Investing in People for Social and Economic Justice

ANALYSIS OF THE 2016 BUDGET REVIEW AND 2017 OUTLOOK FROM SOCIAL AND ECONOMIC RIGHTS LENS

1. Introduction

The budget review reports on revenue and expenditure outturn for the year 2016 and in the process intends to improve fiscal transparency and budget accountability.[1] The Zimbabwe Coalition on Debt and Development (ZIMCODD), a social and economic justice coalition, analyses the instrument to interrogate implications to the fulfilment of social and economic rights (SER).

2. Background

The year 2016 saw the economy slumping as most economic activities were subdued across the economy. This contrasted with the targeted 2.7% economic growth. Major contributors to low economic performance included a depressed manufacturing industry as business confidence in the country remained low, the mining sector which was initially expected to spur growth contributed very little to the country's revenue and agricultural production during the 2015/16 season declined by at least 9.9% due to the El Nino induced drought. Retrenchments continued in 2016 as most companies cited restructuring, viability challenges, redundancy, downsizing and outright closures.[2]

Zimbabwe has its development guided by various local and international development frameworks including the Zimbabwe Agenda for Sustainable Social and Economic Transformation (ZIMASSET), Sustainable Development Goals (SDGs) and the Interim Poverty Reduction Strategy Paper (IPRSP) among others. This analysis relates how the implementation of the 2016 budget responded to these development frameworks.

[1]Annual Budget Review for 2016 and the 2017 Outlook.
[2]http://www.rbz.co.zw/assets/quarterly-economic-review-march-2016-.pdf

3. The 2016 Budget Review

3.1. Real Sector Developments

The economy registered 0.7% growth against the targeted 2.7%, which is 26% of the expected growth.

3.1.1. Agriculture

The 2015/16 agricultural season did not perform well due to drought despite efforts by the Government and private sector who invested an estimated US$1 billion in the sector.[3] Though the review is pointing to drought as the cause of failure, there is need to mention that the US$1 billion worth of agricultural investment lacks accountability from most individuals and institutions who received the inputs, which might have contributed to low productivity in the sector. The 2016/17 season saw the introduction of Command Agriculture, a programme that distributed farming inputs to most farmers, both A1 and A2. A total of 2.2 million tons of maize grain were produced during the 2016/17 agricultural season. Though it has been reported by some media houses that the bumper harvest was due to the Command Agriculture programme, some sections of society have argued that it was attributed to good rains. Also it has been argued that the production of maize grain does not ultimately mean there is food security in the country as not only maize grains offer security but small grains as well, which have higher nutritional and medicinal properties than maize.

3.1.2. Mining

The mining industry grew by 8.2% and mineral exports amounted to US$2.2 billion, with major contributors being gold and platinum. The review rightly picked the disparities between export earnings and revenue contribution by the sector, which contributed only 2.2% despite it being the number one foreign exchange earner. The little contribution to national revenue is to a larger extent caused by poor natural resources governance in the country which in most cases has resulted in Illicit Financial Flows. Likewise, the blame may be cast on poor policies governing natural resources as most companies in the mining industry are offered tax holidays and tax breaks such that their contribution to national revenue is compromised. The Review indicated that the capitalisation of the Zimbabwe Consolidated Diamond Mining Company was already providing impetus for growth in mining. However, the consolidation process may result in job losses through retrenchment of workers.[4] When poorly managed, the supersized company will come as a cost to the tax payer as the public will have to bear the liability.

3.1.3. Small and Medium Enterprises

2016 saw the introduction of import restrictions through SI 64. The move came as a blow to most SMEs whose businesses relied on imported goods which are not found locally and if they are found the prices will be very unsustainable for a viable business.[5] The move frustrated livelihoods for many and there is need to re-align the pricing system of local products first to make sure they are cheaper or at least affordable than imports. The review rightly indicated that "support for SMEs is central to overcoming poverty and unemployment", but however, SI 64

[3]Annual Budget Review for 2016 and the 2017 Outlook.

