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ZIMBABWE ECONOMIC UPDATE

OVERCOMING ECONOMIC CHALLENGES, NATURAL DISASTERS, AND THE PANDEMIC: SOCIAL AND ECONOMIC IMPACTS

JUNE 2021

ISSUE 3

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

2021 The World Bank Group
1818 H Street NW, Washington, DC 20433

Telephone: 202-473-1000;
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The cutoff date for the data used in this report was June 2, 2021.

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ACKNOWLEDGEMENTS

This third edition of the Zimbabwe Economic Update (ZEU) was prepared with the leadership and support of the Country Management Unit (CMU) led by Mara K. Warwick (Country Director, AECE1) and R. Mukami Kariuki (Country Manager, AEMZW). The team benefited from technical support and guidance from Vivek Suri (Practice Manager, EAEM1); Abebe Adugna Dadi (former Practice Manager now Regional Director, EAWDR); and William G. Battaile (Lead Country Economist, EAEDR).

The task team was led by Stella Ilieva (Senior Economist, EAEM1) who, together with Marko Kwaramba (Economist, EAEM1) and Jason J. Hayman (Consultant, EAEM1), contributed to the macroeconomic chapter. Rob Swinkels (Senior Economist, EAEPV) led the poverty analysis. Miguel A. S. Noel (Young Professional, EAWM2) contributed to the monetary section. Christine Lao Pena (Sr. Human Development Economist, HAEH1) and Chenjerai N. Sisimayi (Health Consultant, HAEH1) prepared the analysis of healthcare challenges and financing needs with contributions from the Social Protection Team, comprising Emma Hobson (Sr. Social Protection Specialist, HAES1), Ruth Wutete (Consultant HAES1), and Claudia Rodriguez Alas (Social Protections Specialist, HAES1). The education analysis was provided by Nalin Jena (Sr. Education Specialist, HAEE1) and Tapfuma R. Jongwe (Education Specialist, HAEE1). Easther Chigumira (Sr. Agriculture Specialist, SAEA3) contributed to the section on food security.

Farai Sekeramayi-Noble (Program Assistant, AEMZW) provided valuable administrative and logistical support. Cybil Maradza created the graphic design and Dean Thompson (Consultant, EAEM1) edited the report.

The team thanks the ZEU peer reviewers for their helpful suggestions and insights: John Litwack (Lead Economist, EAEM2) and Obert Pimhidzai (Senior Economist, EAEPV).

EXECUTIVE SUMMARY

This third edition of the Zimbabwe Economic Update (ZEU) aims to provide both a current and historical background covering the pre-pandemic (2019) and pandemic (2020 to April 2021) period. The 2019-2020 period marked a very difficult time for the country as 2019 was clouded by a prolonged drought, unprecedented cyclone and turbulent economic reform period; while 2020 and early 2021 coincided with a global Coronavirus pandemic that further dampened prospects at both global and local levels. The report also provides a glimpse into the future identifying actions that, if sustained, will keep current positive trends on an upward trajectory. In light of these recent developments, the report anticipates that the country will experience improved but muted economic growth in 2021, as global uncertainty remains a risk; but expects this growth to accelerate in 2022, once key factors (such as vaccinations) are in place. In both these growth years, the report points to prospects, opportunities, priority actions and challenges that will pave the way for economic recovery of the country in 2021 and 2022.

ZIMBABWE FACED SIGNIFICANT ECONOMIC AND CLIMATE SHOCKS PRIOR TO THE PANDEMIC

In 2019, Zimbabwe was in a deep recession. The economy contracted by 8.1 percent in 2019, the deepest decline in a decade—even amid progress on several fronts including "Doing Business" reforms. A severe drought and Cyclone Idai significantly reduced economic activity and particularly affected the agriculture, water, and electricity sectors, while generating ripple effects on other economic sectors. For example, prolonged power outages and water shortages reduced productivity and increased the cost of production. The Central Government introduced tight control of public finances, which led to a fiscal surplus, breaking a trend of unsustainable fiscal spending. However, the continuation of quasi-fiscal activities caused reserve money to balloon by 217 percent in 2019. As a result, inflation reached triple-digit levels and the local currency depreciated by more than 70 percent against the US dollar. Private consumption dropped sharply as food prices reached

IN 2019, ECONOMIC SHOCKS, A SEVERE DROUGHT, AND CYCLONE IDAI LED TO THE **FIRST RECESSION** IN A DECADE hyperinflationary levels, formal employment fell, and food insecurity rose to affect nearly half of the population. Tightened fiscal spending led to a double-digit decline in government consumption and investment, which contributed to depressed economic activity. A decline in disposable incomes sharply compressed imports, leading to a surplus in the external current account for the first time since 2009.

Soaring prices and difficult economic conditions sharply increased poverty and inequality, especially in urban areas. Extreme poverty[1] rose from 30 percent in 2017 to 42 percent in 2019, affecting 6.6 million people. Although ninety percent of the extreme poor live in rural areas, a steep decline in consumption was registered in urban areas, where incomes were severely impacted by currency reforms; and the scale and scope of social protection programs has historically been limited. From 2017 to 2019, consumption expenditure fell by about 25 percent for the poorest decile of the population, but rose by 17 percent for the richest decile. As a result, the level of inequality increased sharply and is now among the highest in Sub-Saharan Africa (SSA).

Economic challenges also adversely affected service delivery, especially for the poor. As higher prices eroded the real value of budget allocations for public wages and non-salary expenditures, the purchasing power of most wage earners, including those in the private sector fell. Public workers' output levels dropped, as their capacity to deliver with limited means diminished; and government services were undermined by shortages of key goods, such as drugs, medical equipment, water treatment chemicals, school textbooks, and staples for school feeding programs. Access to services was more constrained among the rising numbers of extreme poor and wage earners harmed by losses in purchasing power. Essential health service delivery outcomes therefore worsened, putting at risk significant improvements in infant and maternal mortality achieved from 2015 to 2018. Although Zimbabwe increased coverage of social protection and addressed some of the implementation challenges, rising poverty rendered nearly three million extreme poor unprotected in 2019 by government or humanitarian social programs. Persistent drought conditions negatively affected crop production and livestock survival and worsened food insecurity, further increasing the vulnerability of the extreme poor. And

[1] Defined as living under the food poverty line of US$29.80 per person per month. World Bank estimate for 2019 based on ZIMSTAT data for April-May 2019.

the quality of education eroded, placing at risk human capital development and long-term growth -for example, the grade 7 pass rate fell below 47 percent in 2019 from 52 percent in 2018.

THE COVID-19 PANDEMIC FURTHER COMPLICATED AND WORSENED ECONOMIC AND SOCIAL CONDITIONS

In early 2020, the outbreak of Coronavirus Disease of 2019 (COVID-19) was declared, further exacerbating country challenges and delaying the timeframe for recovery. The pandemic threatened to overwhelm already weak country health services, worsen health outcomes, and decrease living standards. However, government measures to preserve lives, restrict the spread of the virus and its impacts were comprehensive and immediate. They included a two-month strict lockdown, border closures, social distancing regulations, and a COVID-19 response program centered on health, social assistance, and economic stimuli to the private sector. Lockdown and containment measures were successful in restricting the transmission of the first wave virus with low transmission and deaths recorded by December 2020, but they inevitably disrupted economic activity, livelihoods and the delivery of basic services. While the relaxation of lockdown measures did ease business conditions in manufacturing, mining, and tourism (mostly domestic), the emergence of a second wave of the virus in late December 2020 and potential third wave in 2021 may adversely affect the economy growth trajectory in 2021.

In 2020, the impact of the first wave of COVID-19, coupled with macroeconomic volatility maintained Zimbabwe's recession - despite relative stabilization of prices in the second half of the year. The pandemic disrupted the movement of people, trade, and capital, and its impacts led to a contraction in Zimbabwe's Gross Domestic Product (GDP) of eight percent in 2020. The effects of COVID-19 and expansionary monetary policy further elevated prices during the first half of 2020 when prices were increasing at double-digit rates per month. While subsequent fiscal and monetary stabilization efforts slowed inflation to single-digit monthly increases, annual average inflation in 2020 of 557 percent was more than double the inflation rate in 2019, further suppressing domestic demand. In the early part of 2020, interruptions to supply chains and operating restrictions

IN 2020, THE COVID-19 PANDEMIC MAINTAINED ZIMBABWE'S RECESSION BUT PRICES STARTED STABILIZING IN THE SECOND HALF OF THE YEAR adversely affected manufacturing; non-mineral exports; and the hospitality, trade, and transport sectors. In the latter part of 2020, supply-side shocks subsided after easing of mobility restrictions, however demand-side shocks have persisted throughout the pandemic period. As these challenges were further aggravated by persistent drought, price instability, and export retention requirements,[2] they ultimately eroded Zimbabwe's business environment in 2020. Nevertheless, a significant increase in formal remittances led to an improvement in the current account balance and to some extent cushioned the impact of the pandemic on the poor.

In 2020, the pandemic and its impacts disrupted livelihoods, especially in urban areas, and added 1.3 million Zimbabweans to the extreme poor. Estimates suggest the number of extreme poor reached 7.9 million—almost 49 percent of the population. Surveys conducted in 2020 indicate that nearly 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.[3] Wage earners in urban areas were also disproportionally affected by the pandemic, as their pay was cut, or no pay was received at all. Rural households who rely less on wage employment and depend on farm business were less impacted.

ALMOST

49%

OF THE POPULATION IS ESTIMATED TO BE EXTREME POOR IN 2020

However, rural households access to food was more constrained amid persistent drought and closure of some key trade channels. As food prices rose and disposable incomes shrank, the share of rural households reporting that they went without food for a whole day reached 37 percent by July 2020. More than 41 percent of the rural population reported that they sought maize meal but were unable to buy it.[4] These percentages are lower in urban areas, suggesting that the inability to purchase food particularly affected rural areas where poverty is higher. Food insecurity was also exacerbated by inadequate reach/ coverage of relevant social protection programs—less than a quarter of the increased number of extreme poor households received food aid in June 2020 and this share dropped to 3 percent of rural households in September 2020.[5] Though the

LESS THAN

1/4

OF THE POOR HOUSEHOLDS RECEIVED FOOD AID IN JUNE 2020

2 Through export retention, exporters retain 70 percent of their foreign currency receipts while 30 percent of receipts are compulsorily paid in local currency while in January 2021 the percentage paid in local currency was increased to 40 percent. Since August 2020, firms operating in the domestic market have been subject to foreign currency retention of 80 percent of their US dollar transactions.

3 ZIMSTAT. 2020. Rapid PICES Phone Survey of July 2020.

4 Ibid

5 Ibid.

Government of Zimbabwe (GoZ) subsidized maize meal and transport, these subsidies appear to have benefited mainly urban consumers, as travel between cities and rural areas was partially constrained by the lockdown and containment measures.

Public resource constraints and implementation challenges posed by the pandemic severely affected service delivery. As schools across the country closed in response to the lockdown measures, access to remote learning was limited in rural areas, especially for poor households. Only 9 percent of school-going children in rural areas were reported as having used mobile applications for learning during pandemic-related school closures, compared with 40 percent for urban children. In addition, supply-side challenges facing the health system—following a prolonged period of doctor strikes, reduced working hours for nurses, and limited and slow access to personal protective equipment—initially contributed to a decline in the coverage and quality of essential health services. The number of institutional maternal deaths increased by 29 percent in 2020 compared to 2018 , while deliveries at home increased by 30 percent. Decreases in the frequency and timing of antenatal care visits may have also caused further deterioration in maternal and infant mortality indicators. These results will only become evident over time. However, it is evident that household loss of access to basic social services and deepening of negative coping strategies risk undermining Zimbabwe's relatively high human capital and the pace and inclusivity of economic growth.

LIMITED ACCESS TO
REMOTE LEARNING
IN RURAL AREAS ADVERSELY AFFECTED LEARNERS

THE MEDIUM-TERM OUTLOOK POINTS TO A RECOVERY IN 2021, STRENGTHENING FURTHER IN 2022

After two difficult years, Zimbabwe's economy is heading towards a recovery amid high uncertainty on the likely strength of recovery and the extent of downside risks on both the global and local level. Growth of GDP is projected to reach 3.9 percent in 2021, a significant improvement compared to 2020, led by a recovery in agriculture, as well as improved electricity generation from replenished hydroelectric reservoirs, and slower than expected inflation. Nevertheless, the impact of the second wave of the pandemic in the period January to March, 2021 and uncertainty about a third and possible fourth wave could weigh heavily on the recovery of domestic and external demand. Despite

ZIMBABWE'S ECONOMY IS RECOVERING.

positive steps taken to stabilize prices, inflation is expected to remain significant in 2021, subduing efforts to stabilize and unify the exchange rate in the medium-term. Domestic demand is also projected to remain low as income remain subdued and limited flows of Foreign Direct Investment (FDI), influenced by export retention policies and other factors, are expected to keep productivity and competitiveness low in some sectors of the economy. It is expected that economic recovery will, however, strengthen in 2022 with GDP growing at 5.1 percent as the deployment of vaccines intensifies; global economic conditions improve; and implementation of the recently approved National Development Strategy (2021-2025) bears fruits. In the near term, however, global and local outlooks remain uncertain and pose significant downside risks. A prolonged pandemic, weaker global demand, and heightened macroeconomic instability could choke economic growth, increase poverty, and worsen human capital development outcomes. The best case scenario is linked to acceleration of economic reforms and reengagement with international development partners with growth expected to reach four to five percent in 2021, inflation returning to single-digits in 2022, and poverty reduction accelerating.

Ensuring macroeconomic stability is therefore a *sine qua non* for supporting a private sector-led economic recovery and easing social conditions. The Government's efforts to stabilize prices through prudent fiscal policy and rules-based monetary and exchange rate policies have been effective and must be continued to enhance confidence and improve macroeconomic conditions. On the fiscal side, in addition to measures to improve revenue collection, stringent fiscal policies are required to reduce distortive spending and redirect resources where they are most needed, including to ensure delivery of basic social services and reestablish human capital. Maintaining price and exchange rate stability will require the Reserve Bank of Zimbabwe (RBZ) to limit the growth of monetary supply, primarily by avoiding monetary financing and all quasi-fiscal activities, while ensuring high transparency and accountability of monetary policy. In addition, Zimbabwe's recovery needs to be underpinned by policies promoting longer-term, structural economic transformation, such as reducing state interventions in the economy; lessening the regulatory burden; strengthening governance and anti-corruption; lowering barriers to regional trade integration; and removing forex retentions. Implementation of key policy reforms outlined in the recently approved National Development Strategy (NDS) will be a priority.

PRUDENT FISCAL POLICY AND MONETARY AND EXCHANGE RATE POLICIES HAVE BEEN EFFECTIVE IN STABILIZING PRICES SINCE

JULY 2020

RESTORING QUALITY SERVICE DELIVERY REMAINS AN URGENT PRIORITY, PARTICULARLY IN THE SOCIAL SECTORS

Preserving lives during this unprecedented pandemic in this challenging economic environment will require a strategic approach to addressing underlying problems in the health sector. Such a strategy needs to recognize and simultaneously attend to the COVID-19 and non-COVID-19 health burden in coordinating and allocating sector resources. The Government's COVID-19 Response Plan in 2020 was slow to get off the ground initially, as limited resources, inadequate access to goods and supplies, and implementation constraints limited the already weakened health sector's ability to cope with the surge in COVID-19 cases. As concerns regarding a possible third wave are mooted, efforts to ramp up capacity are ongoing. In the short-term, priority interventions include: i) ensuring adequate access to the 2021 budget allocation for the COVID-19 response as well as to restore access to essential health services; and ii) improving the procurement, distribution, and management of pharmaceutical commodities and equipment in hospitals and clinics. Ensuring the sustainability of health financing in the medium-term will require identification of sustainable ways to address the remuneration and retention of health workers; as well as strengthening accountability frameworks and investing in appropriate monitoring and information management systems.

Protecting livelihoods will require strengthening social protection and food security while also ensuring better education outcomes. Zimbabwe's social protection system has insufficient financial resources and implementation capacity to reach the growing number of people in extreme poverty. It is currently estimated that almost 7.9 million people live below the food poverty line and it will be important to carefully target humanitarian and social protection programs to reach those most in need with adequate levels of benefits. In the medium-term, authorities seek to strengthen domestic capacity to monitor and manage social programs, by: i) reestablishing the National Social Protection Steering Committee (NSPSC); and ii) improving the targeting and monitoring of social protection programs, including through beneficiary feedback loops. Though humanitarian food aid programs can help households address short-term food

INSUFFICIENT FINANCIAL RESOURCES AND IMPLEMENTATION CAPACITY CONSTRAIN GOVERNMENT'S ABILITY TO REACH THE GROWING NUMBER OF PEOPLE IN EXTREME POVERTY insecurity, Zimbabwe is working towards longer-term solutions, such as climate-proofing agriculture, better managing grain reserves, and increasing rural communities' linkages to markets. To forestall a looming learning crisis, the GoZ has taken steps to expand opportunities for distance learning, but this will need to be scaled up, along with measures to provide additional financing for schools in poor areas, scale-up coverage of social assistance for school fees, and provide adequate school feeding programs.

Overall, it is clear that any policy option adopted need to account for Zimbabwe's limited fiscal space and the significant financing required to arrest further deterioration of social service delivery. As it is currently facing tight public finances and limited recourse to external financing, Zimbabwe will need to rely heavily on reallocating domestic resources to optimal public uses; mobilizing humanitarian support to prevent increasing fragility; and leveraging private financing where possible to stimulate growth. Significant financing will be required to restore service delivery to the levels of the recent past as the gap has widened sharply over the past two years. In this regard, new approaches to working with the private sector and development partners are needed to leverage financing and skills. Such approaches coupled with a more responsive and accountable public sector would enable a more rapid improvement in service delivery. Challenges nonetheless remain significant, as the financing gap even after accounting for government and humanitarian support was estimated at US$1.4 billion in 2020. The Government's NDS provides an opportunity to galvanize this support; as it establishes a platform for prioritizing, sequencing, and costing policy measures that support an increased budget to underpin improvements in basic service delivery.

The 2021 Zimbabwe Economic Update (ZEU) assesses the economic and poverty impacts of the ongoing economic and social challenges, which have been caused by exogenous and domestic shocks, including COVID-19 and uneven economic reform including that in preceding years. The ZEU discusses options for mitigating the negative impacts of shocks, limiting further degradation in service delivery, and paving the way for sustainable economic recovery. Part 1 provides an overview of recent macroeconomic and poverty context. Part Two assesses the impact of COVID-19 and other exogenous shocks on delivery of basic services to the poor and proposes mitigating actions for discussion. In addition, Part 2 summarizes key policy options needed to stabilize Zimbabwe's economy, minimize the social costs of adjustment, and prepare for an economic recovery.

