WEEKLY REVIEW

19 JULY 2022

Weekly Dashboard

Forex Auction Weighted Rate

Week	12.07.2022	05.07.2022
Per USD1	ZWL 391 5339	ZWL 379 2280

Consumer Price Index

Month	May	June
	6.662.17	8.707.35
Blended	174.03	205.39

Inflation

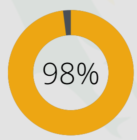
Month	May	June
M.O.M.	21.0%	18%
Y.O.Y.	131.7%	191.6%

COVID-19 Cases

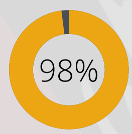
Week	11.07.2022	14.07.22
Positive	255 981	256 083
Recovered	249 723	249 862
Deaths	5 565	5 566

National Recovery Rate

11.06 22



14.07.22



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1. Taming the forex parallel market

On the 18th of July 2022, the Minister of Finance and Economic Development (MoFED), Hon. Prof. Mthuli Ncube outlined measures to deal with the illicit flow of funds from Government contractors into the 'illegal' foreign exchange market. According to the Minister, these illicit financial flows from government suppliers and contractors contribute to the destabilization of the exchange rate, in spite of the battery of measures introduced to tighten money supply in the economy. Unaccountable payment for goods and services through corrupt public procurement and tender processes plays a major role in destabilizing exchange rates and stimulating money supply growth. This is contrary to Government's own monetary policy objectives. Reduced liquidity to starve inflation and tame currency arbitrage tendencies in the economy is at the core of the Government's currency reform and monetary policy measures. Indeed, being in control of money supply implies that whatever amount of money government pumps into the economy through payment of contractors and service providers is automatically within the set money supply limits. Intuitively, no injection of money by the government is expected to blow the money supply limits and trigger wild exchange rate movements.

Wild exchange rate movements observed in the economy are in part due to government's failure to adhere to set money supply limits. Criminal investigations and the prosecution of directors and officers of companies that are found to be dealing in the forex parallel market signal a much-needed sense of zero tolerance to corruption. However, and unfortunately, the MoFED does not have prosecution powers and neither are the coded 'actions' by companies prosecutable at law. It is only under unjust application of the law indicative of poor institutional quality where such measures work. In fact, the press release on its own is not a policy statement and cannot be executed at law. At the same time, brandishing legal punishment on companies signifies regulatory policy failure. In general, sound monetary and fiscal policies are deemed successful when they impose a regulatory and compliance effect on market actors without resort to coercive action. The parallel market remains the 'go to' market for all economic agents who require foreign currency as it is more liquid and a free for all market compared to the auction market. Whilst the auction market provides cheap forex, the market is marred by inefficiencies, corruption and delays in disbursements. This prompts companies to resort to the parallel market for quick turnaround and timely access to forex to serve their needs. It is imperative for government to deal with excess money supply (printing) and exchange rate policy if sanity is to prevail in the economy.

2. Zimbabwe identifies AfDB as its champion for engaging creditors

The President of the African Development Bank (AfDB), Dr. Akinwumi Adesina completed a 2-day official visit to Zimbabwe meeting with the President of the Second Republic. Government officials including Finance Minister Prof. Mthuli Ncube, several African and Group of 7 (G7) ambassadors and representatives of international financial institutions (IFIs) accredited to Zimbabwe were also a part of the delegation meeting the AfDB President. The visit came after the AfDB chief accepted to become Zimbabwe's champion for debt resolution and arrears clearance among its bilateral creditors and IFIs early this year in February.[1] Zimbabwe is facing a burgeoning public debt that has crossed unsustainable levels and is struggling to repay it (debt distress) hence requiring debt restructuring. This is shown by an ever-growing external debt which is recorded at ZWL1.45 trillion (US$13.43 billion using an exchange rate of US$1: ZWL108) as of the end of December 2021.

The increase in external debt in 2021 was largely due to government's assumption of the Reserve Bank of Zimbabwe (RBZ)'s legacy debts (blocked funds)[2] to the tune of US$3.53 billion. The external debt stock constitutes about 78% of Zimbabwe's total public and publicly guaranteed (PPG) debt with external arrears alone accounting for US$6.6 billion of the total. The balance (22% of total PPG) is a domestic debt which was recorded by the Public Debt Management Office (PDMO) at US$3.82 billion. This increase was due to the inclusion of contingent liabilities -compensation to former farm owners who were affected by the chaotic Land Reform Programme of the early 2000s- to the tune of US$3.5 billion. Overall, Zimbabwe's total PPG debt totalled ZWL1.86 trillion (US$17.26 billion) as of December 2021, up from US$10.5 billion that was recorded as of the end of December 2020. This total PPG debt represents 62.1% of GDP, which is just 7.9 percentage points near the 70% limit as provided for in the Public Debt Management Act. From a regional perspective, Zimbabwe's debt/GDP ratio of 62.1% slightly breaches the 60% threshold set out in the Southern African Development Community (SADC)'s macroeconomic convergence targets.

