2020 National Budget

Fact Sheet

Analyzing the Budget Implementation Against Set Objectives

ZIMCODD
ZIMBABWE COALITION ON DEBT & DEVELOPMENT

Zimbabwe Coalition on Debt and Development
2020 publication

Introduction

A national budget doubles as an economic and financial management instrument as well as an implicit policy statement as it directs the growth and developmental trajectory of the economy. The efficacy of the national budget in addressing shared economic and social values is a function of a decisive budget process as provisioned by relevant legislature. The budget process begins with budget formulation where the economy is modeled with respect to the Gross Domestic Product (GDP) growth, inflation, deficit, revenue, unemployment and poverty amongst many variables. A pre-budget strategy paper is shared with all stakeholders and negotiation is done with line ministries until the budget goes through parliamentary committees for possible amendment and final endorsement.

The budget is then executed (revenue is collected, allocated and spend as defined by the budget) with the possibility of adopting a supplementary budget during the course of the fiscal year. A budget audit is done at the end of a fiscal year with the parliament appraising the budget and recommending policy action to correct anomalies. As a fiscal apparatus, a national budget directs the allocation of national resources in a manner that upholds sound economic governance and stability. It also enhances economic growth by stimulating investment, expenditure and savings thereby firing the growth of the private sector, scaling-up trade and address issues of economic inequality.

However, the ability of a budget to deliver is based on the environment in which it is implemented.

In accordance with the budget process, the Ministry of Finance and Economic Development (MoFED) published the 2020 Budget Strategy Paper in October 2019 to facilitate discussions on policy intervention for the 2020 national budget. In November 2019, the 2020 national budget was pronounced under unstable macro-economic conditions (-6.5% growth in 2019, foreign currency shortages, substantial currency devaluation and high inflation - 255%), drought (low agriculture production), natural disaster (cyclone Idai), low industrial capacity utilization (36.4%), electricity outages and low mining output. The $63.6 billion 2020 national budget came with a budget deficit of $5 billion (1.5% of GDP) and the generalized budget allocations by economic classification are presented hereunder.

Table 1: Budget allocation by economic classification

Economic Classification	Sum of Consolidated Revenue Fund	Percent of Total Budget
Defense	2 933 731 000	4.6%
Economic affairs	16 235 751 000	25.51%
Education	10 789 817 000	16.95%
Environment protection	84 344 000	0.13%
General public services	17 610 577 000	27.67%
Health	6 459 100 000	10.15%
Housing and Community amenities	2 340 348 000	3.677%
Public Order and Safety	4 126 874 000	6.48%
Recreation, culture and religion	591 876 000	0.093%
Social protection	2 468 782 000	3.88%
Total	63 641 200 000	100%

Adapted from the 2020 National Budget Highlights

The budget fact sheet digresses to review the budget's theme and assumptions given the allocations.

02

Review of budget theme and assumptions

The 2020 national budget ran with the theme 'Gearing for Higher Productivity, Growth and Job Creation.' Considering the -6.5% growth in 2019, towering inflation exceeding 200% by December 2019 and insistent depreciation of the local currency; the theme was supposed to prioritize economic recovery (stimulate aggregate demand and industrial productivity) and proffer macro-economic stability (tame inflation and stabilize the exchange rate).

The budget lacked satisfactory industrial incentives to foster 'higher productivity' capable of enhancing growth whilst creating employment too. The most explicit industrial fiscal intervention was the guaranteed loan scheme from banks meant to allow industrial retooling – an intervention exempt of government's unequivocal commitment to support industrial productivity. The lack of substantial fiscal incentives for industry further crippled industrial capacity utilization from 36.4% in 2019 to 27% in 2020. Also, the inaccessibility of the COVID-19 stimulus package by industry discounted industry's job creation potential given the repressed productivity. Collectively, the budget theme was not matched with solid policy narratives set to proffer higher productivity, growth and job creation.

