ZIMCODD

ZIMBABWE COALITION ON DEBT & DEVELOPMENT

THE 2020 NATIONAL BUDGET REFLECTIONS ON PUBLIC ACCOUNTABILITY AND INEQUALITY INZIMBABWE

Introduction and Background

The 2019 National budget did not only fail to meet the growth targets but also saw people's situations worsened. This has been exacerbated by the unfavourable macroeconomic environment and severe drought which caused food insecurity. More than 60% of the country's 14 million people are food-insecure.[1] Water and electricity shortages further exacerbated the situation creating negative spill over effects on the rest of the other sectors[2]. Whilst the government celebrated the controversial ZWL$1.4 billion budget surplus between January and September 2019, people's living conditions continued to worsen. What stays in people's minds are water woes across the country, load shedding, social unrest, striking doctors, unavailability of medical equipment and medical supplies in public hospitals, multiple pricing system and erosion of people's disposable incomes and savings due to the devaluation of the local currency, hyperinflation among other foreign currency distortions.

Zimbabwe suffers chronic poor governance and democratic accountability deficits. Deeply entrenched corruption and patronage are at the centre of Zimbabwe's development challenges. It is estimated that the country is losing billions annually due to corruption. Zimbabwe also suffers substantial leakages through Illicit Financial Flows (IFFs). It is estimated that the country loses at least US$2 billion annually through IFFs. [1] The 2020 national budget was announced barely four months after the 2018 Auditor General's Report which unearthed a plethora of expenditure and non- expenditure related irregularities in the management of public funds by government ministries, local authorities and state-owned enterprises. Common issues arising from the 2018 Auditor General's report include abuse of financial systems and fiscal rules, failure to reconcile financial transactions, poor book keeping, poor maintenance of accounting records, violation of treasury instructions, poor budgetary control, poor asset management, untimely posting of financial transactions, failure to recover amounts owed to government departments, wasteful and overstated expenditure, violation of procurement procedures, poor service delivery, diversion of resources from both funds and appropriation accounts, failure to recover debts owed to government departments and untimely payments to suppliers of goods and services. Most of these malpractices have been recurrent since 2015. This has had serious implications on the social and economic rights of citizens especially the right to education, health, food and water, right to life and rights of special interest groups including the rights of women, children, the elderly, and persons with disabilities as enshrined under part 2 of Chapter 4 of the Constitution of Zimbabwe Amendment (No. 20) Act 2013. Such poor public finance management undermined public service delivery and aggravated poverty and inequality among vulnerable groups whose welfare should have been cushioned by social safety nets in the form of fund accounts. As citizens gear up to the 2020 national budget, they still ponder on whether government has measures to safeguard public resources. On the other hand, Parliament which is supposed to scrutinise and approve the 2020 budget is still preoccupied with addressing issues raised in the 2018 Auditor General's report thus compromising their oversight role.

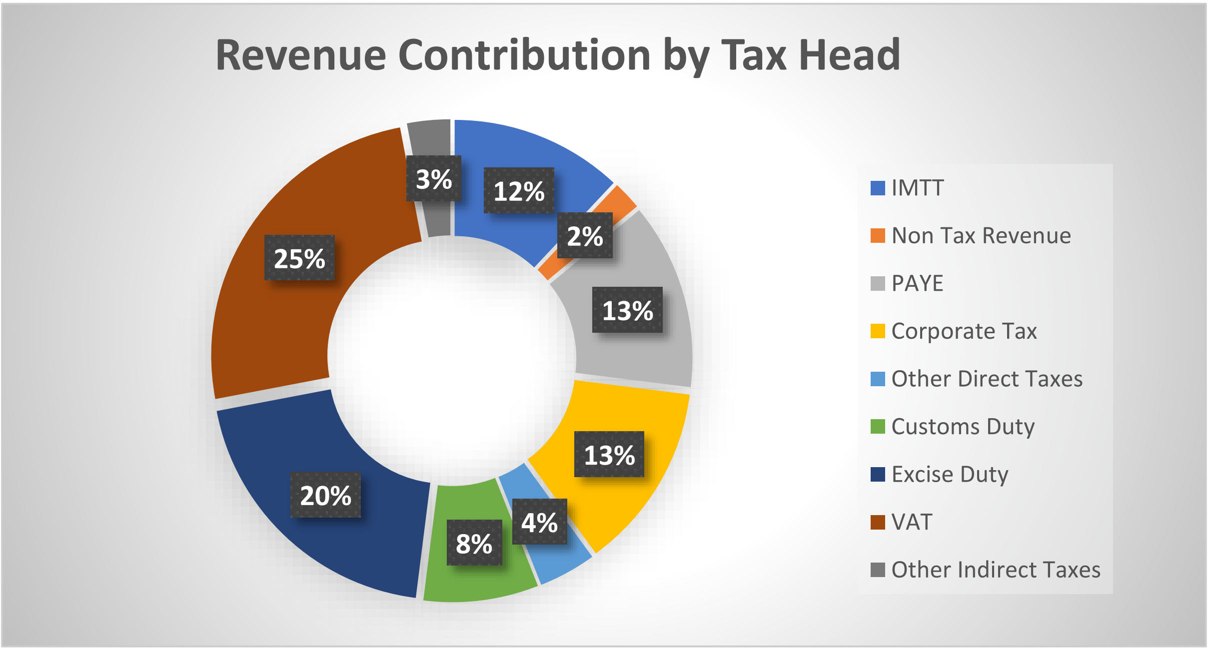
This analysis interrogates government Commitment to Reducing Inequality (CRI) focusing on education, healthcare, social protection and taxation. The analysis will also make reflections on the findings of the Auditor General's report for 2018 and evaluate how the government is committed to curb corruption and embezzlement of public resources.

[1] Preliminary observations of the United Nations Special Rapporteur on the right to food, Ms. Hilal Elver, on her Official visit to Zimbabwe from 18 - 28 November 2019

[2] Ministry of Finance and Economic Development, The 2020 National Budget Statement, 2019

The 2019 National Budget: Did it turn the fortunes of the poor and marginalised groups?

Based on the outcomes of the 2019 National Budget, the poor and marginalised groups bore the brunt of austerity measures which defined the country's macroeconomic trajectory. Both the fiscal and macroeconomic frameworks became threats to people's livelihoods. Ordinarily, the deliberate decision to cutting down on social expenditures crippled public service delivery particularly on health, education, water and sanitation and social protection. On the other hand, government intensified its efforts in mobilising resources through indirect taxes including the intermediate money transaction tax (IMTT) which is blamed for imposing double taxation on the ordinary citizens. The 2% tax introduced in 2018 and the privatization of state enterprises pushes elite accumulation of wealth to private hands, further exacerbating unequal distribution of wealth and income. This explains the regressive nature of the Zimbabwean tax system where the poor contribute more in tax revenue than the rich. IMTT for instance contributed 12% of national revenue ahead of customs duty and other indirect taxes and interestingly, closer to Corporate Income Tax at 13%. This is over and above the VAT at 25% and PAYE at 13% which reflects that the same citizens are being taxed multiple times.



