ZIMCODD

ZIMBABWE COALITION ON DEBT & DEVELOPMENT

2022 NATIONAL BUDGET ANALYSIS

01 December 2022

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Budget Assumptions

The 2022 National Budget is running under the theme of reinforcing Sustainable Economic Recovery and Resilience. The budget projects national output to grow by 5.5% in 2022 anchored by normal to above normal rainfall patterns. Zimbabwe's agriculture is mostly rain-fed as only 10% of arable land is under irrigation. As such, the performance of agriculture, the mainstay of the economy, is determined by the volume of rains received. The budget also assumes that the spread of the COVID-19 pandemic will subdue as countries intensify vaccination programmes.

However, the emergence of a new transmissible and lethal Omicron variant risks returning economies to hard lockdowns and closure of borders. This will disrupt global supply chains and plunge economies into severe recessions. With this threat, there is need for nations to start rolling out booster shots as well as increasing their vaccinations. The World Health Organization admits that the likely solution left is for countries to introduce mandatory vaccinations to ensure that all people get their jab. Further, the budget assumes that the exchange rate will remain relatively stable and inflation will recede, averaging 32% in 2022. Last but not least, the budget predicts that international mineral prices will remain favourable.

Budget Allocations

Given that the health situation in Zimbabwe was worsened by the outbreak of the COVID-19 pandemic, ZIMCODD expected the government to increase the allocation to the health sector to meet the Abuja Declaration. The Declaration states that governments should spend at least 15% of their budget funds on health delivery. The 2022 budget has set aside 14.9% (ZW$117 billion) of the total votes towards the provision of health care. This is an increase from 13% allocated in 2021.

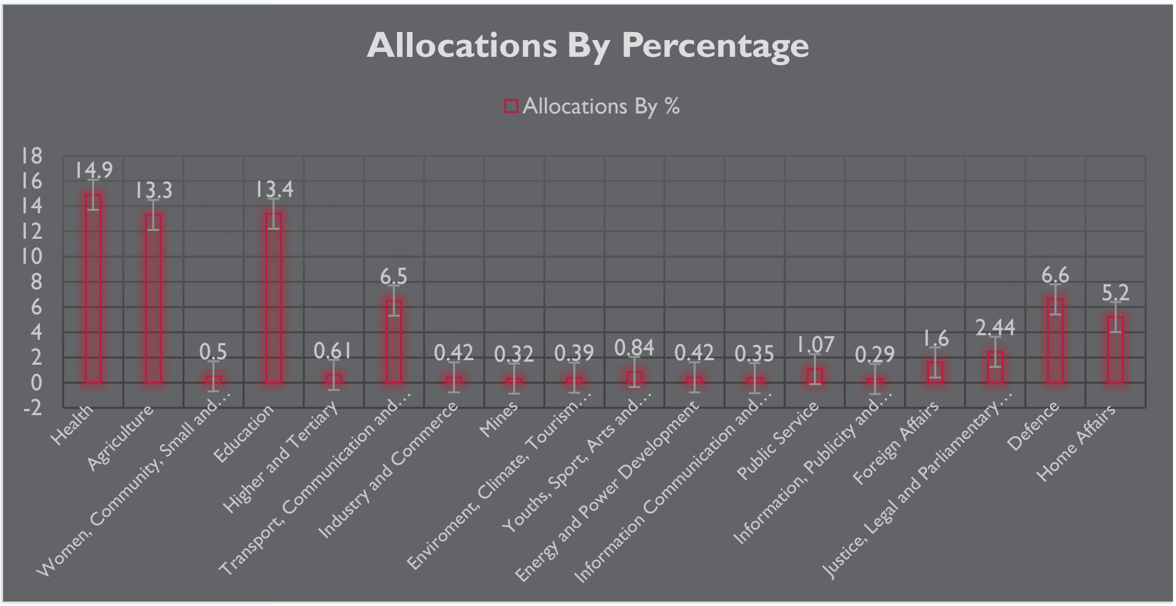


Fig 2: 2022 Budget Allocations by Percentage

Education received the second-highest allocation in 2022, getting 13.1% of the total budget, an increase from 13.1% received in 2021. Also, agriculture received the third-highest allocation constituting 13.3% of the total budget. The increase in agriculture spending emanates from the rise in Pfumvudza and Command Agric beneficiaries as the government seeks to move towards food self-sufficiency by 2025. The security sector received 11.8% of the ZW$927.3 billion 2022 budget.

Allocations versus Benchmarks

There has been a decline in terms of the budget fulfilling some of the international sectoral thresholds as shown in table 1. An improvement was only realized in the health sector which jumped to 14.9% from 13% in 2021. Transport and Infrastructure (6.5%), water and sanitation (0.2%), and social protection (2.1%) registered declines from their 2021

Sector	International Commitment	% Of the Total Budget	
		2021	2022
Social Protection	4.5% Social Policy for Africa (2008)	2.3%	2.1%
Education	20% Education for All Initiative (2000)	16.5%	13.4%
Health Care	15% Abuja Declaration (2001)	13%	14.9%
Water and Sanitation	1.5 % Ethekweni Declaration (2008)	0	0.20%
Agriculture	10% Maputo Declaration (2003)	11%	13.3%
Transport & Infrastructure	9.6% AU Declaration 2009	7.1%	6.5%

There are issues around the budget allocations in Zimbabwe with questions being raised on whether percentage allocations are important anymore. Over the last 5 years, the total budget has averaged US$4.5 billion in real terms (US dollar). The 2022 budget's current real value is US$4.6 billion (at the parallel rate) yet the exchange rate is deteriorating. If depreciation of the local currency continues unabated, the budget real value will likely decimate to lower values. Therefore, if the total budget is not changing significantly in real terms, the increases in percentage allocation will be reflecting nominal changes. Also, there is a challenge with the bunching of Ministries. For instance, the Ministry of Youth, Sport, Culture, and Recreation received 0.8% of the 2022 budget. This means that, on average, each portfolio will receive 0.2% of the total budget. Is this sufficient for the youth? Young people below the age of 35 years constitutes about 67% of the total population yet it is getting a nadir 0.2% allocation.

