TRANSITIONAL STABILISATION PROGRAMME, OCTOBER 2018 TO DECEMBER 2020

Summary and Analysis from a Socioeconomic justice perspective

Introduction

The Transitional Stabilisation Programme was presented against the backdrop of foreign currency shortages, unsustainable fiscal and current account deficits, overdependence on imports, huge debt burden, wide infrastructure gap and poor service delivery. The TSP which is a precursor to the two five year National Development Strategies (the first plan covering 2021-2025 and the second plan covering 2026-2030, provides quick wins to stimulate economic growth and stabilize the macroeconomic and the financial sectors. The policy is anchored on Vision 2030 which seeks to usher Zimbabwe into an upper-middle class economy by 2030 with a per capita income of US$2 018 by 2020 and rising to US$5 821 by 2030. *These targets appear ambitious and unrealistic under the circumstances. The conspicuous absence of a participatory and inclusive consultation has subjected the vision to intense criticism as it is neither shared nor inclusive. This programme is expected to stimulate domestic production and exports.*

The government envisages a private sector led economy and as such undertakes to open the economy to international investors and financiers, improve competitiveness and ease of doing business. The government reports that the TSP is a product of intense contribution from business, labour, civil society, development partners and other interest groups. *This is very debatable as no consultations were made among any of the stakeholders claimed and as such regrettable.*

The government wants to reduce the wage bill which currently pushes recurrent expenditure to over 90% of government revenue. Other measures for reducing the wage bill include, maintaining a freeze on non critical posts, enforce retirement policy, introduce voluntary retirement scheme, rationalize Foreign Service missions. *The government has been implementing some of these measures for years, particularly under the IMF Staff Monitored Programmes but these failed to relieve pressure on the fiscus. ZIMCODD therefore demands for progressive measures that do not further relegate the poor into the poverty cycle, such as decisively dealing with the ghost workers and a blotted cabinet with hefty packages.*

Government has promised adherence to Public Finance Management Act, the Reserve Bank Act [Chapter 22:15], as well as the Public Debt Management Act [Chapter 22:21 as regards the following;

Issue	Status	Legal Provision
1. Overall fiscal deficit targets	The budget deficit as at June 2018 was at US$ 1.3 billion which is over and above US$675.8 million targets for 2018.	PFM Section 52 subsection (2) The aggregate of the amounts that may be borrowed in terms of subsection (1) in any financial year by way of loans raised within Zimbabwe shall not exceed thirty per centum of the general revenues of Zimbabwe in the previous financial year: Section 299 (1a-c) of the Constitution empowers Parliament to monitor and oversee expenditure by the State in order to ensure that any limits and conditions on appropriations have been observed.
2. Central Government overdraft position at the Reserve Bank	Overdraft with the Central bank stands at US$2.3 billion, as at end of August 2018, well above the statutory limit of US$762.8 million.	Section 11(1) of the Reserve Bank Act [Chapter 22:15] states that borrowing from the Reserve Bank shall not exceed 20% of the previous year's Government revenues at any given point.
3. Domestic public debt to GDP	The debt to GDP ratio currently stands at 135% of GDP.	Public Debt Management Act section 11 sub section 1) total outstanding public and publicly-guaranteed debt as a ratio of the gross domestic product at current market prices exceeding 70 per cent at the end of any fiscal year,
4. Government Wage Bill as a proportion of budget expenditure	In May 2018, the then Minister of Finance predicted a rise in government wage bill from 90% of government revenue to 120% following the increase in salaries for medical personnel.	The TSP proposes a consolidated Public Service Wage Bill of 50 percent of fiscal revenues by 2020.
5. Treasury Bills issuance	The budget deficit is largely being financed through issuance of treasury bills. Treasury Bill issuances have increased from US$2.1 billion in 2016 to a cumulative US$7.6 billion, by end of August 2018. This has pushed domestic debt to US$9.5 billion.	From January 2019, revive the issuance of Treasury bills through an auction system as part of monetary policy operations to influence liquidity developments in the economy.

