabwe National Chamber of Commerce was quoted saying that the package was "an affair between banks and private sector players alone" with little for the vulnerable households. Development partners were also instrumental in both the fight against COVID-19 and the mitigation of its social and economic effects.

The European Union released USD40 million towards the Health Development Fund (HDF) to augment an initial USD138 million that was committed just before the pandemic struck. The funds which were administered by UNICEF were meant to complement the Government's effort in the fight against COVID-19 through the purchase of materials used to fight the pandemic. About 38% of the HDF facility was allocated for equipment (including COVID-19 testing kits and personal protective equipment), for mass awareness campaigns and for financial support to frontline staff. Moreover, part of the money would also be used to support the most vulnerable in the provinces most affected by the food crisis and to support the post-COVID-19 food and water needs through 2021. In November 2022, the European Union also unveiled a USD46 million package which was earmarked for health resilience in the wake of the destabilizing consequences of the pandemic.

Despite the large sums of money mentioned in the stimulus packages by government, submissions by the Confederation of Zimbabwe Industries (CZI) indicated that companies had not accessed any funding under the rescue package by October 2020. Other players in industry made indications to their bankers but they had not received responses yet and no funds had been availed by October 2020. The claims by the CZI came only a week after the Finance Minister claimed ZW$6 billion of the stimulus announced by President Emmerson Mnangagwa in May had been injected into agriculture alone, but farmer associations claimed that their members had not received any funding.

Moreover, the generality of the public claim they did not receive any COVID-19 payouts but Finance Minister Mthuli Ncube was quoted saying the ministry deployed a "sophisticated algorithm" to evaluate individuals' mobile money and bank balances to identify the beneficiaries of the ZWL300 household payouts.[14] Beyond the mystery surrounding how the package was disbursed to companies, farmers and households, the Finance Ministry did not account for how the fiscal resources to support the ZWL18.2 billion package were raised, creating suspicions that the government "printed electronic money" to finance the package. Parliament's Public Accounts Committee Report on COVID-19 pandemic financial management and utilisation of public resources in the country's provinces by ministries, departments and agencies noted that "the Auditor General observed that the Ministry of Public Service, Labour and Social Welfare Head Office paid COVID-19 allowances amounting to $89 022 103 to vulnerable communities' country wide through NetOne. It could not confirm whether the allowances had reached all the intended beneficiaries as reconciliations and confirmation reports were not prepared".[15] Thus, while government disbursed funds to cushion the poorest citizens during the pandemic, neither Parliament nor the Auditor General could affirm whether the funds reached the intended beneficiaries.

14. https://gga.org/zimbabwe-caught-between-the-pandemic-and-an-incapable-state/
15. https://www.veritaszim.net/sites/veritas_d/files/PAC report on Financial Management of COVID-19 Pandemic.pdf - Adobe Acrobat Pro.pdf

5. Social Security Response to COVID-19

To cushion the vulnerable members of society, Government allocated ZWL2.4 billion (about USD 48 million) for COVID-19 cash transfers. The Ministry of Finance claims that by the 1st of December 2020, about 202 077 beneficiaries were registered in the database and were already receiving allowances. Part of the package would be committed to the provision of assistance of ZWL300 to vulnerable families per month and the facility was initially for three months effective in April 2020 but was later extended indefinitely as the lockdown persisted. At the rate of ZWL300[16] per household per month, Treasury reportedly disbursed ZWL98 million through the Ministry of Public Service, Labour and Social Development towards vulnerable households between April and October 2020.

The disbursement could however, barely purchase "three loaves of bread and a tin of beans".[17] The strict lockdown restrictions threatened citizens' livelihood considering that the majority of the country's work is in the informal sector. One survey indicated that about 90% of households reported a loss of revenue and most households earn daily income and did not have savings or food stocks to weather prolonged lockdowns.[18] This happened against a background of poorly financed social safety nets to cushion citizens from the lack of economic activity. In as much as the government introduced a COVID-19 allowance to cushion the most vulnerable citizens, the figure of ZWL300 (US$6) falls short of the USD1.90 a day international poverty datum line. The minister of finance discontinued the initiative on November 30 2020 due to "minimal uptake". However, the generality of the population especially in urban areas were keen on how to access the funds[19] with the Finance minister claiming to use a "sophisticated algorithm" to target beneficiaries with some publications calling it a "farce".[20] The decision to discontinue the transfer payments to the most vulnerable households weighed heavily on a vulnerable population which relies on daily income with no savings. By August 2020, the generality of the citizens was disregarding lockdown regulations in order to engage in informal trade.

There were no significant policy changes in the areas of social insurance and the labour market due to the focus on cash transfers (Gentilini et al. 2020: 134). Under the Economic Recovery and Stimulus Package, the government implemented a number of significant improvements to the health system. Zimbabwe's government gave the Ministry of Health and Child Care ZWL 739 million to fund various activities (Government of Zimbabwe, 2020).

16. About USD6 as of April 2020 using the parallel market rate and USD12 using the official rate
17. https://gga.org/zimbabwe-caught-between-the-pandemic-and-an-incapable-state/
18. https://www.chronicpovertynetwork.org/covid19-poverty-monitor/zimbabwe-march
19. https://www.techzim.co.zw/2020/04/mthuli-ncube-his-sophisticated-algorithms-for-corona-relief-funds-another-privacy-disaster-looming/
20. https://www.thezimbabwemail.com/economic-analysis/prof-mthuli-ncube-throws-algorithm-farce/

The most notable ones included rerouting all referral and central, provincial, and district hospitals as well as other facilities to accommodate COVID-19 patients, unfreezing about 4,000 positions for health professionals, and ring fencing six months' worth of health levy collections to COVID-19 expenditures.