Further, there is another issue around the utilization of budget votes. The 2022 budget has shown some Ministries underutilising their votes. For instance, the National Housing, Health, and Foreign Affairs have used 17%, 46%, and 31% of their 2021 allocation respectively for the first nine (9) months ending September 2021. On the other hand, some ministries have spent more than what was allocated.

For example, agriculture has utilized about 171% of its total allocation as of September 2021. This under(over) utilisation of budget votes also raises a lot of questions:

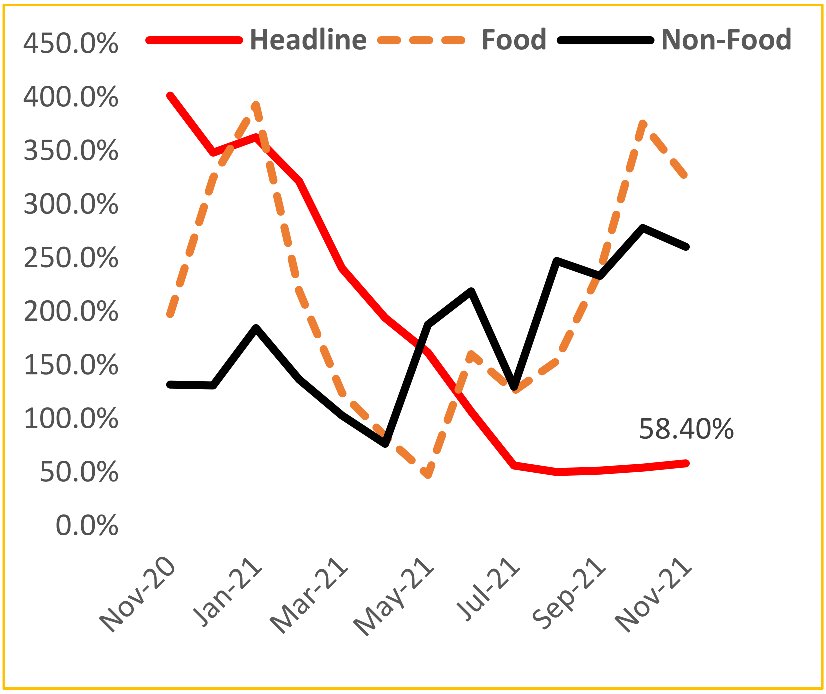
- Isn't the budget just showing figures that are never allocated?
- What is the implication on service delivery?
- Surplus - does it include this underutilization?
- Should new allocations be directed to MDAs that underutilized resources?
- Misappropriation of resources – Are audits effective?
- Are OAG's Recommendations being implemented?

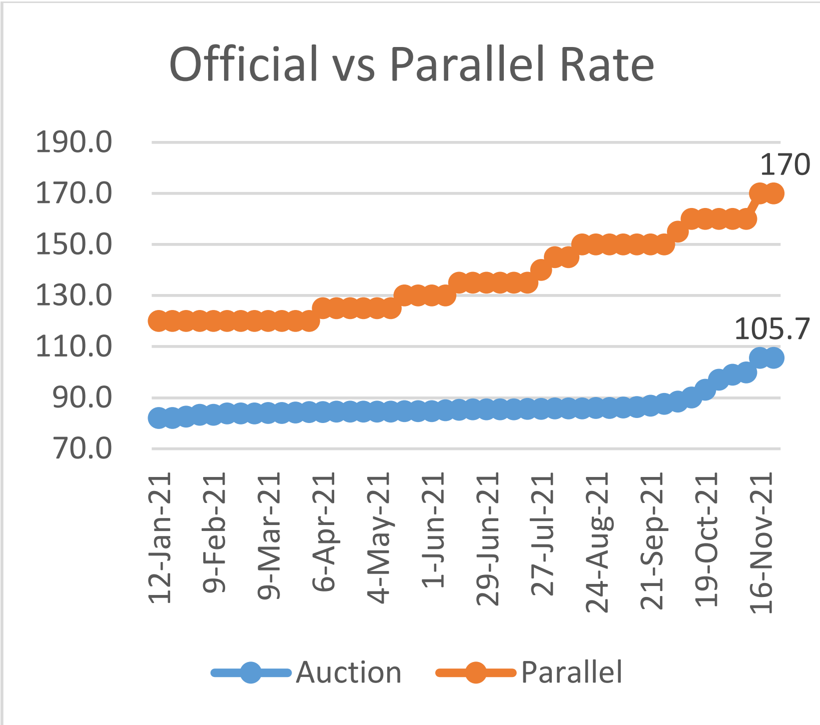
1. STRENGTHENING MACROECONOMIC STABILITY

The 2022 National Budget envisions that the economy will grow by 5.5% in 2022, a moderation from the 7.8% that is being expected for 2021. This growth rate is premised on the conditions that exchange rate and inflation will slow down, COVID-19 cases rescinding, better rainfall patterns, and higher commodity prices and commodity demand among other assumptions.

The budget indicates that the macroeconomic fundamentals are strong, therefore, the economy is strong. However, these assertions from the Treasury Chief are difficult to swallow. Typically, in a stable economy, the local currency is stable (valuable) performing both an investment (store of value) function and a transactional (medium of exchange) function. Subsequently, prices of goods and services will be low to encourage aggregate spending in the economy. Also, a stable economy has a sustainable fiscal balance (financial position) to dampen inflationary pressures that may emanate from the monetisation of budget deficits as well as averting the crowding-out of private investment that comes from excessive domestic borrowing. The external position (Balance of Payments) of the country should be favourable, buttressed by robust domestic production alongside value addition and beneficiation. In short, a stable economy has relatively better standards of living and is resilient to both endogenous and exogenous factors.

However, the realities on the ground show that the economy is still fragile and highly susceptible even to smaller shocks. Although GDP is expected to grow by 7.8% in 2021, a growth rate that lacks a human face is meaningless. Despite the so-called recovery, poverty levels are worsening with rising cost of living. Since its official introduction in 2019, the local currency is yet to find a stable path with parallel premiums -the percentage difference between official and parallel rates- now hovering above 90% against the best practice (threshold) of 25%. The massive depreciation of ZW$ is fuelling prices. The latest statistics show November 2021 annual inflation at 58.4% up from 54.5% recorded in October 2021.