PART 1

Recent Economic and Poverty Developments and Outlook - 2019 to 2022

REAL SECTOR

The real sector was hit by multiple shocks in 2019

Zimbabwe's economy entered a recession in 2019 characterized by triple-digit inflation, due to significant macroeconomic challenges, a devastating drought, and Cyclone Idai. In 2019, GDP contracted by an estimated 8.1 percent (Figure 1) after growing 4.8 percent in 2018. Uneven implementation of macroeconomic policies and climate shocks led to shortages of foreign currency, fuel, and electricity. Zimbabwe experienced the worst drought in a decade (Figure 3) and a cyclone causing damages of more than US$600 million. These and other factors contributed to a significant economic contraction, particularly in agriculture (Figure 4) and the water and electricity sectors, with ripple effects on the rest of the economy. Power generation contracted by about 20 percent in 2019 due to drought and water shortages became more frequent and widespread. These challenges reduced productivity, increased the cost of production, and weakened economic activity; despite notable progress in ratings on the Ease of Doing Business.[6] Coupled with volatile currency and prices, these challenges affected the tradable sectors the most, reducing the availability of much needed foreign currency.

[6] In 2019, Zimbabwe was one of the top twenty reformers in the world in Doing Business (DB), as the country implemented reforms in five DB areas. World Bank Doing Business 2020.

Figure 1. Zimbabwe's economy was in a deep recession in 2019 …

GDP growth, %

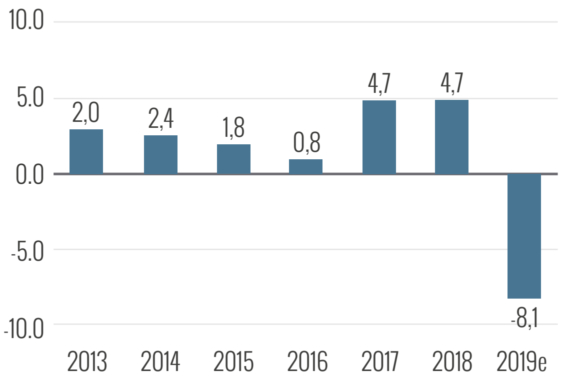


Figure 2. … and saw the deepest decline in GDP per capita in Sub Saharan Africa

GDP per capita growth, 2019 %

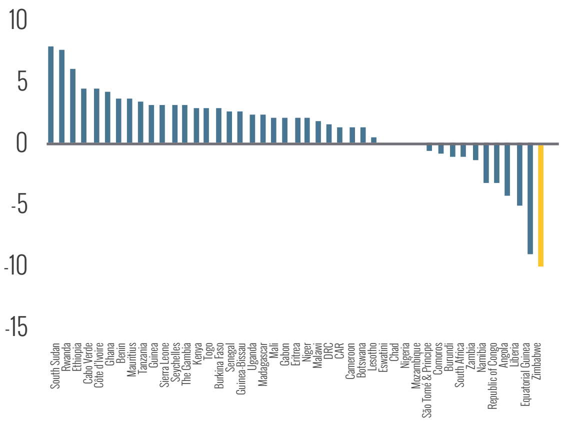


Figure 3. The country experienced the worst drought in a decade alongside existing economic challenges

Rainfall level, mm

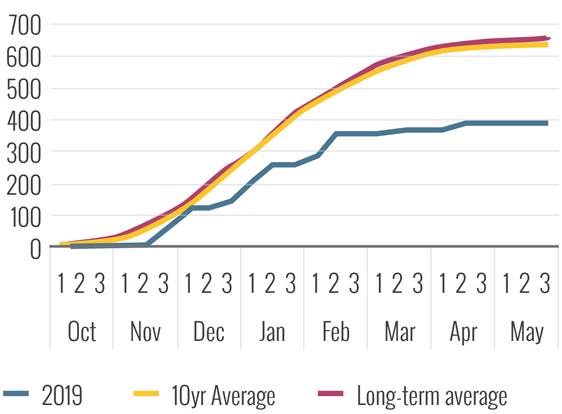
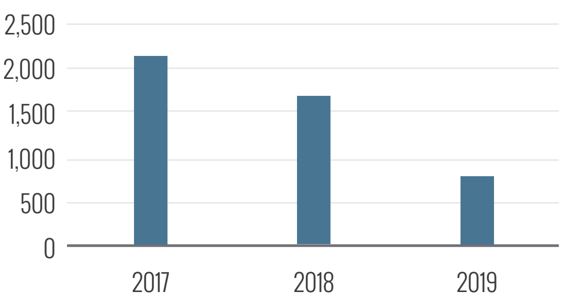


Figure 4. A sharp decline in agriculture production, especially of maize, pushed nearly 8 million into food insecurity and led to a humanitarian appeal

Maize production, thousand metric ton



Source: FAO, ZIMSTAT, and World Bank World Development Indicators (WDI).

Efforts to correct domestic imbalances suppressed domestic demand and worsened household welfare in 2019. Private consumption was strained by a sharp fall of real income as food prices reached hyperinflationary levels, formal employment declined, and food insecurity rose, affecting nearly half of the population by the end of the year. Tightened fiscal spending led to a double-digit decline in government consumption and investment and contributed to further contraction of GDP. Levels of private investment also fell to a fraction of previous years as rapid depreciation of the local currency increased uncertainty and limited access to imported equipment and critical inputs, while also negatively affecting investor sentiment. As a result, in 2019 Zimbabwe saw the steepest decline of GDP per capita among all Sub-Saharan African countries (Figure 2).

The recession was further exacerbated by the COVID-19 pandemic

In 2020, the outbreak of a pandemic signaled the deepening of the country's challenges and led to a significant supply-side shock. As a result, the recession persisted in 2020, with GDP expected to have fallen by eight percent, un upward revision of two percentage points compared to initial projections. Strict lockdowns and containment measures put in place in April 2020 in Zimbabwe; and replicated among its key trade partners, disrupted supply chains significantly limiting opportunities for purchasing inputs and selling outputs. All sectors have been affected by the pandemic, such as through reduced working hours and increased costs to comply with social distancing requirements at workplaces. However, in the second half of 2020 business improved markedly as prices and exchange rates stabilized, access to foreign exchange eased, and lockdown regulation relaxed.

Figure 5. Drastic fall in sales of services and manufacturing

Average change in sales, Jul-2020 year-on-year, %

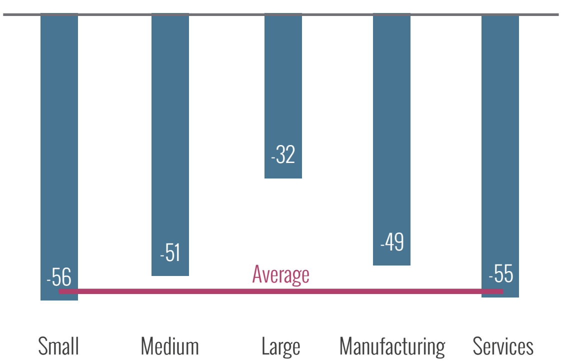


Figure 6. Mobility restrictions complicated supply of inputs

Share of firms experiencing decrease in supply of inputs Jul-2020, %

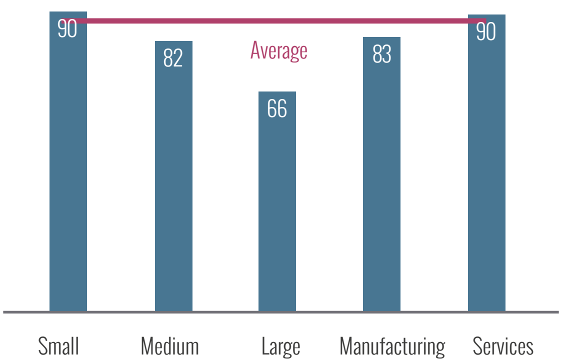


Figure 7. Significant job and income losses in the formal sector

Share of firms at normal level of workforce, Jul-2020, %

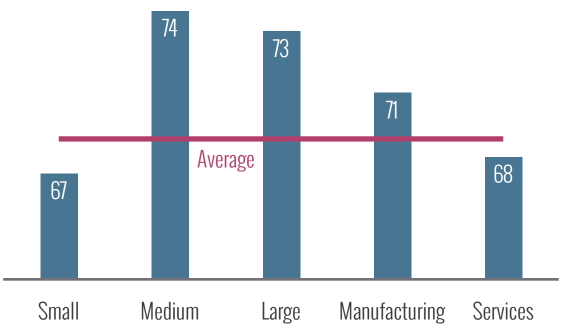
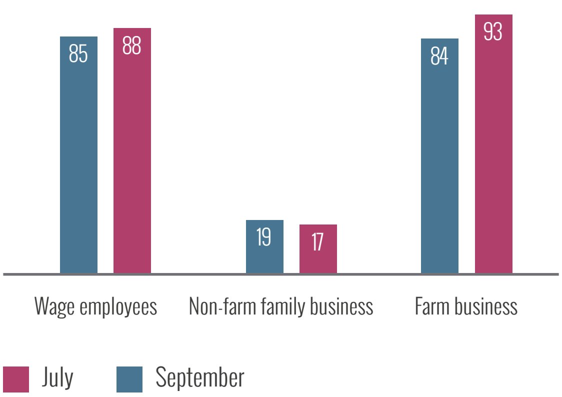


Figure 8. And even higher losses in the informal non-farm sector

Work as usual, July and September 2020



Sources: World Bank Enterprise Survey (telephone survey of June/July 2020); ZIMSTAT Rapid PICES Telephone Survey of July 2020.

Sales and employment losses were the highest in the service sectors (Figure 5 and Figure 7). In 2020, nearly 89 percent of firms in the service sector suspended operations for nearly two months due to COVID-19. Particularly affected were the tourism, trade, and transport sectors, which generate a quarter of GDP and are highly dependent on movement of goods and people. Border closures, social distancing regulations, and limited mobility halted activities in international tourism for nearly six months, and drastically reduced domestic activity. Though companies attempted to adjust to new realities by offering online services and shifting to remote working, firms in the service and manufacturing sectors appeared to be less flexible when compared with their counterparts in other countries within the region. As expected, the Information and Communication Technologies (ICT) sector was the only one that rallied in response to the COVID-19 mobility restrictions.

Manufacturing firms, especially those mainly selling goods in the domestic market, were initially hit hard by disruptions arising from the pandemic. As supply chains for inputs were disrupted (Figure 6), the impact was more severe than in other African countries. By mid-year, fewer than seven percent of firms, mostly large firms, reported unchanged sales from 2019. Sales of manufacturing and services firms were about half that in 2019, largely due to suspended domestic and regional activity during the lockdown, and firms operated at a third of their potential .[7] Working hours reduced in compliance with lockdown regulations have caused domestic and external demand to remain depressed, which has further impacted profits. In the second half of 2020 eased lockdown regulations allowed manufacturing companies to fully reopen and recover some of the lost ground in the first half of the year. Performance of mining firms was affected by the suspension of activities and domestic challenges, such as the impacts of export retentions and foreign currency shortages. Despite higher global prices, production and exports of gold and chromium was reduced. However, higher production, and export of nickel, platinum, and diamonds contributed to improved performance of the mining sector, offsetting to some extent the worsened performance of the gold sector.

The pandemic was especially damaging to informal traders, who remained under strict lockdown with no opportunities to make ends meet for several months. The informal sector, which makes up over three-quarters of the economy, and whose savings were severely eroded by high inflation, felt the brunt of the pandemic.[8] Informal workers count among the non-farm family businesses that have seen incomes fall since the lockdown. Less than 20 percent of such businesses were able to operate at normal capacity at the height of the lockdown and even after the relaxation of lockdown rules (Figure 8).

Though supply shocks subsided after easing of lockdown regulations and stabilizing of prices and exchange rates in the second half of 2020, demand-side shocks persisted. Household consumption, already weakened by soaring prices and poor returns from subsistence agriculture, was hit hard by rising unemployment and income losses from reduced working hours, unpaid leave, and fewer

[7] Based on World Bank Enterprise Survey conducted in July 2020 among 600 firms in manufacturing and services sectors. According to the Confederation of Zimbabwean Industries (CZI) survey, conducted among its members in November 2020 (35 percent response rate), capacity utilization of manufacturing sector increased from 36.4 percent in 2019 to 47 percent in 2020.

[8] The country's informal sector is one of the largest in the world. The Zimbabwe National Statistics Agency (ZIMSTAT) estimates that the informal sector made up 76 percent of total employment in 2019, with most workers employed in services and agriculture.

opportunities for formal and informal sector activities. Despite counter expectations, remittances - through formal channels did however, increase mitigating the extent of consumption losses. The global recession, coupled with export retentions, low export diversification, and high reliance on commodities and tourist services, has also limited the recovery of exports. Nearly 83 percent of firms surveyed as part of the bi-annual global World Bank Enterprise survey in June-July 2020 reported decreased year-on-year (y-o-y) exports. However, demand for imports increased as several years of drought had necessitated increased imports of maize and electricity while the pandemic presented new demands for lab equipment, reagents, and personal protective equipment.

FISCAL DEVELOPMENTS

A significant fiscal adjustment took place in 2019 to stabilize the economy

The reduction in economic activity and persistent macroeconomic instability have required careful management of public finances. The Central Government achieved a fiscal surplus of 0.3 percent of GDP in 2019 (Figure 9), breaking a trend of unsustainable spending on a sizable public wage bill and support to agriculture that had persisted since 2012.[9] Revenue fell by a lesser margin than expenditure as a new tax on mobile transactions and an increased excise on fuel, offset a drop in non-tax revenues, and mitigated the impacts of depressed economic activity on tax collection. However, rising inflation led to the weakening of disposable incomes and imports, which contributed to a decline in Value-Added Tax (VAT) and curtailed the increase in customs duty.

The GoZ carried out a significant spending adjustment, which was enhanced by wage compression under high inflation but also involved the containment of subsidies and quasi-fiscal activities. Year-on-year expenditures fell by seven percentage points of GDP to 14 percent in 2019 (Figure 9). Fiscal consolidation was achieved primarily by wage compression, as cost of living adjustments trailed price increases. As a result, in 2019 the public sector wage bill fell to less than half of its 2018 level[10] (Figure 10), discontinuing the previously unsustainable level of more than 13 percent of GDP. Lower wage spending reflected also various government measures to contain expenditure: a salary cut for senior civil servants, 13th-month cheque payment on basic salary only, rationalisation of foreign service missions, and retirement of youth officers. In addition, by the end of 2019, the GoZ had contained implicit subsidies on fuel, adjusted electricity prices to improve cost recovery, and reduced support to agriculture, which had contributed to an unsustainable fiscal deficit since 2016. In addition, social spending was increased, most arrears on social programs cleared, and long-standing challenges related to payment of social benefits were addressed, albeit late in 2019. A transport subsidy was also introduced to help provide more affordable transport opportunities for those affected by rapid increase in fuel and thus transport prices.

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[9] From 2016 to 2018, the GoZ embarked on Command agriculture that contributed to large fiscal deficits and macroeconomic instability.

[10] In real terms (adjusted for inflation), the public wage bill fell by 47 percent.

Figure 9. Significant fiscal adjustment took place in 2019 ...

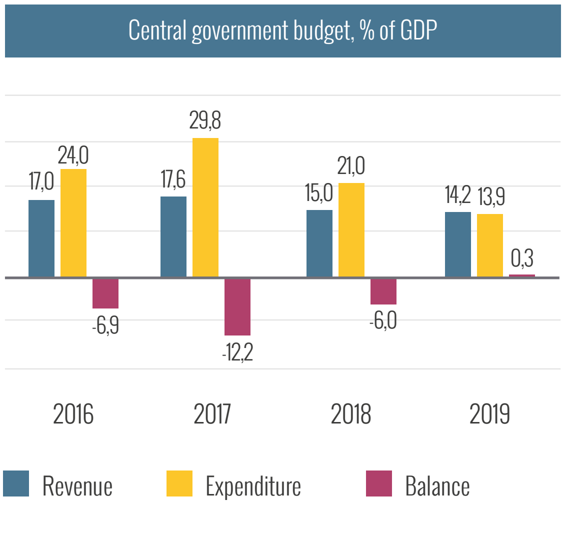
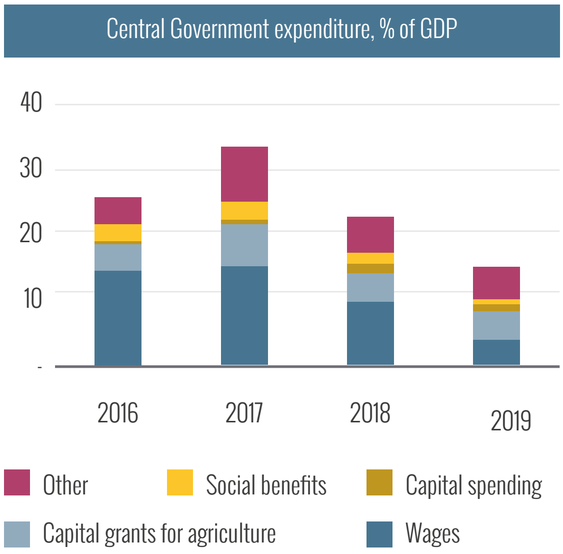


Figure 10. ... driven by wage compression and decline in agriculture transfers



Source: Ministry of Finance and Economic Development (MOFED), ZIMSTAT, and World Bank.

The drop in real wages and the changes in subsidy policy disproportionately affected those in the upper end of the income distribution. The non-poor were disproportionately affected as they depend on wage incomes. According to the PICES 2017[11] data, subsidies for maize meal benefit more urban households (Table 1) because the poorest population groups rely much more on maize *grain* for food intake. Fuel price reforms were largely progressive, as richer (and urban) households were much more affected by fuel price increases than poorer and rural households. Spending on transport follows the same pattern, although here the differences among welfare groups are less pronounced, and differences are particularly small among welfare groups in urban areas. Furthermore, the mobile transaction tax introduced in 2019 affected the rural population less than the urban population as rural households use mobile money for a smaller proportion of their consumption needs than urban households. As poverty rates are higher in rural areas, the mobile transaction tax is therefore also progressive.

[11] The PICES 2017 dataset is the latest dataset for which detailed consumption data are available for a large group of households (about 31,000). The mini-PICES 2019 only collected consumption data from about 500 households which is insufficient to conduct this analysis.

Table 1. Consumption share of selected goods and services for urban and rural households in 2017

Urban Zimbabwe (% of total household consumption)						
Welfare Quintiles	Maize grain	Maize meal	Energy	Transport fuels	Transport Fares	Electricity
Poorest	7.5	2.0	0.5	0.0	3.4	1.5
Near poorest	5.6	2.9	1.2	0.0	3.0	3.1
Middle	4.0	2.5	1.1	0.1	4.2	4.4
Near richest	3.1	2.0	0.9	0.4	4.3	4.6
Richest	1.9	1.3	0.8	2.2	4.1	4.5
All	**2.9**	**1.8**	**0.9**	**1.1**	**4.1**	**4.4**
Rural Zimbabwe (% of total household consumption)						
Welfare Quintiles	Maize grain	Maize meal	Energy	Transport fuels	Transport Fares	Electricity
Poorest	13.9	0.4	0.1	0.0	1.4	1.1
Near poorest	12.0	0.6	0.2	0.1	2.3	1.6
Middle	10.5	0.7	0.2	0.2	3.0	1.7
Near richest	8.6	0.8	0.3	0.7	3.7	1.8
Richest	5.6	0.8	0.4	1.8	4.4	2.4
All	**11.2**	**0.6**	**0.2**	**0.3**	**2.6**	**1.6**

Source: ZIMSTAT, World Bank. Based on PICES 2017. * Mostly roller meal.

