Food for thought

Price surge leaves citizens hungry for answers

Food Security Blog
Brezh Malaba

Scary... The ongoing inflation spiral is evoking memories of the catastrophic hyperinflation of 2008 which wiped out savings, pensions and salaries.

Déjà vu...In May 2023, the biggest bank note in Zimbabwe is currently the ZW$100, worth less than 0.03 US cents, and you would be lucky to afford one tiny sweet in any shop in Harare.

"Milk has become a luxury product to us. We can't afford it," says Carol Tanyaradzwa (25), a resident of Mbare, Harare's oldest high-density suburb where low-income earners are locked in a daily struggle for survival.

The mother-of-one reveals that malnutrition is on the rise and children are particularly vulnerable.

"Food prices are going up almost every day. The [exchange] rate is changing daily. It's scary. We're just as good as doomed," she adds, with a palpable sense of helplessness.

Mbare suburb resident Carol Tanyaradzwa (right) narrates the hardships caused by high food prices. Pic: Brezh Malaba.

The collapse of the beleaguered Zimbabwe dollar — which has depreciated by more than 90% in May alone — is piling on the misery. Some supermarkets are now barring shoppers from using Zimdollars when buying certain products. Customers without ready access to United States dollars are left stranded.

At some grocery stores, we came across cooking oil shelves written: "Only sold in USD". At some shops, certain alcoholic beverages were being sold exclusively in US dollars. These are the brutal realities on the ground, far removed from the cozy world of powerful politicians and bureaucrats sitting in their air-conditioned offices on Samora Machel Avenue.

A manager at a leading retail chain told The NewsHawks that companies have been forced by the crash of the Zimdollar to resort to what is the called replacement cost pricing model, a tactic in which they peg prices on the basis of anticipated exchange rate and inflation movements.

"Some people in government prefer to call it economic sabotage, speculation and arbitrage. They fail to understand one thing: if we don't resort to the replacement cost pricing model, we will simply fail to replenish our stock and our businesses will shut down. This is a matter of business survival."

Crazy prices

Quick dashboard

1. Families skipping meals
2. Children malnourished, stunted
3. Food basket unaffordable

In recent months, a thorny question has dominated discussions on Zimbabwe`s dire economic situation: Why does this country have one of the highest food price inflation rates in the world?

Food price inflation is at the heart of the cost-of-living crisis which has left families hungry, children malnourished and millions of citizens at the mercy of a serious food security problem.

Zimbabwe`s domestic food price inflation – measured as year-on-year change in the food component of the Consumer Price Index (CPI) – is unbearably high. In 2022, going into 2023, the country recorded the highest food price inflation in the world, scaling 353% in September 2022, ahead of Lebanon, according to the World Bank.

In some grocery stores which The NewsHawks has visited, hard-pressed shoppers were forlornly abandoning their baskets and trollies just before reaching the much-dreaded checkout point.

It has become a sign of the times: a shopping basket abruptly dumped by a spooked shopper at the last minute in the vicinity of the paypoint. There is often a furtive glance accompanied by a look of guilty nervousness – as if the shopper is checking whether the shop assistants have spotted this shameful act of basket dumping. The heart wants decent food, but the wallet does not allow.

Supermarket aisles are often fraught with tension and unease. Sombre-faced shoppers appear anguished as they calculate the cost of the paltry items they manage to put in their baskets. The once simple task of grocery shopping has become a nightmare, a tough test of financial endurance that many cannot bear.

Some customers linger, scanning the shelves, hoping for a miracle that never comes. Those who manage to leave with a few items clutched in their hands feel the weight of guilt on their shoulders, knowing that they are the lucky ones that managed to navigate the energy-sapping maze of high prices and poverty.

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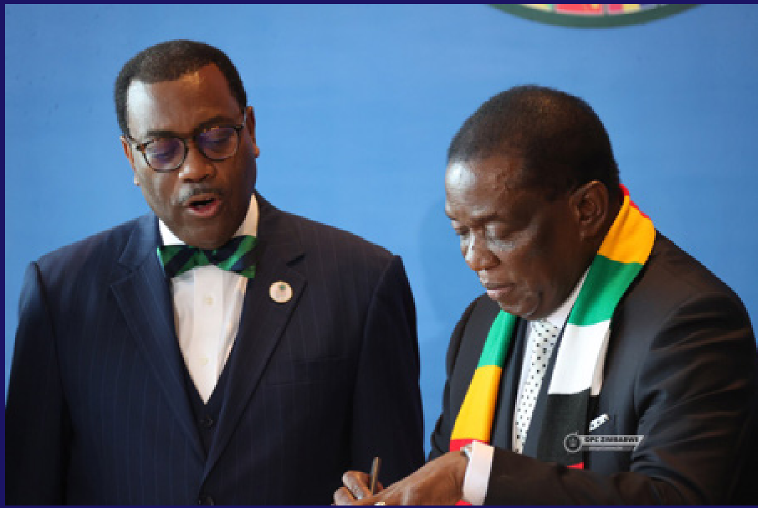
Not all abandoned baskets are overflowing with luxuries; many contain basic items like bread, sugar, beef and even cheap salt.