Source: Ministry of Finance and Economic Development, 2019

The various monetary policy interventions did not spare the poor and vulnerable groups either. The introduction of the foreign exchange market in February 2019 through the Monetary Policy and the subsequent Statutory Instruments (SI 142 of 2019, SI212 and SI 213) worsened price distortions resulting in hyperinflation, erosion of people's disposable incomes. In essence, the monetary policy interventions of 2019 promoted corruption and rent seeking behaviour on the business community. In this matrix, the rich got richer whilst the poor get poorer thereby exacerbating income inequality and subsequently all the other forms of inequality. Women continue bearing the brunt of poor public service delivery especially associated with shortage of electricity, water and sanitation as they spend most of their time scouting for alternative sources. Whilst the government proposes measures on foreign exchange market developments, the interventions are not clear on how the policy will address the parallel foreign exchange (**black market)** which have become a major determinant in the pricing mechanism in Zimbabwe.

Based on the previous Auditor General's reports, most financial irregularities were associated with flouting procurement procedures resulting in expenditure related misgivings.

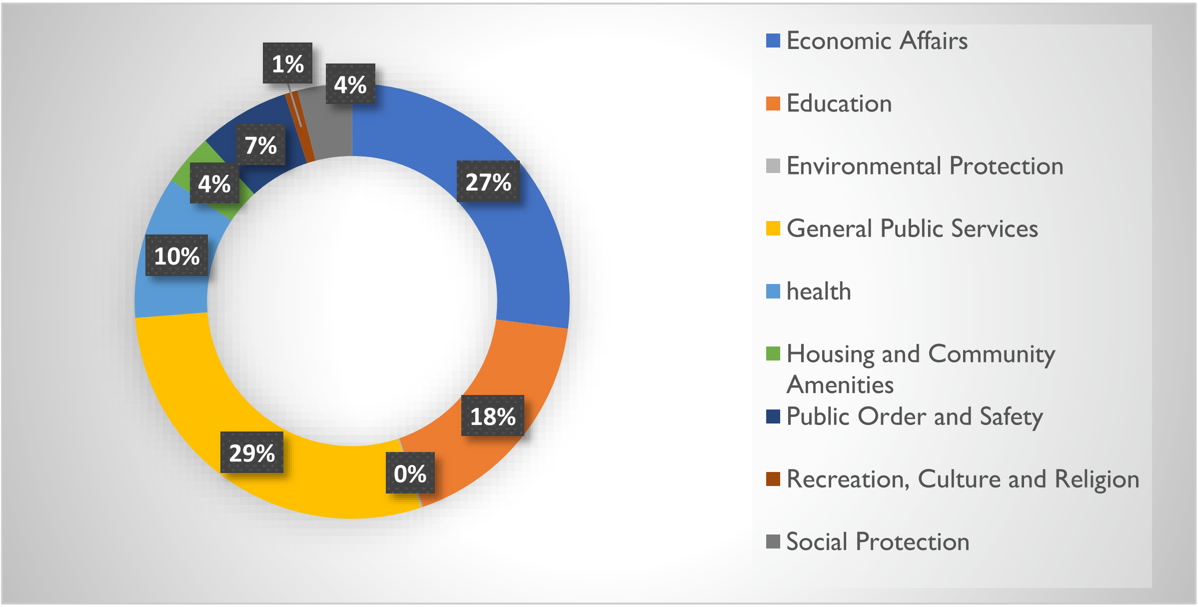
Expenditure related irregularities
• Unsupported expenditure • Wasteful expenditure • Unreconciled expenditures • Fraudulent expenditure • Excess expenditure • Overstated expenditures • Payments made for goods not delivered
Source: ZIMCODD 2019 & 2018 Auditor General's Report

Considering that the 2020 national budget has set aside over ZWL$24 billion, which constitutes about 33% of the overall budget for infrastructure development in respect of roads, information technology, health, education, housing, education and agriculture, most of the resources will be spent through procurement. The government should therefore ensure that the procurement procedures are respected and in the event of violation, corrective measures are taken to safeguard public resources. Moreover, in this current hyper-inflationary environment, the government should ensure that the funds are also safeguarded from inflation in order to ensure that the funds are not eroded before the capital projects start. Zimbabwe Coalition on Debt and Development (ZIMCODD) recommends government through the Procurement Regulatory Authority of Zimbabwe (PRAZ) to adopt, in line with global trends, open data e-procurement system. Procurement is the single greatest corruption risk in the public sector and money looted via public procurement deprives citizens of crucial services and infrastructure. With the impending implementation of devolution, PRAZ should put in place mechanisms to ensure that it is not devolving procurement corruption.