While careful management of public finances was both necessary and welcome, the decline in real public expenditure adversely affected service delivery. The rise in inflation that accompanied this period of tight fiscal management, eroded public sector wages, demotivating workers and negatively affecting service delivery (Part 2). As expenditure on other government operations (goods and services) did not increase sufficiently to compensate for inflation, the rise in prices quickly eroded budget allocations, leading to shortages of key goods, such as drugs, medical equipment, water chemicals, and textbooks. This sharp decline in budgetary adequacy significantly impeded the reach and quality of service delivery.

Zimbabwe remains in debt distress: and while the majority of external debt is in arrears (Figure 11) the real value of domestic debt has been eroded by inflation (Figure 12). Public and publicly guaranteed external debt stood at 83 percent of GDP in 2019, of which 61 percent of GDP was external arrears. Domestic debt financing is limited due to shallow financial markets and negative real interest rates, which discourage lending. Though management of central government finances improved in 2019, sizeable contingent liabilities coupled with a considerable debt burden and limited access to concessional financing continue to limit the GoZ's ability to clear arrears. Realized contingent liabilities are significant at around eight percent of GDP, and include guarantees for agricultural support schemes and private debt arising from losses associated with currency reform that has been assumed by RBZ.

Figure 11. External debt is mostly in arrears ...

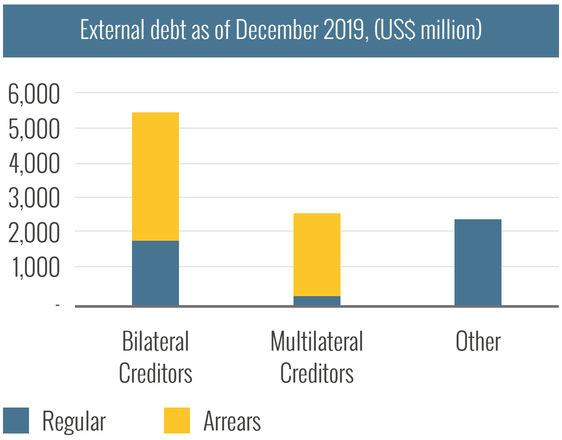
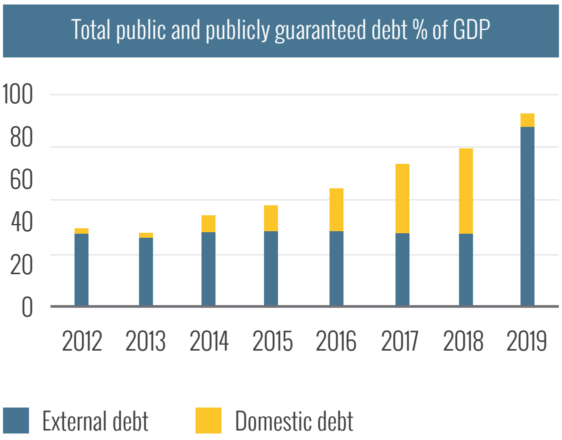


Figure 12. Representing a sizable portion of overall public debt



Source: MOFED, Reserve Bank of Zimbabwe (RBZ), and World Bank

Limited fiscal space and implementation challenges constrain the response to the pandemic

The pandemic placed additional pressures on public finances, which were mitigated in the second half of 2020. Firstly, it severely disrupted economic activity, including trade flows, which affected adversely tax revenues in the first half of the year. In the second half of the year, easing of lockdown regulations, the stabilization of prices and exchange rates, and authorized use of US dollar boosted revenues (Figure 13). Over half of the 2020 revenue were collected during the fourth quarter of 2020. Revenues increased both in US$ terms (by 0.4 percent) and by 21 percent in real terms (based on CPI) compared to 2019, reflecting increased collection of revenues in USD as the dedollarization measures were relaxed in June 2020. Personal income and corporate income tax revenue contributed most to the increase. Revenues from value added tax from domestic transactions and mining royalties also grew albeit at slower rate while the mobile money tax revenues saw a decline due to the reintroduction of US dollar as a means of payment.

The GoZ's fiscal policy remained tight, despite additional spending pressures amid the pandemic (Figure 14). Overall, preliminary estimates show that fiscal accounts ended in a surplus of 1.9 percent of GDP in 2020 (Figure 16) compared to a planned deficit of 1.5 percent. The containment of the fiscal deficit reflected strict control over expenditure, especially non-wage current spending. In contrast to 2019, real wages of public servants improved (Figure 15) as wages were raised three times after January 2020, mainly by adjusting allowances, including providing allowances in US dollars.[12] Implementation challenges, travel restrictions, and lack of finance constrained execution of announced social protection measures in the first half of the year, but corrective measures accelerated execution of these programs in the second half of the year. Nevertheless, social protection spending remained well below the plan despite growing numbers of poor.

[12] The latest increase was the award of a 50 percent salary increase and a flat US$75 COVID-19 allowance for civil servants for three months starting June 2020, as well as a US$30 allowance for government pensioners. The allowance was initially for three months (June-August), and was later extended to December 2020.

Figure 13. Revenue initially weakened but recovered in the last quarter of 2020

Central Government revenue, US$ million

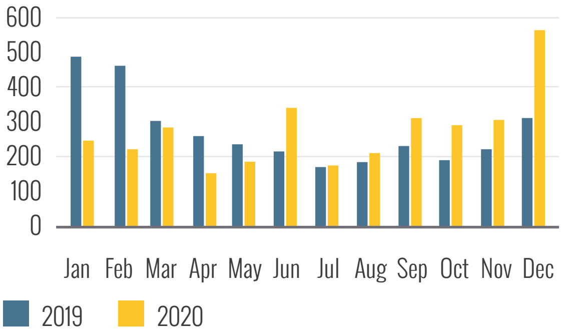


Figure 14. ... while spending pressures remained suppressed

Central Government expenditure, US$ million

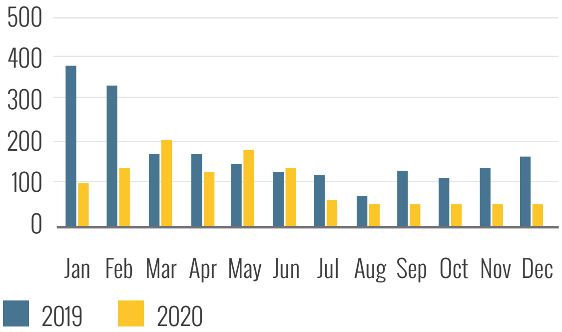


Figure 15. Spending on wages and social benefits picked up in 2020

Central Government expenditure, % of GDP

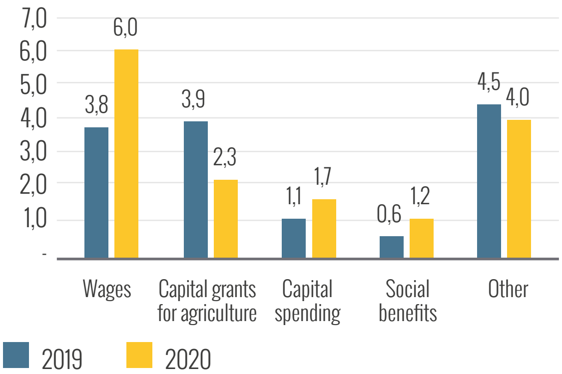
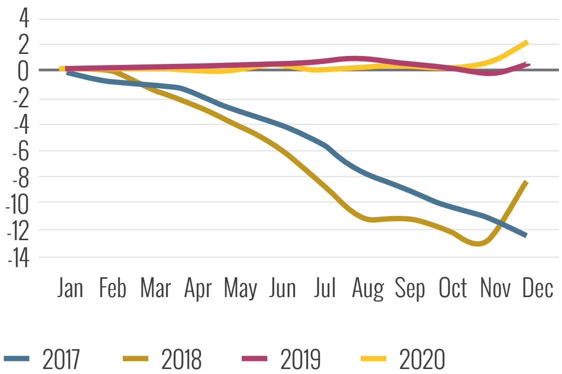


Figure 16. And fiscal accounts remained broadly balanced

Fiscal balance (cumulative, % of annual GDP)



Source: MOFED, RBZ, and World Bank

Note: Estimated at monthly official exchange rate.

The significant impact of the pandemic coupled with erosion of real value of allocated budget has severely affected service delivery (see Part 2). Throughout the pandemic, nurses and doctors have been absent or on strike, leaving hospitals with limited numbers of staff to treat COVID-19 and non-COVID-19 cases. Only a minority of the increasing number of extremely poor households (i.e., those living under the food poverty line) has received food aid as shown by the two rounds of rapid PICES (Part 2, Table 7), and access to education in rural areas has been severely limited during school closures.

Government's ability to respond to the pandemic is constrained by limited access to concessional sources of financing. External debt arrears that reached 78 percent of external public debt in 2020 have prevented Zimbabwe from benefitting from finance from International Financial Institutions (IFIs) and global initiatives, such as the global Debt Service Suspension Initiative (DSSI). The DSSI is intended to suspend debt payments from the poorest countries to official bilateral creditors based on countries' requests for forbearance, with a view to providing immediate liquidity to tackle challenges posed by COVID-19. IFIs have also put in place programs to assist in the COVID-19 response, including procurement of PPEs, vaccinations, however Zimbabwe is not eligible for this support due to arrears. The GoZ has therefore opted for collateralized external borrowing on commercial terms, which may complicate future arrears clearance operations. Given Zimbabwe's inability to access IFI finance, spending on those affected by the pandemic was considerably lower than in other developing countries, impacting both households and the private sector (small and medium enterprise), and further exacerbating poverty and impeding livelihoods.

MONETARY DEVELOPMENTS

In 2019, an expansionary monetary policy affected macroeconomic stability

2019 was characterized by uneven implementation of monetary and foreign currency reforms. An expansionary monetary policy in 2019 contributed to low confidence in Zimbabwe's new currency.[13] In addition, continued rapid money growth for quasi-fiscal operations resulted in a significant exchange rate depreciation (Figure 19) and very high inflation (Figure 20). The money targeting framework[14] that the authorities announced in February 2019 was not operationalized in 2019, due to exchange rate volatility, and the quest by authorities to address the fundamental causes of the volatility. This delayed currency stability.

Expansionary monetary policy was partly a result of quasi-fiscal activities. RBZ engaged in quasi-fiscal activities in 2019 such as discounting treasury bills held by private owners and providing financial support to gold miners, loans to SOEs, and an implicit fuel subsidy[15] (i.e., selling foreign exchange to fuel importers at a subsidized rate). As a result, reserve money increased by 217 percent in 2019 and domestic credit to the Government increased by about 41 percent (Figure 17), contributing to significant crowding out of the private sector (Figure 18).

[13] The Central Bank introduced a new domestic currency in February 2019 and made various monetary policy announcements, including in June 2019 when the new Zimbabwean dollar was introduced as the sole legal tender, effectively ending the multi-currency regime that had been in place since 2009.

[14] The framework was based on setting quarterly targets for growth in base money to stabilize the economy.

[15] For detailed discussion see International Monetary Fund, 2020. Zimbabwe 2019 Article IV Consultation staff report. IMF Country Report No. 20/82.

Box 1. Quasi-fiscal activities[16]

The role of quasi-fiscal activities (QFAs) in driving, high inflation and exchange rate depreciation can be traced to three distinct periods: the hyperinflation period (2004-2007), the high inflation period (2016-2019), and the current period (2020). These three periods included common QFA elements: subsidized foreign exchange for public enterprises; price support to exporters; subsidized credit to farmers and public enterprises; and realized exchange losses stemming mainly from purchase of foreign exchange from exporters and the public at higher rates than sold to importers, mainly government and public enterprises (see Box 1, Table A). Reforms to some QFAs started in 2020.

Table A: Sources of quasi-fiscal losses

Types	2004-2007	2016-2019	2020
Agriculture input subsidy	✓	✓	X
Fuel subsidy	✓	✓	X
Export incentives/gold incentives	✓	✓	X
Subsidized credit to banks	✓	✓	X
Direct lending facility	✓	✓	✓
Forex subsidy to SOEs (ZESA, GMB etc)	✓	✓	X
Realized exchange rate losses (buying high and selling low)	✓	✓	✓

Sources: Munoz (2007), Reserve Bank of Zimbabwe (various monetary policy statements-2016, 2017. 2018. 2019, 2020).

Severe losses to the RBZ stemming from QFAs resulted in printing money (high money supply), which caused high inflation and local currency depreciation. In 2006, realized quasi-fiscal losses were estimated at about 75 percent of GDP (Munoz, 2007). Zimbabwe's soaring inflation was due to the RBZ's substantial quasi-fiscal activity, rather than conventional government budget deficits (Munoz, 2017). The quasi-fiscal losses during this period are estimated at around US$1.35 billion.

Quasi-fiscal activities were resumed from 2016 to 2019. The Government and RBZ continued facilities similar to those in the previous period, such as fuel subsidies, direct lending facilities, export financing schemes, loans to RBZ subsidiaries, nostro stabilization facilities, and command agriculture, which involved providing farmers with inputs.

16 Quasi-fiscal activity is an operation or measure carried out by a central bank or other public financial institution with an effect that can, in principle, be duplicated by budgetary measures in the form of an explicit tax, subsidy, or direct expenditure and that has or may have an impact on the financial operations of the central bank, other public financial institutions, or government (Mackenzie and Stella (1996).

By 2020, the Central Bank had started to tame quasi-fiscal activities. Authorities stopped direct lending to farmers (command agriculture), reformed (or ended) the fuel subsidy and moved export incentives on gold to the fiscus. A direct lending facility remained—the Medium-Term Bank Accommodation Facility (MTBAF), which seeks to alleviate the impacts of Covid-19 on productive sectors.

The national budget deficit risks being severely underestimated if QFAs are not taken into account. Measuring the combined deficit, including central government and Central Bank quasi-fiscal losses, is not easy due to lack of data. Monoz (2007) measured the combined deficit by defining an adjusted central bank and government deficit as the financing requirement of the central bank and central government, comprising: (i) the central government's primary balance; (ii) subsidies provided by the RBZ; (iii) the RBZ's realized exchange losses; and (iv) the net interest payments of both the central government and the RBZ.

Subsequent excessive volatility in the exchange rate resulted in soaring inflation, among other negative consequences. Annual inflation in 2019 increased 255 percent compared with an annual average of less than ten percent from 2013 to 2018. This sharp rise in prices constrained the optimal allocation of resources and adversely impacted economic activity, while negative real interest rates deterred savings and investment. The local currency depreciated over 80 percent, contributing to high inflation (Figure 20). Increases in food prices, which surged by 977 percent y-o-y at end-2019, disproportionately affected the poor. According to a micro-simulation based on the PICES 2017 data, price hikes of maize grains and maize meal increased extreme poverty by two percentage points.[17]

Figure 17. Reserve money and credit to the Government increased sharply in 2019

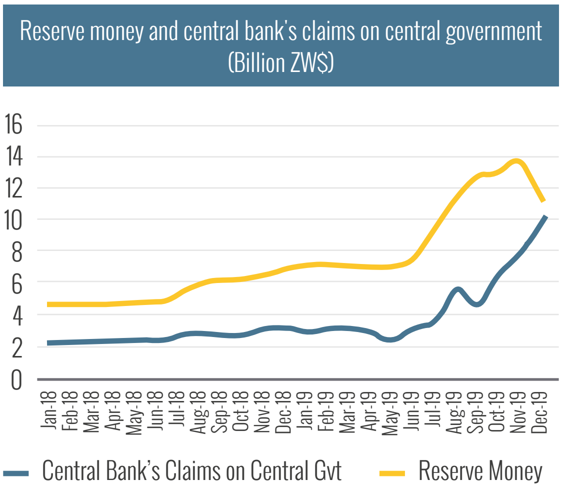
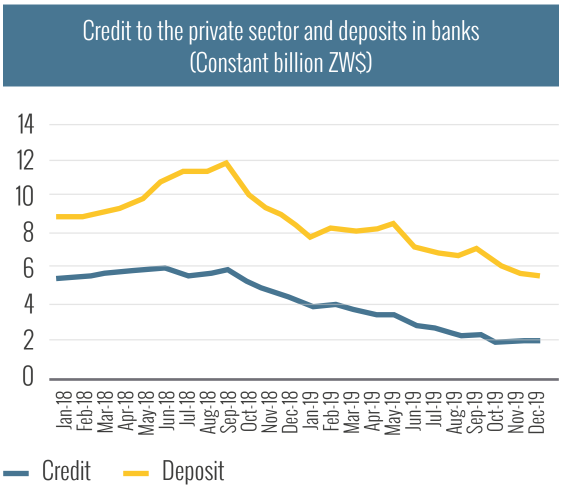


Figure 18. As a result, credit to the private sector was further crowded out



[17] See ZIMSTAT/ World Bank (2020). Poverty Update 2017-2019.

Figure 19. Exchange rate volatility increased significantly in 2019

Official and paralel market exchange rates, ZWL$/US$

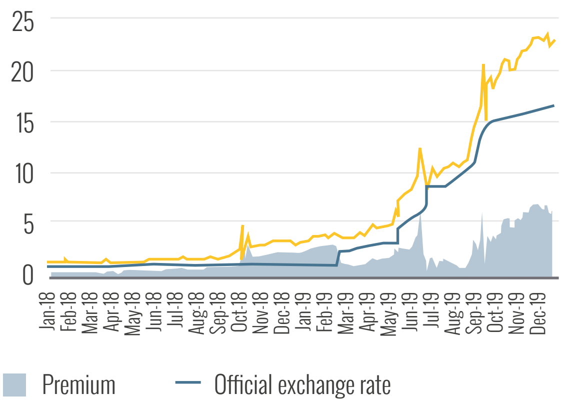
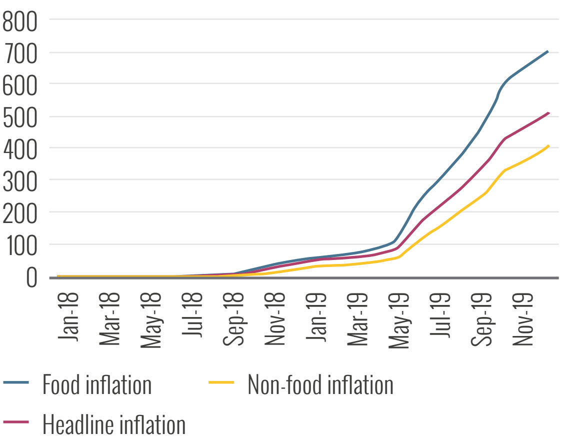


Figure 20. Depreciation of the exchange rate on the parallel market contributed to high inflation

Consumer price inflation year-on-year annual change, %



Source: RBZ, ZIMSTAT, and World Bank

A corrective monetary policy response during the second half of 2020 eased economic volatility

To ameliorate the negative impacts of the pandemic, the RBZ eased de-dollarization measures in 2020. It was no longer viable to strictly adhere to a single currency and fixed exchange rate regime given acute cash and forex shortages and disrupted business activity. Accordingly, the GoZ allowed for the dual use of local currency and US dollars. Nevertheless, the spread between the parallel market and official exchange rates continued to widen, exceeding 75 percent by late June 2020 (Figure 21) before corrective action was taken. The RBZ also introduced a Medium-Term Bank Accommodation Facility (MTBAF) as a response to the pandemic. Impacts on companies and Small and Medium-sized Enterprises (SMEs) worsened as the year progressed, and the Facility was increased to ZW$3 billion (US$67 million) in April 2020. An additional ZW$2 billion was to be raised from the market through money supply neutral financial instruments to augment the MTBAF to ZW$5 billion. The interest rate applicable to the MTBAF was reduced from 15 percent to 10 percent per annum with effect from May 1, 2020. By end-June, most of the MTBAF was disbursed to commercial banks for on-lending to the private sector, predominantly for agriculture and gold mining. In addition, reserve money grew by 22 percent in June 2020 compared with December 2019. Coupled with restricted availability of goods during the lockdown and variable exchange rate policies, the growth in reserve money contributed to inflationary pressures in 2020.

