Investing in People for Social and Economic Justice

Analysis of the 2019 Mid-Year Budget Review and Supplementary Budget

A Social and Economic Justice Perspective

INTRODUCTION

The monetary policy developments that took place since the announcement of the 2019 National Budget Statement in November broadly informed the 2019 Mid-Year Budget Review and Supplementary Budget. The review reaffirmed the government's commitment to implementing the **"Austerity for Prosperity"** mantra which was rephrased to **"Building a Strong Foundation for Future Prosperity"**. Apart from mere adjustment of budget figures in line with the inflation rate and exchange rate regime, the review gave a synopsis of progress made to-date in the implementation of the Transitional Stabilisation Programme (TSP) since its inception in October 2018. The use of varying rates of adjustment particularly on revenue enhancement and tax relief measures defines the deepening austerity measures that the Minister of Finance and Economic Development is pursuing. Whilst the Minister applies an inflation adjusted rate of 100% on tax relief for Pay As You Earn (PAYE) and the Intermediate Transaction Tax by reviewing the tax free thresholds from ZWL$350 to ZWL$700 and ZWL$10 to ZWL$20 respectively, user fees, levies and charges were reviewed upwards at a minimum rate of 400%. The net effect is that people's disposable incomes were eroded at a minimum by 300% even before factoring in the exchange rate loses and the inflation.

This analysis, therefore, makes an assessment of how the 2019 Mid Term Budget Review will impact the social and economic rights of citizens especially the most vulnerable groups. The analysis will look into the revenue and expenditure patterns during the first 6 months of 2019 against monetary policy developments and inflation in order to assess the net effect on current account and budget deficits which are the overall target of the TSP. The journey travelled during the first 6 months of the year has a bearing on the performance of the economy during the last half of 2019. Developments in debt management remain critical as the country make strides towards resolving the debt crisis in in Zimbabwe. Clear policy recommendations on fiscal measures for cushioning the vulnerable groups whilst promoting sustainable developments through prudent and expeditious utilization of public resources have also been proffered.

Key highlights

Addressing the Recommendations from the Auditor General's Report

It is commendable that the Ministry of Finance and Economic Development proposed the establishment, within the Treasury, of a central coordinating unit for the internal audit and compliance function. The proposed unit, in addition to providing oversight over disposal of audit issues, provides a formal dedicated structure for ensuring the internal audit function effectively discharges its mandate and adds value to Government. If fully implemented this unit will aid fiscal transparency and accountability by;

- supervising and co-coordinating the internal audit and compliance function across all government institutions;
- formulating and disseminating internal audit regulations, uniform standards, policies, guidelines and audit methodology;
- providing leadership in the annual planning process for internal audit and compliance activities throughout the Government
- enhancing compliance with public finance management procedures and regulations across the board;
- performing ad hoc investigative assignments in Government entities;
- providing capacity development for, and monitoring the effectiveness of Audit Committees.

This coordinating unit will go a long way in dealing with the malpractices associated with poor maintenance of accounting records, diversion of funds to non-intended purposes, paying for goods not delivered, improper accounting of asset records as well as overstating and understating of revenues and expenditures. The introduction of the new coordinating committee is however not sufficient without the political will to reform the entire public finance management system and enforcement mechanisms for holding the implicated public officials accountable.

The Fiscal Policy Review also noted with concern the abuse of tax rebates by the private sector, particularly the Clothing Manufacturing Industry rebate. Some of the beneficiaries of the facility have been implicated in the disposal of fabrics intended for value addition on the domestic market and transfer pricing. Whilst the facility was intended to enhancing competitiveness of locally manufactured clothes on the export market, the country has lost US$14 million since 2013. The review did not provide the monetary value realized as a result of the rebate, but most often, in an economy characterized by market distortions like Zimbabwe, the government is bound to lose out if the policy was implemented without safeguard measures.

Government Revenue and Expenditure Performance

The setting of new revenue and expenditure targets for 2019 following the devaluation of the Zimbabwe dollar under a floating exchange rate was long overdue. This has resulted in misrepresentation of facts regarding government revenue and expenditure performance. Revenue collections for the first six months amounting to ZWL$4.99 billion have not been standardized to capture the exchange rate factor giving an impression that revenue collections exceeded target by 20%. Based on an average exchange rate of US$1: 5ZWL$ (as at 30 April, 31 May and 30 June 2019), the ZWL$4.99 billion is equivalent to US$998 million against a target of US$4.15 billion. This implies that the government had a budget deficit of US$3.2 billion. In other words, the government missed the revenue target by 76%.