The continued shifting of goalposts by authorities on inflation projections indicates the magnitude of rising inflationary pressures. The inflation target is now set at a range between 52%-58% by year-end from the 10% projected in the 2021 Monetary Policy Statement released in February and between 25% and 35% projected mid-year.

The auction market in its current form is inefficient as it is failing to discover the true ZW$ price and failing to attract other new players as well. The RBZ has emerged as the sole supplier of forex when it should otherwise largely operate as a referee in the forex exchange market, not as a player. As such, the Bank is, most of the time, overwhelmed by forex demand leading to a rising backlog in actual allocations. In our view, it will be hardly possible to discover a market-clearing ZW$ price when the Bank is going for weeks allocating forex that is not available in its coffers. Apart from the auction, prices are being fuelled by a high money supply level in the economy that was largely triggered by the GMB's over ZW$60 billion purchase of grains from this year's bumper harvest.

Apart from the monetary front, the economy is battling perennial electricity shortages. Electricity is a key industrial enabler; its shortage is an albatross to business activity (production). The country's main thermal stations have outlived their lifespan hence frequent breakdowns. Also, the energy mix is not efficiently diversified thus exposing the country to climate change shocks.

Further, the maintenance of existing inefficient policies is greatly subduing economic activity. For instance, exporters are being forced to involuntarily liquidate 40% of their export earnings in exchange for an overvalued Zimbabwean dollar. This is detrimental to the economy as it increases underhand dealings like smuggling as well as non-banking of incomes earned (cash transactions). While forex is critical for the day-to-day running of government, the onus is on the authorities to promote the use of the local currency. Hence, there is a need to remove or reduce the surrender requirements to sustainable levels that will not choke businesses.

A perpetual loss-making trend by State-Owned Enterprises (SOEs) and parastatals is also constraining the fiscus thus disturbing economic stability. The operations of these companies need to be reformed to cultivate a culture of efficiency and effectiveness. The prices being charged by some of these companies are no longer economical raising questions around their viability. For instance, with the fiscal support Net One is receiving from the State, it continues to lag against privately-owned companies like Econet in service delivery, subscribers, and profitability. If properly managed, parastatals and SOEs are an engine for economic growth and development. A perfect example is China, where parastatals are contributing nearly 40% to GDP as well as the pre-2000 Zimbabwe where they contributed over 25% to GDP. Therefore, there is a need for cost rationalisation as well as exploration of beneficial ownership models that instil predictability and perpetuity of operations.

Again, the 2022 economic outlook is highly uncertain due to the continued emerging of variants of the COVID-19 virus. The discovery of the Omicron variant in South Africa which is more transmissible and lethal has caught the world by surprise. Consequently, the SADC region has been placed under the red zone (travel ban) by other countries like the UK and US. The variant risks returning the globe to hard lockdowns as experts show that the existing vaccines may not be effective. And given the status quo, the Treasury which over-rely on taxation will suffer a huge blow as economic activity slows down increasing the pool of people who will need social safety cover. This is so because the country is highly informalized (60%). Although being ranked as one of the countries running successful vaccination programmes in Africa, the country is way off its herd immunity target of 60% by year-end. There will also be pressure for booster shots for those who have been vaccinated for periods exceeding 6 months as is the case now in developed nations.

More so, Zimbabwe is an agrarian economy that relies on rainfall as it has only 10% of irrigable land. This is disproportionately exposing the nation to climate impacts. Therefore, there is a need for more investment in climate-smart agriculture to protect the sector from climate change. Though helpful especially to vulnerable groups like smallholder farmers, the distribution of farm inputs (productive sector subsidies) is marred in corruption and partisanship in other instances.

Many macroeconomic challenges are bedevilling the economy and to emerge from the doldrums, requires a strong policy response from the government. Nevertheless, a little was offered in the 2022 budget. The Minister responsible for Finance has set aside funds for resuscitation of closed SOEs and parastatals such as the ZISCOSTEEL and since 2019,

funds have been set aside for the same. However, there is little progress and 3 years later these companies are grounded.
It is therefore ZIMCODD's submission that to achieve stable and sustainable economic growth,

- The auction market should be reformed as it is failing to achieve its objectives of stabilizing the ZW$ and prices as evidenced by the widening of the gap between official and parallel market rates. If the auction rate is truly depicting the true market sentiment and operation of forces of demand and supply, it will culminate into low parallel premiums, low prices of basics, increased activity, and falling poverty. While the measures put in place recently by the MPC of the Bank such as tight reserve money targeting, higher RBZ policy rate and a higher reserve requirement ratio on demand deposits are necessary for price stability, and efficient exchange rate determination mechanism is needed for exchange rate stability.

- The vaccination program should be accelerated to minimize the risks of an ensuing fourth wave -hard lockdowns, stringent curfews, and supply chain disruptions.

- Due to its structural make-up, Zimbabwe is depending on commodities, and they are being exported in their raw form. Generally, prices of commodities are too volatile because they are susceptible to global fluctuations. Therefore, the government should put forward policies that encourage or force businesses to add value and beneficiation of these minerals to increase export earnings as well as employment of local people. Currently, most minerals are exported in their raw form.

Many other things need immediate attention such as:
- Inconsistency of policy, unsustainable public debt, electricity supply, fuel costs, quality of public institutions, high white-collar corruption, poor public service delivery, and irresponsible budgeting among other things.

Therefore, until these and other challenges are resolved, any growth that may ensue in 2022 will be fragile and short-lived.

Transformation Strategy that seeks to guarantee food security In a bid to attain vision 2030, the government has allocated ZWL 124 billion to the Ministry of Agriculture coupled with an export revolving fund for agriculture (US$30m)-Cash Guarantee to banks) and small holder farmer irrigation schemes (US$20m) all drawn from the Special Drawing Rights (SDRs) fund. This is reinforced by the US$80 million support for agriculture productive social protection scheme for rural and peri-urban households.

All these allocations and efforts are aimed at fulfilling the objectives of the Agriculture Recovery Plan (2020-23) together with the First Five- Year National Development Strategy (NDS1) priority on Food and Nutrition Security. Efforts were also made under the Agriculture Productive Social Protection Scheme of ZWL$18 billion, in which the government aims to support 540 000 vulnerable households and 260 000 households with 5 kgs of sorghum and millet seed respectively under Pfumvudza.