Additionally, the government committed to paying medical deficits from the Premier Service Medical Aid Society Scheme, the health insurance for government employees and gave frontline healthcare workers a tax-free allowance. To encourage frontline COVID-19 response staff, which also covered all employees in the security sector, a one-time professional support allowance of ZWL 10,000 was provided. By mid-2020, hyperinflationary rates were hovering around 785% (Chipenda and Tom, 2020), making it imperative for the government to provide comfort to its restive workers. As a result, the government increased the salaries and pensions of civil officials by 50%, and as of June 2020, it began paying civil servants USD 75 and pensioners USD 30 as COVID-19 allowances (Zimbabwe IMF Report, 2020).

The government further increased the COVID-19 allowance to USD175 in May 2022. The government of Zimbabwe also introduced amendments to the employment tax rates with increase in tax free threshold from ZWL2,000 to ZWL5,000 per month and the highest tax band at the rate of 40% on income over ZWL100,000 per month effective 1 August 2020.[21] Moreover, the government also introduced a duty rebate in respect of defined essential goods for the fight against COVID-19, with effect from 30 March 2020 when the first lockdown was announced.

Apart from the increase in financial commitment to increase social spending during the COVID-19 pandemic, the provision of public health information was critical as part of the social policy response. The government in partnership with UNICEF, established a COVID-19 information centre (Nyarota, 2020) that would provide the public with regular updates on facts, prevention and containment information pertaining to COVID-19. However, the usefulness of this information interacts with social categories and existing and new forms of inequality and marginalization emerged. Zimbabwe's community of people with visual and sensory impairments of approximately 400 000 suffered COVID-19 information deficit until the high Court of Zimbabwe ruled that the Zimbabwe Broadcasting Corporation (ZBC) should broadcast COVID-19 information palatable to those with sensory impairments in April 2020 (Veritas, 2020). The jingles that were composed to provide COVID-19 information through song have been stopped as government vaccination initiatives paid off through achievement of herd immunity.

21. https://home.kpmg/xx/en/home/insights/2020/04/zimbabwe-tax-developments-in-response-to-covid-19.html

During the 2021 lockdowns, UNICEF, the Ministry of Primary and Secondary Education, and Microsoft's "Learning Passport in Program" offered access to online learning. Due to the cost of data bundles for internet connectivity and the fact that only 4% of children used mobile learning applications, this digital platform provided teachers and students with free online access to educational materials.[22] However, only 2% of children were able to listen to educational radio programs and 1% to watch educational television programs (Zinyemba, 2021).

6. Concluding Remarks

Zimbabwe's stimulus package had the aim of offsetting the expected shock to the economy due to the pandemic and for an economy that shrunk by 8%, the stimulus package was higher at 9% at the time of its announcement. However, the real quantum of the stimulus was much smaller given the runaway inflation rate of over 700%. Further, the stimulus was largely aimed at resuscitating business as only 7.5% of the ZWL2.4 billion[23] of the global stimulus of ZWL 18.2 billion went towards direct social protection. The bulk of the stimulus (about ZWL 10 billion) went towards supporting agriculture while the rest went into industry; particularly small to medium sized enterprises. While this is so, the support to agriculture was not incremental compared to previous non-pandemic years. Beyond the support given to households through cash transfers within a limited time period, the government did not do much to avert the plight of the poor. Further, government did not do much to protect its own employees with the COVID-19 allowance only working to silence the restive civil servants. Overall, the information disclosure by government on its COVID-19 expenditures was minimal and makes it difficult to evaluate the social policy and government's performance in reacting to the COVID-19 pandemic.

22. https://www.ajol.info/index.php/ajsw/article/view/215261/203018
23. About USD 24 million

7. Recommendations

- **Ministry of Health:** The Ministry of Health must enhance its preparedness capacity to swiftly respond to pandemics and epidemics. This can be done by rejuvenating dilapidating infrastructure and modernizing the same.

- **Ministry of Finance and Economic Development:** The Ministry of Finance and Economic Development must ensure that it disburses funds timely to circumvent the impact and effects of inflation. Otherwise, it must have considered disbursing allocations at the same value they were made.

- **Ministry Finance and Economic Development:** Must increase health expenditure by at least targeting to satisfy the 15% health allocation benchmark of the Abuja Declaration.

- **Ministry of Public Service, Labor and Social Welfare: I**t must ensure that timely humanitarian analysis and evaluations are conducted to inform interventions that address humanitarian crises in times of pandemics and epidemics. This will eliminate the distortions caused by *sophisticated algorithms.*

- **Domestic Resource Mobilisation:** Efforts must be made to ensure that, Domestic Resource Mobilisation (DRM) is enhanced to generate optimum revenue that can be used as a contingency fund to deal with the unforeseen.

- **Procurement Regulatory Authority (PRAZ):** PRAZ must at always furnish the public with all procurement related details in emergency times. This is because emergency management times often open avenues of malfeasance and under hand dealings.

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Address | 49 Pendennis Rd, Mt Pleasant, Harare, Zimbabwe
Telephone| +263 242776830/1
Email |zimcodd@zimcodd.co.zw
Facebook | Zimbabwe Coalition on Debt and Development
Web | www.zimcodd.org
Twitter | @zimcodd1
Instagram | @zimcodd1
YouTube | Zimbabwe Coalition on Debt and Development