Taxation and Curbing Illicit financial Flows

During this period the government will strengthen compliance levels among the big corporates which is currently at 30% in order to increase tax revenue. However, as part of attracting foreign direct investment, the government will continue offering tax breaks, value addition rebates and incentives in order to attract foreign direct incentives. *By their very nature tax credits and exemptions undermine the ability of the state to exercise its taxing rights and generate tax revenue. The government will instead raise revenue from the already overburdened citizens thereby violating the principle of equity and progressivity of tax.*

The government has reaffirmed its commitment to strengthening anti avoidance provisions to curb illicit financial flows (transfer mispricing, trade misinvoicing and aggressive tax planning) and smuggling through legal ports of entry and illegal crossing points in line with current transfer pricing framework that was introduced into the Zimbabwe Tax Law as beginning of January 2016. *This has been the rhetoric for nearly three years after the promulgation of this law. There has been no progress in its implementation due to lack of political will.*

These reforms also extend to strengthening of monitoring systems to curb mineral leakages by;

- Strengthen the Monitoring and Surveillance arm of the MMCZ by increasing the number of Monitors and extending their reach, currently confined to large scale mines who usually have transparent systems, to also include artisanal and other small-scale miners.
- Strict monitoring of both small and large-scale exporters.
- Establishment of an ISO certified state of the art mineral testing laboratory in-situ at MMCZ to ascertain the mineral quality before an invoice is raised.

Misuse of Public Funds

The government has promised to take action against misuse of public resources in pursuit of the Auditor General's recommendations. This has been the missing link for many years despite damning reports produced by the Auditor General every year. The Policy proposes the following fines for the respective offences;

Fine	Nature of Offence
Fines of up to US$700 or imprisonment for a period not exceeding 5 years	• Accounting Officers, willfully or negligently failing to prepare and report annual financial statements or making/permitting any unauthorized, irregular fruitless and wasteful expenditure. • Employees of a Reporting Unit or a Constitutional Unit willfully or negligently failing to exercise assigned duties. • Treasury Employees willfully/negligently failing to exercise assigned duties.
Fines of up to US$400 or imprisonment for a period not exceeding two years	• A person who, under examination by an internal or external auditor, makes a statement which is false and does not have reasonable grounds to believe it to be true.
Fines of up to US$300 or imprisonment for a period not exceeding one year or both	• Hinders or obstructs the Auditor General, the Treasury or an internal auditor. • Refuses or fails to produce information. • Makes any false or misleading statement

The TSP is however not clear on how the proposed fines will be fully enforced to mitigate against impunity, which has seen most of the implicated government officials going scot-free and sometimes re-assigned to a different portfolio. This calls for political will on the part of both the Central Government and Legislature, which is compromised by the whipping system.

Access to Financing

Government will prioritise initiatives targeted at SMEs, rural areas, young people and women, to achieve a more inclusive and sustainable economic growth and reduce poverty in a sustainable and permanent manner. A number of initiatives are being implemented through the Strategy, including the promotion of micro, small and medium enterprises (MSMEs) whose productive capacity benefits from broader access to credit. *ZIMCODD's concern is that most of the government supported initiatives have been politicized and characterized by exclusionary mechanisms on the basis of partisan politics.*

Currency Reform

The government will design short term measures to stabilize the current currency crisis with the aim of introducing local currency in the long run after attaining a conducive macroeconomic stability. *Without building trust and confidence in the citizens, the government will run a risk of falling into the same vicious cycle where the public develop speculative tendencies to hedge against unpredictable economic shocks. The government has a task to facilitate an inclusive dialogue that builds a new macro-economic narrative that sets the economy on a rebound which is a pre-requisite for a real and acceptable currency.*

Public Enterprise Reform

Government will expedite the implementation of the Cabinet decision on restructuring through partial or full privatization of underperforming and loss making entities. Most of these have been stressing the national budget as the government traditionally bails out these institutions year in year out. The privatisation drive will be implemented as follows;

- The privatisation of 11 for profit State Owned Enterprises, 6 IDC Subsidiaries, and 17 ZMDC subsidiaries.
- Liquidation of 2 State Owned Enterprises (Kingstons (Pvt) Ltd, Chitungwiza Garment Factory) and 3 IDC Subsidiaries (National Glass Industries, Motira, Zimglass).
- Merging of 11 classified entities on the same line of business. This will enhance efficient allocation of resources and avoid unnecessary and unhealthy competition among State institutions;
- Departmentalisation of 7 State Owned Enterprises into Line Ministries.
- Dissolving of all subsidiary Boards for ZESA Holdings and allow ZPC to engage strategic partners for its power generation projects.
- Promulgation of the Civil Aviation Amendment Bill to provide for the unbundling of the Authority into a Regulator and an Airports Authority
- De-merging the Grain Marketing Board (GMB) into a Commercial Business Unit and the Strategic Grain Reserve (SGR). This decision will enhance efficiency of these two entities which will concentrate on their key mandates respectively whilst maintaining State ownership.