Tough...A trolley abandoned by a shopper near the tills at OK supermarket in Ard-Mbare, Harare.

What's going on?

Zimbabwean consumers are hungry for answers: Why is food so expensive? How will people survive on Zimdollar income when shops are demanding payment in US dollars? Why are prices rising faster in Zimbabwe than in war-torn countries? The questions are endless. Consumers feel powerless at the hands of ruthless capitalists in a food value chain driven by the profit motive.

Mnangagwa screams sabotage



President Emmerson Mnangagwa (right) with African Development Bank president Akinwumi Adesina in Sharm el-Sheikh, Egypt, on 23 May 2023.

On 21 May 2023, President Emmerson Mnangagwa accused big companies of creating "a web of agents" in the informal sector "who sell goods exclusively in foreign currency!" Using strong language, the President complained that such companies are back-stabbing and betraying the government by showing ingratitude for the immense support they continue receiving from the state. After all, the business operators enjoy access to foreign currency at favourable rates at the Reserve Bank of Zimbabwe's weekly forex auctions, Mnangagwa said. He vowed to take action against the unnamed private companies.

But the business sector, on the other hand, refuses to take the blame for the economic turmoil.

On 9 May 2023, cabinet issued a statement announcing that the government is "concerned by the spiraling prices of 14 basic goods especially bread, flour, cooking oil and mealie-meal".

It added: "The minister of Industry and Commerce is already engaging the concerned stakeholders including manufacturers, wholesalers, retailers and other associations on the matter. Given the urgency of the matter, cabinet has set up a committee to quickly investigate, monitor and make appropriate recommendations to cabinet with a view to bringing sanity to the situation."

Economic commentators remarked that the spike in prices is caused by well-known factors — namely the printing of money by the central bank and the harmful charade of maintaining an overly artificial foreign currency exchange rate — meaning that this so-called official investigation into prices is a total waste of time.

The runaway prices have certainly rattled the corridors of power, with officials dreading what is threatening to be "the return of the zeros" — evoking memories of the catastrophic hyperinflation of 2006-2008 which poverty-stricken communities are yet to fully recovered from.

Drastic action

On 11 May 2023, with the government essentially accusing the business sector of irresponsible pricing, Finance minister Mthuli Ncube lifted all restrictions on the importation of basic foodstuffs.

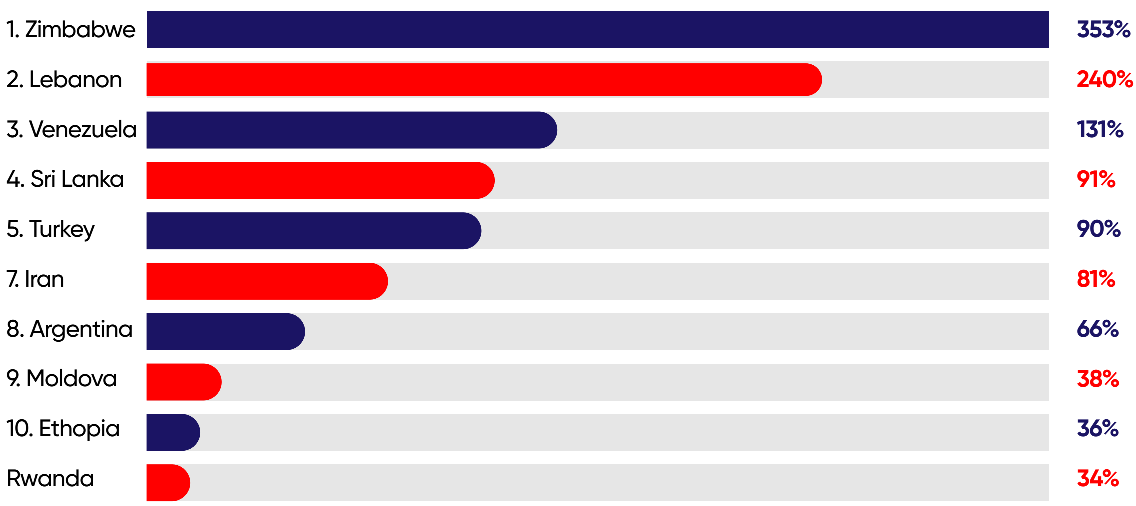
"In order to enhance the supply of basic goods to the public, all basic goods will no longer be subject to import licences, and will also come into the country free of import duties and taxes," said the minister in a statement that left local food producers grumbling in discontent.

The directive means citizens with access to foreign currency can now import basic groceries for their own use. The government hopes this will help counter the spike in prices by retailers.