Many economic commentators have commended the efforts being taken by the Second Republic to lower Zimbabwe's indebtedness which is stifling its growth and developmental process. ZIMCODD's Economic Analyst, Zvikomborero Sibanda revealed that resolving the current unsustainable debt is key because high indebtedness is constraining the countercyclical effects of fiscal policies. "Zimbabwe's high debt situation is negatively affecting economic growth and investment through heightened long-term interest rates, high tax rates, and inflation" Sibanda added. Unsustainable debt; which has bloated national reserves; is crippling the nation's ability to respond to unforeseen contingencies. A case in point is Zimbabwe's poor response to Cyclone Idai disaster which left thousands of households stranded in 2019.

1. https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-group-chief-zimbabwe-get-debt-clearance-plan-underway-53183

2. These blocked funds are amounts being owed to foreign suppliers by domestic firms due to RBZ's failure to facilitate external transactions at the height of acute forex shortages experienced in 2019.

Dwindling forex reserves are also limiting the RBZ's ability to support its embattled currency which is under siege of massive depreciation. Statistics show that the Zimbabwe dollar has lost at least 70% of its value against the US dollar since the beginning of the year to date. This is fuelling price inflation which has mounted by 191% in the last 12 months of the year through June 2022. Furthermore, high debt is crowding-out public service delivery as more funds are being channelled toward debt servicing. For instance, in 2021, Treasury made total external debt service payments amounting to US$59.30 million (ZWL6.4 billion). This amount could have been used to strengthen social safety nets -a necessity for a highly informal economy that has been severely battered by the COVID-19 pandemic.

While the government's efforts to resolve the debt crisis are commendable, the continued lack of fiscal discipline displayed by the Treasury is concerning as it is driving public borrowing. Recently, the Treasury announced that it is seeking Parliamentary condonation of about ZWL107 billion in the budget over expenditures by line ministries made in 2019 and 2020. This comes after another financial adjustment of about US$10 billion for negative spending variances made in the 2015-2018 period. More so, the government is on the offensive in engaging its creditors yet it is reluctant to implement economic reforms as required by these creditors. Through its 2021 Staff Monitored Programme with Zimbabwe the International Monetary Fund (IMF) expressed concern over the slow progress in the implementation of the needed reforms. Consequently, the Arrears Clearance, Debt Relief and Debt Resolution Strategy as presented to creditors by the government is in jeopardy because any viable plan should be anchored by strict implementation of political and economic reforms. For Zimbabwe to register meaningful progress toward debt resolution there is a need for political will to advance these reforms. If this in not done it means all the current efforts remain mere rhetoric.

3. 35 000 boreholes by 2025

It is commendable that the Government is targeting to drill 35 000 boreholes[3] in rural areas by 2025 to improve water supply for irrigation projects. The focus is to have at least 2 boreholes per ward or a borehole per village, countrywide. This development dovetails with the government's thrust on devolution and decentralization of services to communities for improved service delivery and economic development, anchored on the National Development Strategy (NDS)1 and towards the country's vision of becoming an upper middle-income economy by 2030. Under this project, ZINWA is working with all Ministers of State for Provincial Affairs and Devolution to identify sites for boreholes on a community needs basis. The project will enable citizens to embark on various projects that will transform their livelihoods for the better as the boreholes are expected to provide communities with an opportunity to venture into drip irrigation, horticulture, fisheries and cattle rearing among other projects. The question however is whether the 35 000 target is feasible or not given the government's history of ambitious plans which do not translate into lived reality.

3. https://www.newsday.co.zw/2022/07/govt-targets-35-000-boreholes-by-2025/

With a target of 1800 boreholes for the year 2021, only 267 boreholes had been drilled by October 2021[4] while 5000 boreholes are expected to be completed in 2022 under the Presidential Borehole Drilling Scheme. Having failed to meet the 2021 target, the government goes further to double if not triple the target for 2022. This raise the question on whether this a realistic target and what has been the progress 7 months into the year? Assuming that by end of 2022, the country would have delivered on the 2021 and 2022 targets, the feasibility of the country delivering 28 200 boreholes in the remaining 3 years is still questionable and next to impossible. Of concern is that this exercise will require the country to drill an average of 9400 boreholes per year. On Portable Water Supply Coverage, the NDS1 set a target of 79% for the year 2021 from a baseline of 77% in 2020. However, the Government has not produced detailed monitoring reports to ease the tracking of implementation progress. However, many local authorities across the country are struggling to provide clean and safe water with some having gone in excess of 10 years without running water.