[4]http://www.zela.org/docs/publications/2015/consolidated.pdf, Accessed 11/08/2017.
[5]http://www.chronicle.co.zw/import-restrictions-costing-smes-business/

compromised the poverty and unemployment reduction as most households were relegated into the poverty cycle.

3.2. Fiscal Revenue Performance

Revenue collected during the 2016 fiscal year was US$3.5 billion against the targeted US$3.85 billion. About 90% of the targeted income was received, a suggestion that the Government must have managed to implement and achieved most of the targeted results. However, from an analysis based on the national and international development frameworks, the nation does not seem to have achieved much. Using the ZIMASSET lenses, the nation failed to achieve critical indicators including improved liquidity and access to credit by key sectors of the economy, improved revenue collection from mining and poverty eradication among others. Using the SDGs lens, the nation did not perform well on Goal 1 – No Poverty; Goal 2 – Zero Hunger; Goal 3 – Good Health and Well Being; Goal 6 – Clean Water and Sanitation, Goal 8 – Decent Work and Economic Growth; and Goal 10 – Reduced Inequalities.

The Review rightly picked that a significant portion of tax revenue during the year 2016 was generated from Consumption Taxes, i.e. Value Added Tax (VAT) – 27% and Excise Duty – 18% as well as Personal Income Tax 21%. This depicts a retrogressive tax system which over taxes the poor whilst cushioning the rich as the former pay more taxes than the later. Corporate Tax contributed 10% despite it being the number one foreign currency earner.

3.3. Social Services Delivery and Poverty Reduction Programmes

Budget support for social services delivery in 2016 was mainly skewed towards education and health care services. The education budget absorbed US$1.11 billion whilst the health care budget consumed US$295 million. There is need to audit the civil servants in these two sectors to deal with staff issues that include ghost workers and those past their retirement age. Teaching staff in primary, secondary and tertiary institutions, has been said to stand at 148,449 as well as that of healthcare workers which is 37,332. However, the review pointed out that despite high numbers of teaching staff recorded, primary and secondary schools across the country continue to experience high teacher pupil ratio, a pointer which might suggest that the huge numbers are just on paper but in reality the staff is less. The 2016 Auditor General's Report highlighted that 12,500 Government workers providing services were not on the payroll and that the Government dolls out US$85 million annually on suspected ghost workers.[6] The report went on to say that 96% of the ghost workers on Government payroll are from the Primary and Secondary Education Ministry, (ibid).

2016 saw the disbursement of US$4.4 million towards drought mitigation cash transfers to food insecure households as well as US$1.5 million to support vulnerable children's access to education. These social protection programmes were implemented in various provinces around the country and a number of households received the cash transfers. However, politicisation of the programme compromised effectiveness.

3.3.1. Health

The year 2016 targeted the provision of medicines and medical supplies, diagnostic equipment and infrastructural development across the entire public health referral system. These non-wage expenditures amounted to US$25.9 million. Despite injection of the funds into the health system,

[6] https://www.thestandard.co.zw/2016/06/26/ags-graft-findings-2016-glance/

public institutions continued to run out of drugs, forcing patients to go to private institutions which are expensive and beyond the reach of many. The Government encouraged public institutions to make partnerships with private businesses and under these arrangements, health services, though improved, is no-longer affordable and accessible to the vulnerable groups of society. This is a violation of the Constitution of Zimbabwe, Section 76, which states that "Every citizen and permanent residents of Zimbabwe has the right to have access to basic healthcare services, including reproductive healthcare services."

3.3.2. Education

Capital expenditure and operations disbursements for the education budget amounted to US$10.3 million. The budget was complemented by Development Partners under the Global Partnership for Education. The Review indicated that funding to the sector was inadequate as challenges remained on improving access to and quality of education as well as teaching and learning material. The Education Development Fund which is administered by the United Nations contributed about US$27 million towards education services. There is need for the Government to conduct a needs assessment before these grants are disbursed to enhance efficiency so that only the needy are assisted to save the resources.