Munyaradzi Hwengwere, chairperson of Buy Zimbabwe, an organisation which promotes the manufacture and consumption of local products, has encouraged all economic stakeholders to approach the volatile situation in a pragmatic and rational manner to preserve the national interest.

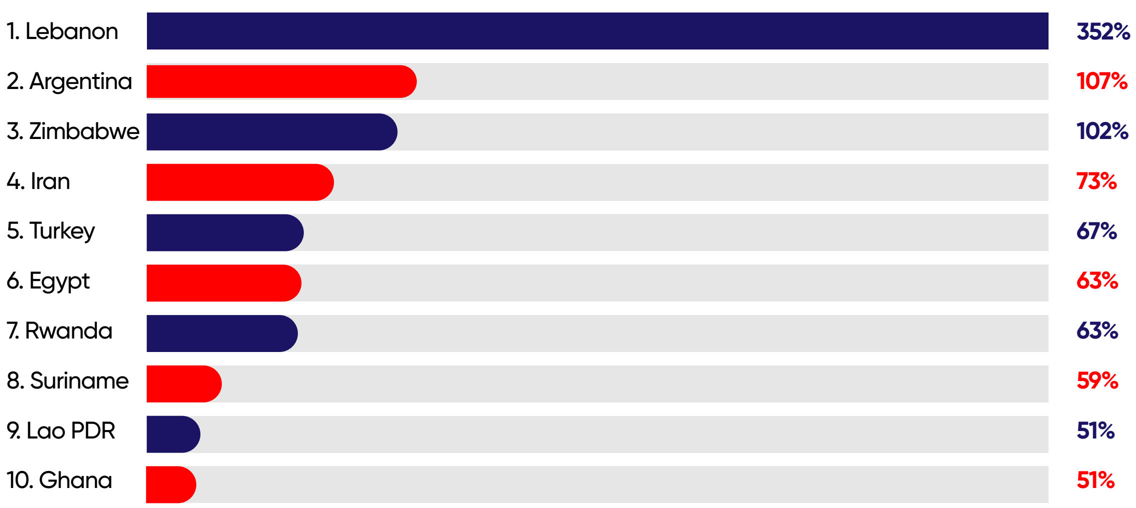
However, some hard-pressed consumers have lauded the government, saying Zimbabwean retailers and manufacturers have been fleecing the public.

TOP TEN COUNTRIES HIT HARDEST BY FOOD INFLATION (NORMAL% YOY)



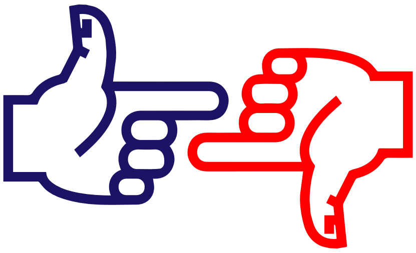
Source: World Bank, 25 September 2022.

TOP TEN COUNTRIES HIT HARDEST BY FOOD INFLATION (NORMAL% YOY)



Source: World Bank, 8 May 2023.

The blame game



On 15 May 2023, Consumer Council of Zimbabwe executive director Rosemary Mpofu bluntly told a state radio discussion that consumers were suffering due to the "greed" of some players in the business sector.

There was a dramatic moment during the panel discussion when an agitated listener called in and bluntly labelled business operators "thieves" who are fleecing consumers.

"Let's make sure that consumers are protected," Mpofu remarked.

Kurai Matsheza, the president of the Confederation of Zimbabwe Industries (CZI), pushed back, saying people should focus on the root causes of the pricing mayhem and not just the symptoms.

"We're sorry to hear that some people are calling business operators thieves. We're greatly worried about the hardships consumers are experiencing. We, too, are facing difficulties. But we're saying if the nation is experiencing a headache, we must solve the root cause of that headache instead of tinkering with symptoms.

Economics Professor Gift Mugano said the spiking of prices is being caused by two main factors.

"What we are seeing now are symptoms. Prices are just the result of a particular underlying problem – in this instance we're talking about printing of money. I was talking of excessive liquidity. There are two things: excessive liquidity and printing of money. It's not a secret that money supply is increasing from the central bank," Mugano explained.

With the Reserve Bank of Zimbabwe increasingly under pressure to contain inflationary pressures, Persistence Gwanyanya, an economist and member of the central bank's Monetary Policy Committee, was succinct in his characterisation of the problem in early May: "Being a central bank governor is one of the toughest jobs in Zimbabwe today."

Economic fundamentals

Commentators say the country cannot tame prices as long as the economic fundamentals are shaky. These include prolonged electricity blackouts which have saddled industry and commerce with additional expenses eating into profitability.