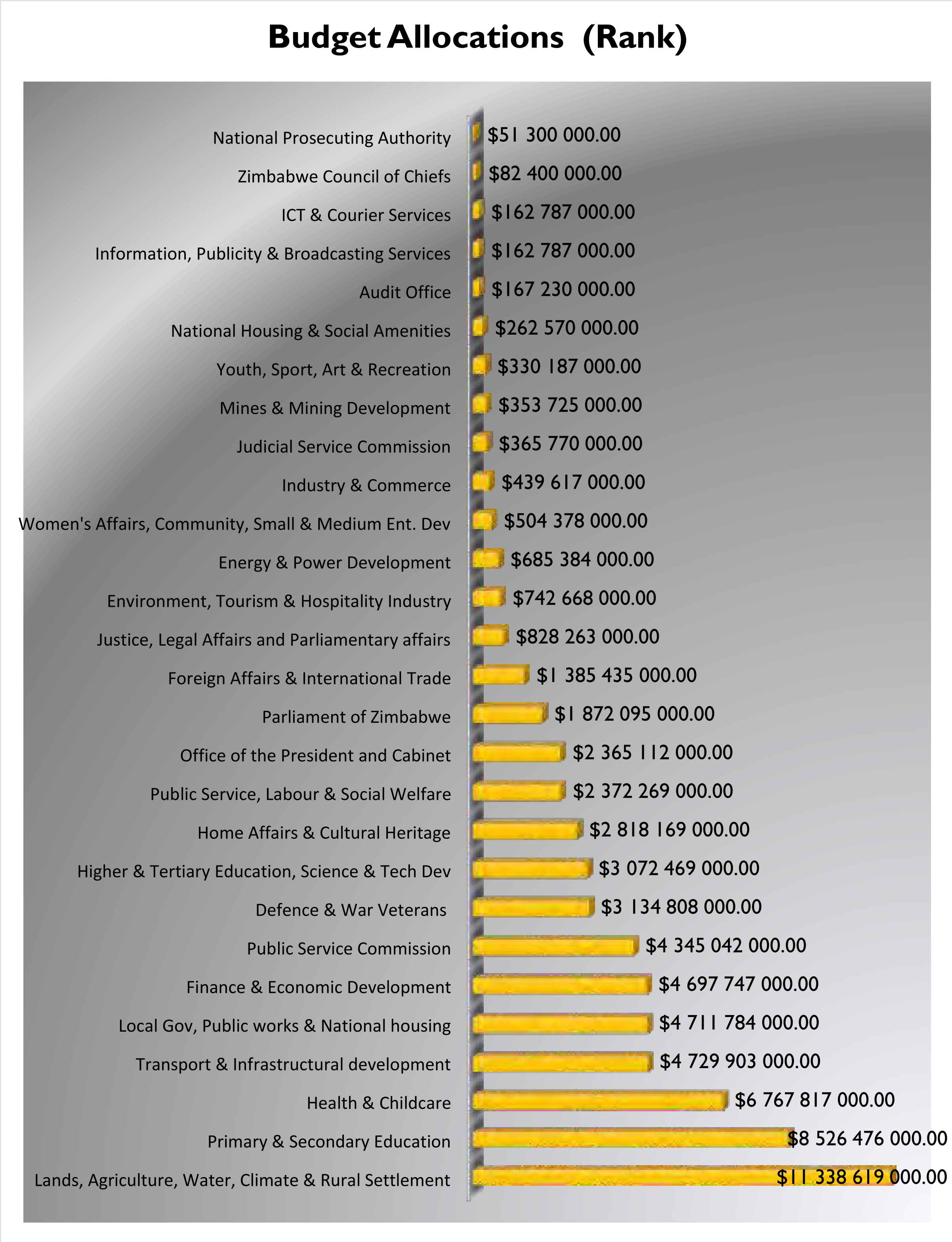
In essence, the 2019 national budget failed to address the current socio-economic crisis bedevilling the economy and further exacerbated poverty, vulnerabilities and economic trauma amongst the citizens especially the price distortions emanating from the multiple pricing regime. With all these pricing dynamics and distortions, the 2019 budget could have been a source of hope for the poor and marginalised, but alas, it further marginalises them as the government endorses the multi pricing regime by requiring firms charging forex to remit taxes in foreign currency.

A departure from Austerity for Prosperity: What is in for the poor and Marginalised

The fact that the word **social** appears "39 times" in the 2020 National budget is not sufficient to convince that the fiscal policy measures are indeed in place to promote social service delivery and social protection among citizens. The budgetary allocations towards the social services sector to a greater extent determines the government's commitment towards addressing the needs and aspirations of ordinary citizens. The graph below depicts resource allocation towards health, education and social protection against other expenditure classification functions of government.



More explicitly, education and health care has been prioritised in the 2020 National Budget, with second and third allocations after Lands, Agriculture, Water, Climate and Rural Resettlement. On the other hand, the budget for Public Service Labour and Social Welfare is ranked number 11 after Defence and War Veterans and Home affairs consuming the 8th and 10th largest budgets respectively. Refer to the Graph below;


Budget Allocations (Rank)
National Prosecuting Authority $51 300 000.00
Zimbabwe Council of Chiefs $82 400 000.00
ICT & Courier Services $162 787 000.00
Information, Publicity & Broadcasting Services $162 787 000.00
Audit Office $167 230 000.00
National Housing & Social Amenities $262 570 000.00
Youth, Sport, Art & Recreation $330 187 000.00
Mines & Mining Development $353 725 000.00
Judicial Service Commission $365 770 000.00
Industry & Commerce $439 617 000.00
Women's Affairs, Community, Small & Medium Ent. Dev $504 378 000.00
Energy & Power Development $685 384 000.00
Environment, Tourism & Hospitality Industry $742 668 000.00
Justice, Legal Affairs and Parliamentary affairs $828 263 000.00
Foreign Affairs & International Trade $1 385 435 000.00
Parliament of Zimbabwe $1 872 095 000.00
Office of the President and Cabinet $2 365 112 000.00
Public Service, Labour & Social Welfare $2 372 269 000.00
Home Affairs & Cultural Heritage $2 818 169 000.00
Higher & Tertiary Education, Science & Tech Dev $3 072 469 000.00
Defence & War Veterans $3 134 808 000.00
Public Service Commission $4 345 042 000.00
Finance & Economic Development $4 697 747 000.00
Local Gov, Public works & National housing $4 711 784 000.00
Transport & Infrastructural development $4 729 903 000.00
Health & Childcare $6 767 817 000.00
Primary & Secondary Education $8 526 476 000.00
Lands, Agriculture, Water, Climate & Rural Settlement $11 338 619 000.00