Despite such ambitious targets, the impact is likely going to be less, unless the government address the challenges encountered last season which include abuse of inputs as community leaders were giving preference to their relatives. The Zimbabwe Anti- Corruption Commission (ZAAC) reporting platforms were all overwhelmed by reports of corruption and abuse of inputs[1] .

To this end, there are governance issues that need to be addressed if pfumvudza is to succeed, the minister should announce a clear and replicable selection criterion of beneficiaries and ensure that transparency and accountability is upheld. The government should also run away from its elitism bumper harvest which neglects the masses. Currently, the World Food Program (WFP) in conjunction with implementing partners are carrying out their flagship intervention known as the Lean Season Assistance (LSA).

The LSA programme is only implemented when a country has failed to secure enough food for its citizens. Therefore, in as much as pfumvudza is good there is need for irrigation schemes to sustain it. Thus, the government need to invest in agricultural revolution projects that benefits the entire population. Rather than giving money to horticulture, the US$

1. Zimbabwe: Corruption Rife in Pfumvudza Inputs Distribution - allAfrica.com

30 million dollars can be used to resuscitate Agricultural and Rural Development Authority (ARDA) as well as establish new rural irrigation schemes.

In 2021, agriculture exceeded its allocation by 71% resulting in an expenditure of 171% while health failed to utilise even half of its allocation as it only used 46% and housing utilised 17%. The variances in expenditure by the above ministries is a cause of concern and stimulates discourse surrounding the politics of public resources.

This is because public resource management and politics are intricately intertwined as “politics is the authoritative allocation of values[2] " this literally entails that rent seeking and economies of affection always engulf budgetary allocations and expenditure. It can be argued that there is a possibility that sectors that are failing to utilise all their allocations is because of bottle necks that are calibrated to ensure that those sectors do not access all their funds which are latter transferred to agriculture.

A report published by Daily Maverick in February 2021 on Zimbabwe State Capture noted that, agriculture was one sector that was being used by politician and Politically Exposed Persons (PEPs) to siphon resources as attested by the command agriculture in which US$ 3 billion was looted. The same sentiments were also shared by the Sentry report which notes that the government could not account for US$ 3 billion in command agriculture.

The situation was exacerbated by the fact that, Sakunda holdings which is owned by Kuda Tagwirei, president Mnangagwa`s ally and presidential advisor was the one financing the project leading to allegations of state capture. Therefore, this validates the assertion that the reason why agriculture always exceed its expenditure is because the sector itself is a fecund ground of corruption and under dealings. To this end, there is need to put in place mechanisms that see to it that the minister should not exceed sectoral expenditure without parliamentary approvals.

2. David Easton

3. ENHANCING PUBLIC SERVICES DELIVERY INCLUDING SOCIAL PROTECTION AND INFRASTRUCTURAL DEVELOPMENT

Social Protection

Social protection remains, the bedrock of human capital development and national inclusivity and growth. Social protection is at the core of the government`s fiduciary responsibilities as the modern state is premised on the concept of social contract by which the state gets its legitimate and autonomy from the people and in return is obliged to create inclusive policies that caters and subsides for the mass.

To this end, an effective social protection system is one that is calibrated to ameliorate social and economic inequality as well as stow human rights, Sustainable Development Goals (SDGs) and proliferate the National Development Strategy 1 (NDS1). In 2022 the government will also use US$ 80 million of the SDR funds towards support for Agriculture Productive Social Protection Scheme for rural and peri-urban households (US$80 million). In Zimbabwe social protection covers the following:

- The Basic Education Assistance Module (BEAM);
- The Harmonized Social Cash Transfer Programmes;
- Drought Mitigation Programme;
- The Health Assistance Programme;
- The Child Protection Services;
- The support of the elderly and people living with disabilities.

According to the 2022 national budget between January to September 2021 social benefits outlays amounted to ZWL 20.1 billion against a target of ZWL 9.1 billion. The money is disaggregated as follows:

- Productive Social Protection Scheme $13.7 billion;
- Harmonised Social Cash Transfers $874.6 million;
- Support to elderly persons $50 million;
- Support to people with disability $113 million;
- COVID-19 emergency response $100 million.

However, the level of poverty, inequality, and vulnerability on the ground points either to poor resource management through corruption or the infeasibility of the popularised unpopular minister`s “sophisticated algorithms” which excludes the most vulnerable members of the Zimbabwean community. The minister`s sophisticated algorithms are created to infuse selection ambiguity with a deliberate intent of creating a fecund ground of system vulnerability.

The story of Tatenda Manhimanzi (22) is a case point to the vulnerability of the sophisticated algorithms. Manhimanzi an intern at the ministry of social welfare is alleged to have stolen 53 sim cards meant for the vulnerable and siphoned approximately ZWL 90 100. Therefore, the million-dollar question is, if an intern has the capacity to loot such ginormous and mammoth amount, what capacity does a high-level government official has.

Child Protection

According to the 2022 national budget, BEAM assisted 446 844 venerable children with school fees culminating in an outlay of ZWL 2 billion. This was also complimented by development partners who assisted 175 592 children. Nonetheless, this was against the 4 million children who need assistance. Thus, the BEAM failed to effectively bridge the educational inequality gap. In 2022 the government doubled the outlay figure culminating in an allocation of ZWL 4.1 billion. Hypothetically, if one is to estimate the number of the children who got assistance last year and multiply by two equals to 893 688 children, a figure way below the half of the 4 million children in need of assistance. Therefore, the government need to prioritise education with the intent to bridge educational inequality as this is vital for the attainment of vision 2030 which seeks to harness optimum human capital development for national growth.

Food Deficit Mitigation Strategy

In 2021, the government managed to provide food assistance to 735 455 households between January to September with grain worth approximately ZWL$1.6 billion in rural areas. In urban area the government managed to support 50 986 households under the Cash for Cereal programme at a cost of ZWL$252 million. Although government efforts are commendable, it is critical to note that extreme poverty was exacerbated by COVID-19 with an increase of 1.3 million from 6.6 million in 2019[3] . To this end, the government`s assistance was just a drop in an ocean as majority of Zimbabwean rural and urban areas relied on the assistance of World Food Programme (WFP) in collaboration with local and international organisations such as Goal International, Action Aid Zimbabwe, Plan International to mention but a few. An addition of those who benefited on government rural and urban assistance program culminates to

3. Pandemic worsens extreme poverty in Zimbabwe: report - Xinhua | English.news.cn (xinhuanet.com)

786 441 which is 10% of those in extreme poverty. Given the above scenario, the proposed ZWL 2 billion will not be sufficient to cater for all those who are in extreme poverty as it is just 174 800 000 that was added.