3.3.3. Social Protection

The Government implemented various programmes worth US$6 million targeted at improving the welfare of vulnerable groups of the community. BEAM expenditure amounted to US$1.5 million and helped 18,021 children sitting for both O and A Level examinations. The move is commendable as it promoted the right to education for those who benefited. The Food Deficit Mitigation Strategy was supported by a US$3.8 million fund which helped 852,000 households affected by the 2016 drought. These are significant amounts, which if governed properlycan improve the welfare of these marginalised groups. However, there are allegations that better off groups of the community ended up benefiting leaving out the needy. For example under the BEAM project, some children from well-up families had their fees paid for leaving out those in dire need. The Government should commit a fixed and sufficient percentage of the total budget to carter for its citizens' social security as relying on donor funding is not sustainable.

3.4. Governance Support Programmes

The Review indicated that various Governance and Institutional Building programmes were implemented aimed at aligning the laws to the Constitution as well as supporting rule of law and the electoral process. The various pieces of legislation amendments were pushed by civil society, e.g. the Mines and Minerals Amendment Bill. There is therefore need to acknowledge the role of civil society in influencing pro-poor policies. However, the Review does not mention the lack of rule of law as law enforcement agents such as the Zimbabwe Republic Police (ZRP) are fuelling corruption. The 2016 Auditor General's Report identified various anomalies in the governance of parastatals but no action was taken to put things in order. State Enterprises and Parastatals and Ministries were "... failing to follow good corporate governance, with seven Ministries incurring almost US$71 million expenses that were not supported by source documents.[7]

3.4.1. Governance and Institutional Building

The European Union disbursed €10.3 million towards governance and the Review highlighted some programmes which benefitted as including Constitutional Alignment and support to the

[7] https://www.thestandard.co.zw/2016/06/26/ags-graft-findings-2016-glance/

rule of law and access to justice for all. These two items, however, remained constrained in 2016 as Government did not make strides towards achieving but rather responded to the noise and demands by civil society. There is still a number of legislation which needs to be aligned to the Constitution. The nation lacks constitutionalism as the Constitution has remained on paper. This has resulted in many citizens failing to access justice because the Constitution which they rely on is not recognised and respected as supreme law by authorities.

3.4.2. Strengthening Institutions of Transparency and Accountability

The Review highlighted that during 2016, activities relating to transparency and accountability benefited from the African Development Bank funding. A total of US$8.7 million was injected by AfDB in the system to promote transparency and accountability. However, recommendations by the AG's Office were not addressed by Government departments supported by AfDB and hence this capacity building should be coupled by the Government's political will.

3.5. Developments on Major Infrastructure Projects

In 2016, Government channelled a total of US$403.9 million towards infrastructure developments in energy, transport and communication, agriculture, ICT, water and sanitation and housing sectors. The projects were financed through direct Budget (US$76 million) and loan (US$164 million) financing. Development Partners supported with US$28.6 million.

3.5.1. Energy

In 2016, a total of US$115 million was directed on advancing implementation of projects including the Kariba South Extension, Zim Fund Power Projects and Rural Electrification Agency. The Zim-Fund Emergency Power Infrastructure Rehabilitation Project managed to provide electricity to critical institutions including hospitals, schools and water and sanitation facilities. These developments are welcome, especially in marginalised areas. The move is commended as it promotes the fulfilment of social and economic rights such as the right to health, education, shelter, food and life.The Review rightly indicated that rural electrification enhances economic activities in rural areas thereby bridging the rural-urban divide.