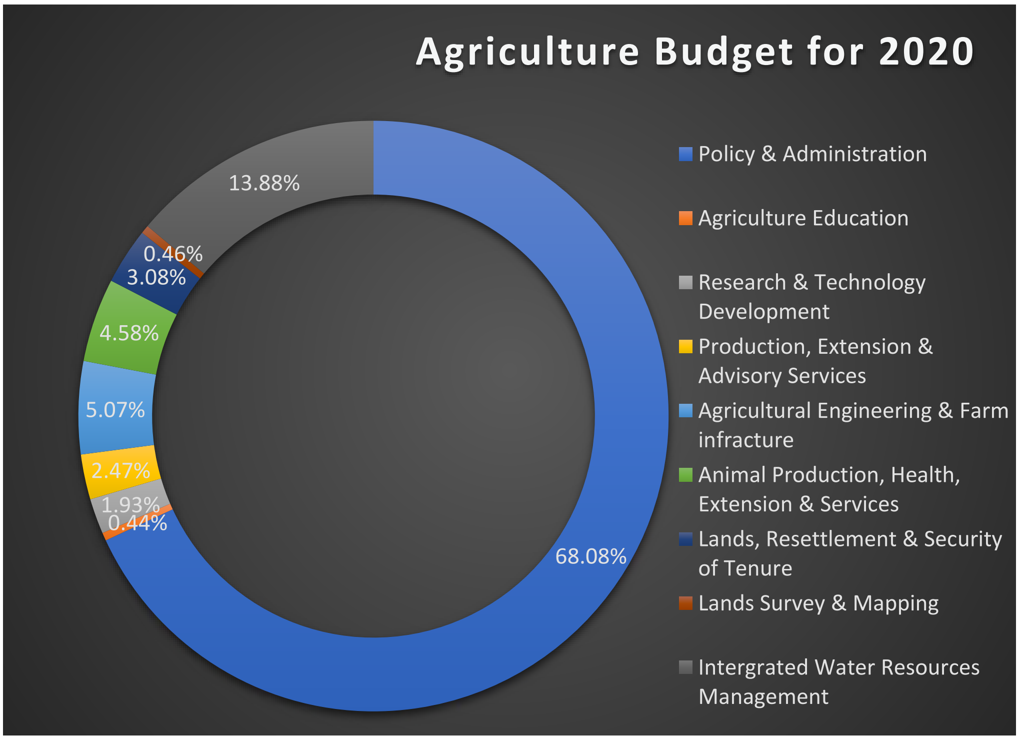
Agriculture

The Ministry of Lands, Agriculture, Water, Climate and Rural Resettlement was allocated ZWL $11.2 billion which is almost 16% of the whole 2020 national budget. The budget for the agricultural sector far surpasses the 10% set by the Maputo Declaration. However, about 68% of the Ministry of Agriculture budget was channeled towards policy and administration.

Locating the Poor and Marginalised within the new Framework for Command Agriculture

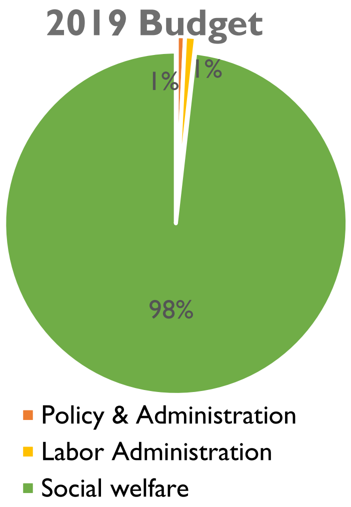
The 2020 National Budget proposes a shift from government led command agriculture to bank led Command Agriculture in order to guard against arbitrage, leakages and corruption whilst reducing the fiscal pressure. Based on the experiences from the RBZ Debt Assumption Act which transferred private debt to the public, the citizens will end up shouldering the debt in the event of failure by individuals to repay their loans. The government should therefore ensure safeguarding public resources to ensure that the beneficiaries do not abuse the facility. The government's decision to continue with targeted support for vulnerable groups is most welcome. However, the beneficiaries must be selected independent of their real or perceived political affiliation.

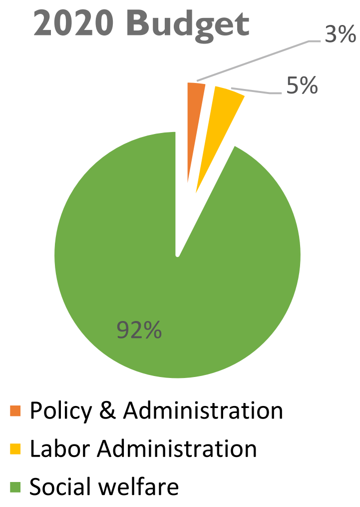
The projected expenditure for social protection rose by 135% from ZWL$1 billion in 2019 to ZWL$2.4 billion in 2020. Whilst celebrating a nominal increase in budget allocation towards social services, the budget for the Ministry of Public Service, Labour and Social Welfare as a percentage of the total budget fell from 4.4% in 2019 to 3.5% in 2020. However, it is important to note that budget allocation does not translate to disbursements. Considering that the Ministry spent ZWL$312 million in 9 months to September, there is no guarantee that the remaining ZWL$698 million will be spent in 3 months to December 2019. The lack of budget credibility on the part of government is recurrent with the Ministry's expenditure between January and September 2018 falling short by 87% from the 31 December 2018 Estimates[3]. Having noted this anomaly in two consecutive years, the government should commit to meet its expenditure and revenue targets in order to build public trust. On the other hand, the same Ministry failed to disburse funds appropriated for harmonised cash transfers amounting to US$9.8 million in 2018, further worsening the plight of the beneficiaries in the absence of alternative livelihood sources.



Out of the ZWL$2.4 billion allocated to the Ministry of Public Service Labour and Social Welfare, 92% goes towards social welfare whilst 3% and 5% is dedicated to Policy and administration and Labour administration respectively. Comparatively, the social welfare budget fell from 98% of the Ministry's budget in 2019 to 92% in 2020.

[3] ZIMCODD, Percentage Share of Social Spending in Government Expenditure: Reflections from the 2019 Fiscal Framework, 2019





75% of the social welfare budget was allocated to Family, Social Protection and Repatriation whilst Child Protection got 23%. The remaining 2% is shared between leadership and management (0.3%), and disability and Rehabilitation services (1.7%). Notable under child protection is the fact that the Ministry managed to clear Basic Education Assistance Module (BEAM) arrears amounting to ZWL$54.5 million dating back to 2016. Considering that the Reserve Bank devalued the Zimbabwean dollar and held all domestic arrears constant, the ZWL$54.5 million paid to the Ministry of Primary and Secondary Education constitutes only a small fraction of what should have paid in the USD era. This did not only disadvantage the beneficiaries of BEAM but compromised the performance of the education sector as a whole.

In 2020, BEAM is expected to benefit 1.2 million children from the 415 thousand who benefitted in 2019.