The Ministry of Finance and Economic Development also failed to consolidate the revenue figures with the tax revenue collections reported by ZIMRA for the same period. ZIMRA reported that they collected ZWL$5.27 billion over the past six month whilst the Ministry reported overall revenue of ZWL$4.99 billion giving a variance of ZWL$390 million. The understating of tax revenue by the Ministry has an implication on public trust of the government. That lack of coherence between the Ministry and the revenue authority creates room for abuse and misappropriation of funds. Similarly, the government did not adjust government expenditures in line with the exchange rate in which case the government expenditure for the period January to June 2019 was ZWL$4.2 billion against a target of ZWL$3.7 billion, thereby overspending by 15% in nominal terms. In real terms, government underspent having expended an equivalent of US$840 million instead of US$3.7 billion. Overally, the government registered a budget surplus of ZWL$803.6 million dollars. Whilst the government through the surplus, satisfies the demands of the IMF Staff Monitored Programme, the budget surplus did not translate to the realization of social and economic rights of citizens.

Concealing Inflation Figures

It is unfortunate that the government revealed its plans to conceal year on year inflation till February 2020. This takes away the right of citizens and permanent residents of Zimbabwe to information guaranteed by section 62 of the constitution of Zimbabwe. Inflation remains a critical indicator that requires continuous monitoring by citizens, business and the government of Zimbabwe. Without access to government sources, rational beings will rely on alternative sources of information which in most cases will worsen people's reaction. Moreover, lack of reliable information has a danger of causing social unrest as citizens are left to speculate on key development indicators.

Disproportionate Impact of Tax Relief and Revenue enhancing Measures

The review of the tax-free threshold for Pay As You Earn by a meagre 100% from ZWL$350 to ZWL$700 and Intermediate Transfer Tax from ZWL$10 to ZWL$20 respectively does not provide enough cushioning to the citizens whose disposable income has been eroded following the devaluation of the local currency. Considering that the minimum tax threshold was introduced during the US$ era, Pay As You Earn has been shifted from US$350 in October 2018 to a meagre US$76 Equivalent. This now implies that a person who earns US$79 is now eligible to pay taxes compared to US$350 tax free threshold set in October 2018. On the other hand, the Intermediate Transaction Tax now applies from as low as US$2.17 down from US$10 and its equivalent. If anything, the citizens are worse off now than before.

Conversely, the government took a keen interest in raising the user fees, levies and charges consistent with the changes brought about by the depreciation of the Zimbabwe dollar. The percentage increase in user fees, charges and levies are disproportionately too high compared to tax relief measures, placing the ordinary citizens in a worse off position. The user fees, charges and levies for toll fees, for instance, have been raised by an average 400% across all motor vehicles, buses and trucks. Import permits rose sharply by 733% whilst motor vehicle registration went up by 525%. Transport cost is likely to go up in order for players in the transport industry to survive. Considering that, the subsidized transport is failing to service the commuting public, the individual commuters and final consumers will incur additional transport cost associated with the new levies, fees and charges.

At a time when the global prices of fuel are going down owing to the temporary waiver of US sanctions on Iranian oil exports to countries, the price of fuel rose sharply from ZW$ 1.38 and ZWL$1.43 per litre of diesel and petrol in January 2019 to the current prices of ZWL$7.22 and ZWL$7.55 respectively. The price of fuel is expected to increase drastically following the announcement of the Mid Term Budget Review which reviewed the excise duty on fuel from ZWL$1.15 and ZWL$0.95 per litre which translate to 19% and 16% of the landing cost of for petrol and diesel respectively to 45% and 40% respectively. The increase in the excise duty of fuel will simply translate to an increase in the price of fuel by the same margin. Considering that fuel is a major input for the manufacturing and service industry especially now when there are incessant power cuts, the increase in fuel price is highly inflationary.

The 2019 Mid-Year Budget Review is a misrepresentation of facts most of which are in the same document. On one hand, the Minister of Finance and Economic Development reported that the government recorded current account surplus of US$196 million during the first quarter of 2019, on the other, Annex 12 of the same statement confirms an overall current account deficit of US$399 million disaggregated on a monthly basis since January 2019 as shown in table 1 below;

Trade Statistics (US$M): Jan-May 2019

	January	February	March	April	May	Total
Exports	292.6	349.5	295.9	277	243.2	1,558.23
Imports	366.7	408	329	416.7	436.8	1,957.19
Trade Balance	-74.0	-58.5	-33.1	-139.7	-93.6	**(398.96)**