3.5.2. Water Supply and Sanitation Delivery

In total, US$62.7 million was disbursed for dam projects, urban water supply and rural water and sanitation programmes. Tokwe Mukosi dam is among the dam projects financed by the Government and its Development Partners in 2016. The investment on the dam enhanced the efficient operation of the dam to accord those deriving their livelihoods to do so in a manner that is safe. However, the construction of the dam led to the displacement of 3,425 families who were moved to Chingwizi for temporary settlement.[8]

Urban water supply and sanitation remained a great challenge in 2016 despite the huge sums of money invested in the projects, especially in Harare, where water supply remained poor after the Morton Jeffrey Water Works refurbishment project. There is need for the local authorities to continue to invest in these projects through sound public finance management to ensure a continued supply of clean and potable water.

3.6. Public Sector Borrowing Requirements

The Government, in execution of its mandate, has over the years accumulated debts. Government assumed US$329 million Reserve Bank Debt inclusive of US$130 million due to external

[8] http://www.sundaymail.co.zw/tokwe-mukosi-facts-and-figures/

creditors. Cabinet also approved debt assumption of some public enterprises such as National Railways of Zimbabwe, ZISCO Steel and Civil Aviation Authority of Zimbabwe, in order to attract potential investors. The move will burden the tax payers as they would have to finance all these debts as the Zimbabwean tax system is regressive, causing the poor to pay more tax than the rich. If investors come, their investment rarely contribute to national revenue as they are offered tax breaks and tax holidays which exempt them from paying taxes, leaving the tax burden with the poor people. The Government also established the Zimbabwe Asset Management Corporation (ZAMCO), a vehicle which bought collateralised Non-Performing Loans (NPLs) from the banking sector. These NPLs are a liability to the general public, who will eventually pay for them if not recovered.

3.7. Public Debt

Zimbabwe's national debt by year end 2016 stood at US$11.3 billion, of which public debt was US$7.3 billion and domestic debt being US$4 billion. The Review indicated that the "... arrears problem remains a stumbling block for Zimbabwe to access new financing at cheap borrowing terms". However, ZIMCODD argues that there is no 'cheap borrowing terms' as the International Financial Institutions (IFIs) are into business and making profits for their powerful stakeholders. ZIMCODD further argues that the Government should not rely on borrowing funds from the international community in order to finance its social and economic development projects. Zimbabwe is richly endowed with natural resources including gold, diamonds and platinum, to mention just a few.

3.8. Structural Reforms

Structural Reforms during the year 2016 focused on:-

- Improving Zimbabwe's openness as a destination of investment;

The reform has brought in exclusion to the business market as well as social and economic rights violations through the introduction of Special Economic Zones (SEZs), where investors are accorded privileges that exempt them from adhering to certain legal requirements of doing business.

- Reforming our public enterprises to transform them from perennial loss making and dependency on fiscus, to contributors of employment creation, exports and tax payment;

The major argument for structural adjustment reforms in this regard is that public enterprises have unsustainable wage bills hence the need to lay-off excess staff through retrenchments. ZIMCODD has always argued that such fiscal reforms are not pro-poor as many households will be relegated into the poverty cycle. Rather the Government should audit its civil service to rid of ghost workers and those past retirement age.

- Strengthening the Public Finance Management System to enhance transparency and accountability in the utilisation and management of public resources;

Reforms on this sector are welcome in order to safeguard resources mobilised locally so that they are meaningfully expended.

- Strengthening Governance through alignment of various Laws to the Constitution.

This is a noble reform intended to promote social and economic rights as the majority citizens, especially the marginalised groups that depend on the Constitution to demand for the progressive realisation of their rights. The Review managed to highlight the plight of local authorities in 2016 as they lagged behind in public services delivery and regulation. 2016 saw most urban areas failing to supply clean and potable water to residents mainly due to governance and financial challenges.

3.9. Financial Sector Developments

The year 2016 registered an average of 2% growth in the financial sector.

3.9.1. Banking Sector

Due to liquidity challenges, the RBZ promoted the use of digital finance through swipe machines as well as mobile money. However, the use of swipe machines and mobile money in an economy with liquidity challenges resulted in most people being robbed of their hard earned income as service providers increase prices for electronic transactions as compared to cash transactions. The multi-currency scenario in 2016 fuelled the black market as the US$ became the reserve currency, making it more valuable than the Bond Notes and Coins.