Sustainable Livelihoods

Considering the number (7.9 million) of those in extreme poverty, the ZWL 160 million allocated in the 2022 national budget for sustainable livelihoods is inadequate and will not serve the purpose. Furthermore, there is need for transparency and accountability in the allocation of the money as the government is on record for abuse of public funds.

Harmonised Social Cash Transfers

In 2021, the government made cash transfers amounting to ZWL 875 million to 70 000 households in 26 districts. The harmonised cash transfers were made via mobile money with the intention of helping those in extreme poverty. However, the harmonised cash transfer was wanting with respect to beneficiary selection model as it adopted the minister`s "sophisticated algorithm" which no one knows the basis of its criteria. Therefore, for 2022 the government announced its ambition to increase 10 districts from its current 26 districts to benefit approximately 97 000 households. This is to be complemented by an increase of ZWL 1,125,000,000. An increase that is likely to be ineffective considering the disparity between the auction market and black-market rate which points to inflation distortion.

Health Assistance

The 2022 national budget did not state specifically its allocation towards health assistance. The budget only acknowledged ZWL 70 million disbursed towards 12 000 individuals in 2021 between January and September through Assistant Medical Treatment Orders. To this end, the failure of the government to state the 2022 allocation figure is a cause of concern as worries are that the government might just allocate the same figure. The findings of the Auditor-General Report on COVID-19 aggravates the situation as the report notes that the entire public sector is in a deplorable state with infrastructural backlog that militates against optimum health delivery.

Urban Mass Transport System

In the year 2022, ZWL 3.7 billion was allocated towards, the Urban Mass Transportation System (UMTS) by the Zimbabwe United Passenger Company (ZUPCO). The UMTS programme has 900 buses, 1 150 commuter omnibuses and 356 NRZ fleets. Although, subsiding transport is a good concept on its own, in Zimbabwe it was introduced for a wrong reason and has culminated in the entrenchment of ZUPCO monopoly.

Towards a Gender Sensitive Budget

The mainstream gender sensitive expenditures, with 70% benefiting women, had an allocation of ZWL 335.8 billion which is 36.21% of the total budget. These expenditures cover education, health, rural development, economic empowerment, and social protection programmes. This will be complemented by fiscal measures that are tailor-made to benefit women and other disadvantaged groups.

The measures include upward review of tax-free thresholds for PAYE, the 2% Intermediary Transaction Tax (IMT) and the youth employment Credits, as well as awarding of the 2021 annual bonus in foreign currency. However, in as much as it appears glamorous, the government has a track record of proposing good methods which in turn are not implemented. In addition, the bundling, of the expenditure by the government is meant to water-down calls for women empowerment from various stakeholders as the number appears to be too big. Thus, there is need for a robust expenditure monitoring framework that unravels all the expenditure granular details.

State Enterprise and Parastatal Reforms

The drive for effective public sector management has always been at the core of governance although there are complementing and complex dynamics that are intricately intertwined which continues to militate against the reform agenda. The Transitional Stabilisation Programme was premised on the need to undertake a robust reform agenda that culminates in the bundling and unbundling of various parastatals and state institution in a bid to stimulate growth and operation resuscitation. However, the reform agenda made less impact leading to the newly proposed "Ownership Model" which will be embedded by new legal and institutional framework to infuse organisational capacity.

The ownership model is premised on centralisation and gives the state maximum autonomy. The model is a departure from the current decentralised. Under this new reform drive, the State Enterprises Reform, Corporate Governance and Procurement Unit, incorporating the State Enterprises Restructuring Agency (SERA) will be allocated more resources to undertake the reforms. Of interest to note is what the government calls decentralised model is a centralise model, this can be exhibited by government`s excessive interference in the operations of state enterprises and parastatals.

Thus, the newly adopted model will be disastrous as it will entrench government`s autonomy. Zimbabwe does not need more reform models; Zimbabwe simply needs rule of law as it already has a many legislative and policies that speaks to reforms which includes but not limited to the Zimbabwe Code on Corporate Governance and Financial Performance and the Public Entities Corporate Governance Act (Chapter 10:31). The arrest and prosecution of high-level public officials will serve as a deterrence and enough enzyme to genuine self-ignite public sector reforms.

4.TAXATION AND WELFARE ISSUES

The proposed tax regime entrenches social and economic injustice as much as it propagates inequalities. It will likely contribute to an increase in extreme poverty, currently at 50% of the population and expected to worsen given the COVID-19 shocks. Approximately 65% Zimbabweans are unemployed, 80% rely on the informal sector, 70% are the youth and 52% are women who mostly rely on the informal sector. The marginalised and vulnerable citizens stand to be disadvantaged and many formal players will in formalise as a way of circumventing a myriad of taxes presented hereunder.

The 2022 National Budget has tax justice issues that require reconsideration by the Parliament before the budget can be passed. Whereas the Zimbabwe Revenue Authority (ZIMRA) surpassed set revenue targets in 2021, the Minister introduced new taxes thereby piling the tax burden onto underpaid and over-taxed citizens. Whilst Zimbabwe is listed as one of the most taxed countries in the world, the addition of new taxes further discounts citizens' welfare, scuttles business confidence and retards Foreign Direct Investment (FDI). This calls for a review of the taxation regime to accommodate the corporate sector as well as ease the tax burden on citizens. An account of the unjust taxes is provided hereunder.

Money Transfer Tax

The 2% Money Transfer Tax (MTT) was retained in the 2022 National Budget and the minister did not revise thresholds to cushion impoverished citizens. The MTT now constitutes 10% of ZIMRA's total tax revenues, a sign of a tight tax base. The MTT has the following misgivings:

- The MTT is a double tax as citizens pay 2% tax on all money transfers after complying with the normal Pay as You Earn (PAYEE). Money transfers are made to relatives and the elderly to support their upkeep thus taxing such transfers is tantamount to scaling down the intended impact to vulnerable citizens
- The MTT contradicts financial inclusion and victimizes the poor as the cost of transferring money across various platforms is prohibitive.
- The MTT suppresses aggregate demand in the economy by taking further from salaries that are below the current PDL of Z$50 000.
- The total tax burden for employees now incorporates

PAYEE, AIDS Levy (3%), MTT and VAT amongst other hidden taxes incorporated in the pricing of goods and services.[4]

ZIMCODD recommends that either the government scraps the MTT, increase the threshold from the current ZWL 500 or at least reduce it as a way of relieving the impoverished citizens.