On the other hand, the budget's assumptions were premised on either variables that the fiscal authority had no absolute control over or the assumptions were mere fiscal wishes unsupported by pragmatic policies. Whereas climate change has made agriculture's reliance on rains a fallacy, the budget's success was pinned on rains that never materialized in the 2019/2020 season calling for a calculated investment in irrigation to avert worsening food insecurity. Also, the minuscule $422.8 million irrigation development facility was eroded by galloping inflation in 2020 thereby dwarfing irrigation development. Further, the budget assumed improved macro-fiscal stability in 2020 when it was apparent that fiscal and monetary discipline efforts coupled with SI 33 reforms of 2019 had failed to arrest inflation and curb currency depreciation. It took the introduction of the Dutch Auction system in July of 2020 to slow inflation and stabilize the exchange rate. The budget also assumed improved power generation based on rains that turned-out poor whilst foreign currency shortages stalled power importation leading to power outages that affected industry's productivity.

The budget further assumed tax and non-tax incentives for industry without the accompanying requisite policy provisions or fiscal support. For instance, the Industrial Development Policy and Local Content Strategy had no fiscal support and government directed industry to seek guaranteed bank loans without any prior arrangement with the banks. The assumed increase in private sector investment was not synched with property rights reforms and, the unstable macro-economic fundamentals and limited fiscal incentives riled private sector investment. All the assumptions negated the stimulation of aggregate demand and productivity and no fiscal motive effectively supported economic stability and certainty. Summarily, the inarticulate theme and assumptions were detached from the unfolding socio-economic realities, hence the inequities evident in the budget performance.

03

Budget performance

A brief budget context is presented to portray policy issues that required budgetary intervention. A tabular assessment of budget objectives against budget allocations and achievements is made. The adequacy of budget allocations premised on international benchmarks precedes a brief discussion of the 2020 budgetary developments and the effects thereof.

3.1 Budget context

The 2020 national budget was a final policy addendum to the Transitional Stabilization Programme (TSP) (2018-2020) and ceremonially built on the achievements of the TSP (2018 and 2019); in support of Vision 2030 (towards a prosperous and empowered upper middle-income society by 2030). The TSP was designed to reform and prepare the economy for a protracted period of sustainable inclusive growth and further the prospects of a private sector-led economy. Despite the TSP's cosy targets, it missed most of its targets in 2019 – setting a shaky footing for the 2020 budget. Industrial capacity utilization fell to 36.4% in 2019 from 48.2% in 2018 whilst a negative growth of -6.4% was recorded in 2019 against a target of 9%. The 2020 national budget inherited macro-economic instability characterized by towering inflation (255% by December 2019), a depreciating currency and exchange rate distortions triggered by SI 33 of 2019. The TSP missed its revenue target of 22.2% of the GDP in 2019, attaining only 17.8%, implying either domestic resource mobilization challenges or a shrinking tax base, if not both. On the social front, extreme poverty soured to 34% in 2019 from 28% recorded in 2018 whereas unemployment worsened to 16.4% in 2019 vs 4.8% in 2014 against the emergence of a 'working poor' class

attributable to fiscal consolidation. The 2020 budget also inherited drought-induced food insecurity as well as Cyclone Idai's economic and social damages.

Effectively, the TSP – a fundamental building block of the 2020 budget missed most of its developmental goals, making it a fallacy to pin the success of the 2020 budget on a failed blueprint. Accordingly, the 2020 national budget was expected to front the recovery of the economy, restore confidence in the economy and address all the developmental challenges.

3.2 Budget objectives, allocations and achievements

The 2020 national budget, through various interventions in different economic sectors sort to foster:

i. Productivity for growth,
ii. Job creation,
iii. Equitable development, and
iv. Advance competitiveness

The budget allocations and performance of the budget against set objectives are provided hereunder.