3.9.2. Financial Inclusion

The National Financial Inclusion Strategy (2016 to 2020) was introduced in 2016 to reach out to marginalised clients who are under served in order to ring-fence deposits and promote savings. The move is commendable as it helped ease of transacting by the marginalised groups of the community (women, youths, disabled, informal traders, etc.) considering liquidity challenges facing the country.

3.10. Balance of Payments

In 2016, total exports reached US$3.7 billion from US$3.6 billion in 2015. Imports were US$5.2 billion down from US$6.1 billion in 2015. The Balance of Payments (BoP) improved slightly due to measures to stimulate domestic production and value addition as outlined in Statutory Instrument 64 in line with ZIMASSET. Statutory Instrument 64 of June 2016 managed to reduce the import bill and increased capacity utilisation for industry.[9]However, SI 64 came as a blow to most SMEs whose businesses relied on imported goods and the move frustrated livelihoods for many households relying on informal trading.

4. Recommendations

This paper recommends the following:

- Government should ensure that funds disbursed for agricultural activities done timeously and are not politicised in order to benefit the right people to ensure effectiveness of programmes;
- Strategic measures should be taken by Government to ensure that the mining sector contributes significantly to national revenue;
- A significant percentage of the national budget should carter for social service delivery and poverty reduction programmes;
- The Government should desist from re-engaging the international financial community based on unsustainable structural reforms that are not pro-people;

[9]http://www.veritaszim.net/node/2002

- Domestic resource mobilisation is the best option available to Zimbabwe to re-pay debt as well as finance social and economic development; and
- Local Authorities should adhere to the 30/7-0% wages to revenue ratio in order to efficiently delivery social services.

5. Conclusion

The 2016 Budget Review and Outlook managed to highlight, at macro level, the social and economic trends which influenced development. According to the international and national development frameworks, SDGs, Zimbabwean Constitution and ZIMASSET, the 2016 Budget did not perform well as the main indicators were not attained. ZIMASSET's timeframe of closing at 2018 seems to be too short to attain intended goals as the prevailing social and economic atmosphere of the year 2016 are prevailing in the year 2017. If there is to be progress towards intended goals, there is need for political will and disciplined public officials who shun corrupt activities.

About ZIMCODD

The Zimbabwe Coalition on Debt and Development (ZIMCODD) is a social and economic justice coalition established in February 2000 to facilitate citizens` involvement in making pro people public policy. ZIMCODD views indebtedness, the unfair global trade regime and lack of democratic people -centered economic governance as root causes of the socio – economic crises in Zimbabwe and the world at large. Drawing from community based livelihood experiences of its membership, ZIMCODD implements programmes aimed at delivering the following objectives;

- To raise the level of economic literacy among ZIMCODD members to include views and participation of grassroots and marginalised communities
- To facilitate research, lobbying and advocacy in order to influence and promote policy change
- To formulate credible and sustainable economic and social policy alternatives
- To develop a national coalition and facilitate the building of a vibrant movement for social and economic justice.

Our vision

Sustainable socio-economic justice in Zimbabwe through a vibrant people based movement.

Mission

To take action in redressing the Debt burden, Social and Economic Injustices through formulation and promotion of alternative policies to the neo-liberal agenda.

For more information, please contact:

Mr. Liberty Bhebhe: National Chairperson:+263 774 208436 , Email:liberty_bhebhe@yahoo.com
Ms. Patricia Kasiamhuru: Executive Director: +263773213770, Email: patriciak@zimcodd.co.zw

Contact ZIMCODD Head Office:
226 Samora Machel Avenue, Eastlea, Harare Tel: +263-4-776830
Website: www.zimcodd.org
Facebook Page: Zimbabwe Coalition on Debt and Development,
Profile: Zimcodd Zimcodd
Twitter:@zimcodd1