Compensation for Pension and Insurance losses

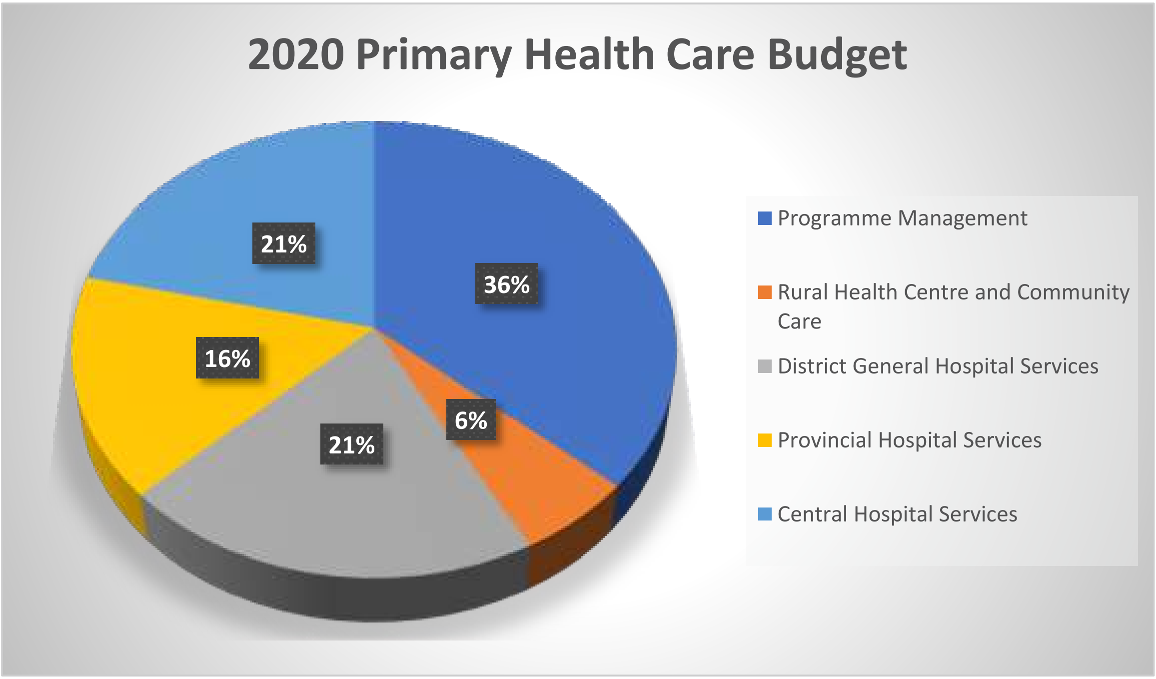
The government intends to take a deliberate decision to rectify the market distortions owing to policy inconsistencies by pursuing the Justice Smith-led inquiry which recommended that the government place measures to compensate pension members and insurance contracts whose values were eroded during conversion of insurance and pension values from United States dollars to Zimbabwean dollars. However, the budget did not specify the institutions responsible for shouldering the currency conversion risk.

The health sector remains an eyesore calling for dedicated efforts

The dire state of public health system in Zimbabwe is no longer a secret. The 2020 national budget notes the infrastructure deficit, poor diet, industrial action by nurses and doctors, shortage of medicines, drugs and sundries, among other essential hospital equipment and necessities. However, the health budget remains way below the Abuja target of 15% of the total annual budget. In 2020, the health sector was allocated ZWL$5.8 billion which constitute 9.9% of the total government revenue. This is 4% more than the revised estimate for 2019. Considering that the population in this country is mostly rural with 68 percent[4] of the total found in rural areas with the majority in the communal and resettlement areas, 6% allocated to Rural Health Centre and Community Centre is insufficient to cover the rural population.

[4] ZimStats, Inter Censual Demographic Survey, 2017

The government should allocate more resources to rural and district health centres to cater for the majority poor who constitute 76.9 percent of rural population. Considering the state of public health systems in both rural and urban health centres, the ZWL$5.8 allocated is insufficient to cover basic health care guaranteed by section 76 of the constitution, especially when the budget is supposed to cover health infrastructure as well.



Will the 2020 Budget Reform the Education Sector?

Zimbabwe is renowned for an education system that has produced very high literacy levels and respectable academics in Africa. Zimbabweans takes pride in strides made in the construction of schools since independence. However, the education sector has not been spared from the two decades of macroeconomic stagnation. This has affected the country's skills availability rating at 38.3%.[5] The 2020 National budget prioritises both basic and higher education. Higher and Tertiary education was allocated ZWL$3 billion whilst Primary and Secondary got the second largest budget of ZWL$8.5 billion after Lands, Agriculture, Water, Climate and Rural Settlement at $11.3 billion. Both primary and Secondary Education, and Higher and Tertiary Education, Science and Technology were allocated 17% of the total budget which is only 3% less than the Dakar declaration which prescribes a ration of education to total budget at 20%. The budget for Primary and secondary education rose in both absolute and relative terms by 471% from the 2019 figure of ZWL$1.5 billion to ZWL$8.5 billion in 2020.

Priorities under Higher Education

- Completing the setting up of Innovation Hubs in 6 Universities and operationalising them
- Roll out second phase of Graduate Internship Programme accommodating 1000 apprentice
- Student accommodation and learning and teaching facilities in new universities.

[5] Ministry of Finance and Economic Development, 2020 National Budget Statement, 2019

Priorities under Primary and Secondary Education

- Support ICT in schools
- Training Teachers in new learning areas and indigenous languages
- Procurement of assistive devices for pupils with special needs
- School feeding programmes targeting vulnerable areas
- Provision of ZWL$200 million to support rural primary and secondary learners with sanitary wear

Mindful of the many gaps in the education sector, the government is putting in a long wish list as it intends to address every gap and yet it is beyond what the budget can support. By so doing, one can easily conclude that the government is setting itself up for failure.

Government Driven Market distortions

The government subsidies have become cash cows for politically connected elites. They are only accessible to a few and in turn benefited individuals and companies instead of the ordinary citizens. The 2020 budget intends to address market distortions resulting from a plethora of subsidies earmarked for fuel, electricity and grain. These subsidies were being abused for speculative purposes. With effect from 2020, the government will remove the existing grain marketing subsidies for maize and wheat that is being provided to Grain Millers through the Grain Marketing Board (GMB) which was subject to abuse and placing a huge burden on the fiscus. Grain Millers will thus be expected to import or buy grain from GMB at market price. Targeted subsidies will be extended to producers of roller meal, cooking oil and standard loaf of bread. This will ensure that the intended beneficiaries benefit from the scheme instead of the producers with rent seeking behaviour. The government has been turning a deaf ear to public outcry and only to withdraw subsidies now. ZIMCODD recommends that the Zimbabwe Anti-Corruption Commission follow these corruption leads where the Minister of Finance and Economic Development indicated that some individuals and corporates abused the subsidies for Command Agriculture.

Whilst the government continue subsidising public transport to cushion the commuting public, there is need for a deliberate institutional reform for ZUPCO and other state-owned enterprises to enhance their efficiency and ensuring self-sufficiency in the long run.

The government further proposed the removal of preferential allocation of foreign currency at below market exchange rates towards the use of a single exchange rate regime throughout sectors of the economy to avoid implicit subsidies. This has been prevalent in fuel industry. The players in the fuel industry abused the facility and benefitted at the expense of ordinary citizens. Government reaffirmed the use of pricing frameworks for fuel to match regional prices, despite the fact that Zimbabwe fuel contains 20% ethanol. The blending of fuel locally should have translated in the decline in fuel prices.

