



October 2021

INPUTS INTO THE 2022 NATIONAL BUDGET

INTRODUCTION

Following an invitation by the Ministry of Finance and Economic Development (MoFED) to make submissions for the 2022 National Budget, the Zimbabwe Coalition on Debt and Development (ZIMCODD) consulted its stakeholders and compiled a comprehensive list of budget expectations. The budget submissions are part of the budget consultations fronted by the MoFED to solicit not only a buy-in of policies by the public but an understanding and co-option of policy priorities addressing societal challenges. This explains Zimbabwe's modest showing in the Open Budget Survey. It is expected that the 2022 National Budget shall take from the ensuing socio-economic challenges and seek to address the same with the intuition of making life better for all societal groups.

Notable is that the 2020 annual national budget seeks to further the aspirations of National Development Strategy (NDS1). Accordingly, the submissions hereunder are made in accordance with the 14 NDS1 priority areas. This report annotates either challenges or weaknesses in the existing policy framework as per each NDS1 priority area and proceeds to make submissions for the 2022 National Budget.

ECONOMIC GROWTH & STABILITY

According to the Budget Strategy Paper (BSP), the economy is expected to expand by 5.4% in 2022. This growth is hinged on the assumption of a normal rainfall season and increased climate proofing of agricultural activities in the 2021/22 season; COVID-19 pandemic control and successful vaccination program; stable power supply through rehabilitation and expansion of electricity generation capacity; favorable international commodity prices and expansion of value addition and beneficiation; and continued stable macroeconomic environment through prudent fiscal and monetary policies.

With the above assumptions, the 2022 GDP growth will be anchored on growth in mining, manufacturing, and electricity generation, among other key sectors. Further, the 2022 BSP envisions inclusive economic growth congruent to United Nations Sustainable Development Goals (SDGs) and the African Union Agenda 2063. The government also seeks to ensure that inflation is maintained within the SADC macroeconomic convergence benchmark of 3-7% through non-monetization of fiscal deficits and complementary monetary policy.

Notable improvements have been realized this year. Inflation has moderated from 348.49% in December 2020 to close September 2021 at 51.55% and is projected to close 2021 between 35% and 53%. The local currency has been relatively stable on the RBZ auction market shedding only 7% of its value between December 2020 (US\$1:ZW\$81.79) and September 2021 (US\$1:ZW\$87.67). The government deficit has significantly reduced and is expected to close the year at -1.3% of GDP. The current account has significantly improved and is expected to close the year in the positive at US\$1.091 billion slightly lower than US\$1.096 billion registered in 2020.

However, ZIMCODD is worried about the following macro-economic developments that may derail economic growth in 2022:

- The first relates to the exchange rates, particularly in the parallel market. The parallel market rates, which closed 2020 at around ZW\$100 to US\$1 have crossed the ZW\$200 per US\$1 at the beginning of October 2021. Thus, parallel market premiums are now over 100%, breaching the global benchmark of at most 20% by staggering margins. This is an unfortunate development for an economy dominated by the informal sector. The increase in parallel market rates has triggered an exponential growth in monthly prices of goods and services. For instance, after mounting by 4.18% in August, prices jumped again by 4.73% in September. Also, the increase in fuel prices subsequently stirs upward reviews of bus fares by ZUPCO and other commodities and services in the economy.
- The economy is gradually dollarizing with most of the economic agents shunning the ZW\$ in favor of the US\$ given its ascertained store of value function. Prices of key goods and services like fuel, medication, and rentals have largely paid in USD and punitive prices are charged for those receiving income in the local currency.
- Notwithstanding the depreciating currency and the rising prices, most of the population including civil servants continue to earn in local currency but facing stagnant wages and salaries. Extreme poverty is worsening because of the rising cost of living. The latest ZimStat statistics show the Total Consumption Poverty Line (TCPL) for a single individual in September 2021 at ZW\$6,654. This means a family of 6 now requires about ZW\$39,924 per month. This amount is way above the average salaries for the majority which is estimated between ZW\$20 000 – ZW\$30 000 per month.
- The vulnerability of the citizens is also worsened by the COVID-19 pandemic which has significantly disrupted the informal sector. The majority eke their living in the informal sector hence the pandemic continues to threaten aggregate consumer spending, one of the key growth enablers.
- Another threat to growth in 2022 is the continued growth in public debt. Treasury statistics show the external public and publicly guaranteed debt at US\$10.5 billion as of December 2020 -about 71.2% of GDP. This breaches the country's legal thresholds of 70% as stated in the

Public Finance Management Act as well as the SADC's threshold of 60%. The negative impacts of unsustainable debt cannot be overemphasized as it cripples the country's ability to mobilize resources. This creates the need to continue borrowing while hiking taxes which have unintended impacts on the middle class.