In mid-2020, the RBZ adopted important reforms that eased volatility of prices and exchange rates. These include operationalization of the reserve money targeting framework, floating of the exchange rate, and other steps to liberalize it. RBZ has progressively enhanced the operation of the Monetary Policy Committee (Figure 25). To contain inflation, a quarterly ceiling for growth of reserve money of 25 percent was set (Figure 23), and weekly monitoring of reserve money developments started, thus increasing transparency. The fixed exchange regime was discontinued, and RBZ introduced a foreign exchange auction system in June 2020, which helped stabilize the parallel market exchange rate and reduce the parallel market premium (Figure 21). However, the parallel market premium of over 30 percent as of end-December 2020 remained distortionary. Furthermore, financing the auction system from export retentions is unsustainable—it is not based on market principles,[18] and is a disincentive to exporters as it converts 40 percent of their export proceeds into local currency. Thereafter, measures were; taken to strengthen regulations in the mobile money market to improve financial stability, and this also helped to ease both exchange rate and inflationary pressures. The Central Bank put several restrictions – on internal transfers, ZIPIT platform and mobile money- as a way to stop illegal foreign currency trading that was partly fuelling currency depreciation. It further suspended the trading of Old Mutual Shares on the Zimbabwe Stock Exchange effectively banning the use of Old Mutual Implied Rate as a gauge of local currency depreciation. Inflationary pressures eased with year-on-year inflation slowing sharply from 838 percent in July 2020 to 349 by December 2020 (Figure 22). This downward trend is continuing in 2021 with inflation reaching 194 percent in April 2021.

Figure 21. Government shelves fixed exchange rate slowing currency depreciation

Official and paralel market exchange rates, ZWL$/US$

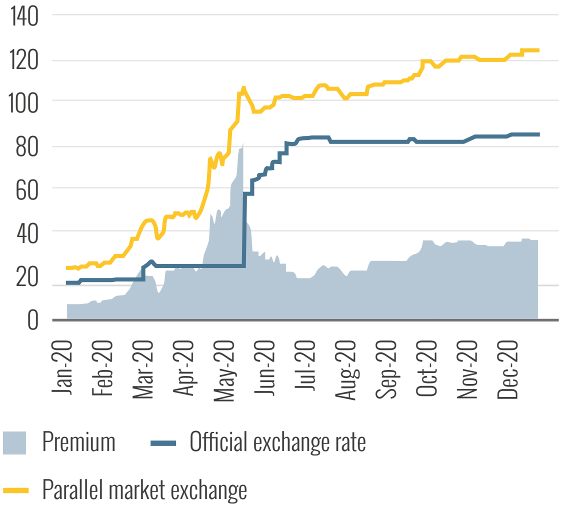
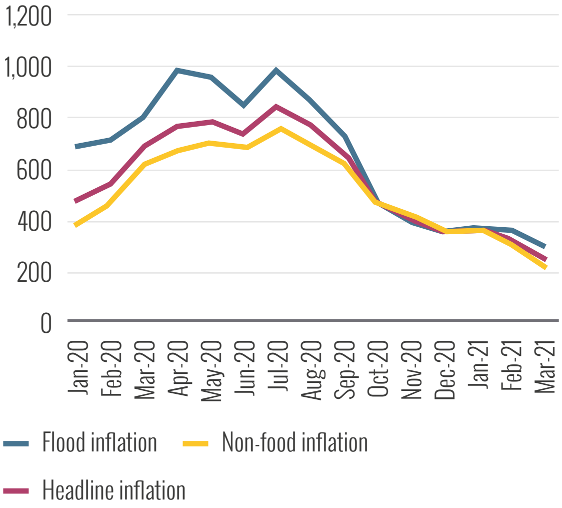


Figure 22. ... contributing to the easing of inflationary pressures from August 2020

Consumer price inflation year-on-year, %



[18] The auction (Dutch auction), introduced to ensure a more transparent allocation of foreign currency to importers, is funded mostly by compulsorily converting 30 percent of export proceeds in local currency or retained foreign currency receipts after the expiry of 30 days. Another major source of financing is the compulsory liquidation of 20 percent of the US dollar denominated domestic transactions in local currency to fund the auction. RBZ also funds the auction through costly offshore facilities (e.g., mortgaging minerals).

Figure 23. Reserve money and credit to the Government increased at lower pace in 2020

Reserve Money & Central Bank Claims on Central Government (Billion ZW$)

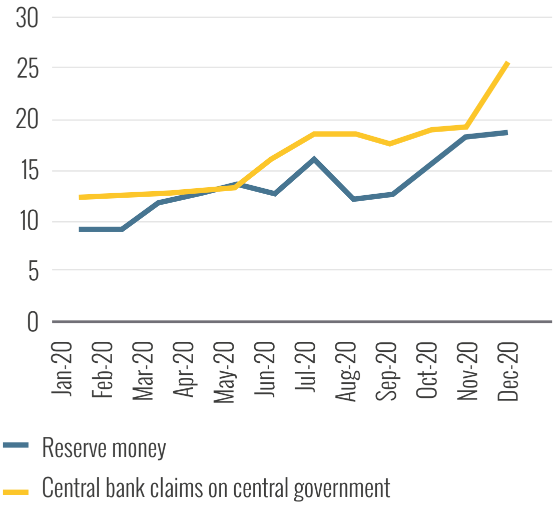
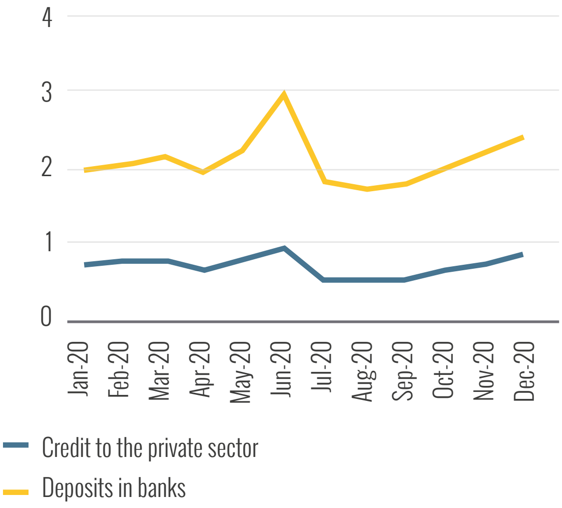


Figure 24. ...credit to the private sector was almost constant in 2020

Credit to the Private Sector & Deposits in Banks (Billion US$)



Source: RBZ, ZIMSTAT and World Bank

The pandemic adversely affected credit to the private sector. In June-July 2020, about 90 percent of firms[19] faced liquidity and cash flow shortages due to lower sales arising from the lockdowns occasioned by the pandemic, and 28 percent of firms, regardless of size, indicated they required loans to continue operations. To improve private sector liquidity, in addition to offering the MTBAF support highlighted in the paragraph above, the RBZ reduced the statutory reserve ratio on bank deposits from 4.5 percent to 2.5 percent. As of end December 2020 liquidity ratio appeared high at 73 percent well above stipulated benchmark of 30 percent and the proportion of non-performing loans to assets appeared low—at 0.3 percent- below the 5 percent international benchmark. However, bank lending to the private sector remained limited (Figure 24), reflecting the cautious approach to lending, especially in foreign currency, due to undercapitalization of some banks, and the risk of a build-up of arrears. Almost half of surveyed firms in July 2020 expected to fall into arrears on outstanding liabilities. Liquidity ratio remained high at 67 percent in March 2021 while NPLs remained low at 0.4 percent.

[19] World Bank Enterprise Telephone Survey of June- July 2020.

Figure 25. The Long Road: A timeline of the decisions of Reserve Bank of Zimbabwe's Monetary Policy Committee, October 2019-June 2020

Date	MPC decision
October 2019	The MPC held its inaugural meeting.
November 2019	The MPC revised the policy rate from 70% to 35%.
	The MPC resolved that all exporters that do not repatriate export proceeds within the statutory Exchange Control limit shall forfeit their retention of exports proceeds through the liquidation of such funds at the prevailing exchange rates.
	The MPC noted the need to come up with quarterly monetary aggregate targets.
	The MPC noted that the 2020 National Budget is expected to have an expansionary impact on money supply and decided to re-calibrate the reserve money targeting framework.
December 2019	The electronic deal tracker system under the Reuters platform went live.
January 2020	The MPC reviewed the minimum capital requirements for commercial banks with effective date for compliance 31 December 2020.
	The MPC agreed to maintain its plan of getting the proportion of bank notes and coins in circulation up to 10 percent of deposits.
April 2020	The MPC reviewed the policy rate from 25% to 15% and the Medium-Term Bank Accommodation (MTBA) Facility from 15% to 10%. The MTBA Facility was also increased by ZW$ 500 million to ZW$ 3 billion, and an additional ZW$2 billion is expected to be raised to total ZWL$5 billion.
June 2020	The MPC reduced the statutory reserve ratio from 4.5% to 2.5%.
	The MPC reinstated the 30-day limit of liquidating surplus foreign exchange receipts from exports.
June 2020	The MPC increased the policy rate from 15% to 35%.
	First Foreign Exchange Auction held. The MPC restated that *bureaux de change* must serve all entities and individuals in need of foreign currency in between auctions.
	The MPC introduced an exchange rate indexed OMO instrument (settled in Zimbabwe dollar and with a maturity between 30 days to 360 days).
October 2020	The MPC approved additional funding for an amount of ZW$2.5 billion under the MTBA facility and maintained the limit of ZW$5 000 per transaction for mobile money transactions and adopted a weekly limit of ZW$35 000.
December 2020	The MPC maintained the Bank policy rate at 35% and at 25%.
January 2021	The MPC removed the compulsory requirement to liquidate all unutilized export proceeds after 60 days.
	The MPC increased the Export Surrender Requirement from 30% to 40% on all export receipts and maintained the liquidation requirement for domestic foreign exchange sales at 20% net of sales tax.
March 2021	The MPC increased the amount of the MBA Facility by an additional ZW$2.5 billion.
	The MPC maintained 22.5% reserve money quarterly targets and kept the Bank policy rate and MTBA Facility rate at 40% and 30%, respectively.

EXTERNAL SECTOR

The current account balance improved significantly in 2019

Despite facing external headwinds and a difficult business environment, Zimbabwe's economy was able to achieve a current account surplus in 2019, representing a sharp reversal from the past. The current account reached a surplus of 6.3 percent of GDP in 2019 (Figure 26)—the first surplus since 2009. Imports fell by 31 percent y-o-y due to a sharp decrease in economic activity; import compression measures undertaken by the GoZ; the lack of disposable income exacerbated by high international prices; and foreign currency shortages. In particular, food imports contracted by almost half, while fuel and electricity imports fell by more than 22 percent compared with 2018 (Figure 28). In 2019 exports were adversely affected by foreign currency regulations, and intermittent supply of electricity. Nevertheless, exports fell by only 0.5 percent y-o-y partly due to a depreciation of the local currency, rising metal prices, and export incentives. Growth in gold, tobacco, and chromium exports also remained weak, but was partly offset by strong growth in nickel and platinum exports (Figure 29). Remittances, an important source of foreign exchange, remained relatively stable. All in all, despite this current account surplus, gross official reserves remained the lowest in the region (Figure 27).

Zimbabwe's overall external position in 2019 was nevertheless challenging. Capital account inflows remained negligible partly due to the country's weak economic record. Economic instability coupled with a changing and complex regulatory environment raised the costs of business and discouraged needed foreign investment. External loans to the private sector and the GoZ remained low due to this instability, and a large public debt burden, forcing RBZ to take out expensive short-term loans. Finally, the balance of payments did not capture significant outflows. Errors and omissions in 2019 were high, potentially reflecting unrecorded transactions linked to smuggling, illicit capital flows, and trade mis-invoicing.

Figure 26. Reversal of the current account position was sharp ...

Current account components, % of GDP

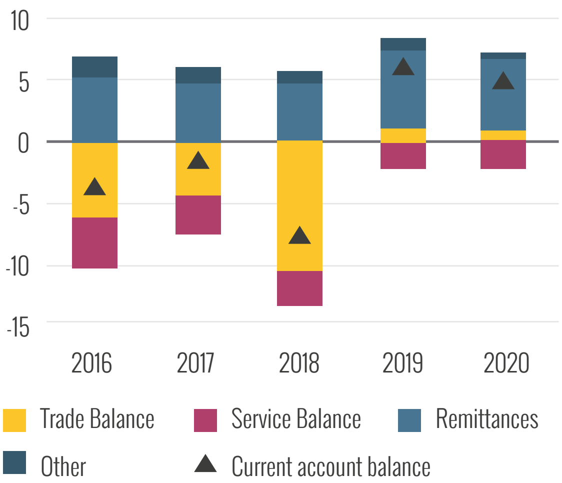


Figure 27. However, official reserve cover remained the lowest in Africa

Reserves in months of imports across Sub-Saharan African countries, 2019

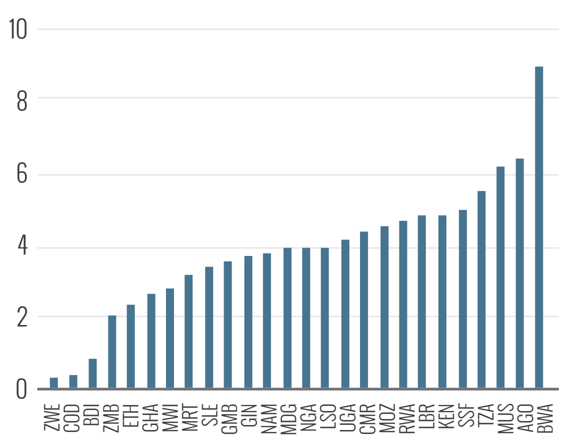


Figure 28. Imports contracted by 31 percent in 2019

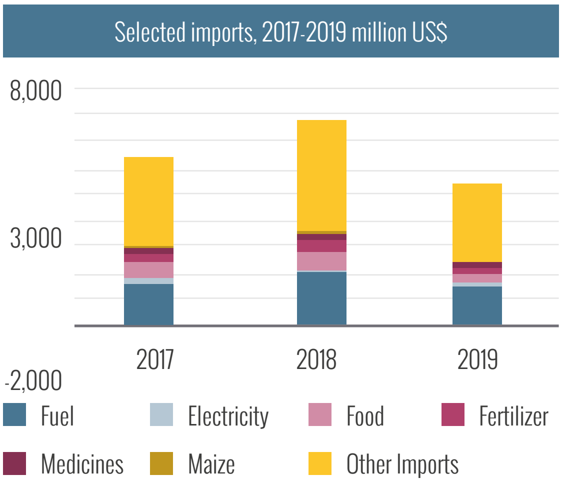
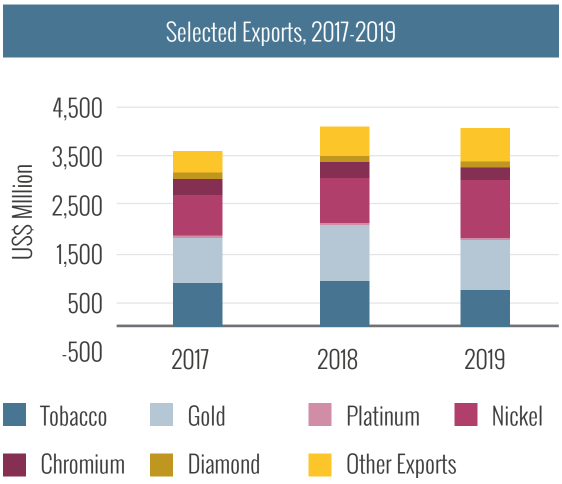


Figure 29. ...and exports contracted modestly despite favorable global prices



Source: RBZ, Zimstat and World Bank WDI.

Note: Data for reserves refer to 2019 or 2018 and for SSA countries for which data was available.

Remittances kept the current account surplus high in 2020

Despite trade disruptions and the sharp decline in global economic activity caused by the pandemic, Zimbabwe's current account remained in surplus at 5.3 percent in 2020. A key driver of the surplus was remittances in 2020, which saw a growth of 58 percent (Figure 31). The increase in formal remittances may reflect the shift to greater use of official channels for remittance delivery due to the pandemic.[20] Adjustment of trade started in April 2020, when the GoZ and neighboring countries initiated pandemic containment measures affecting domestic and cross-border movement of goods and people (Figure 30). Trade disruptions were more pronounced on imports than on exports, but imports rebounded more quickly, growing by 4 percent in nominal terms on the account of higher demand for maize and other grains, fertiliser, and electricity - as a result of the persistent drought. Fuel imports, however, dropped by 51.1 percent y-o-y in response to successive lockdowns, weakening economic activity and loss of disposable incomes. Exports grew by 2.7 percent, driven by platinum, nickel, and diamond with traditional key export commodities like tobacco, gold and chromium declining in 2020. Despite a sharp increase in global gold prices and gold incentives provided by RBZ, gold exports declined by 7.8 percent (Figure 33), partly reflecting an increased level of smuggling of gold from Zimbabwe. Travel and border restrictions and fear of contagion also led to sharply reduced international travel and transport receipts, which are important sources of foreign exchange.

In the context of a challenging global and domestic environment, capital flows to Zimbabwe have been minimal. The financial account reflects low financial flows into the country. Restoring gross international reserves to adequate levels will be vital for the economy. Achieving economic stability and accelerating reengagement will be necessary to support a resurgence in capital flows.

[20] Before the pandemic, remittances tended to come through unofficial channels, such as buses and in the form of goods. However, due to border closure and travel restrictions amid the pandemic, remittances have been increasingly channelled through official channels.