Withholding Tax

Traditionally, when un-registered/informal entities do business with formal entities, 10% of their payment is withheld by the formal entity. However, the Minister proposed 30% withholding tax starting January 2022. This tax hike has growth, employment, poverty, and inflation implications as follows:

- Informal SMEs will lose a greater chunk of earnings thereby dampen their growth latent.
- The reduced growth potential of the informal sector moderates employment creation ability of the informal sector, a key role given Zimbabwe's high unemployment rate.
- The 30% withholding tax implies that prices for services and goods shall be inflated to cover up for the extra tax thereby adding to the inflationary pressures in the economy.
- Accordingly, the informal sector deserves government support so that they formalize instead of over-taxing them and crippling their role in the economy.

The Cellphone Tax

The budget also introduced a US$50 tax on new cell phones redeemable once proof of import duty payment is availed. The fall of this tax are as follows:

- The tax effectively is anti-poor as they cannot afford to buy a phone in the first place. US$ 50 is worth Z$10 000 (assuming parallel market rate), an amount constituting 30% of the net salary of an average civil servant.
- The additional USD50 highly affects the digitization of the economy and has the potential of financially excluding the poor as most transactions are now done on the phone.
- Also, the tax perpetuates inequality in the education sector as reduced access to phones (due to the tax) shrinks the chances of adopting online learning by the disadvantaged. Online learning remains the new-norm with respect to learning in the COVID-19 era.
- The tax also shows that Zimbabwe is failing to embrace the inclusive Digital Era Governance (DEG) and leans towards

4. The total tax burden for an employee is dependent on their salary scale

the traditional Public Administration and New Public Management thereby infusing structural impediments to the fourth industrial revolution which is sustained by DEG.

Minimum Taxable Income

The 2022 national budget moved the minimum taxable income from Z$10 000 to Z$25 000 against the current poverty datum line of about Z$45 000. Pegging the minimum taxable income at Z$25 000 shows government's intention to lowly remunerate its employees. The following concerns relate to the minimum taxable income:

- It pauperises civil servants as their salaries cannot match their monthly living costs.
- The minister should have matched the minimum taxable income to the PDL and provision for periodic adjustment of salaries to inflation. Unfortunately, the budget is silent about such inflation adjustments thereby exposing civil servants to negative welfare benefits as inflation continues to soar.
- Given the continued civil service unrest owing to poor salaries, the best move for government is to pay USD salaries as per the record set in the payment of a USD bonus.

There is need for government to keep designing other fiscal incentives that can cushion civil servants from the impoverishing salaries.

Fuel Tax

Currently fuel prices incorporate import duty (USD0.30 or USD35 per litre for pipeline or road imports), ZINARA Road Levy (USD0.06 per litre), carbon tax (USD0.04), Debt Redemption Levy (USD0.057), and other taxes such as strategic reserve levy and the National Oil Company of Zimbabwe (NOCZIM) Debt Levy. All these taxes inflate fuel price and make it unaffordable to the common man.

- The 2020 budget also introduced a USD two cents tax for both petrol and diesel, an additional cost on the already expensive Zimbabwean fuel compared to regional fuel prices as presented below.

Country	Diesel Price (US$)	Petrol (US$)
Zimbabwe	1.38	1.40
South Africa	1.17	1.19
Zambia	0.91	1.03
Mozambique	0.90	0.98
Botswana	0.95	0.97
DRC	1.00	1.00
Malawi	1.37	1.41
Lesotho	1.02	1.04
Namibia	0.95	0.97
Angola	0.23	0.27
Eswatini	0.91	0.88
SADC Average	**0.98**	**1.01**
Variance (Zim less SADC Average)	**0.40**	**0.39**

Source: globalprices.com

- The budget did not address the travesty of fuel being sold in USD, a currency that is not earned by the populace thereby exposing citizens to the extra cost of sourcing USD for them to acquire fuel.
- Fuel cost is worthy government's attention as it is inflationary – extra fuel cost is passed onto the customer through increased prices thereby reducing the welfare of citizens.

Therefore, it is imperative to reduce the various costs on fuel to make it affordable to the common man.

Auction Market related Taxes

On another note, the auction market's compulsory liquidation of either domestic USD sale or export proceeds was not revised in the 2022 budget despite the unpopularity of the tax. The following issues require consideration:

- SMEs require a reprieve for them to grow and reach set earnings threshold before they can be taxed. SMEs create jobs and require this support.

- Also, the 40% and 20% compulsory liquidation of USD export earnings and domestic USD sales defines an imminent loss of value for corporates. This tax has seen a rise in smuggling and understatement of exports as a way circumventing the punitive taxes.

- There is need for government to reconsider these liquidation thresholds if not scrap them totally as the tax favours importers at the expense of exporters – an injustice that disincentives productivity and or exporting.

- It is also worth noting the government seem keen to collect USD taxes compared to ZWL given the charging of levies in the USD. The low confidence associated with ZWL calls for currency reforms that can introduce a stable currency supportive of value storage and promote savings.

5. STRENGTHENING GOVERNANCE AND ANTI-CORRUPTION MEASURES

2022 Public Finance Management strategies

Zimbabwe is a lower-income country aspiring to become an Upper-Middle-Income nation by 2030 -Vision 2030. All the policy targets being pursued to achieve the Vision are clearly stated in the National Development Strategy (NDS) and the policies are implemented through the national budgets. The government is seeking to attain a GDP (income) growth that is stable, inclusive, and sustainable.

This is key to ensuring that the national cake is shared in a manner that is fair and equitable. Advanced economies have state-of-the-art public service delivery because public services are a gold bar for the majority poor thus reducing inequality - income, tax, debt, gender, race, tribal, innovation, etc- between various groups of the society. There is convincing empirical evidence showing that a good public service delivery system is associated with positive GDP growth.