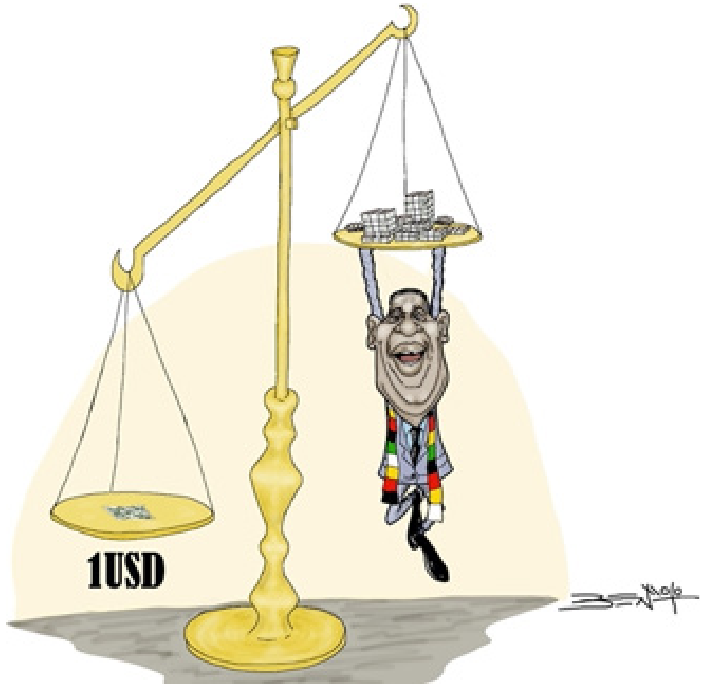
Experts say the Reserve Bank's 25% export retention must be scrapped, in view of the fact that the economy is now all but dollarised. Almost everyone has enough foreign currency to finance imports, therefore the 25% export retention has become burdensome and unnecessary. The export retention's continuation is feeding into money supply.

Zimdollar collapse: govt to blame

At the beginning of April 2023, Finance minister Professor Mthuli Ncube announced that the government had blacklisted 13 companies from supplying it with products and services after investigations revealed they were passing the Zimdollars they earn from the public purse to the parallel market.

In effect, the government – through its contractors and suppliers – has become a major driver of domestic inflationary pressures.
Mugano argues that the government should desist from paying its contractors and suppliers in Zimdollars, because these companies are rushing to exchange the money into US dollars soon after receiving payment. This stokes currency volatility, further weakening the vulnerable Zimdollar.

"There's need for more work on the liquidity management side from the budget by government. The ministry of Finance might want to consider upping the threshold they are using to pay service providers, to reduce pressure on the parallel market. What is happening now is that when the [exchange] rate goes up, prices go up – and you blame business, but there's excessive liquidity."



Worthless...The Zimdollar has crashed, pushing up prices, with President Mnangagwa accusing the business sector of betraying the government. Illustration by Ben Moto.

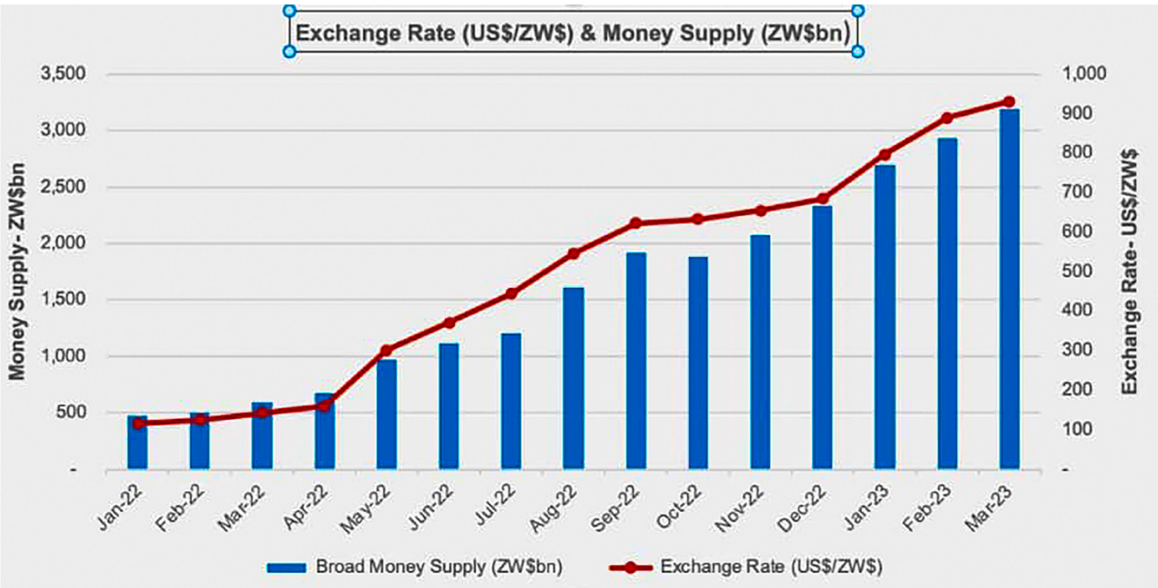
Pouring petrol into fire

The printing of money by the central bank has flooded the economy with excessive liquidity. This has led to the depreciation of the Zimdollar, eroding its purchasing power. As a result, people would rather hold foreign currency, thereby reducing demand for local currency.