Despite developments made through devolution and decentralization, the meagre allocations and delays in the disbursements of devolution funds across the 10 provinces has continued to militate against efficient service delivery. With a constitutional target of 5% of the national budget allocation towards the devolution agenda, in 2021 the government allocated ZWL 19.5 million which was 4.6% of the budget while in 2022 the government allocated ZWL42.5 billion (4.5% of budget). The 2022 devolution and decentralization allocation has not yet been disbursed to most Provincial Councils and Local Authorities. The delays have slowed down the completion of bigger projects such as Morton Jaffrey Water Works for Harare Province and Ncema and Fern hill Pump Station in Bulawayo Province. Expenditure of devolution funds have also been marred by corruption and lack of transparency as demonstrated by the recent Pomona scandal. This calls for the need for sound accountability mechanisms for sub-national governments to fulfil devolved responsibilities otherwise substantive developmental projects remain ambitious and on paper with no hope of actual fulfilment.

According to the 2008 eThekwini declaration, water and sanitation should be allocated 1,5% of GDP. However, Zimbabwe has been falling short and allocating funds below this target and this also hinders the country’s commitment and developments towards provision of water and sanitation. In 2019, the country allocated 0.7% of the national budget and the same was for 2020 while in 2021and 2022 the budgetary allocations dropped to 0.2% of national budgets. Given this background one wonders how the financing of 5000 boreholes for 2022 will be feasible given the meagre allocation to water and sanitation for both rural and urban communities.

It is also important to note that the country received its SDR allocation of SDR 677,4 million (US$961 million) from the IMF in 2021.[5]

4. https://www.herald.co.zw/35-000-boreholes-by-2025/
5. https://www.theindependent.co.zw/2021/09/03/on-the-us961m-sdrs-allocation/

This was a significant boost for the Zimbabwean economy which is recovering from the COVID-19 pandemic. However, the need to prioritize and allocate these resources towards sectors that are productive and welfare enhancing remains of paramount importance. Key sectors that must be prioritized for sustainable recovery include water and sanitation, irrigation infrastructure and clean energy. These sectors are critical in ensuring that the Zimbabwean economy recovers stronger and better from the COVID-19 pandemic. Even before the COVID-19 pandemic, Zimbabwe was already facing underlying structural challenges on account of years of gross under investment in these sectors and the SDR allocation can help to correct this anomaly. Water and sanitation are essential for the realization of other socio-economic rights such as health, education and food security. They are also a critical determinant of sustainable development. Poor and inadequate water and sanitation is a leading cause of poverty, morbidity and mortality in a number of countries including Zimbabwe and as such prioritizing water and sanitation will go a long way in alleviating poverty and reducing inequalities with regards to disparities in access to safe drinking water. However, the absence of monitoring reports on the use of SDR funds militates against this achievement.

To ensure feasibility of 35 000 boreholes by 2025 it is recommended that the government increase its budgetary allocations to water and sanitation and to devolution and decentralization. It is also important to ensure transparency and accountability in the utilisation of devolution and SDR funds to ensure that access to water through the drilling of 35 000 boreholes in Zimbabwe's rural areas becomes a lived reality by 2025. This is critical in strengthening the social contract between the government and its citizens, who are the beneficiaries of the state-led development.

4. A Snapshot into the 2022 ZimVAC Rural Livelihoods Assessment Report

Zimbabwe Vulnerability Assessment Committee (ZimVAC) is a consortium of Government, Development Partners, United Nations (UN), Non-Governmental Organisations (NGOs), Technical Agencies and the Academia. It was established in 2002 and is led and regulated by the government. It is chaired by the Food and Nutrition Council (FNC), a department in the Office of the President and Cabinet (OPC) and is part of the Scientific and Industrial Research Centre (SIRDC). Its mandate is to promote a multi-sectoral response to food insecurity and nutrition problems in a manner that ensures that every Zimbabwean is free from hunger and malnutrition. ZimVAC's scope of work covers food and nutrition security, social protection systems as well as other endogenous and exogenous factors that militate against national resilience building. Yearly, ZimVAC carries out urban and rural vulnerability assessments with the aim to determine anomalies in national resilience.

The 2022 ZimVAC Rural Livelihoods Assessment Report shows that a lot need to be done with respect to resilient building if Zimbabwe is to attain upper middle-class economy by 2030. According to the report, over 63% of rural households do not have cattle, only 17% households across the country had more than 5 herd of cattle, Mashonaland Central and West had the highest proportion of households with no cattle thus 73% and 75% respectively. In the rural communities, cattle are regarded as a symbol of wealth and economic power.