- The government's fight against the pandemic is commendable. The country is rated as one of the leaders in the administration of the COVID-19 vaccines. Vaccines are very essential in reducing the socio-economic impacts of the virus. There is an increasing body of knowledge showing that more deaths are recorded for the unvaccinated than the vaccinated proving that vaccines work. The pace should therefore be increased to avert the potential of realizing the fourth wave. The pandemic is a double-edged sword that causes devastating economic and humanitarian impacts.
- ZIMCODD is also worried by the severe shortage of electricity experienced in recent months. Electricity is one of the key industrial production enablers, a shortage of which is a danger to the growth of the manufacturing sector. If the power outages continue untamed, the country risks losing the gains it has made since mid-2020. ZIMCODD is mindful of the potential job losses that may happen and the impact such job losses has on thousands of families. These developments are exposing the threat of over depending on old Hwange thermal plants.
- Last season, the agriculture sector enjoyed its best year since 1984, thanks to normal rainfall patterns across the country, conservative agriculture, and government's input support to farmers. Given the accrued benefits of the last season, it is expected that the government will support farmers timeously. Agriculture is the mainstay of the economy providing income for about 60-70% of the population, supplying about 60% of inputs for the industrial sector and at least 20% to GDP.

Given these developments, the following budget submissions ensue:

i. Reverse the deteriorating parallel market exchange rate

- Reform the auction foreign exchange market

The auction market is now missing its primary function of price discovery as evidenced by widening parallel market premiums. Thus, the auction must be refined to increase participation and ensure that RBZ becomes more of a referee in the foreign exchange market rather than its current role of being a major player. The auction market should also operate as a spot market thereby avoiding backlogs of unpaid bids. Operating at a clearing price reduces speculative behaviors in the economy.

- Tight monetary targeting framework and co-option of the informal sector

i. Through the RBZ, the government should ensure that it maintains tight reserve money targeting. Reserve money is the most price-sensitive level of money supply because it is injected directly and at the discretion of the central bank. Also, its components largely function as a medium of exchange than a store of value. Therefore, money growth should move in tandem with the growth of activity in the real sector.

ii. Inflation policy targeting remains heavily biased towards the formal sector and largely excludes the informal sector. This explains poor monetary policy transmission hence the flourishing of the parallel market. Policy must reflect and accommodate the duality of the economy as the majority get served in the informal sector where prices align to parallel market exchange rates.

- Sustainable government spending

Since the turn of the second half of 2020, the government has tried to spend sustainably within the set budgets. Manageable deficits are key in dampening inflationary pressures. It is imperative for the government to continue with fiscal consolidation whilst prioritizing support for the vulnerable and service delivery.

ii.. Extinguish public debt and management of promoting transparency

The country is facing debt distress, and this has crippled its ability to mobilize resources. The steps being taken by the government in paying token payments to its creditors are commendable as they create prospects for fruitful dialogue. For too long now the government has indicated willingness to resolve the debt crisis but falling short in putting the proposed

plans to action. The mounting loan interest payments are stifling the ability of the government to provide sustainable safety needs to the vulnerable during periods of difficulties. Therefore, the budget is expected to:

- Pursue pathways of debt forgiveness, prudent borrowing (seek concessionary loans and be cautious with commercial borrowing) and make effort to service debt.
- Also, government must strengthen constitutional and legal instruments to entrench transparency and accountability, and enforce stringent borrowing ceilings for Ministries, State Owned Enterprises and Local Authorities.
- Reframe the RBZ Debt Assumption Act to ease the debt burden on the government.
- Strengthen Parliament's oversight role in debt acquisition and grant legislative powers to define penalties for any unilateral debt acquisition by Government institutions.

iii. Sound vaccine funding and administration

Given the potential of fully opening the economy if herd-immunity is reached in the fight against the pandemic, the 2022 budget must:

- Set aside more funds to widen the reach for the national vaccine campaign. This will ensure that the country reaches its herd immunity target at the earliest and avoid future waves.
- The administration of the campaign should also prioritize the rural areas. There is currently an injustice in the distribution of the COVID-19 jabs. The rural setup must be given equal access as they do not have adequate health infrastructure in case there is an outbreak.
- Transparency in the acquisition of vaccines must be prioritized as government has not divulged how much a dose of all the prescribed vaccines costs. This has left stakeholders wondering whether resources are adequate or not.