As our investigation can confirm, there is a direct relationship between money supply and exchange rate in Zimbabwe.

In our analysis, to test whether there is a relationship between money supply and the exchange rate, data relating to the movement in money supply growth and the exchange rate was collated for the period from March 2022 to March 2023.

The smoking gun



Graph and table: Brezh Malaba. Data: RBZ.

Between March 2022 and March 2023, the official Zimdollar exchange rate depreciated by 553% (year-on-year) from ZW$142: US$1 to ZW$930:US$1 (see graph and table).

Over that same period, broad money supply increased significantly by 442% from ZW$589 billion in March 2022 to ZW$3.195 trillion in March 2023.

The statistical correlation coefficient is 0.989. This demonstrates the strength and direction of the relationship between the increase in the printing of money and the depreciation of the Zimdollar.

Even when expressed in terms of the percentage movement in both money supply and the exchange rate, it can be observed that the two variables were moving in tandem, posting positive growth over the period March 2022 to March 2023.

Economic experts say, to curtail excessive money supply growth, the government should desist from using broad money supply expansion as a
means of financing its budget deficits whenever the authorities fail to raise enough money from tax revenue collections.

Economist Tinashe Murapata says the printing of money is likely to increase, considering that this is election year. "This level of printing is unprecedented and reveals deep-seated problems in government. Remember, February printing was not yet election printing. Election printing only started in May."

	Broad Money Supply (ZW$bn)	Exchange Rate (US$/ZW$)
Jan-22	470	115
Feb-22	506	124
Mar-22	589	142
Apr-22	671	159
May-22	972	301
Jun-22	1,120	371
Jul-22	1,207	444
Aug-22	1,609	547
Sep-22	1,917	622
Oct-22	1,881	633
Nov-22	2,071	655
Dec-22	2,338	684
Jan-23	2,697	797
Feb-23	2,928	889
Mar-23	3,195	930
YoY	***442%***	***553%***
Statistical Correlation Coeeficient		**0.989232479**

Currency volatility

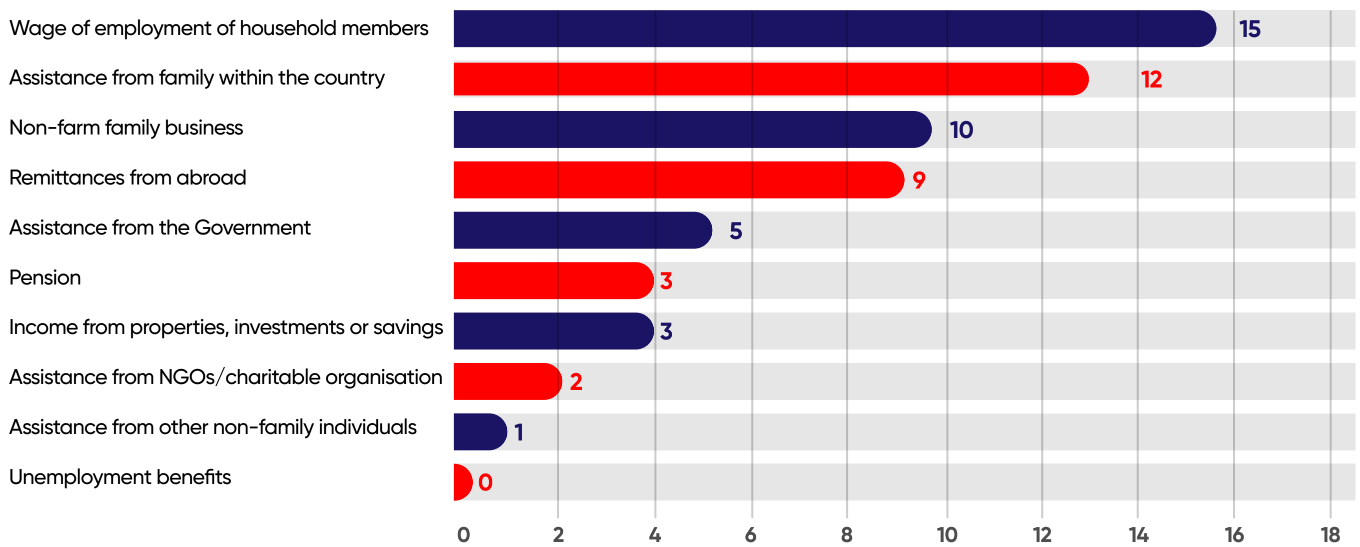
Steep depreciation of the Zimbabwe dollar against the US dollar continues to be a major factor in food pricing. The Zimdollar has been so volatile that there are at least three separate exchange rates: the official, interbank and parallel.