Table 2: Performance of the budget against set objectives

Budget Objective	Economic Sector [% budget allocated]	Budget Intervention/ [% budget allocated]	Performance Against Set Objective
Growth and productivity	Agriculture [17.81%]	99 year lease, bank loan guarantees, irrigation expansion, etc	Poor harvest, food insecurity, irrigation still to expand
	Mining [0.56%]	Electricity provision, 'use it or lose it' policy, cadastre system, mines and mineral act, stimulus package etc	No cadastre system, low production, smuggling, no access to stimulus package
	Industry/ manufacturing [0.58%]	Bank loan guarantee scheme, beneficiation, growth poles fiscal incentives, import substitution, stimulus package etc	Closure or scale down, capacity fell to 27%, lockdown interruption, no access to stimuluspackage
	Tourism [0.67%]	Duty incentives, connectivity, payment system etc	Arrivals affected by COVID-19, job losses
	Construction	Credit lines, cheap land, building permits, etc	Intervention still to materialize
	Housing and amenities [3.68%]	Avail land, service land, new city, smart city, etc	New city slow progress, smart city slow progress
Job creation	Job creation & entrepreneurship	Youth employment tax incentive [0.52%]	Too insignificant, lockdown
		Venture capital fund ($500m)	Access exclusion, limited funds
		Labor intensive infrastructure development [4.09%]	Road construction is employing
		Women and youth [0.432%]	Meagre allocation, politicized
Competitiveness	Improve Ease of doing business	Ease of doing business (16 improvements)	Slow reform implementation
		Public Enterprises reform (PE Corporate governance Act	Poor implementation, corrupt local governments
		Fight corruption (Auditor Gen [0.24%]), human resource development	Corruption on COVID resources, No action on audit report, COVID stalled HR training
		One stop shop investment center	Shop opened in December 2020

Budget Objective	Economic Sector [% budget allocated]	Budget Intervention/ [% budget allocated]	Performance Against Set Objective
Equitable development	Infrastructure	Water & sanitation [2.87%], electricity [13.42%], transport [5.04%], ICT, etc	WASH delegated to local authorities, poor power generation, Hwange renovated
	Health [10.15%]	Immunization and acquiring vaccines	Strikes, no drugs & consumables
Job creation	Education [16.95%]	Education 5.0, innovation hubs, graduate internship programme	Workers' unrest, underfunding of research, lockdown
	Social protection [3.88%]	Food aid, assisted health care, food for work, cash transfer, BEAM, MIS, strategic grain reserve	Extreme poverty worsened, food insecurity, corrupt distribution, poor health access
	Environment [013%]	Green economy	Water & environment pollution
Macro-Fiscal consolidation	Exchange rate	Single exchange rate; forex auction system	Manipulated exchange rate
	Deficit (budget)	Fiscal consolidation, aim 1.5% deficit	-0.5% of GDP
	Public debt	Engagement and re-engagement	Total PPG 78.7% > 60% SADC benchmark, no engagement
	Inflation	Fiscal and monetary policy	348.5% > 2% target
	Growth	Agriculture, mining, industry, tourism, etc	-10% < 3%/9.7% revised/target

The presentation testifies a largely failed budget given missed deliverables. A brief discussion of the same is provided in section 3.4. A review of the budget allocations (for key economic sectors) against international best practice in presented hereunder.

3.3 Adequacy of budget allocation

Table 3: 2020 Budget Allocation vs International Benchmarks

Economic Sector	2020 budget allocation	International Benchmark
Social Policy	0.7%	4.5% (Social Policy of Africa. 2008)
Health	10.1%	15% (Abuja Declaration, 2001)
Education	16.95	20% (Education for all Initiative, 2000)
Infrastructure	7.2%	9.6% (African Union Declaration, 2009)
Water and Sanitation	0.7%	1.5% (eThekwini Declaration, 2008)
Agriculture	17.81%	10% (Maputo Declaration, 2003)

Except for agriculture, all the budget allocations to key economic sectors are in red, implying that they fall below the internationally accepted minimum thresholds, portraying funding inadequacy.

3.4 Budgetary development and effects

Following economic interruption by COVID-19 in the first quarter of 2020, a COVID-19 stimulus package of ZWL18 bn was availed to cushion all affected sectors of the economy through the 2020 Mid-Term Budget and Economic Review. A murky distribution plan left industry, SMEs and communities in need – suppressing industry capacity utilization (27%) and economic recovery culminating in a recession of -10%. The reduction of corporate tax from 25% to 24% and, VAT from 15% to 14.5% was not a significant fiscal incentive to spur investment, growth and job creation. Accordingly, job creation, growth and productivity were breached in 2020 as various sectors were battered in different ways (see table 2). While the budget failed to avail employment targets, the lockdown worsened unemployment and vulnerability – indicating a triple threat (coronavirus, food shortages and a recessionary economy).