Meanwhile, the Minister of Finance reported that in line with the devolution agenda which mandates government to set aside 5% of government revenue to provincial and district councils, US$310 million was allocated in the 2019 National Budget. As of June 2019, only ZWL$41.2 million had been disbursed (Refer to Annex 10 of the Review Statement. To be precise, ZWL$39.7 million was disbursed in May whilst ZWL$1.5 million was disbursed in June 2019. To the contrary, the Minister reported that ZWL$120 million has been disbursed to provincial and local councils. Such levels of inconsistency by the Minister signify lack of transparency and accountability on the part of government. The public is not clear on which figures to hold the government to account for. Moreover, the disbursements are being made without a clear framework and policy for implementing devolution in Zimbabwe. The delay in the disbursement of funds to local authorities also hinders the provision of basic public services by local authorities thereby depriving citizens of their rights to health care and right to portable water and sanitation provided for under sections 76 and 77 of the Constitution of Zimbabwe. Meanwhile, the revenue allocation towards provincial and local councils has been reviewed upwards to ZWL$703 million by year end.

Debt Management

As at June 2019, public and publicly guaranteed debt was estimated at ZWL$67 billion disaggregated as US$9.6 billion for external debt and ZWL$8.8 billion for domestic debt. This implies that domestic debt which was contracted in US$ was converted at a rate of US$1:1ZWL$. The domestic creditors have, therefore been short-changed by ZWL$44.3 billion based on the exchange rate of US$1:6ZWL$ used in calculating the debt figures. Government crowded out private investors at the point of contracting the debt and now the lending institutions are incurring losses associated with the government's decision to convert the domestic debt at unrealistic exchange rates further impacting the financial sector performance and industrial capacity utilization in the medium to long term. Considering that part of domestic debt is owed to statutory bodies and service payments to ZIMRA, NSSA, ZINWA and ZESA, the decision will impact on public service delivery. This explains the inability of ZESA to settle external debt obligations to Eskom and Cabbora Bassa for unpaid imports of electricity. The gains of the re-engagement process with the external creditors are taking long yet the arrears continue accumulating.

Power Supply Strategy

The government's decision to raise electricity tariff by 174% from ZWL$9.86c to ZWL$27c per klh for domestic consumers and 356% for non-exporting businesses will ultimately affect the final consumer as the businesses will simply transfer the additional cost of doing business to the final consumer by way of increasing prices of goods and services. In as much as the country desperately needs to invest in power generation, energy should remain a basic necessity that is affordable.

Opening of Offshore Financial Services Centre

As efforts to arrest illicit financial flows in Africa gather momentum with the implementation of the High Level Panel on Illicit Financial Flows recommendations chaired by Thabo Mbeki, the government of Zimbabwe is exploring the possibility of setting up an Offshore Financial Services Centre (OFSC). Whilst, Offshore Financial Services Centre are associated with the promotion of foreign direct investment and export development, the setting up of Tax Havens and Secrecy Jurisdiction in Zimbabwe will not help in curbing illicit financial flows. The setting up of an Offshore Financial Service Centre is coming at a time when tax havens and secrecy jurisdictions are being interrogated in terms of their contribution to illicit financial flows. It is unfortunate that the Minister of Finance is proposing that the government follows the routes taken by Switzerland, and Mauritius in setting up secrecy jurisdictions at a time when these economies are implicated in illicit financial flows involving former dictatorial political leaders. Offshore Financial Service Centres are infamous for guaranteeing the secrecy and concealing information regarding beneficial owners of companies and charitable foundations most of which could have illegally acquired or transferred the resources.

Indigenization and Economic Empowerment Act

The government took a deliberate decision to repeal the Indigenisation and Economic Empowerment Act and remove the remaining Diamond and Platinum sectors from the 51:49 share ownership pursuant to the ***"Zimbabwe is Open for Business Mantra"***. This Indigenisation and Economic Empowerment Act will therefore be replaced by the Economic Empowerment Act. The Review Statement did not clarify how the locals will benefit under the new regime. The discussion on shareholding has been left out to negotiations with individual investors. The fiscal policy review did not shade more light on the fate of the current share community ownership schemes and shareholding structures. There is therefore need for clarity on the part of government as to how the shareholding arrangements that had been concluded will be handled.

Conclusion

The country's high indebtedness places Zimbabwe in a vulnerable position as it seeks to re-engage with the international community and investors. The budget should remain the primary tool for ensuring the realization of social and economic rights of citizens guaranteed in section 4 of the Constitution of Zimbabwe and not just a framework for proving the surpassing of fiscal and current account targets. Whilst it is important that the economy transforms into a middle income economy and address the current account deficits which characterized Zimbabwe's macroeconomic performance, the misrepresentation of facts to imply that the government realized a current account surplus for the first time since 2009 yet the government registered a current account deficit of about US$400 million takes away public trust. The government of Zimbabwe should instead invest in addressing the trust deficit. Without public trust, it will be extremely difficult to realise the aspirations of the TSP and the Vision 2030 that the government is pursuing.

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