Although most workers earn their income predominantly in Zimdollars in an economy wracked by chronic high inflation, goods and services are increasingly priced in US dollars. As the free-falling local currency continues plunging, retailers are left groping in the dark for elusive solutions to a pricing nightmare that stubbornly refuses to go away.

During a one-week period in April 2023, the Zimdollar lost value to the US dollar by more than 70% on the parallel market, reaching US$1: ZW$2 100. The rate has since inched closer to US$1: ZW$3 000. The implosion highlights waning confidence in the local unit.

Against this backdrop, a January 2023 survey by the Zimbabwe National Statistics Agency (ZimStat) found that almost 80% of transactions for food purchases are in US dollars, with the rest in Zimbabwe dollars. Considering that most Zimbabweans earn their wages locally (see graph below), their buying power is limited.

SOURCES OF HOUSEHOLD INCOME IN ROUND 9 (% OF HOUSEHOLDS)



Source: ZimStat, PICES 9 surveys (July 2020-January 2023).

On 6 May 2023, Dhiraj Sharma, a senior economist at the World Bank, said the Zimbabwe dollar is rapidly losing value, with 97% of transactions for basic commodities being conducted in US dollars.

Sharma presented these findings from the poverty, income, consumption and expenditure (PICES) surveys conducted between July 2020 and January 2023 via telephone interviews by the Zimbabwe National Statistics Agency (ZimStat) in partnership with the World Bank and the United Nations Children`s Fund. Nine rounds of the PICES survey were conducted during the period.

Caption: Farmer Gomes Sande, based in the Concession area, says feeding the nation is tough work, made more difficult by economic instability. Picture: Brezh Malaba.

The hidden middle

In recent years, many have come to realise that the food security debate has been fixated on crop production and agricultural commodity trade, while paying scant attention to the "hidden middle" segments of the agri-food value chain constituting crop processing, transportation and retail.

Supermarket chains, wholesalers and agro-food processing giants — which constitute what Ian Scoones and other economic policy experts call the "hidden middle" — deserve greater scrutiny in the food security discourse. The nexus between the profits of corporate giants and food prices needs to be examined. More worryingly, consumers feel abandoned by the government.

Prominent economist Thomas Reardon estimates that this "midstream" — a huge chunk of private sector players equivalent to between 30% and 40% of the agri-food value chains in developing countries — is hidden from mainstream debate on food security.

Some agricultural experts now believe that the food security discourse will remain woefully distorted as long as these "hidden" segments of the agri-food value chain are not properly accorded the scrutiny they deserve.

Scoones, a professor at the Institute of Development Studies, University of Sussex, who has extensively studied Zimbabwean agriculture, has drawn attention to the "unrecognized but vast 'hidden middle' of private sector businesses operating in Africa between agricultural producers and food consumers".

This hidden middle comprises a whole range of private actors providing transport, trading, brokerage, finance, storage, warehousing, food processing and so on.

In Zimbabwe, policymakers have rarely paid attention to the role of private sector players in the food industry. Focus is mostly on farmers, grain millers and retailers.

Scoones believes this must worry us because around 80% of Africa's food consumption is marketed and handled mostly through private operators. In the circumstances, it is important to thoroughly scrutinise the complex web of often informal players in the agri-food value chain as these new value networks can no longer be ignored.

THE NewsHawks

Tension between government and corporate sector

Innscor Africa Limited is one of the most dominant players in corporate Zimbabwe, owning businesses ranging from fast-food, stockfeed to groceries.

In 2022, the Competition and Tariff Commission (CTC) ordered Innscor to sell its shares in Probrands — a leading producer of groceries — and pay a fine equivalent to US$9.1 million. The CTC accused Innscor of failing to notify the regulator of its acquisition of the stake in Probrands.

Through its investment vehicle Ashram, Innscor bought 39.2% shareholding in Probrands in 2016. Two years later, Probrands sold its dairy business to Prodairy, a new entity 50.1% owned by Innscor.

The CTC flagged Innscor`s market dominance, saying the corporate giant now enjoyed unfair competition, considering that Innscor already controls National Foods, the largest processor of basic foodstuffs in Zimbabwe. The regulator was concerned about what are called the unilateral effects potentially arising from horizontal mergers.

The anti-trust case provided insights into the rarely scrutinised "hidden middle" segment of the food value chain.

The CTC said the deal "substantially lessened competition by according Probrands/National Foods the ability to exercise market power as a result of the lower competitive constraints between the merging parties. This merger created a single firm with anti-competitive effects as well as substantial market power with long lasting consequences on consumers."

The CTC added that the deal "substantially lessened competition by according Probrands/National Foods the ability to exercise market power as a result of the lower competitive constraints between the merging parties. This merger created a single firm with anti-competitive effects as well as substantial market power with long lasting consequences on consumers."

But, as we reveal today, Innscor is fighting back. The company appealed to the High Court, in line with existing competition law which allows market players to appeal the CTC's rulings by lodging an appeal directly at the High Court. The CTC declined to comment on the matter, telling The NewsHawks that the case is sub judice.