Good public service means great improvement of human capital base, giving the country a competitive advantage in the region. This attracts investment leading to the creation of employment. It also means a healthy workforce that is more productive, hence increasing productivity. There are also other basic services needed for the well-being of a country such as water, sanitation, housing, and an efficient mass transit system among others.

However, in Zimbabwe, public service delivery is deteriorating largely due to ever-growing corruption by public officials. Yearly, the Auditor-General's audit reports have been unearthing massive abuse, misuse, and diversion of public resources into private hands. These irregularities include among others poor internal controls, failure to follow procurement procedures, lack of segregation of duties, improper record-keeping, and operating without supporting policy documents.

Further, the AG offers recommendations on the best ways to solve these irregularities, yet they are not being implemented thereby exposing public (budget) funds to jaws of corruption and greed.

The country also boasts of vast valuable minerals on global demand such as gold, diamond, nickel, lithium, and the Platinum Group Metals (platinum, rhodium, palladium, ruthenium, osmium & iridium). Estimates show that the mining sector is contributing an average of 70% to total export earnings and at least 15% to GDP.

The sector is expected to grow to US$12 billion by 2023 before it doubles by 2030. However, the people are not benefiting from this rich resource endowment as the marketing is marred by corruption. There is secrecy in the spending of mining revenues and the opaqueness of the granting of mining claims, rights, contracts as well as the sealing of private investment deals.

The government estimates that it is losing about US$1.2 billion per year to gold smuggling alone. If corruption in other minerals such as diamond is considered, the country is losing billions of mining revenues that could be used in advancing economic growth and development. Africa Growth Initiative's report on illicit financial flows (IFIs) shows that the SADC region has lost US$1.3 trillion in the past two (2) decades due to IFFs, with Zimbabwe's share of loss at US$32.2 billion. This is a huge amount for a country that has maintained a national budget oscillating around US$4 billion in more than 3 years.

In a bid to strengthen public finance management (PFM) in Zimbabwe, the government intends to migrate the PFM System to the International Public Sector Accounting Standards (IPSAS) in 2022 starting with capacity building and data gathering among other preparatory activities. To buttress this, the Minister indicated that they have engaged experts to develop a Comprehensive Reform Strategy for the effective implementation of the PFM Act.

The Parliament is also currently considering the PFM Amendment Bill to align it to the Constitution. Further, the Treasury established the Central Internal Audit Unit to strengthen internal audit and compliance functions. However, there is no guarantee that the newly established unit will reach optimum efficiency as what Zimbabwe needs to deal with is state capture and corruption and not to reproduce ombudsman institutions.

While the foregoing wish list of actions the government has indicated that it will undertake to strengthen PFM in 2022 is commendable, it will be hard to believe that more of these actions will be instituted. Hence, the first port of call for the government should be on the prosecution of corrupt officials. Many corrupt bigwigs continue to walk freely.

This encourages other individuals to engage in corrupt activities thereby creating a vicious cycle that will have a toll on public service delivery. The government should monitor and track the implementation of the Office of the Auditor-General (OAG) recommendations to close loopholes in the PFM system. The underutilization of budget votes by PFM-linked institutions is a cause for concern. For instance, in the first nine (9) months to September 2021, the Zimbabwe Anti-Corruption Commission (ZACC) had spent only 48% of its 2021 budget votes. This is a critical institution in the fight against corruption in Zimbabwe.

The US$50 cell phone tax being proposed by the government will further worsen corruption. The advancement and increased use of information technology has reduced the distance between a duty bearer and a right holder thereby putting pressure on the former to deliver. Technology is also making it easy for citizens and activists to organize themselves quickly to engage with authorities.

Hence, the new tax will disadvantage most citizens especially the unemployed youths. Also, the proposed scrapping of the 10% Whistle Blower Facility raises some eyebrows as the intuition behind the proposition defies logic. This is equivalent to giving an open check to a robber. The 10% was acting as an incentive for the public to report corrupt activities.

Adoption of E-Governance

The government should adopt e-governance as a strategy of strengthening governance and combatting corruption in the public sector. As a governance strategy, e-governance promotes timely information to citizens and various stakeholders through several clusters that are embedded in it such as government to business (G2B), government to citizens (G2C) government to employees (G2E).

The administration clusters in e-governance proliferates division of labour and lessen interaction of public officials with citizens or the business community an aspect that is crucial in mitigating corruption. For example, public officials from ZIMRA will have no need to meet customers as they will simply upload their tax clearance and books online. The e-governance platform also has effective anti-corruption systems which functions as anonymous reporting and the message can get straight to the intended office. However, the use of e-governance without political will does not automatically guarantees optimum efficiency. The system can still be abused, thus there is need of punitive measures to be attached to it.

6. ACCELERATING THE RE-ENGAGEMENT PROCESS AND ARREARS CLEARANCE

The government continues its effort of re-engagement with the international community with clearance of arrears being part of the strategy. Although this appears to be noble, the government has neglected service delivery and introduced vast new tax regimes that are meant to tax the citizens more so that it can repay debts which did not directly benefited the citizens.

In 2021, the government paid US$ 44.2 million as a token to its debts, it also intends to compensate the former white farmers US$ 3.5 billion. Although, debt payment and compensation are good the government should not neglect other facets such as rule of law, democracy, rule of law, and property rights that promotes re-engagement. Corruption continues to proliferate in Zimbabwe with state capture reaching alarming levels.

The recent judgement by the High Court that Drax, was legally registered when in fact during the time of the scandal in 2020 it was not registered in Dubai attest to the levels of impunity and graft in Zimbabwe. After the scandal, Drax was then registered in Dubai on the 5th of May 2021. Thus, re-engagement should be a cocktail of rule of law, democracy, and debt clearance. Even so, the government should not prioritise debt payment over service delivery.

7. IMF SPECIAL DRAWING RIGHTS (SDRS).

Zimbabwe has received a portion of its SDR allocation from the IMF to the tune of US$961 million. Although they are unconditional, these SDRs are generally meant to support the IMF member countries to navigate through the impacts of COVID-19 on their economies through building resilience in the form of foreign currency reserves.