Whilst the budget was not clear on how growth leads to job creation and poverty reduction, still the $500m fund for youth and women under the National Venture Capital Fund was inadequate[1] and inaccessible as banks set stringent application conditions. The Youth Employment Tax Incentive (YETI) was set at $500 per month, an insignificant incentive in an inflationary environment thereby limiting youth's employment.

On the macro-fiscal side of the budget, inflation was expected around 2% by December 2020 – an unrealistic projection given the inflationary pressure from the depreciating ZWL. The introduction of the foreign currency auction market in July 2020 eased inflation, ending the year at 348.5%. The efficacy of fiscal and monetary policy to arrest inflation is limited by a largely informal economy that does not observe formal economic channels. Total Public and Publicly Guaranteed Debt (PPDG) escalated to 78.7% of GDP, way above the SADC benchmark of 60% - a sign of weakening macro-fiscal fundamentals opposed to the budget's aspirations. The budget accommodated a deficit of 1.5% of the GDP, pre-emptying government's affinity to borrow – a move akin to financial

[1] Youth constitute 67.7% of the population whilst women are 52.2% of the population.

repression, crowding out of the private sector and stifled growth.

The slow implementation of the Ease of Doing Business reforms, same as the Public Enterprise Corporate Governance Act and the reforms thereof stalled the competitiveness of the economy. The government failed to act on the Auditor's report, thereby sidelining professional oversight bodies meant to diffuse rampant corruption. Shared development was affected by unrest in the health sector, lack of consumables in hospitals, poor access to health, food insecurity and corrupt distribution of cash transfers thereby worsening vulnerability and extreme poverty.

Also, as much as the health sector benefits from development partners, the funding is not dependable and government must take full charge of the health bill.

04

Policy suggestions

Structural transformation reforms: Through industrial policy, industrialized devolution and supporting SMEs, genuine transfer of economic power for youth and women is achieved. Prioritizing industrialization creates jobs that also in turn improve the standard of living of the poor. Structural transformation also diversifies the economy thereby availing endless opportunities to the youth and women.
Tax justice and DRM alternatives: Income taxation must observe the poverty datum line. The 'working poor' are taxed even though their salaries fall below the poverty datum line. It is imperative to widen the tax base as well as attracting diaspora funds for investment in the economy. Tapping diaspora resources require allowing political participation of citizens in the diaspora.

Targeted intervention: A rational and transparent framework complemented by a database must be developed for a flawless and corrupt-free intervention in industry, SMEs and the society. This helps in directing intervention to deserving individuals thereby plugging the resource leakages.

Social policy spending: The enhanced access to health and education require adequate funding of the same. The education and health sectors were underfunded as per the international benchmarks thus better service delivery can be attained once adequate funding is availed.

Genuine transfer of economic power and support: Extreme poverty and unemployment amongst youth (67.7% of the population) and women (52% of the population) require more funding other than the $500m National Venture Capital Fund. The youth and women must be allocated life-changing projects that make them independent entrepreneurs who are not reliant on government on yearly basis leading to political manipulation.

05

Conclusion

The 2020 national budget was framed on a hugely failed TSP foundation, inheriting multiple socio-economic blunders from the prior fiscal year. The budget pursued productivity for growth, job creation, equitable development, and advancing competitiveness on the back of towering inflation, exchange rate distortions, limited fiscal incentives for mining, agriculture, growth poles and industry. All key economic sectors were underfunded (except for agriculture) as per international benchmarks.

The advent of lockdowns interrupted an underperforming economy, leading to company closures, job losses and economic recession. Many were rendered vulnerable to extreme poverty given measly safety nets distributed in a concealed fashion. Industry also failed to access the stimulus package leading to a fall in capacity utilization. By and large, the budget failed to create jobs, support productivity and growth, improve competitiveness of the economy and failed to promote equitable development for all. Accordingly, deft policy narratives in the realm of structural transformation reforms, tax justice and DRM alternatives, targeted intervention, social policy spending and genuine transfer of economic power are proposed.

Prepared for Zimbabwe Coalition on Debt and Development

Zimbabwe Coalition on Debt Development
zimcodd.org
zimcodd @zimcodd1