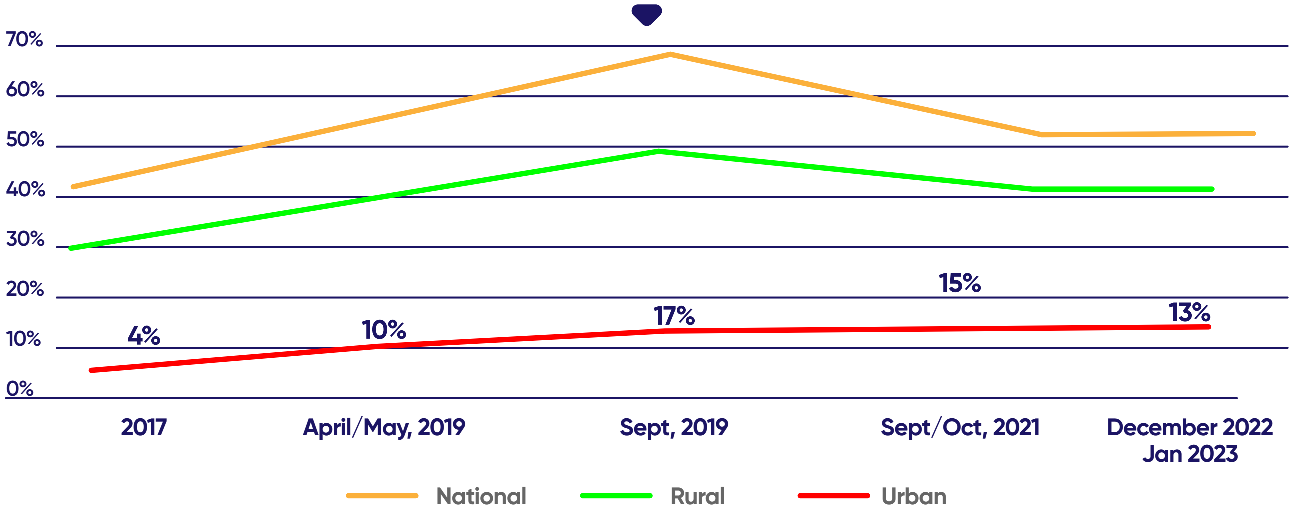
National food insecurity

When the Covid-19 pandemic ended, many were hopeful that food supply would improve. In Zimbabwe, those hopes have been dashed by high food price inflation.

*Extreme poverty levels still very high despite slight improvement from 43% in October 2021 to 42% in January 2023.
*Severe or moderate food insecurity increased from 38% to 40% in that period.