Also, these SDRs will provide member countries with enough funds to spend on the provision of public services and social safety nets to cushion the vulnerable groups such as the elderly, the orphans, people with disabilities (PWD), unemployed youths, and women. The 2022 National Budget has indicated a proposed SDR utilization outline. This has shown that the government has already withdrawn US$311 million which translates to 32% of the total SDR received by Zimbabwe.

		2021	
Sector	**Priority Area**	**Allocations**	**Drawdowns**
Social sector investments	Health	122	87
	Education	10	0
	Productive Social Safety Nets.	80	80
Agriculture support		50	0
Industry support		30	0
Infrastructure development		164	144
Contingency	Contingency Fund	222	0
International Reserve	Foreign currency reserves	280	0
Total		**958**	**311**

Going by an official statement, the government will spend these SDR funds on various sectors of the economy like public or social sector investments (health, education, and productive social safety nets), agriculture support, industry support, infrastructure development, contingency, and international reserves. The budget for productive social safety nets like farm inputs has depleted already. This is attributed to the upcoming rainy season in which the government has increased the number of Pfumvudza beneficiaries.

Pfumvudza, a climate-proofing technique, is credited for the bumper harvest realized this year. The country has produced 3 million tonnes of grains enough to feed Zimbabwe leaving

some for the export market.
Also, about US$144 million of the funds drawn from SDRs -71% of earmarked resources- is being used to finance infrastructure development with only US$164 million being prioritized for the same. Assuming US$280 million SDR funds to be set aside as reserve is used for the intended purposes, it will go a long way in boosting and re-building the country's foreign currency reserves that have depleted over the years.

In 2019, the country experienced shortages of foreign currency, a challenge that is persisting thus fuelling the current exchange rate overrun in the parallel market and subsequent massive growth of prices. Therefore, reserves are key as they are used by central banks to support the value of a country's currency, and this has positive spill-over effects on inflation and the general stability of the economy. More so, about US$222 million has been set aside for the country's Contingency Fund. The prioritization of industry and agriculture support is also commendable.

Given the lack of transparency and accountability in most public institutions in Zimbabwe, it remains to be seen if some of the funds will not end up being diverted and used for repaying external debt arrears and interest. Therefore, while disclosure of an SDR utilization outline is a welcome development, more should be done to ensure that there is also transparency in the spending of those SDR funds.

There is a need for close monitoring to ensure that value for money is enjoyed by citizens. The country will also be forced to self-monitor because evidence of corruption may lead to the suspension of future SDR allocations and credit extensions. This will be a big blow to a developing nation like Zimbabwe with a fragile economy being choked with debt distress.

In as much as the government is using SDR funds to support some of its projects and programs, the SDRs should not be used to sustain existing inefficient policies. There is a need for strong structural and economic reforms to ensure that public institutions like parastatals and State-Owned Enterprises perform efficiently to reduce wastage of public resources. This will lower production costs, increase profitability, and improve public service delivery. However, the status quo shows that giving these public institutions SDR funds may not lead to intended outcomes as some funds will face the jaws of corruption, abuse, misuse, and diversion into private hands. Therefore, SDRs should not be used to sustain inefficient policies and subsidies. This is also the case on currency support, spending scarce forex supporting an inefficient auction market will not bring the intended objectives. As such, the government should ensure that necessary reforms are undertaken to fine-tune the auction system to achieve currency stability.

8. ENHANCING CLIMATE CHANGE MITIGATION AND ENERGY SECURITY

This year, Zimbabwe attended the United Nations climate summit (COP26) in Glasgow, Scotland where pledges were made towards the reduction of carbon as well as massively investing in climate mitigation measures. The key focus areas are on energy security and stranded assets, deforestation, disaster risk reduction, Environmental Impact Assessment, and Smart Cities Model on the transport system.

Energy Security and the stranded assets

The government intends to complete Hwange 7& 8 and the refurbishment of old thermal power stations in 2022. This is key for improving the country's energy security considering the US$12 billion mining economy and vision 20230. However, climate change management brings with it a movement from coal and other fossil fuels to renewable energy. There is limited support in global financial markets for that, so ZIMCODD expects to see more fossil fuel-based development being supported by the fiscus. The country already has reduced tariffs on renewable energy products, and this should continue as a method of de-risking investing in the sector.


Fig: Stranded Assets

At COP26, there was a unanimous agreement by parties to stop investment in new coal-fired power stations. Given the rich coal endowments in developing countries like Zimbabwe, it remains to be seen how they will respond to stranded assets like coal? As such, there is a need for a clear plan to bring in financing that will support the transition from coal and other fossil fuels. This financing will also need budgetary support from international organizations more like what South Africa got in COP 26.

Deforestation

At COP26, The President of the Republic of Zimbabwe took an opportunity to market the country through the "Zimbabwe is open for the business mantra". One of the strategies that Zimbabwe will use to combat the increase in global warming is a commitment by the government to reduce deforestation. Given the country's reliance on mining and agriculture for economic development, it also remains to be seen how the country is going to reign in deforestation? The budget lacks concrete actions supported by budget lines for reigning in deforestation. It also lacks provisions for piloting or out-scaling new energy-saving technologies to address the reliance on wood fuel for domestic energy by households in rural areas.

Disaster Risk management from climate-induced disasters

The government has availed the Productive Social Protection Scheme financing for agricultural production by vulnerable smallholder farmers. This is commendable considering the challenges in access to finance by smallholder farmers. The country already has a national insurance policy against drought in the form of the ARC. Given the increased risk that the country is facing in terms of climate-induced cyclones or floods, the budget is silent on a provision for such disasters as relocation centres and food for affected people. This may lead to high susceptibility by at-risk households and delayed relocation of victims as happened with Cyclone Idai Victims.

Greening EIAs

Mining remains a strategic sector for the socioeconomic development of the country. Before mining, mining companies are required to do Environmental Impact Assessments. These are key in identifying the possible positive and negative social, environmental, and economic impacts. However, the process does not consider any effects of mining or other large-scale projects on Climate Change.

The transport sector and the smart cities

Government intends to rehabilitate and develop roads and upgrading of railway infrastructure. In line with Climate Smart cities, there is an opportunity to promote electronic vehicles for both public transport and private users in line with LEDS and SDG13 on Climate Action. However, the 2022 budget is silent on how it intends to green the transport secto

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