Considerations for Youth and Women

Youth Employment Tax Incentive for employers who generate jobs for young job seekers in which an additional job created will attract a percentage tax credit to the employer. However, the government did not provide the basis for setting the tax credit as an absolute figure of ZWL$500 per month per employee for corporates that employ additional employee in a year of assessment. Setting an absolute figure is likely to be insignificant given that incomes are being eroded by inflation. It is therefore proposed that the tax credit should be determined as a **percentage of the person's salary**. The government also set the eligibility criteria for companies to benefit including the fact that the salaries should be at least ZWL$2000 which is way beyond the civil servants' salaries which are below ZWL$1000 per month during the time the budget was presented. Considering the fact that the tax credit facility will not apply to corporates with a turnover exceeding or equivalent to ZWL$1 million, most or the big corporates will not benefit, thereby limiting the youth from benefiting

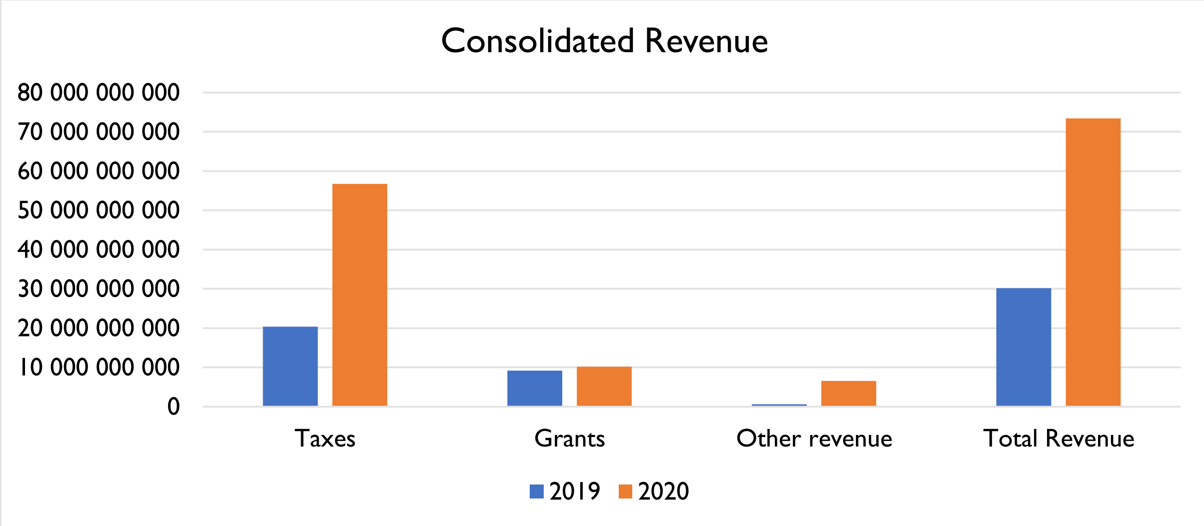
The government should also consider non-financial incentives in order to avoid the race to the bottom as the SADC countries continue competing for investment at the expense of government revenues. Non-financial incentives include technological, social and political reforms which are necessary for economic growth and ultimately job creation.

The setting aside of ZWL$500 million towards the national Venture Capital Fund to incorporate financing start up projects for young people is a welcome development. The government should however ensure that the facility is not abused considering that the project will be implemented under the Presidential Youth Entrepreneurship programme. These programmes are often confused to donations to youth in the political party structures leading to high rate of non-performing loans.

Below are other key interventions to empower women and youth;

Initiative	Amount allocated
Women Development Fund	ZWL$20 million
Community Development Fund	ZWL$15 million
Zimbabwe Women Microfinance Bank	ZWL$100 million
SMEDCO	ZWL$90 million
Empower Bank	ZWL$50 million

Considering that 55% of the Zimbabwean population is women, translating to about 7,7million women, essentially the per capita allocation under the Women Development Fund is ZW$2.00 after giving a provision for administration costs for the fund. This translates to about USD0.122 per woman and shows that the figure is insignificant and even if other funds are channelled towards women specific programmes, it will still remain below the extreme poverty threshold of USD1.90/day. The Zimbabwe Women's Microfinance Bank and Empower Bank have each been allocated ZWL$100 million and ZWL$50 million respectively. There is need to set clear parameters for awarding of loans to the intended beneficiaries as history has proved that the funds are allocated in a corrupt manner at the expense of the targeted groups, especially the marginalised such as women, youth and people living with disabilities.



Retention and Statutory Funds

Retention Funds for 2020 are projected at ZWL$2.1 billion whist Statutory Funds are estimated at ZWL$2.5 billion. The successive Auditor General's Reports reviewed gross abuse of retention funds by the government departments, prompting the government to subject retention funds to parliamentary appropriation in order to enhance transparency and accountability. To further strengthen transparency and accountability, the 2020 National Budget directs government ministries to wind up retention funds by December 2020 with the income streams being directed to the consolidated revenue fund by January 2021.

Transforming Transparency and Accountability from Paper into Practice is a Key Success Factor

The efficiency and effectiveness of national budgets relies on transparency and accountability systems in a country and the absence of such frameworks compromises both the quantity and quality of public services. Zimbabwe's public finance management system is characterised by continuous violation of fiscal transparency and accountability frameworks and the government through the 2020 National Budget reaffirmed the specific principles of a sound budget as follows;

Extract From the 2020 National Budget

Specific Principles for a sound Budget

- *Deliver a sustainable overall Budget balance consistent with SADC thresholds. Under tight circumstances, an annual deficit of up to -5% of GDP may be temporarily recorded, while resolving the crisis. However, in our quest for immediate macro stability, a near balanced budget from 2020 is an urgent objective.*
- *Zero tolerance on expenditures outside the Budget and without Parliamentary approvals. Observance and enforcement of 'hard' Budget constraints is integral.*
- *Prioritise infrastructure including social sectors investments;*
- *Take a strict prudent approach to ensure expenditures are phased, controlled and directed to maximise benefits.*
- *Ensure a progressive taxation system that is fair, balanced and promotes the long-term sustainability and productivity of the economy.*

Whilst it is important to capitalise these institutions, the government should guarantee loans to youth and women especially those that do not have access to collateral security. Without government guarantee, the poor and vulnerable women and youth will continue to be marginalised. Furthermore, those who are politically connected to high offices are in most cases the beneficiaries of such resources at the expense of those without any links especially women in the rural areas.

Government allocation of ZWL200 million to provide free sanitary wear for primary and secondary children from Grade 4 up to Upper 6th is applaudable. Other women will benefit from the existing duty-free facility for sanitary wear which has been extended to another year under the 2020 national budget.