Figure 30. External trade continued to adjust in 2020

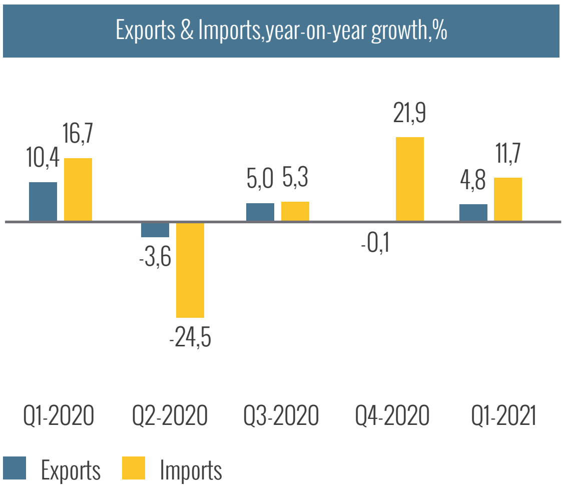


Figure 31. Remittances remained strong as informal channels were constrained

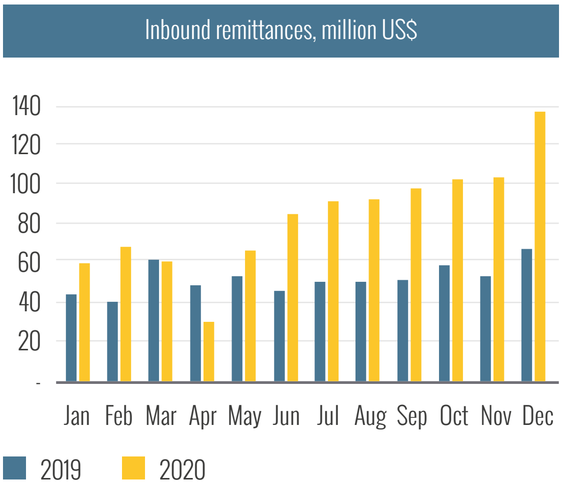


Figure 32. Food, maize, and electricity imports increased in 2020

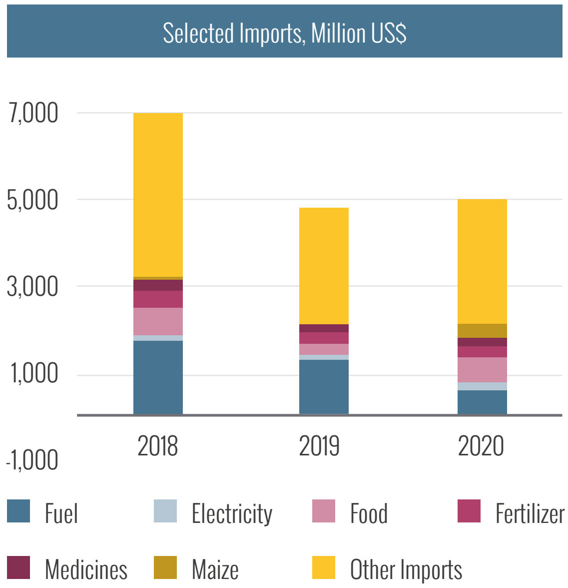
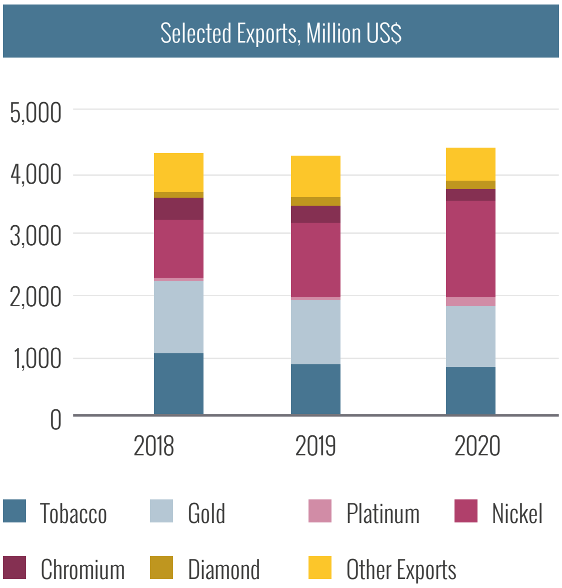


Figure 33. While major export- minerals and tobacco exports have decreased



Source: Zimstat, RBZ.

POVERTY DEVELOPMENTS

Poverty deepened in 2019 as the recession took root

Due to economic and climatic shocks, poverty rose sharply and extreme poverty reached 42 percent in 2019—up from 38 percent in 2017. The number of extreme poor, defined as those under the food poverty line of US$29.80 per person per month, more than doubled from 3 million in 2011 to 6.6 million in 2019 (Figure 34).6 Nearly 90 percent of the extreme poor lived in rural areas, and 1.6 million were children. Price increases for maize grain and maize meal alone are estimated to have increased extreme poverty by two percentage points from April-May 2019 to December 2019. The price increase for nonmaize cereals and bread increased extreme poverty by another four percentage points. These increases in food prices weighed more heavily on the urban poor.

Poor Zimbabweans experienced the largest proportional decline in income, especially those in urban areas, increasing inequality. Between 2017 and April-May 2019, consumption expenditure dropped by about 25 percent for the poorest ten percent of the population, while for the richest decile it rose by 17 percent (Figure 35). Inequality deepened in urban areas where consumption expenditure dropped for everyone but fell by 60 percent or more among the poorest seven deciles (grey line in Figure 35). The rural population experienced much lower consumption losses, and appeared to be less affected by the downturn (blue line in Figure 35), perhaps due to subsistence farming. In this period, inequality increased to among the highest levels in SSA. Zimbabwe's score on the Gini Index increased from 45 in 2017 to 50 in April-May 2019 (Figure 36). The richest ten percent of Zimbabweans consume 20 times more than the poorest ten percent.

Figure 34. The number of extreme poor reached a historic high

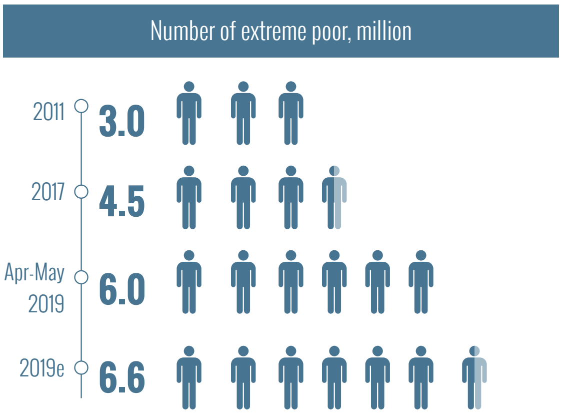
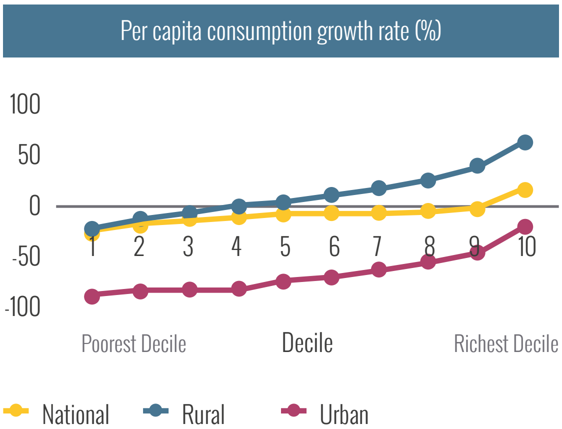


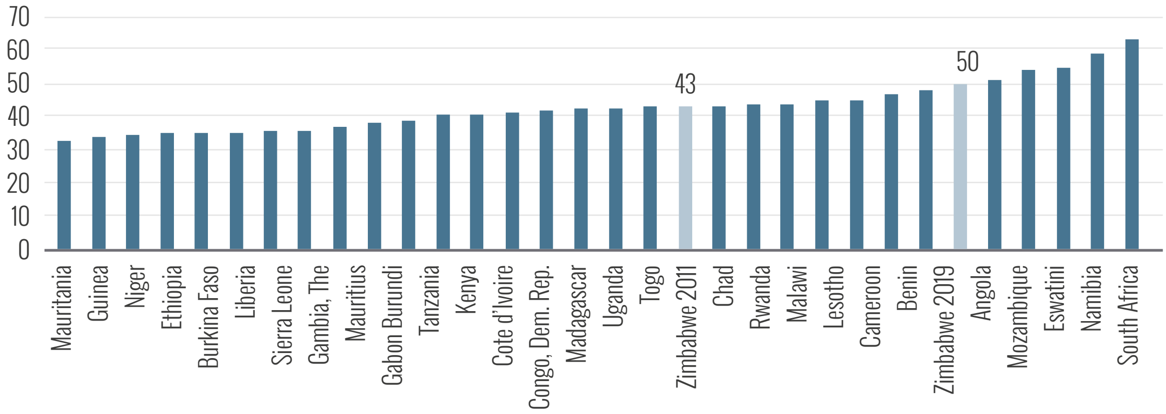
Figure 35. Welfare dropped most among the poorest, mostly in urban areas



Source: ZIMSTAT and World Bank, Based on PICES 2011/12, PICES 2017 and mini-PICES 2019.

Figure 36. Inequality deepened and is well above average levels for Sub-Saharan Africa

Gini index of inequality, Sub-Saharan Africa



Source: World Bank WDI.

Note: The higher the Gini index the higher the inequality. The figure presents data for 32 Sub-Saharan African countries for which data are available.

The COVID-19 pandemic magnified social challenges across the rural and urban divide

The pandemic added 1.3 million Zimbabweans to the extreme poor reflecting job and income losses in urban areas, and a deterioration of social services in rural areas. The number of extreme poor reached 7.9 million in 2020—almost 49 percent of the population. The economic disruptions caused by COVID-19 reduced jobs in urban areas and limited job opportunities in rural areas. The scale of job losses reduced livelihoods of families, especially in urban areas. One of five respondents of the first round of a nationally representative telephone survey[21] who had a job[22] in March 2020 reported that they were not working in July 2020 (Table 2). According to the survey, in July 2020 nearly 500,000 households had one member who had lost her or his job since the onset of the pandemic, worsening the plight of the poor and forcing more households into intermittent or prolonged suffering. The most common stated reason for losing a job in urban areas was business closure due to the lockdown (56 percent of those who lost their job), followed by being laid-off while business continued. In rural areas, the most frequently cited reasons were business closure (42 percent) followed by seasonal effects (39 percent) and being laid off while business continued (7 percent). Respondents of the second round of ZIMSTAT's nationally representative telephone survey conducted in September 2020 reported that in the month before the survey an additional 6 percent of them, both in urban and rural areas, had lost their job.[23] The most common reason in urban areas was being laid-off while business continued, followed by closure of the workplace due to COVIDd-19 restrictions. In rural areas, the most common reason was the end of the farming season (seasonal effect).

Poverty have deepened further as the COVID pandemic more acutely affected poor households. Twenty-three percent of poor people[24] working before COVID-19 say they were no longer working

[21] Presented findings are from the first round of the rapid PICES phone survey that was conducted by ZIMSTAT in July 2020.

[22] Having a job is defined as conducting work for a wage or to obtain an income.

[23] According to round 2 of the Rapid PICES telephone survey conducted in September 2020.

[24] "Poor" is defined here as living under the food poverty line of US$ 29.8 /person/month, also referred to as the extreme poor.

in June-July 2020. Among the non-poor, this figure was also high at 20 percent. As fewer of the poor were working even before the pandemic, the proportion of households affected by job losses is about the same for both the poor and the non-poor. As mentioned, half a million households have been affected by job losses (Table 2), while an additional 560,000 households that kept their jobs saw their incomes deteriorate (Table 3). About 30 percent of those affected are already extremely poor.

Table 2. Job losses following Covid-19

	Estimates total number of households in Zimbabwe** in 2020 (thousands)	Share of all respondents working in July 2020 (%)	Share of all respondents working before mid-March 2020 (%)	Share of people working before mid-March that no longer are (%)	Share of all households with at least one member who lost its job following covid19 (%)	Number of households with at least one member who lost their job following covid19 (thousands)
	(a)	(b)	(c)	(d)	(e) = (c)*(d)	(f) = (a)*(e)
Urban	1,340	61	79	23	18	245
Rural	2,490	45	55	19	10	256
Poor*	1,102	44	56	23	13	141
Non-poor	2,728	54	66	20	13	359
National	3,830	50	63	21	13	501

Source: ZIMSTAT. Rapid PICES phone survey July 2020.

* Poverty status in April-May 2019. Defined as those below the food poverty line of US$29.8 per person per month. Based on an estimated household poverty rate for April-May 2019 of 30 percent. The individual poverty rate for April-May 2019 was 38 percent, while the poverty rate for 2019 is estimated to be 42 percent.

** Only one person per household was interviewed.

Households with non-farm businesses and those in urban areas were particularly affected by the pandemic. Of the 30 percent of urban households with a household business at some point during the 12 months preceding July 2020, nearly three quarters saw their revenue reduced after March 2020, and 15 percent noted their revenue had completely dried up. In rural areas, fewer households have been affected as the proportion of rural households with a non-farm business is lower at nine percent. As only 20 percent of non-farm businesses are registered, most non-farm businesses are not likely to benefit from government support, and do not have access to formal credit. In September 2020, 53 percent of those with a non-farm business reported their income had further deteriorated since July 2020.[25] The figure was the same for both urban and rural areas.

Wage earners saw their incomes drop, especially in urban areas. Fifty percent of urban households had at least one member with wage income during the 12 months before the interview. More than one-third of such workers stated that they had their pay reduced after the outbreak of the pandemic. Rural areas were less affected as only about one fifth of rural households had at least one member

[25] Source: Round 2 of the Rapid PICES telephone survey.

with a wage-earning job. The proportion of workers that saw their wages reduced or that did not receive any pay is much higher for the extreme poor (63 percent) than the non-poor (40 percent) (Table 3). In September 2020, 23 percent of wage earners said they had seen a further reduction in their income since July 2020.

Table 3. Income losses following the onset of the COVID-19 pandemic

	Wage workers				Non-farm business owners			
	Share of households with at least one wage earner* (%)	Share of wage workers who saw their pay reduced, %	Share of workers who received no pay, %	Number of house-holds affected (thousand)	% of households with at least one non-farm business*	Proportion of these seeing their revenue reduced (%)	No revenue at all (%)	Number of households affected (thousand)
Urban	50	36	5	267	30	75	15	358
Rural	22	37	12	262	14	62	22	285
Poor**	20	50	13	136	17	70	22	167
Nonpoor	36	33	7	394	20	69	17	476
National	31	36	8	529	19	69	18	643

*during the 12months preceding the interview

Source: ZIMSTAT. Rapid PICES phone survey July 2020.

Access to food was increasingly challenging in 2020 as many households could not afford key staples amid rapid increases in food prices. More than 41 percent of the rural population who wanted to buy maize meal were unable to buy it (Table 4). Access to cooking oil and chicken was even more constrained, especially for the poor. These percentages are lower in urban areas, suggesting that the inability to purchase food particularly affects the rural population. Among households trying to buy key individual staples nationally, 1.4 million (36 percent) were unable to buy maize; 1.8 million were unable to buy cooking oil; and 2.6 million were unable to buy chicken.

Table 4. Household capability to buy Food

	Maize meal		Cooking oil		Chicken	
	Share of households who tried to buy, %	Share of households unable to buy (% of those who tried to buy)	Share of households who tried to buy, %	Share of households unable to buy (as a % of those who tried to buy)	Share of households who tried to buy, %	Share of households unable to buy (as a % of those who tried to buy)
Urban	68	28	71	32	76	58
Rural	62	41	79	54	62	89
Poor*	67	44	79	56	64	88
non poor	63	33	75	43	69	72
National	**64**	**36**	**76**	**47**	**67**	**76**

Source: ZIMSTAT. Rapid PICES phone survey of July 2020. The second round of the survey conducted in August- September 2020 showed that the proportion of households unable to buy cooking oil – as a proportion of those who tried to buy - halved in urban areas (it dropped from 32% to 15%), it also fell in rural areas, from 53% to 47%.

MEDIUM-TERM OUTLOOK AND RISKS-2021 TO 2022

Economic recovery is underway and expected to strengthen in 2022, but significant constraints to growth remain at the local, regional and global level (Box 2). In 2021 GDP is projected to grow by 3.9 percent, an improvement of growth rate of 11.9 percentage points compared to 2020. (Table 5). In the first few months of 2021, global uncertainty with respect to the pandemic persisted. The second and third waves of the pandemic and uncertainties about the likely timing for a broad-based roll out of the vaccine in Zimbabwe and its key trading partners will suppress external demand. Domestic demand will remain subdued in 2021 as inflation remains high and the continued use of export retention policies constrains productivity and competitiveness. Building on the positive trajectory in 2021, economic growth is expected to accelerate in 2022 as the adverse impacts of the pandemic subside with increased deployment of vaccines worldwide and as implementation of NDS policies bear fruit.

Table 5. Key Economic Indicators

	2018	2019e	2020e	2021p	2022p
Real sector and prices (% annual growth)					
Real GDP (% growth)	4.8	-8.1	-8.0	3.9	5.1
Consumer prices (annual average)	10.6	255.1	557.1	86.0	22.0
Fiscal accounts (% of GDP)					
Revenue	15.0	14.2	17.1	17.2	17.7
Expenditure	21.0	13.9	15.2	18.7	19.3
Overall Fiscal Balance	-6.0	0.3	1.9	-1.5	-1.5
Primary Fiscal Balance	-5.1	0.5	2.0	-1.4	-1.4
Money and credit (% change)					
M2	28	249.4	485.2	46	20
Credit to the private sector	9.1	173.8	571.8	67.6	20.2
External sector (% of GDP unless otherwise indicated)					
Current account balance	-7.5	6.3	5.3	4.3	2.0
Trade balance	-4.4	-10.5	1.2	0.1	-2.5
Services balance	-3.1	-2.8	-2.1	0.1	-2.3
Remittances	4.8	4.9	6.3	4.2	3.7
Capital account, net	1.3	1.7	0.4	0.3	0.3
Official exchange rate, average (local currency per US$)*	1	8.2	51.3	83.5	
Poverty					
Number of extreme poor, million	4.5	6.6	7.9	7.7	7.5
Food poverty rate, %	29.6	42	49	47	45

Sources: MOFED, ZIMSTAT, RBZ, and World Bank.

*Data for 2021 is average for January-April.

Box 2. Key assumptions under the baseline scenario

Table 7 is based on analysis of key factors that could affect economic growth under several scenarios. Under the baseline scenario, the outlook is premised on the following assumptions:

- COVID-19 pandemic persists into 2021 and full rollout of the vaccines to vulnerable groups is completed in the second half of 2021.
- Global activity remains depressed:
  - Tourism and trade levels are slow to recover in 2021 as travel restrictions remain.
- Public Finance remains in a delicate balance:
  - Revenue collection improves but at slow pace;
  - While spending pressures increase in relation to:
    - The COVID-19 response;
    - Wages;
    - Support extended to SOEs;
    - Government guarantees to the private sector.
- The pace of macroeconomic stabilization is slow:
  - Inflation slows from a triple-digits in early 2021 to double digits in second half of 2021;
  - Premium between official and parallel exchange rate persists;
  - Limited external financing; and
  - Forex retention policies continue constraining economic activity.

Fiscal policy is expected to remain prudent, thus underpinning macroeconomic stability. The fiscal balance is projected to turn into deficit in 2021 but remain within sustainable limits, at 1.5 percent in 2021 and 2022. Revenues will recover gradually - as a percentage of GDP - due to post-pandemic effects. Continued weak trade flows due to regional knock on effect of the pandemic will affect trade taxes, and weak economic recovery will keep corporate and income taxes low. Effective management of public finances will depend on continued measures to ensure tight control of expenditures, particularly public wages, while at the same time provide adequate resources for basic service delivery.