The report further noted that, approximately 38% of rural households are food insecure. A number that is greatly disputable if one is to consider that more than half of the entire country is in extreme poverty.[6] Matebeleland North had the highest food insecurity with 58% households in need of food support. Some of the areas with the most insecure households are Hwange had 73%, Binga 71% and Buhera 75%. Youth unemployment was pegged at 77.4% with 53.8 of the youth entangled in drug abuse. A situation that has been worsened by the fact that government only targets to support 1.5 million children on Basic Education Assistance Module (BEAM) against a 4.2 million demand. The status of national resilience remains a major drawback in terms of attaining vision 2030. At the same time most of the surveyed households listed unemployment (68%), poverty (59%) lack of income generating projects (56%), drought (55%) and economic challenges (50%) as the major development challenges.

In terms of the health welfare of the rural communities, the ZimVAC report notes that, 27% of the surveyed households practice open defecation while 7% of the households are using surface water. The accessibility of health institutions was also another cause of concern as approximately 34% of households reported to be travelling more than 10km to the nearest health facility. Thus, entrenching health inequalities. Although the ZimVAC report reflects the real challenges being encountered by the citizens across the country, government spending patterns reflects otherwise. This can also be evidenced by social protection allocations that are too meagre to build national resilience. Since 2017, the government has failed to meet the 4.5% budget allocation of the African Social Policy. A clear indication that, the welfare of the citizens and national resilience building is far from governments priorities.

5. From Africa’s Breadbasket to Hunger Hotspots: Food Insecurity in Zimbabwe

Zimbabwe’s economy remains largely an agricultural economy as people derive their livelihood from agriculture and other related rural economic activities. Agricultural activities provide employment and income for 60-70% of the population, supplies 60% of the raw materials required by the industrial sector and contributes 40 percent of total export earnings. Agriculture contributes approximately 17% to Zimbabwe’s GDP.[7] As the main source of livelihood for most of the population, the performance of agriculture is a key determinant of rural livelihood resilience and poverty levels.

6. 7.9 million Zimbabweans are in extreme poverty.

7. https://reliefweb.int/report/zimbabwe/zimbabwe-food-security-outlook-february-september-2022

At least 63 percent of the population live in extreme poverty and 27% of children have stunted growth – many impacted by the effects of climatic shocks, protracted economic instability and global stressors.[8]

Zimbabwe has experienced several economic and environmental shocks that have contributed to high food insecurity and malnutrition. These drivers; which are increasing in frequency and intensity; include conflicts, climate variability and extremes, economic slowdowns and downturns – all exacerbated by the underlying causes of poverty and very high and persistent levels of inequality. The World Food Programme has reported that Zimbabwe has been added to the list of countries with hunger hotspots as food insecurity is expected to worsen over the next six months. Contributing factors include an erratic rainfall season resulting in a significant drop in expected maize production (which declined by 43% as compared to last year and communal farmers yields have shrunk by half) combined with the effects of persistently high inflation.[9] These factors are expected to stress the food security situation in the upcoming months in both rural and urban areas. This will result in vulnerable communities being unable to afford basic foods and other primary needs.

Low-productivity agricultural practices and lack of access to markets are also contributing to the food security crisis affecting the vast majority of rural Zimbabweans whose livelihoods depend on rain-fed agricultural production. Livestock production is also an important component of food security in Zimbabwe as rural livelihoods depend on in the provision of meat, milk, eggs, hides & skins, draught power and manure for food security or production thereof. Livestock also acts as strategic household investment and are an important safety net in the event of shocks. Widespread poverty, HIV/AIDS, limited employment opportunities, liquidity challenges, recurrent climate-induced shocks and economic instability all contribute to limiting adequate access to food. For those in urban areas, hyperinflation, lack of purchasing power and the pricing of basic commodities solely in US$, has contributed to food insecurity.

The hunger crisis affects vulnerable and marginalized people the most as they have limited capacity to absorb additional shocks. This includes persons with disabilities as well as women and girls who, despite the key role they play in food production and preparation, often eat the least during times of acute food insecurity, are at higher risk of experiencing gender-based violence and various forms of exploitation and abuse.[10] In order to alleviate food shortages and achieve Sustainable Development Goal (SDG) 2 on ending hunger, the following must be considered:

- There must be inclusive dialogue to address the causes of food insecurity.
- Policy measures to be implemented thereafter must protect the poor and vulnerable people's ability to access food and livelihoods.
- Adequate funding must be lent towards responding to the short, medium, and long-term impacts of the food security crisis.[11]

8. https://www.wfp.org/countries/zimbabwe
9. https://www.wfp.org/countries/zimbabwe
10. https://reliefweb.int/report/world/we-need-solutions-now-address-global-food-insecurity-and-prevent-future-food-crises
11. https://reliefweb.int/report/world/we-need-solutions-now-address-global-food-insecurity-and-prevent-future-food-crises