Taking into consideration the paradox of Zimbabwe's development model which is characterized it is important for government to priorities a rights-based approach to social service delivery and invest in sectors that advance human rights particularly women's rights and gender equality, an indicator for sustainable development. The state must take additional specific policy measures to direct the proceeds of growth into human development. This is key in ensuring that sustainable development goals particularly Goal 5 on gender equality is achieved.

Far reaching Consequences of Energy Shortages on the Poor and the Environment

The government has an uphill task to ensure provision of electricity amid the serious load shedding which is affecting both the industry and households. Women have had to bear the brunt of energy shortages as they look for alternative solutions to the energy crisis in a bid to serve the family. Alternatives have mainly been gassing whose prices has been skyrocketing like every other basic need and hence the prices have gone beyond the reach of the majority poor. In instances where people could not afford gas, the option has been firewood which on its own has negative implications on deforestation and climate change. Given this narrative, the government should ensure transparency and accountability in the implementation of the capital-intensive projects including the rehabilitation of Hwange Thermal Power Station worth ZWL$8.4 billion among other funding arrangements.

But where is all this Revenue Coming From?

Government revenue for 2020 is projected to increase by 128% from ZWL$30.2 billion in 2019 to ZWL$68.8 billion in 2020. Retention and Statutory Funds for 2020 are also projected at ZWL$2.1 billion and ZWL$2.5 billion bringing total government revenue to ZWL$73.5 billion dollars. On the other hand, government expenditure is estimated at ZWL$65.5 billion up from ZWL$23.1 billion for 2019 leaving a budget surplus of ZWL$3.2 billion. This translate to a 273% increase in government expenditure from the 2019 figure. The 128% increase in revenue collection and the 273% increase in government expenditure are however not justifiable save for the adjustments for inflation.

To further gain lost confidence, the 2020 national budget commits to observing all the public finance management laws and regulations as well as the principles of transparency and accountability provided in section 298 of the Constitution of Zimbabwe and the procedures laid down in the Public Finance Management Act [Chapter 22:19] including the issuance of warrants by the Accountant General prior to any spending commitment by an accounting officer. It is however, surprising that both the expenditure and non-expenditure related irregularities flagged out in the successive auditor General's reports in the presence of such robust frameworks. Whilst chapter 17 of the Constitution of Zimbabwe, 2013 provides the assurance and lays the foundation for public finance management in Zimbabwe, the outcomes of the country's budget process have not been reflective of such.

The 2020 National Budget proposed additional measures for safeguarding public funds as outlined below:

Public Enterprise Reforms Fast track the implementation of Public Enterprise reforms whilst enforcing the provisions and regulations of the Public Enterprise Corporate Governance Act;
Fighting Corruption • Strengthening internal control systems; • Developing and implementing a national anti-corruption strategy aligned with good practice principles with periodic monitoring and evaluation results; • Enacting whistle blower legislation and protection, in line with leading practice; • Capacitating institutions established to fight corruption; and • Addressing conflict of interest issues where Government is both regulator and player.
Transparency and Accountability • Compliance with the PFM law and regulations by Ministries, Departments and Agencies, including rolling out of the PFMS; • Expansion of PFMS Kiosks; • Adherence to procurement guidelines including payments for goods and awarding contracts; • Spending within the Budget; and • Submission of Annual Financial Statements for Audit, arrears varying between 1 to 4yrs.
Internal Control and Compliance Systems There is need to strengthen the Office of the Auditor General (OAG) by prioritising this institution which is key to turning around the Zimbabwean economy by curbing corruption which has been the cancer hampering sustainable social and economic development. In the 2020 National Budget, the OAG has been allocated ZWL$167 million, not more than USD10 million[6], which is the fifth least budget allocation and considering the role of the institution, there is need to adequately resource it.

The measures outlined above forms the basis for holding the government to account in the implementation of the 2020 National Budget. Civil society organisations should benchmark fiscal transparency mechanisms against government's commitments and ensuring that these provisions are both guaranteed in law and implemented in practice.

[6] Based on the Interbank Exchange Rates of 16.29 as of November 2019.

Debt Trap Perpetuating Cycles of Poverty and Inequality

As the country grapples with the huge debt burden, there is no fiscal room to allow repayment of the debt and reduce the arrears currently at 72% of external debt. The continuous accumulation of arrears further undermines the capacity of the State to fund social services further impacting on their social and economic rights guaranteed by the Constitution of Zimbabwe particularly sections 75, 76 and 77 on the right to education health care and, food and water respectively. The austerity measures associated with debt repayment and re-engagement processes undermine the capacity of the government to deliver social services. The implications of debt on poverty, inequality, social development, human rights gender should not be overemphasised. Mindful of the fact that Zimbabwe has serious gender imbalances in decision making and control over resources, it is ironic that the main victims of the debt crisis in Zimbabwe are the least responsible for the loan contraction process and other governance decisions (ZIMCODD, 2019). Further austerity measures to resolve the debt question is paid by women due to the forgone social service delivery and unpaid care work[7].

In 2019 alone, the government further borrowed to cover maturing debts through long term TBs of 5-15 years which were issued as follows: -

- Overdraft ZWL$2.9 billion;
- Maturing TBs ZWL$711 million; and
- Cash Advances to Government by RBZ ZWL$318 million

The 2020 national budget also did a review of the IMF Staff Monitored Programme (SMP)[8] which is being implemented in Zimbabwe since January 2019. Based on an assessment done in June 2019, the Ministry has not been able to meet the agreed targets as outlined below;

Targets Met in Implementing SMP	Missed Targets in Implementing SMP

[7] Zimbabwe Coalition on Debt and Development (ZIMCODD), Sustainable and Inclusive Debt Management Framework for Zimbabwe (SIDMaF), 2019

[8] Staff Monitored Programme is a programme of the IMF which seeks to assist the country to implement key reforms as outlined in the Transitional Stabilisation Programme (TSP) and build a track record of implementing sound economic policies as it seeks to normalise relations with the international community.

• Floor on primary budget balance of central government, with • Government realising a surplus, against a targeted deficit of • ZWL$1.22 billion; • Floor on social protection spending, Government spent ZW$268 • million against a target of ZW$225 million; and • Ceiling on changes in Net Domestic Assets of the RBZ.	• stock of official international reserves, ceiling on new non-concessional • external debt contracted or guaranteed by the central Government and • ceiling on credit to the non-financial public sector from the RBZ.

The failure to meet the macroeconomic reforms slows down the reengagement process and the clearance of the debt arrears which dates back to the turn of the millennium.