Inflation is expected to fall from 557.1 percent in 2020 to 86 percent in 2021. Already inflation has been slowing between January and April 2021. Conservative monetary policies are expected to reduce inflation and stabilize prices in the medium-term. Assuming appropriate policies, prices could stabilize by 2022 at a much lower inflation rate of around 22 percent.

The external position is expected to remain fragile as international trade and capital flows are slow to recover from the pandemic. The current account surplus is expected to gradually fall to 4.3 percent in 2021 and 2 percent in 2022. Growth of imports, which has been affected by supply chain disruptions and suppressed domestic demand, is expected to pick up in 2021. Already imports grew, by 12 percent y-o-y in 2021Q1 supported by expanded access to cheap foreign exchange.

Similarly, exports will be affected by reduced global demand. Exports only grew by 5 percent y-o-y in 2021Q1, despite continuing strengthening of prices of minerals. Service exports will be particularly affected with tourism flows slow to recover from the pandemic. Capital and financial flows over the medium-term are likely to be subdued due to a difficult global environment in the aftermath of the pandemic. Consequently, foreign exchange reserves are expected to remain at low levels.

Despite renewed economic activity, poverty is likely to remain high as the scars from two years of recession, food insecurity, and the pandemic linger. The number of extreme poor is expected to remain at 7.9 million in 2021 amid continued elevated prices, and a slow recovery of jobs and wages in the formal and informal sectors. Given limited social safety nets for protecting the high numbers of poor, households are likely to turn to negative coping strategies. Poor households are likely to forgo formal health care as they are unable to pay for services, and to keep children out school to avoid education costs, such as for school fees, uniforms, and textbooks. This choice may increase the number of children out of school, which was already high at one million[26] in 2019, including nearly 609,000 children who were not participating in Early Childhood Development (ECD) levels (ages 3-5).

The agricultural sector is expected to spearhead Zimbabwe's recovery but will remain vulnerable to shocks. Favorable rainfall in 2020 is expected to drive growth of the agriculture sector to 9.1percent in 2021. Broader and more structural constraints to agriculture productivity, insecure tenure, lack of adequate irrigation, insufficient crop diversification, and unaffordable inputs like seeds and fertilizers—need to be urgently addressed, as they continue to limit the sector's potential and increase its vulnerability to climate shocks.

Industrial sector activity is expected to remain subdued in 2021, reflecting gradual stabilization of the economy and weak global demand. Growth of the mining and manufacturing sectors is expected to be slow over the medium-term. This slow growth reflects a difficult business environment, characterized by high inflation, tight financing conditions, and continuation of forex retention policies, which increase the costs of doing business and prevent the mining sector from capitalizing on higher global prices for minerals. Persistent uncertainty about the evolution of the pandemic is likely to keep investments and global demand for manufactured goods subdued.

The services sector will likely return to positive growth, but the pandemic's impacts and economic volatility will continue to weigh on its prospects in 2021. Growth of the services sector is expected to reach about two percent in 2021 and 5.3 percent in 2022. Domestic and international demand for services will be constrained in the medium-term as travel restrictions persist. Further disruptions to supply chains and below average tourism mean that the hotels and restaurants and transportation and communication sectors will, despite experiencing some growth, remain below capacity. The finance sector is expected to remain depressed in 2021 facing reduced profitability as banks remain cautious on lending.

[26] According to mini-PICES 2019 data.

Downside risks are significant and depend on the global economy, particularly the pandemic's footprint and the effectiveness of domestic policies to reduce macroeconomic imbalances. As a small, open, export-oriented economy, Zimbabwe is highly sensitive to changes in worldwide economic conditions. Global conditions will be delicate in the medium-term. Weak global demand and a severe, lengthy pandemic could lead to a large contraction of Zimbabwe's economy and an increase in poverty. Ensuring macroeconomic stability in such an environment may be difficult. Public finances may be placed under overwhelming pressure as revenues decline and public spending rises, including on guarantees to bail-out SOEs and firms affected by the pandemic. Financing fiscal policy will remain problematic with a significant public debt burden.

In a low-case scenario, the economy will grow by only 1.7 percent in 2021. Under this scenario, a further surge in COVID-19 cases globally and domestically will slow the nascent economic recovery and adversely impact consumption and investment. Recovery of tourism, trade, and transport is likely to be postponed to 2022 while manufacturing and mining will be adversely affected by depressed domestic and global demand. Slow domestic economic activity is expected to decrease tax revenues by an additional 0.5 percentage points of GDP compared to the baseline. Public spending rises to support vulnerable populations, possibly increasing the fiscal deficit to unsustainable levels. With limited external support, financing of the deficit could require financing by RBZ, again pushing inflation to triple-digit levels. A lower-than-expected recovery coupled with limited social assistance would exacerbates poverty. Extreme poverty could increase to 51 percent of the population or 8.1 million people in 2021.

The best case scenario is linked to acceleration of economic reforms and reengagement with international development partners. The advancement of key reforms may result in reallocating spending to more productive uses; reducing spending inefficiencies and distortions; and ensuring monetary policy supports price and exchange rate stability. Progress on the reform agenda[27] could provide opportunities to reinvigorate the reengagement agenda and increase humanitarian support to ease social and economic conditions. If this were to occur, the economic recovery in 2021 could be stronger than projected in the baseline scenario, with GDP growing at four to five percent, inflation returning to single-digits in 2022, and poverty reduction accelerating.

In short, prolonged impacts of the pandemic coupled with weak global economic conditions could continue to affect economic and social conditions in Zimbabwe. At present, the severity and duration of the pandemic remain uncertain, and some impacts have yet to surface. The key question is whether economic fundamentals and policy responses will be sufficient to mitigate the negative impacts on lives and livelihoods, and support an economic recovery. Significant resources will be required to mitigate adverse impacts on health outcomes and livelihoods. However, given limited financing options, bold economic and reengagement reforms will be required to reinvigorate growth and pave the way for increased international solidarity and reengagement.

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[27] For example, consistent reforms to stabilize prices and exchange rates; significantly streamline and simplify the regulatory environment; remove policies harmful for business (forex retention); further trade integration and trade facilitation; and advance key political reforms.

POLICY OPTIONS TO STABILIZE THE ECONOMY AND SUPPORT GROWTH

Continued fiscal prudence will be essential to achieve macroeconomic stability, create fiscal space for an economic recovery, and restore lost ground in human capital development.

To maintain fiscal discipline in the medium-term while addressing key social needs, this ZEU recommends the following:

- Review COVID-19 response measures and scale back or eliminate ineffective incentives;
- Improve revenue collection through better tax policies and administrative efficiency
- Eliminate or refine targeting of ineffective subsidies (i.e., in agriculture, mealie meal, transport), and increase the transparency of subsidies;
- Keep wage costs constant as a percent of GDP, and review the adequacy of the public service pay scale;
- Monitor and manage arrears to suppliers on a quarterly basis;

Such actions should be matched by monetary discipline:

- Keep tight control of monetary supply growth;
- Enhance transparency and predictability of monetary policy;
- Liberalize the foreign exchange market;
- Strengthen governance and anti-corruption.

Measures to support economic activity should include:

- Reduce the regulatory burden and policy inconsistencies;
- Reduce barriers to regional trade and strengthen trade facilitation;
- Restructure and/or privatize key SOEs in the medium term;
- Discontinue forex retention policies.

[26] For example, consistent reforms to stabilize prices and exchange rates; significantly streamline and simplify the regulatory environment; remove policies harmful for business (forex retention); further trade integration and trade facilitation; and advance key political reforms.

PART 2

Strengthen Public Sector Service Delivery to Mitigate the Impact of multiple shocks on the Poor

Public service delivery has worsened as a result of a series of economic, climate, and pandemic shocks experienced since 2017. In 2019 and 2020, these impacts deepened as high inflation eroded the budget for health, education, and social protection services. High inflation alone plunged investments in human capital development to precarious levels (in USD terms) when compared to 2018. Wage spending was eroded by inflation and so was critical spending on medicine, learning materials, and upgrades to infrastructure and equipment. Access to services became more difficult for the rising number of extreme poor as persistent drought reduced crop production and increased food insecurity. The onset of the pandemic complicated access to health, education, and food, and further threatened to reverse some of Zimbabwe's previous progress on health and education outcomes. Budget resources and humanitarian aid were not commensurate with greater needs for social protection and food security programs, while implementation challenges delayed the execution of key social programs. Addressing implementation challenges and increasing the effectiveness of public spending on Zimbabwe's social sectors will be the first line of defense against negative impacts of the pandemic on economic and social conditions.

HEALTH CARE CHALLENGES INCREASED

Prior to the pandemic health care delivery had already deteriorated in 2019 - constrained by underfunding and inefficient management of public resources. An immediate impact of the rapid rise in inflation, was the erosion of Zimbabwe's public health budget to less than one percent of GDP in 2019 (Figure 37 and Figure 38). This reduced the access to and quality of health care services as an estimated five hundred doctors went on strike for five months, and nurses worked at reduced hours over a prolonged period. Donor funding, which financed a significant portion of needed drugs and medical supplies, fell when compared with previous years. Wide ranging implementation challenges, including lack of adequate inputs and supplies, as well as weaknesses in public financial management, affected budget execution, and accountability. While Results-Based Financing (RBF) contributed to improving results among participating health facilities, essential health services were significantly reduced (Figure 39), risking reversal of improvements in infant and maternal mortality (Figure 40) achieved in 2015-18.

Figure 37. Government health funding shrank drastically in 2019

Health financing by source, % of GDP

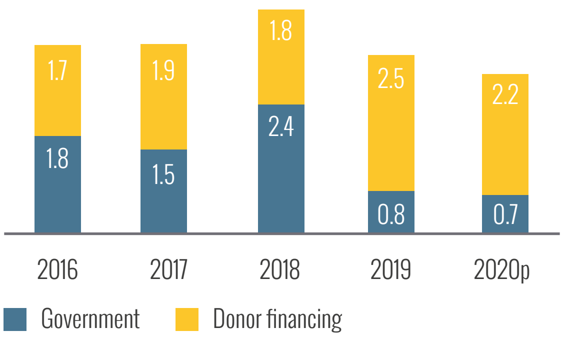


Figure 38. Zimbabwe spending on health is now well below its peers

General government health expenditure, % of GDP

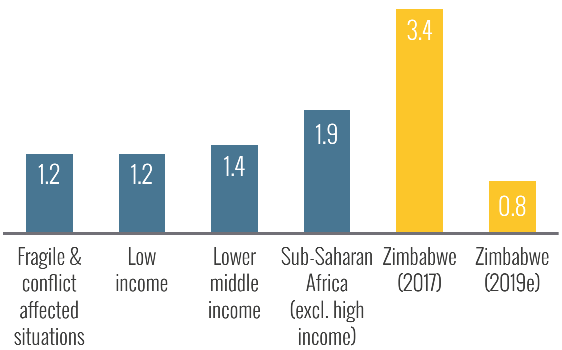


Figure 39. Utilization of key services in central hospitals has fallen

Year-on-year change in use of health services, September-October 2019, %

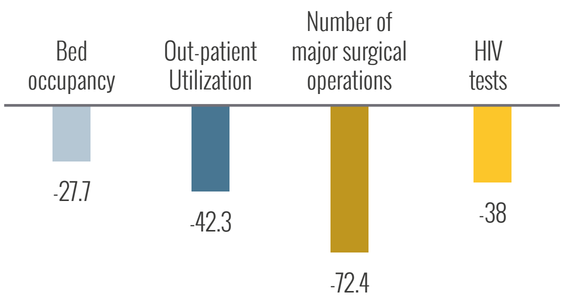
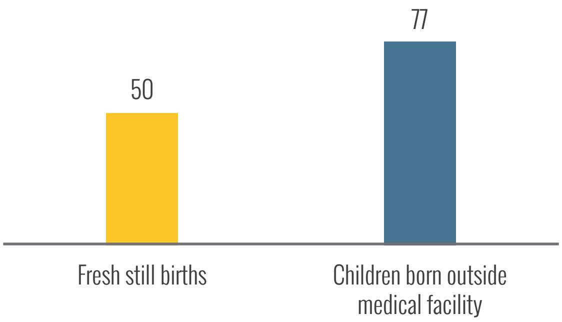


Figure 40. With negative impacts on infant and child mortality indicators

Year-on-year increase in select health indicators, September-October 2019, %



Sources: Ministry of Health and Child Care (MOHCC). 2019. Zimbabwe Resource Mapping Report; World Bank WDI, data for peer groups refer to 2017.

The COVID-19 pandemic posed additional challenges for health service delivery and further limited access to health care. While wage spending increased to accommodate higher wages for current and newly recruited medical staff, and to provide special allowances to staff exposed to risks of contracting COVID-19; continuing wage erosion (inflation induced) and insufficient personal protective equipment prompted additional strikes of medical workers, further impeding service delivery. As consumer prices more than tripled in July 2020 compared with end-2019, households were increasingly unable to afford medicines and medical services. Slow delivery of tests and protective equipment and related corruption allegations precipitated changes in the senior leadership of the Ministry of Health & Child Care and the National Pharmaceutical Company. While testing for COVID-19 has since increased , it remains low compared to other countries in the region. However, by 2021 death rates for COVID-19 per million people had risen to among the highest in the region (Table 8).

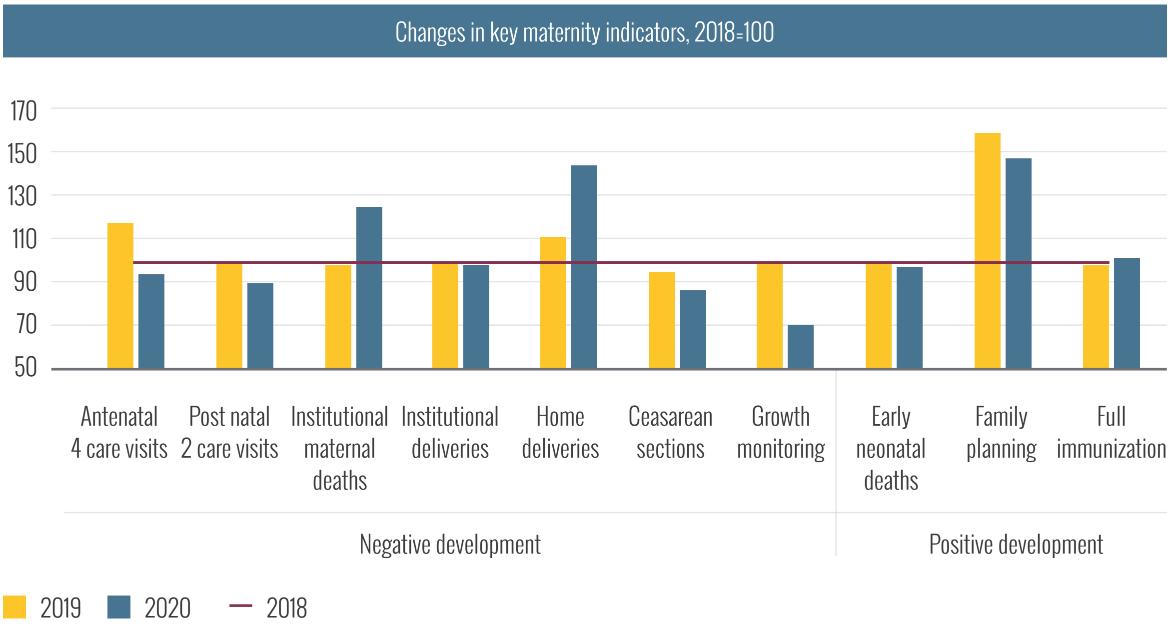
These challenges and behavioral changes mandated by lockdown and social distancing regulations contributed to further decline in the coverage and quality of essential health services. While some maternity indicators improved (early neonatal deaths, family planning, and full immunization) despite the pandemic, utilization of pre- and ante-natal services declined (Figure 41) in 2020 compared with already low levels in 2019. The number of babies born in institutions fell by 1.8 percent in 2020 compared to 2018, while deliveries at home increased by 44 percent. Both the frequency and timing of antenatal care visits decreased, suggesting risks of deterioration of maternal and infant mortality indicators, which had begun to worsen in 2019. Access to health services was complicated by higher prices of health services as prices of hospital services almost quadrupled in 2020 while prices of outpatient services increased seven-fold.; low affordability due to loss of purchasing power; and shortages of medical personnel (Figure 42).

Table 6. COVID-19 cases, deaths and testing for select African countries as of April 15, 2021

Country	Cases	Deaths	Cases	Deaths	Tests	Tests
	(number of people)		(per million people)		(number)	(per 1,000)
Ethiopia	236,554	3,285	2,058	29	2,453,287	21.3
Ghana	91,545	766	2,946	25	1,025,654	33.0
Kenya	149,219	2,424	2,775	45	1,564,827	29.1
Mozambique	69,002	794	2208	25	494,568	15.8
Malawi	33,902	1134	1772	59	223,964	11.7
Namibia	46,185	596	18,177	235	363,659	143.1
Nigeria	164,080	2,061	796	10	1,838,174	8.9
Rwanda	23,744	321	1833	25	1,220,068	94.2
Senegal	39,606	1085	2,365	65	468,211	28.0
Uganda	41,263	338	902	7	969,637	21.2
South Africa	1,562,931	53,571	26,352	903	10,154,978	171.2
Zambia	90,532	1230	4925	67	1,286,686	70.0
Zimbabwe	37,422	1550	2518	104	458,047	30.8

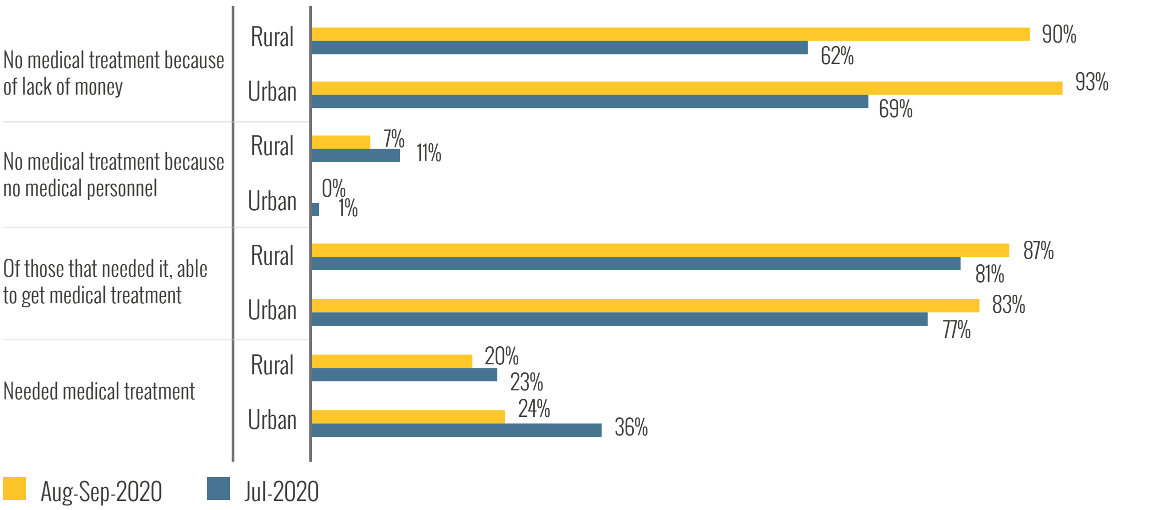
Source: Our World in Data.