Public Service Delivery

- Ring-fencing resources towards water supply, sewage infrastructure and solid water management to promote the realization of social and economic rights. *The government should, therefore, put in place measures to ensure that the reforms are put into place. This will go a long way in preventing medieval waterborne diseases.*

- To contain the debt situation local authorities will introduce water meters. *This is purely commodification of water in violation of section 77 of the Constitution of Zimbabwe which provides for the right to safe, clean and portable water. This is an attempt to enforce prepaid meters on residents who have been resisting the move for many years.*

Public Procurement

As part of good governance, public procurement procedures will be adhered to. The Procurement Regulatory Authority will be empowered to set standards, monitor and evaluate public procurement. *Procurement is the major conduit for public sector corruption. The starting point* *to addressing corruption should be to follow-up on the current cases and bring to book the perpetrators.*

Devolution and Decentralisation

Decision making and authority in the provision of most basic services will be delegated and decentralised to Provincial and District levels. *There are high expectations from the citizens who anticipate a great improvement in service delivery which is currently in dire situation as the local authorities do not have autonomy and control over resources and development programmes.*

Debt Resolution

The government would like to pursue the Post Lima strategy which is geared towards clearance of arrears to multilateral creditors, Paris and non-Paris club creditors. *This is being done without proper engagement with citizens. Such an honest engagement will help address the current debt and set the pace for future borrowings which should ensure that it is in the public interest to do so and ensure that it is consistent with Government economic and financial policies and the Medium Term Debt Management Strategy as provided for in section 13 of the Debt Management Act. ZIMCODD also feels that a comprehensive debt audit should be the fore runner to the debt clearance strategy and management framework. The mortgaging of state resources and bridging finances with conditions are not viable options for Zimbabwe. The two will affect intergenerational equity and simply shift the burden to medium and long term options respectively without clearing the debt.*

Productive Sector Reforms

Policy reforms in respect of the agriculture, mining, manufacturing and SME sectors are as follows;

Agriculture

1. Special Agriculture Production Initiative will gradually be reduced and give room for private sector support. *However, the commercialization of agriculture through shrinking of agricultural subsidies will weaken the bargaining power and competitiveness of the small holder farmers in the agricultural value chain. Giving room for private sector support is a way of privatizing the agricultural sector, a move that threatens food security for the nation. This is a purely neo-liberal ideology that crowds-out smallholder farmers from access to agricultural financing.*

Mining

- Re-opening of closed mines.
- Expansion of mines that are operating below capacity.
- Opening of new mines.
- Promoting beneficiation and value addition, through domestic smelting and refining, to increase earnings from mineral resources.

To ensure socio-economic and environmental sustainability, safeguard mechanisms should be put in place. These should include participatory and inclusive development frameworks that allow for free, prior and informed consent by the communities.

Manufacturing Sector

Promotion of investment in the manufacturing sector especially value addition and beneficiation of agro and mineral based products to increase job creation and export promotion. *In the foreign direct investment promotion drive, the government should put in place deliberate measures to promote and protect local investors as well as safeguarding the social and environmental interests of host communities.*

SMES

The TSP will also focus on supporting sustainable micro, small and medium enterprises growth and development through business linkages, market access, cluster development, business incubation and support services. Special interest groups such as women, youth, the disabled and other disadvantaged members of society will be prioritised in all the empowerment projects and programmes. *The SMEs discourse needs to be audited to re-affirm the actual beneficiaries and mitigate against predatory large scale enterprises that have downsized in order to benefit from SMEs' facilities and to dodge taxes*.

Environmental Protection

The government will put safeguards in order to protect the environment in line with domestic and international best practices. *Practices such as pay to pollute should be condemned by raising the costs payable for environmental pollution.*

Services Sector

Policies will be put in place to promote the services sector through requisite infrastructure in tourism, ICT and financial sectors of the economy.

Monitoring and Evaluation

The government will set up monitoring and evaluation frameworks to enable assessment of achievements at central and local government levels as well as state owned enterprises. This will be coordinated and administered by the Office of the President and Cabinet.

Conclusion

Whilst the proposed policy reforms points to a progressive economic road map, its success hinges on the political will to implement the reforms. An inclusive development process that captures the voice of the public is a pre-requisite. Privatisation, which anchors the TSP, is not the best foot towards addressing the current macro-economic comatose and the regressive and divergent psychological behavioural tendencies affecting the national development aspirations. There is therefore need for a re-think towards an inclusive, people driven and pro-poor development agenda.

Investing in People for Social & Economic Justice

Email: zimcodd@zimcodd.co.zw
Tel/Fax: +263-242-776830
Website: www.zimcodd.org

Twitter: @ zimcodd1

Facebook Page: Zimbabwe Coalition on Debt & Development
Facebook Account: Zimcodd Zimcodd