Devolution Goes beyond Resource Allocation

The 2020 National Budget reiterated government commitment to allocate at least 5% (ZWL$2.9 billion) of the annual budget to local and provincial tiers of government consistent with chapter 17 of the Constitution of Zimbabwe. However, the government is taking forever to come up with a framework for devolution having launched the initiative under the 2019 national budget. The budget is short of the budget outturn for 2019 which details how resources disbursed under devolution were utilised. The implementation of devolution without a framework compromises the effectiveness of the initiative despite being a noble idea. Without such frameworks for devolution, no clear responsibilities are laid out, let alone timeframes for implementation and transforming the local governance system to allow citizens to carry out social accountability.

Beyond Change in Tax Policy

The 2020 National Budget proposed a plethora of changes to the tax system in Zimbabwe whose implications on the poor and marginalised in communities need to be understood fully. It is primarily important to understand the net effect of such changes on the poor and marginalised. Well aware of the revenue, redistribution, repricing and representation role of taxes, the government at this juncture is only worried about revenue. Worrying enough is the revenue leakages from the national purse, further driving public trust away. Instead of strengthening the supposed social contract, holding the government has attracted resentment on the part of government to the extent of labelling watchdog institutions "agents of regime change.

Tax Type	Proposed Change	Implication
Value Added Tax	Reduction of value added tax from 15% to 14.5% and increase of VAT registration threshold from ZWL$60000 to ZWL$1 million.	Whilst the 0.5% reduction in VAT will cushion the poor and marginalised groups, the net effect of the tax reduction is less than the 2% tax which have a huge burden on citizens.
Royalties	Reducing royalties on diamonds from 15% to 10% in order to attract investment into the sector	A reduction in royalties by 5% negatively impact the revenue returns from the sector. The cost of the tax rebate should be further interrogated.
Royalties	Introduce royalties on cut and uncut granite stone with effect from 23 February 2020	Positive inflow of government revenue from granite. It is not clear how local mining communities will benefit from that provision
Duty	Duty importation of LED Solar lights and home lighting kits	Develop sustainable alternative energy sources
Intermediate Transaction Tax	Increase tax free threshold for intermediate transaction tax from ZWL$20 to ZWL$100 from January 2020 and maximum intermediate transaction tax to be reviewed from ZWL$15000 to ZWL$25000 for transactions exceeding ZWL$1.25 million	The increase in the threshold is not sufficient to cushion vulnerable members of society
Pay As You Earn	Increase tax free threshold from ZWL$700 to ZWL$2,000 with effect from 1 January 2019 and annual bonus free tax threshold from ZWL$1000 to ZWL$5000 with effect from 1 November 2019	This is a commendable proposal supposedly to cushion the poor and vulnerable from adverse effects of income erosion caused by hyperinflation and macroeconomic instability. But the net impact will be negligible granted 80% of the population is now below the poverty datum line.

Source: ZIMCODD, Analysis of the 2020 National Budget

Are Tax Incentives the Panacea to promoting Foreign Direct Investment?

The Zimbabwean government is increasingly using investment incentives as a tool for attracting foreign direct investments. Whilst conferring an advantage to the investors, the tax incentives impose a cost to the government in the form of forgone revenue. For instance, the 5-year tax holidays under the Special Economic Zones means that the investor will not be paying taxes for those 5 years. The same tax holidays can also be abused by the multinational companies who normally exhaust their initial 5 years, close shop, and come under a different name to enjoy another tax holiday. The proposed tax and non-tax investment incentives are so excessive and hence costly to the government. This is clear testimony that the government has failed to balance the competing interests of attracting foreign direct investors whilst generating revenue to grow the economy. The government has however argued in favour of investment incentives assuming that FDI will create employment, necessitate technology as well as increase foreign exchange earnings.

It is a good practice for government to make an assessment of the tax incentives in order to create a delicate balance between attracting investors whilst optimising on revenue collection. The table below illustrates the revenue forgone as a result of tax concessions from government.

Summary of Duty Concessions by Sector (Jan 2011-May 2019)

Sector	Value for Duty Purposes (US$)	Revenue Foregone (US$)
Mining	704,035,921.88	103,837,015.19
Agriculture	5,599,010,161.92	779,321,821.13
Manufacturing	530,996,118.55	157,199,847.22
Tourism	72,146,885.16	25,160,645.13
Transport	184,444,188.94	60,965,183.34
Cross-Cutting	1,311,813,943.04	270,478,639.56
Other Concessions	868,962,953.22	52,404,536.56
Total	9,271,410,172.71	1,449,367,688.13

Source: Ministry of Finance and Economic Development

Statistical inconsistences a cause for concern

In the recent past, the government has issued conflicting figures in relation to GDP growth rate, current account balances, government revenue projections and expenditure projections for 2019 and 2020. The statistical inconsistencies further erode public trust in the government which might lead to increased citizen apathy in public policy. The statistics in the Pre-Budget Strategy Paper are at variance with the 2020 National Budget and the Blue Book. The table below shows the different figure as presented by the Minister of Finance and Economic Development;

	2020 Budget Strategy Paper	2020 Budget Presentation	Blue Book
GDP Growth Rate Targets for 2020	4.6%	3%	-
Inflation targets for 2020	2.3%	2%	-
Government Revenue	ZWL$24.8 billion	ZWL$58.6 billion	ZWL$73.5billion
Projected Government Expenditure for 2020	ZWL$28.5	ZWL$63.6 billion	ZWL$68 billion
Budget Balance for 2020	-ZWL$3.7 million	-ZWL$5 billion	ZWL$5.5 billion
Targeted Current Account deficit for 2020	US$1.1 billion	US$85.7 million	-

Conclusion

The 2020 national budget seem to be an overambitious plan given the current macroeconomic environment which is characterised by low capacity utilization, debt overhang, poor public finance management, and corruption among other ills. While the government is currently and has for a long time been failing to maintain existing infrastructure which has resulted in a huge social and infrastructural gap, it is worrisome to imagine how the government tends to fulfil its new proposal to set up new infrastructure under the 2020 national budget. Furthermore, the budget is not explicit on how it intends to rescue the poor and marginalised from the shackles of poverty. Failing to eradicate poverty has further widened the inequality gap as they manifest in their various forms cutting across the social, economic, political and ecological dimensions. It should be appreciated that like its predecessor the 2019 budget, the 2020 national budget is full of rhetoric promises unsupported by financial support. Given the foregoing, the government ought to be educated that having a transparency and accountability framework per se is not sufficient for safeguarding public resources. Therefore, in as much as the government vouches its commitment to reducing inequality, the success of the 2020 national budget is hinged on allocation of required resources, the political will to address the irregularities highlighted by the Auditor General consecutively, and should be anchored on prudent financial management practices.

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