Figure 41. The pandemic contributed to further worsening of maternity indicators



Source: MOHCC.

Figure 42. Economic challenges limited access to health care, July 20 (% of households)



Source: ZIMSTAT. Rapid PICES telephone surveys in July and September 2020.

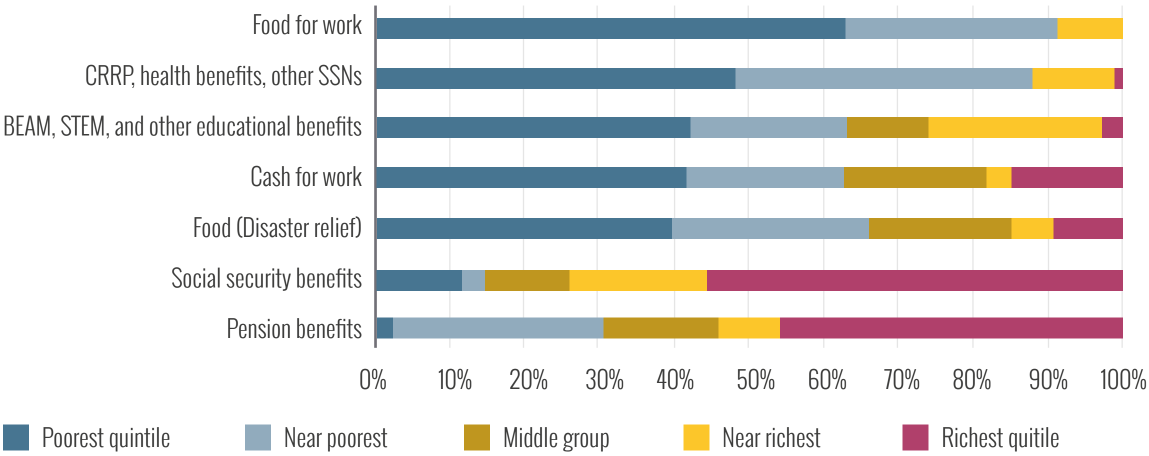
Ensuring a holistic response to challenges in the health sector, requires a strategic approach that recognizes both the COVID-19 and non-COVID-19 health burden in coordinating and allocating sector resources. As financial commitments from the GoZ and partners are well below the needs to fully implement the national COVID-19 Response Plan, as well as to manage other health needs, the GoZ may benefit from priority interventions in the short- to medium-term:

- Ensure systematic allocation and timely disbursement of treasury resources for COVID-19 response aligned with the National Inter-Sectoral Response Plan, and for essential health services;
- Undertake a coordinated approach to addressing health workforce challenges related to remuneration, such as by leveraging performance-based mechanisms to remunerate, incentivize, and retain health workers;
- Improve procurement, distribution, availability, and management of pharmaceutical commodities and equipment in hospitals and clinics; and
- Strengthen the governance framework and processes across the health sector value chain, by developing and implementing accountability frameworks and investing in appropriate management information systems.

SOCIAL PROTECTION IS EVEN MORE IMPORTANT, BUT COVERAGE REMAINS LIMITED

Coverage of Zimbabwe's social assistance programs has increased since 2017, but government and donor programs still left nearly three million of the extreme poor unprotected in 2019. Public spending has risen since 2017 (Figure 44), including for repayment of arrears on social assistance programs in 2019, such as the Basic Education Assistance Module (BEAM), which funds school fees for poor children. In addition, some implementation challenges have been solved, including by introducing mobile payments for cash transfers. In 2019, however, actual public spending was only 40 percent of the planned allocation, and coverage of public programs remained low, exacerbated by a more than doubling of poverty in the past decade. Social assistance coverage is especially low for the urban poor and benefit levels were increasingly inadequate as a result of high inflation. On the positive side, social assistance programs generally have a pro-poor distribution of beneficiaries. According to data from the 2019 mini-PICES, social assistance programs show a progressive distribution (Figure 43), more than half of total beneficiaries (63 percent) belong to the bottom 40 percent of the income distribution. However, a substantial proportion of beneficiaries is not among the extreme poor. According to the PICES data, transfers received through all social assistance programs reduced extreme poverty by ten percent (about six percentage points) and the poverty gap10 by 25 percent (three percentage points) in April-May 2019.

Figure 43. Almost two thirds of beneficiaries of social assistance programs belong to the poorest two quintiles



Source: World Bank staff calculations based on ZIMSTAT mini-PICES 2019 data.

Zimbabwe's 2019 appeals for humanitarian assistance remained underfunded. Despite humanitarian emergency under the 2018/19 drought, Cyclone Idai, and economic challenges, only 48 percent of the United Nations appeal was funded in 2019. Thus only 3.2 million[28] of the estimated 6.6 million extreme poor received support through a combination of public social programs and humanitarian programs (Figure 45). As most social protection support has been geared towards rural areas, the unmet need in urban areas, which was estimated at half a million households prior to pandemic, has escalated. The country's growing reliance on donor funding limits the scope and sustainability of public programs and, combined with capacity issues, limits the level of flexibility that Government has - to respond to increased needs in social protection.

Figure 44. Allocations to social protection increased

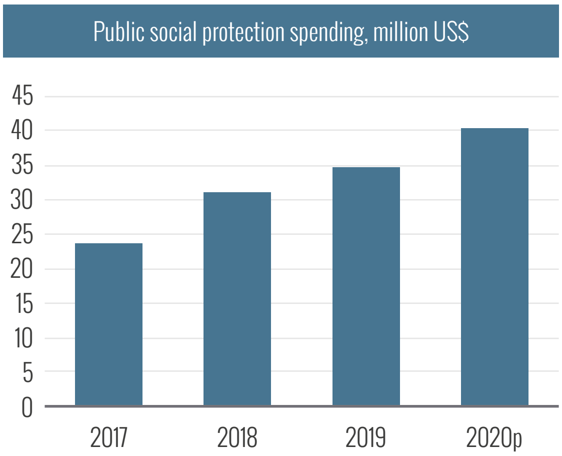
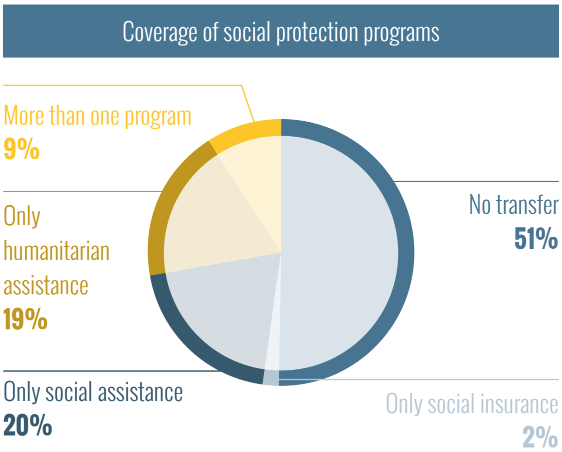


Figure 45. Half of the extreme poor were not covered by any social protection



Source: MOFED and World Bank staff calculations based on ZIMSTAT mini-PICES 2019 data.

28 Assuming 51 percent of extreme poor are not covered by any social protection as estimated based on the April-May 2019 PICES.

The lockdown and social distancing measures complicated the identification and registration of new households requiring social protection, and hampered the delivery of in-kind social assistance. Under the food mitigation program, beneficiaries are typically provided with 50 kg of maize per household per month. Food distribution challenges necessitated scaling up cash transfers, which represent a small portion of social programs. However, cash transfers, which had their value eroded to the equivalent of less than US$3 per household at the end of 2020 exchange rate were not automatically adjusted and remained increasingly inadequate under high inflation levels. The national lockdown affected urban areas the most, mainly by reducing employment, income, and demand for products from formal and informal firms. Many households faced losses nearly overnight and possessed limited savings or assets to cushion shocks. The pandemic also affected a large share of non-poor. Urban areas, which traditionally had not required social protection were more difficult to reach as targeting mechanisms were less well developed because government and donor-funded programs had typically focused on rural areas. Rural areas were also impacted by restrictions on mobility and trading, which have reduced the reach of non-mobile social protection schemes.

The relaxation of lockdown regulations and efforts to address implementation challenges have resulted in increased number of urban households receiving cash transfers in the second half of 2020. Food aid coverage dropped for all households. The share of households claiming to have received Covid-19 related cash transfers percent in urban areas, compared to 1 percent in rural areas. Nearly all recipients were not under the food poverty line (not extreme poor) in April-May 2019 (but some may have been in August-September 2020 when the interview took place). Distribution of food aid remained constrained and the proportion of households dropped from 23 percent in July 2020 to 3 percent in August-September 2020 (Table 7).[29] In urban areas, only one percent claimed to have received any food aid or non-covid-19 related cash transfers . Facing such limited coverage, many poor households may go hungry, putting children's cognitive abilities at risk. The current social protection system, funded by a mix of government and donor resources, has insufficient capacity to serve everyone under the food poverty line. In 2020, the number of food poor (or extreme poor) Zimbabweans is estimated to have increased by 1.3 million, reaching 7.9 million, as mentioned above.

Table 7. Coverage of Rural and Urban Households through Safety Net Programs

Share of people who say they received any food aid			
	pre-COVID	post-COVID (July 2020)	post-COVID (Aug-Sep2020)
Urban	3	1	1
Rural	28	23	3
Poor	28	23	3
Non-poor	16	12	2
National	**19**	**15**	**2**

Source: ZIMSTAT. Rapid PICES phone survey of July 2020 and of August-September 2020 (survey conducted from August 23-to September 24).

[29] This could be partly due to seasonal effect as the pre-COVID period refers to Jan-March which is the 'lean season'--just before the harvest—while the post-COVID-19 period refers to July-- after the harvest.

Given Zimbabwe's challenges, including the severe impacts of COVID-19 on its vulnerable population, the ZEU recommends the following mitigation responses:

- Scale-up the reach and amount of cash transfers in urban areas, and continue to scale up existing rural programs with a focus on reaching new households;
- Develop a shock-responsive social protection system that can be adapted to emergencies through design modifications. As needed, increase the value and duration of assistance (vertical expansion) and reach additional households (horizontal expansion);
- Target humanitarian and social protection response measures at beneficiaries most affected by COVID-19 and the underlying economic crisis, recognizing that needs in Zimbabwe outstrip available resources;
- Implement initiatives that strengthen SP systems, cutting across policy, programmatic, and administrative levels. Such initiatives could include reforming and reestablishing the National Social Protection Steering Committee (NSPSC) and assessing the targeting of social protection programs.
- Strengthen rapid data collection from beneficiaries to establish quick feedback loops on program implementation.

FOOD SECURITY REMAINS AN ISSUE DESPITE BETTER WEATHER CONDITIONS IN 2020

Food security deteriorated significantly in 2019 as the drought, Cyclone Idai, and a worsening macroeconomic environment magnified structural deficiencies. Factors such as smallholders' high reliance on rain-fed agriculture, weak property rights, lack of access to finance, and ineffective public spending on agriculture increased Zimbabwe's vulnerability to climate shocks. Two successive years of drought and the devastation caused by Cyclone Idai, which affected nearly a third of agricultural land, contributed to a poor harvest and food insecurity. Factors exacerbating the severity of the drought included limited irrigation as well as households' inability to afford key inputs, such as fertilizers, seeds, animal vaccines, and acaricides (a pesticide), which is attributable to high inflation and forex shortages. Average maize yields were below 1.15 tons per hectare, which decimated household cereal stocks (Figure 46), and were much lower than the potential of five to 25 tons per hectare (MLAWRR, 2019). As economic hardships worsened, farmers failed to buy adequate feeding and animal vaccines, leading to unprecedented livestock mortality (Figure 47), and forcing poor farmers to sell their remaining livestock. Livestock deaths and sales deprived households of critical assets for food security. Close to 1.8 million productive cattle are at risk of starvation. Farmers have limited access to genetic material to improve their breeds.

Figure 46. Cereal stock of households on a declining trend

Average Household Cereal Stock as of April 1, 2019, kg

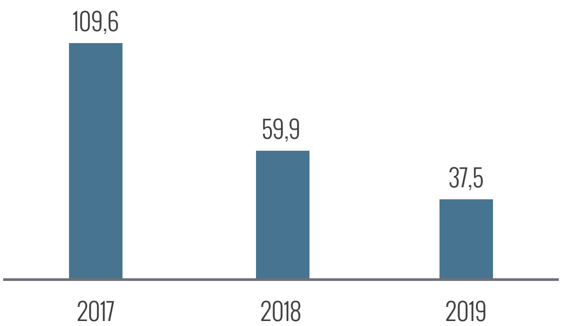
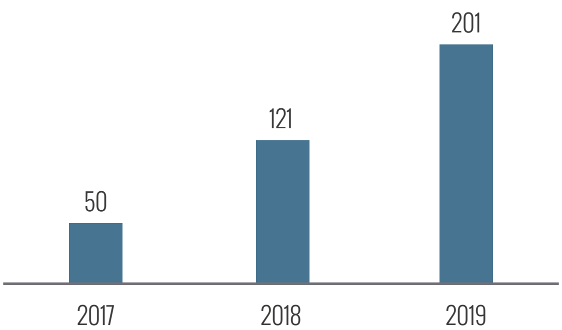


Figure 47. Livestock mortality increased significantly in 2019

Livestock deaths due to tick borne diseases, thousands



Sources: ZIMVAC, Ministry of Lands, Agriculture, Water, and Rural Resettlement (MLAWRR,2019), MSD (2020) and DVS (2019).

The COVID-19 pandemic increased food insecurity in 2020. Despite greater yields of maize in 2020 compared with 2019, food insecurity has risen[30] (Figure 48) due to rising poverty, high import needs, disruptions in connections to global and domestic markets, and a high reliance on donor funding. Imports of maize rose from US$30 million in 2019 to almost US$300 million in 2020, despite pandemic-linked border closures, high international prices, and more stringent requirements on movement of goods and people during the lockdown. Broken connections to markets affected local farmers, who could not sell perishable produce, incurring losses and contributing to food insecurity. International prices of agricultural goods remained high in 2020, affected by increased demand from the region. In July 2020, more than two-thirds of surveyed respondents could not afford nutritious/preferred food, 61 percent had to skip a meal, and 31 percent went without a food for a whole day—a significant deterioration from 2019. The extreme poor and people in rural areas suffered more from food insecurity in the absence of adequate social safety nets (Figure 49).

30 A household is classified as moderately or severely food insecure when at least one adult in the household has reported to have been exposed, at times during the year, to low quality diets and might have been forced to also reduce the quantity of food they would normally eat because of a lack of money or other resources. Humanitarian aid is based on numbers of food insecure, which are updated on an annual basis.

Figure 48. Food insecurity has become more problematic in 2020 compared to previous years

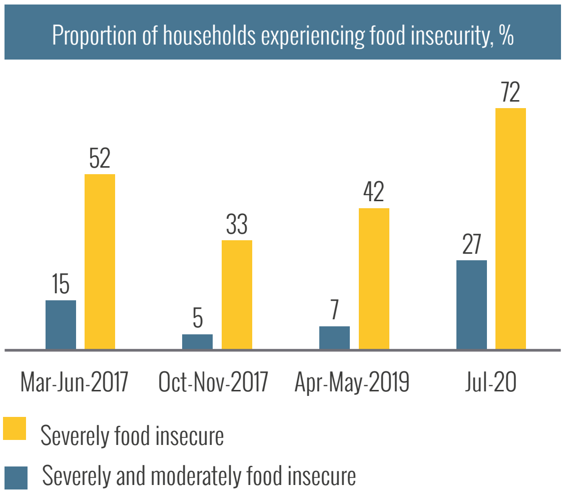
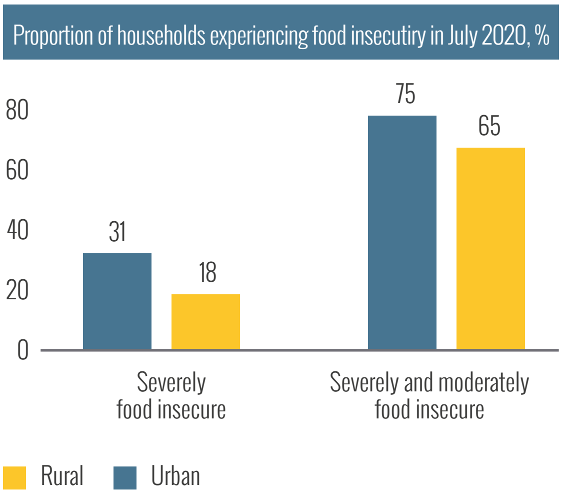


Figure 49. Especially for the extreme poor and rural population



Source: ZIMSTAT. Rapid PICES phone survey July 2020.

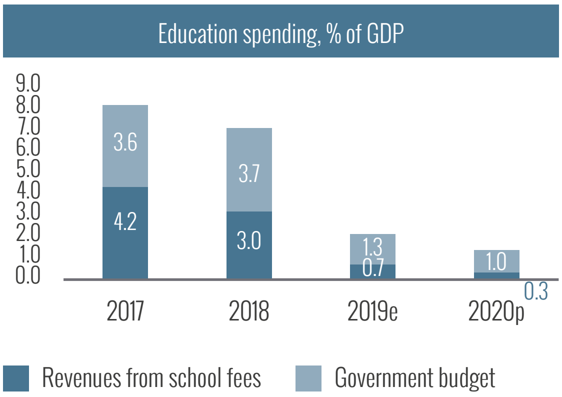
Suggested policies for improving food security include the following:

- Build resilience in food production and marketing systems by climate-proofing agriculture and decentralizing produce markets;
- Resource and modernize the Strategic Grain Reserve to import adequate grain and other cereals;
- Establish a livestock disease surveillance system to contain and minimize the spread of animal disease;
- Increase market linkages and financial inclusion in rural communities to build resilience;
- Establish an Agriculture Market Information System incorporating mobile platforms to disseminate market information and reduce market asymmetries.