EXTREME POVERTY

THE EXTREME POVERTY RATE DECLINED SLIGHTLY, FROM 43 PERCENT IN 2021 TO42 PERCENT IN 2022

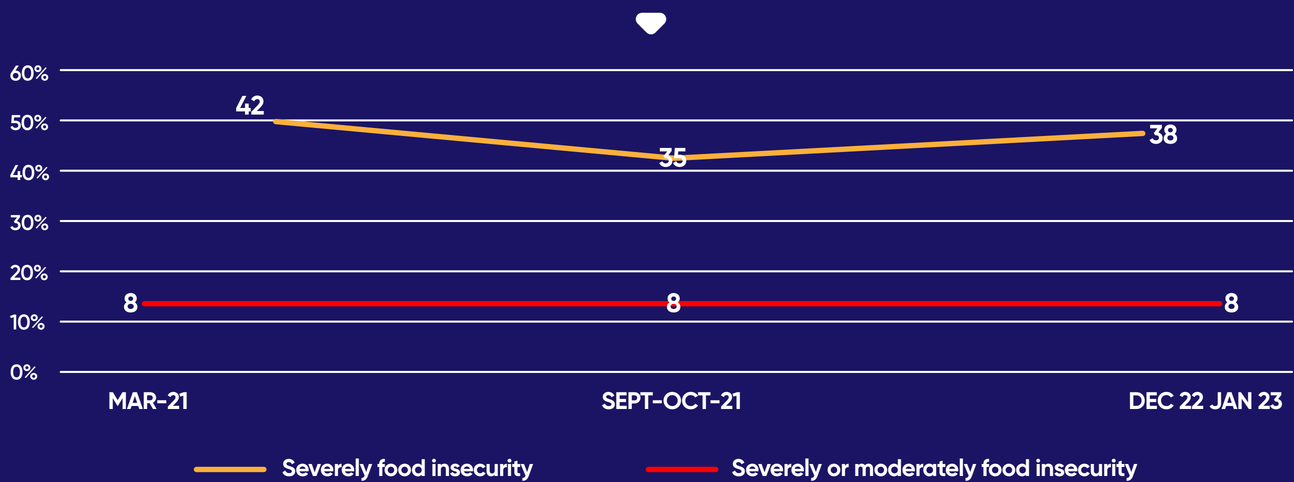


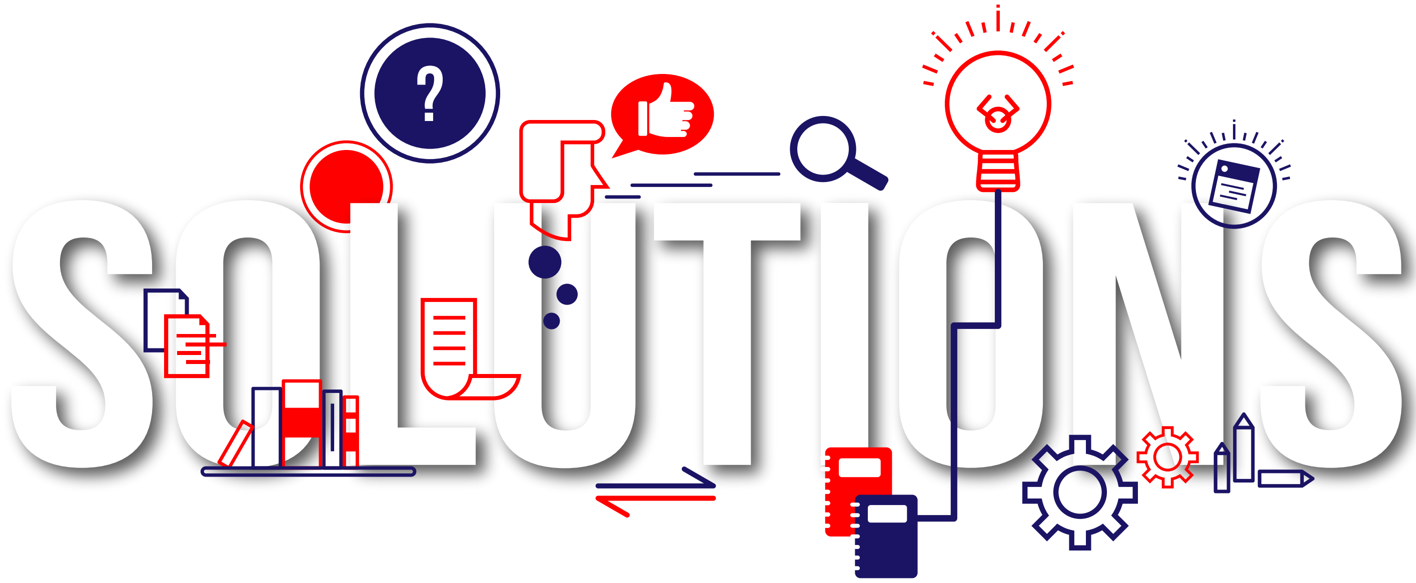
Source: ZimStat.

Urban food insecurity

The proportion of the population facing severe food insecurity in urban areas has remained constant at 8% from March 2021 to January 2023, according to the Zimbabwe National Statistics Agency (ZimStat). Moderate to severe food insecurity in urban areas has ranged between 35% and 42%.

FOOD INSECURITY IN URBAN AREAS MARCH 2021 TO DECEMBER 22 TO JANUARY 2023





The Competition and Tariff Commission, a statutory body, says the are five solutions for tackling Zimbabwe's price madness:

a) Liberalise the exchange rate to allow market forces to determine prices and attain efficiency. This measure is unlikely to lead to increases in prices as manufacturers prices are pegged in US$ and indexed to the parallel market,

b) Properly fund the Reserve Bank of Zimbabwe (RBZ) to purchase export surrender which appears to be a major driver of money supply growth. All surrender purchases must be done in a money supply neutral manner. We recommend that the Ministry of Finance and Economic Development publishes the amount that will be allocated to the Reserve Bank for this purpose and how this will be raised by the Ministry.

c) Government should carefully manage large payments to contractors to avoid surges in local currency liquidity.

d) The Reserve Bank must monitor all sources of money supply growth to contain change rate movements. Exchange rate movements are heavily linked to pricing models of manufacturing companies,

e) Reverse the opening of imports in the short run to protect the gains once realised by the local industry on the following products; mealie meal, tooth paste and washing

Conclusion

Economic experts are convinced that Zimbabwe's food price inflation crisis can be solved through: prudent economic management including but not limited to freely floating the exchange rate: and curbing the excessive printing of money; increased agricultural productivity; development of transport infrastructure; efficient use of land, technological innovation; and market-based policy interventions. These steps could help increase food production, stabilise supply and demand, and ultimately decrease food price inflation, promoting economic growth in the long run.

Credits

This work was conceived and created by Brezh Malaba, Bertha Foundation Fellow 2023, with the support of the **Bertha Foundation** and produced by The NewsHawks, Pictures by Brezh Malaba, Design by Tapiwa Nyakabau