HARD WON GAINS IN THE EDUCATION SECTOR FACE NEW BARRIERS

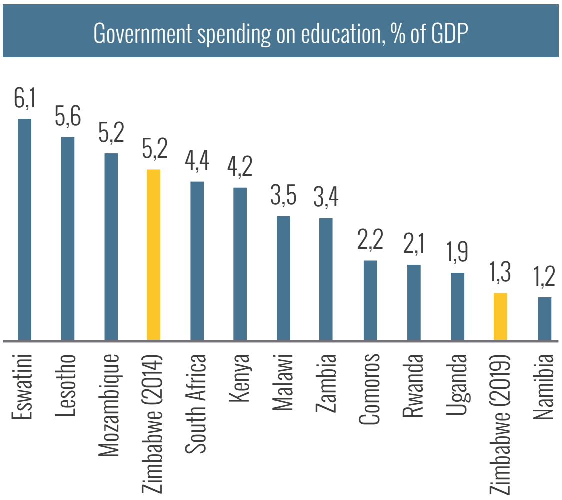
Economic challenges in 2019 negatively affected the quality of education in public schools and increased inequalities. Inflation eroded public financing of education (Figure 50), which is dominated by expenditure on teachers' salaries. This loss of purchasing power demotivated teachers, some of whom opted to teach at schools only two days a week and offer private lessons for a fee, leaving poor students behind. Parental contributions to financing education through school fees and levies fell sharply. Many parents could not afford to pay higher fees, such that in some schools 80 percent of fee revenue was unpaid, depriving schools of critical resources. The coverage of BEAM has been consistently low. The homegrown school feeding program remains significantly underfunded with an annual budget per student only US$0.40—significantly lower than the US$48 recommended by the UN. The decline in financing for education services is likely to exacerbate challenges: only 15 percent of student have textbooks; 1.2 million primary and secondary students lack access to writing places; and 15 percent of teachers lack syllabi. Zimbabwe is now well below comparator countries in government spending on education as a percent of GDP (Figure 51). The significant erosion of the education budget in real terms in 2019 contributed to poor education outcomes. For example, the Grade 7 pass rate dropped to 46.9 percent in 2019 from 52.1 percent in 2018.

Figure 50. Government financing and revenues from school fees fell sharply ...



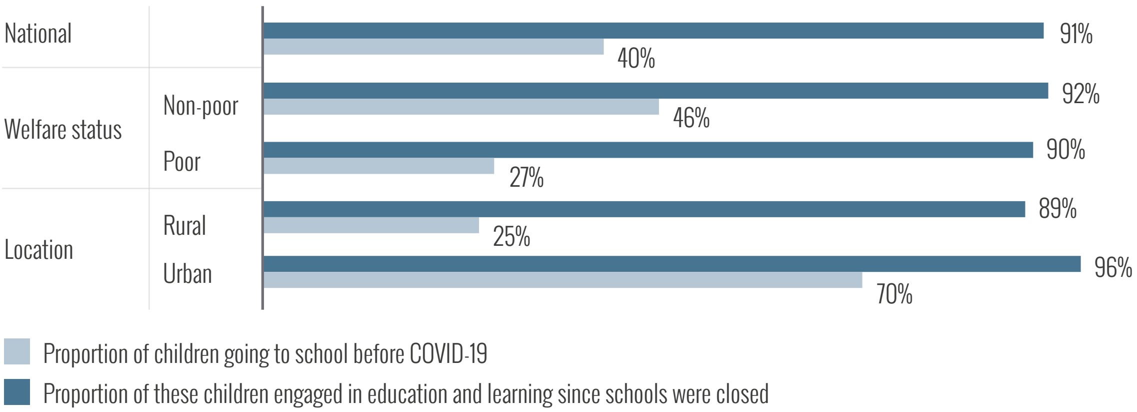
Source: Ministry of Primary and Secondary Education, World Bank
*Data on spending excludes spending on tertiary education.

Figure 51. Well below spending in SADC countries



The closure of schools due to COVID-19 adversely affected children's learning progress, especially among children with special needs and in poor families. The World Bank estimates that lost time due to school closures globally could result in a loss of 0.6 years of schooling adjusted for quality, reducing the effective years of basic schooling from 7.9 years to 7.3 years. Platforms for alternative learning, such as the Ministry of Education's radio lessons, do not reach a national audience as access to radios is limited. Only 17 percent of students claim to have been engaged in learning through radio according in July 2020 and this percentage fell slightly in the -September 2020 round of the Rapid PICES telephone survey (Figure 52). Learning in rural and high-density urban areas has almost stopped, as students have limited access to distance learning tools and textbooks; parents are less likely to be able to help with the learning process; and the poorest cannot not afford private lessons. Only 40 percent of Zimbabwean children have been engaged in education and learning since schools were closed after the pandemic outbreak. The share of extremely poor children and children in rural areas with access to mobile learning apps is severely constrained. Pandemic-related impacts have hindered access to school-based support services. At least 1.2 million learners needed emergency and specialized education services in 2020. The lack of access to a school feeding program has negatively affected children's learning and their physical, social, and mental health. Such constraints threaten to reverse gains that Zimbabwe has made in human capital development.

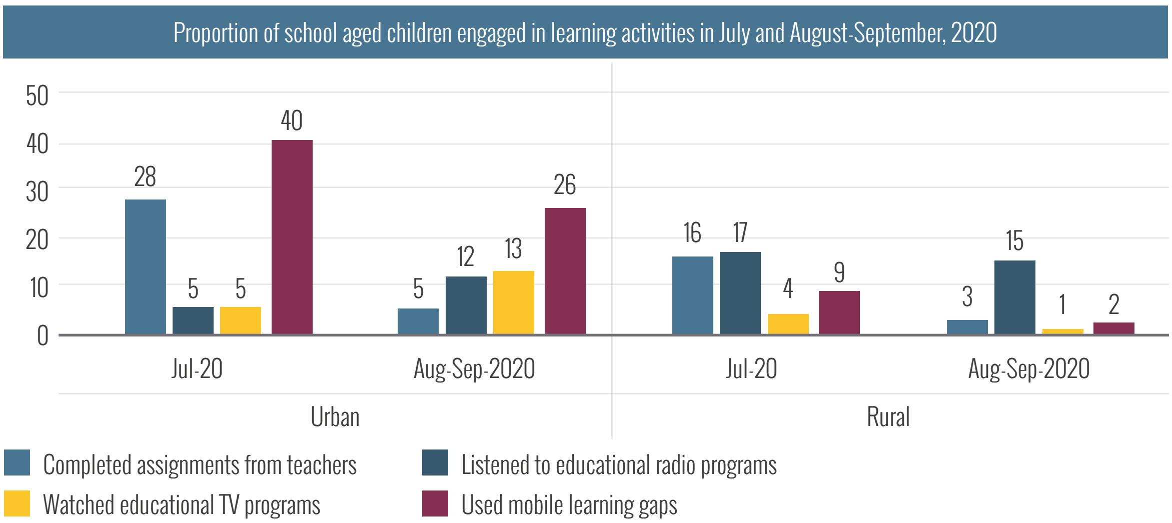
Figure 52. The impact of school closures on access to education is staggering



Source: ZIMSTAT. Rapid PICES phone survey July 2020.

The likelihood of greater dropouts is high in the strained economic environment in which some parents may no longer be able to send children to school. About 400,000 children aged 6-17 years old were out of school[31] in April-May 2019, according to the mini-PICES 2019 survey. This number is likely to increase due to prolonged school closures and higher poverty. Schools provide other critical child support services, such as immunizations and school feeding programs. Children who rely on schools not just for education, but also for health, safety, and nutrition, are already among the most marginalized, and will likely be the most negatively affected by prolonged school closures and lack of access to alternative forms of learning. Greater susceptibility of children to different forms of abuse when schools are closed is a worrying concern. Evidence points to increased cases of gender-based violence and child protection cases. Childline Zimbabwe reported a more than 40 percent increase in daily cases related to child protection since April 2020.

Figure 53. Access to learning activity became more difficult



Source: ZIMSTAT. Rapid PICES phone surveys July 2020 and Aug-Sep 2020.

[31] Three percent of 6-13 years old and 25 percent of 14-17 years old.

Polices to prevent a learning crisis

Absent urgent action, a learning crisis looms in Zimbabwe with long-term, negative implications on human capital development and ultimately economic growth. Recognizing challenges linked to school closures and the limited reach of alternative learning platforms, the ZEU recommends the following mitigation responses:

- Direct education funding to schools hit hardest by the crisis (P2, P3, S2, and S3), such as through formula-based funding giving priority to the most marginalized students. Consider reintroducing per capita grants to every school with funding ringfenced to support recovery needs, including provision of adequate teaching and learning materials supporting social distancing.

- Ensure learning continuity for students who have fallen behind during the school closures. Given the limited reach of the Ministry's radio service, the GoZ might consider using printed modules to reach marginalized learners.

- Invest in data for teachers to allow structured teacher-learner contact at a distance.[32] This could be accomplished using affordable but widespread platforms, such as WhatsApp, noting teachers in some public schools are already using such alternatives without government support.

- Address teacher absenteeism and moonlighting by: (i) gradually improving teachers' conditions of services and incentives, (ii) investing in non-salary incentives such as professional recognition through finalization and setting up of the Teachers' Professional Council (TPC), and structured continuous professional development opportunities, and (iii) improving oversight and monitoring of schools through strengthening schools inspections. These measures will likely promote teacher retention, boost teacher morale and motivation, and ensure quality teaching and learning in schools.

- Recognizing families' loss of income in the prolonged lockdown, the GoZ might consider supplementing ongoing education measures with social protection programs, such as extending the BEAM program to cover more students in public schools temporarily for one year, for example, the program could be expanded to target all P3 and S3 students for a year. This would feed into gradual implementation of the Education Act's provisions for free state-funded basic education.

- Scale-up the school feeding program, allocating more funding to meet UN guidelines on student per capita spending, to help ensure all learners have access to a standard nutritious meal each day.

[32] While schools have reopened, learners in public schools are not attending school every day, as schools are promoting social distancing hence each class has been broken into various groups that come to school on specific days.

ASSESSING THE FINANCING GAP-AVOIDING FURTHER DETERIORATION OF SERVICES

The financing needs to prevent further deterioration of social conditions has increased due to unexpected COVID-19 funding requirements. These financing needs were not met in 2020 as the financing gap after government and humanitarian support is estimated at US$1.4 billion (Table 8), US$367 million of which is mostly on account of the COVID-19 health response and additional people needing social safety nets. The financing needs were estimated based on several assumptions: the social safety net covers all food poor households to prevent a humanitarian crisis; food security is ensured, including for livestock; hospitals receive critical medicine and sufficient supplies to address COVID-19 illness and deliver other essential medical services; and schools have access to basic supplies and teaching materials, and provide adequate school feeding programs. Financing is needed mostly for direct cash and in-kind transfers to beneficiaries and supply of medicines, personal protective equipment, textbooks, food, and transfers to schools where the poorest children study (so-called P2, P3, S2, and S3 schools). The financing needs exclude any technical assistance or development support provided by development partners.

The largest financing gaps are in health and social protection (Figure 54). Despite increased financing to the health sector, most new financing has still been directed to COVID-19 response. The supply of essential medicine to government hospitals and maternal and childcare services is well below adequate levels, which could negatively affect health indicators. However, significant financing needs in social protection and food security remain unaddressed, and education resources are insufficient to prevent negative impacts of a learning crisis. Zimbabwe's fiscal space for remedying such social challenges has narrowed in 2020. Nevertheless, careful review and revision of public spending allocations could provide financing for at least a portion of identified financing needs in 2021. Additional donor support could be explored to prevent a further costly deterioration in human capital indicators.

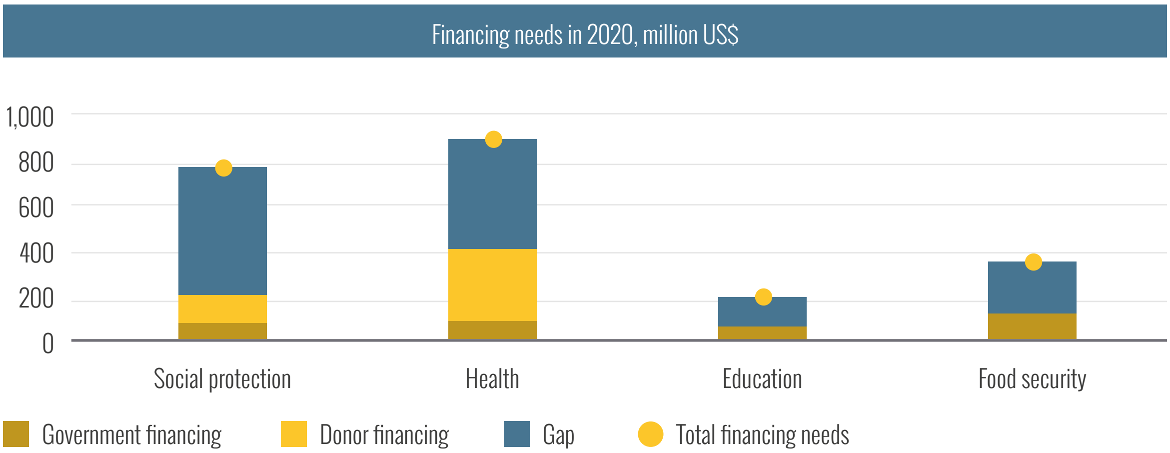
Table 8. Financing gap (after GOZ and donor support) needed to arrest deterioration of social service delivery

	Pre-COVID	COVID-19	Difference
Social protection, of which:	**365**	**569**	204
Covid cash transfer	0	31	31
Basic Education Assistance Module	164	180	17
Harmonized Cash Transfer	19	19	0
Food deficit mitigation	64	65	1
Urban poor public works & unconditional transfers for labor constrained HHs	9	17	8
Additional cash / in-kind transfers to rural food poor households not covered by social or humanitarian assistance	101	248	147
AMTO	9	9	0
Health, of which:	**252**	**495**	244

	Pre-COVID	COVID	Difference
Government Hospitals & Health Centres	162	162	0
Grant Aided Institutions	48	48	0
Maternal and Child Health	32	32	0
Results Based Financing	10	10	0
Covid-19	0	244	244
Education, of which	**190**	**110**	-81
Teaching and learning materials	24	24	0
School Feeding Programme	109	28	-81
Sanitary Ware	15	15	0
Per Capitation Grant for P2& P3 and S2&S3 schools	42	42	0
Food security	**228**	**228**	0
Imports of maize for maize meal only	74	74	0
Feed for 60% of cattle at risk of starvation	135	135	0
Vaccines, acaricides	4	4	0
Irrigation	15	15	0
Total	**1035**	**1402**	**367**

Source: World Bank based on data from national authorities and development partners.

Figure 54. Health and social protection needs are significant and mostly unmet



Source: World Bank staff estimates based on data from national authorities and development partners.

POLICY IMPLICATIONS AND OPTIONS FOR RECOVERING FROM MULTIPLE SHOCKS

The economic challenges and extraordinary shocks caused by the drought, cyclone, and pandemic provide opportunities to press forward with bold measures to protect lives and livelihoods, and support Zimbabwe's longer-term recovery. It is critical that Zimbabwe's domestic policies support price stability and the optimal use of public resources, especially given large financing needs to prevent a deterioration in human capital. Spending should be reallocated from wasteful, distortive subsidies to targeted measures that limit the toll of the pandemic, provide social safety nets and food security, and prevent a learning crisis that risks undercutting long-term growth and productivity. The economic stimuli provided to businesses should be carefully monitored, managed, and implemented to minimize wasteful spending and leverage the private sector. Meeting the GoZ's 2030 aspiration of attaining upper middle-income status will require authorities to strengthen governance; ensure greater transparency and accountability; and increase public financing and investments focused on critical sectors. Table 9 summarizes key policy options for consideration.

Policy options need to account for Zimbabwe's limited fiscal space and significant financing needs to arrest a further deterioration in social services. Zimbabwe lacks access to concessional external financing and is not positioned to loosen fiscal and monetary policies to help drive a recovery. Such loosening would entail printing more money and fueling inflation, and defeat the goals of ensuring macroeconomic stability, an economic resurgence, and poverty reduction. Instead, Zimbabwe must rely mostly on raising revenue, reallocating domestic resources to critical needs, mobilizing humanitarian support to forestall increasing fragility, and finding opportunities to leverage the private sector. Significant financing is required to restore service delivery to recent levels. Without a "business unusual" approach, these goals are unlikely to be met, as the financing gap for 2020 after government and humanitarian support is estimated at US$1.4 billion. Zimbabwe must build a strong foundation to address its needs and propel economic growth, based on economic stabilization and smart development approaches that protect lives and enhance livelihoods.

Table 9. Summary of Proposed Policy Options

Goal	Area	Policy option	Expected impact
Stabilize the economy and prepare for the recovery	Fiscal	• Reduce ineffective subsidies (agriculture, mealie meal, transport) and increase transparency of subsidies • Improve revenue collection through better tax policies and administrative efficiency • Review COVID-19 response measures and scale back/eliminate ineffective incentives • Keep wage costs constant as percent of GDP and review adequacy of the public service pay scale	Free fiscal space for economic recovery and reduce distortions in the economy
	Monetary	• Keep tight control on growth of the monetary supply • Enhance transparency and predictability of monetary policy • Liberalize foreign exchange market	Ensure price and exchange rate stability
	Structural	• Reduce regulatory burden • Reduce barriers to regional trade integration • Restructure and privatize key SOEs • Discontinue forex retention policies • Strengthen governance and anti-corruption	Pave the way for private sector led growth, increased productivity and competitiveness
Protect lives	Health	• Timely disbursement of treasury resources for COVID-19 response • Address health workforce challenges on remuneration, including leveraging performance-based mechanisms to remunerate, incentivize, and retain health workers • Improve procurement, overall distribution, availability, and management of pharmaceutical commodities and equipment in hospitals and clinics • Develop and implement accountability frameworks and invest in appropriate information systems	Ensure adequate resources, processes, and procedures to address COVID-19 challenges, and prevent a worsening of health indicators
Protect livelihoods	Social protection	• Scale up cash transfers in urban areas, with a focus on reaching new households, while continuing to scale up existing rural programs • Increase value or duration of assistance (vertical expansion) and target additional households when needed (horizontal expansions)	Develop a shock-responsive social protection system with a flexible design able to adapt to emergencies

Goal	Area	Policy option	Expected impact
		• Prioritize beneficiary caseloads to be targeted for the humanitarian and social protection response to COVID-19 and the underlying economic crisis, given that the needs in Zimbabwe outstrip available resources • Implement "systems strengthening" initiatives that cut across policy, programmatic, and administrative levels. These could include reforming and reestablishing the National Social Protection Steering Committee (NSPSC) and conducting a targeting assessment of social protection programs	
	Food security	• Support climate-proofing of agriculture and decentralize produce markets • Resource the Strategic Grain Reserve to import adequate grain and other cereals • Establish a livestock disease surveillance system, which is critically required to contain the spread of animal disease • Increase market linkages and financial inclusion in rural communities for resilience building • Establish an Agriculture Market Information System that incorporates mobile platforms to disseminate market information and reduce market asymmetries	Build resilience in food production and marketing systems
	Education	• Expand distance learning opportunities, including by printing modules for the marginalized • Invest in data for teachers to allow structured teacher-learner remote contact to support students • Increase education funding to schools hit hardest by the crisis (P2, P3, S2, and S3), such as through per capita grants supporting recovery needs, including provision of adequate teaching and learning materials supporting social distancing • Address teacher absenteeism and moonlighting by gradually improving teachers' conditions of services and non-salary incentives • Extend the BEAM program to cover all students in P3 and S3 public schools temporarily (for one year), which will feed into the gradual implementation of the Education Act provisions for free state-funded basic education • Scale-up the school feeding program through increased funding meeting UN guidelines on student per capita spending, to ensure all leaners have access to a standard nutritious meal each day	Provide learning continuity for leaners, and prevent worsening of learning outcomes