iv. Invest in power generation

Acute shortage of electricity affects the manufacturing sector and contributes to the growth of prices in the economy. The impact on the households cannot go unmentioned as load shedding forces them to utilize expensive alternatives like gas as well as unsustainable alternatives like firewood. As such, the 2022 budget should increase funding towards the energy sector. This will allow for timely importation of critical repairs like turbines and generators as well as funding new

green energy projects to diversify the country's energy mix.

v. Stimulate aggregate demand

The stunted salary/wage growth coupled with incessant inflation requires government to consider reviewing tax bands and re-aligning salaries with the poverty datum line if aggregate demand is to be stimulated in 2022. Reduced inflation has not translated into affordability of goods and services. Increasing costs of basic household essentials, utility bills, rates and taxes against weak wage growth means that most Zimbabwean households will not feel the effects of reducing inflation. More must be done to insulate households and increase disposable income.

vi. Observe the international agriculture budget allocation benchmark and timeous provision of agriculture inputs

The fast-approaching agriculture season requires that government avails farming inputs widely across the country in a non-partisan manner and anchor productivity of the 2021/2022 agriculture season. The expectation is that agriculture allocation must at least reach the 10% of GDP Maputo Declaration of 2003.

2. HUMAN CAPITAL DEVELOPMENT & INNOVATION

The 2022 national budget is expected to increase spending towards human capital development especially the education sector. The COVID-19 pandemic has severely affected the education sector, the cornerstone of human capital development. Cognizant of this, the 2022 budget must:

- Increase allocation to the BEAM scheme to ensure that vulnerable groups catch up with privileged groups. A developed human capital base will give the country a competitive advantage against its regional counterparts.
- The innovation hubs being spearheaded by the government must be well capacitated to spur practical innovations.
- Reverse the decrease in the number of pupils who sit for Ordinary Level exams and the declining pass rates. In 2020 the former decreased by 11% while the latter decreased from 31.6% in 2019 to 22.4%.
- The 2022 national budget must ensure provision of lucrative remuneration of teachers as teachers are supportive of human capital development.

3. DIGITAL ECONOMY

The outbreak of the COVID-19 pandemic has greatly transformed the globe into a digital economy. Business conferences have gone virtual while workers are working remotely. There has been an increased use of the internet to facilitate e-commerce. A large chunk of the benefits of having a digital economy is only enjoyed by those countries with access to cheap and fast broadband. However, Zimbabwe is one of the countries with expensive data in the region. The costly data affects thousands of children especially from rural areas who could not afford online lessons or private physical extra lessons. Cheap data is also key in reducing company cost as they provide data allowances to employees to facilitate teleworking in line with COVID-19 Protocols. Therefore, the 2022 national budget must:

- Avail support for cheaper broadband and access in the economy.
- Fast track the introduction of e-government to allow citizens access to government's services remotely thereby limit incidences of corruption

4. MOVING THE COUNTRY UP THE VALUE CHAIN

The country is dominantly commodity dependent. The mining sector is the nerve center of the country's export revenue generation. However, these are being exported in raw form with little beneficiation and value addition. Under 5% of exports are manufactured exports. As such the country is plagued by high unemployment as it exports jobs and in doing so it is losing billions of US dollars in lost mineral revenue.

ZIMCODD expects government through the 2020 National budget to:

- Advance the rhetoric of joining the extractive industries transparency initiative (EITI) standard or craft its local version of the EITI standard. This will be key in reducing the opacity of the awarding of mining contracts and mining licenses, private mining deals, mineral revenue payments to the government by mining companies, and the appropriation of the mining revenue by the government. Adopting the EITI may help in reducing the estimated US\$100 million loss monthly gold revenue losses through illicit financial flows. The opportunity cost of the lost revenue is enormous, and this illuminates the need for mining sector transparency.
- Discontinuing the export raw mineral ore is another way of pushing for the long-awaited mineral beneficiation in the economy.
- Address infrastructure gaps (electricity, water, road, and rail transport), financing challenges and underprovided fiscal incentives that stall green investment in agro-processing and mineral beneficiation.
- Boost agriculture production to feed the agro-processing sector through innovative and climate-smart agricultural initiatives.

5. EFFECTIVE INSTITUTIONS & GOVERNANCE

The 2022 BSP, just like the associated policy documents such as the 2021 BSP, the Transitional Stabilization Programme (TSP) and National Development Strategy 1 (NDS1) seeks to strengthen institutional building and governance. Key reforms during the TSP period have seen the Ease of Doing Business improving from a ranking of 171 in 2015 to 140 in 2020. Despite the glamorous ratings from the World Bank, the 2022 national budget must:

- Ensure that improvement in the ease of doing business improves the life for the common Zimbabwean
- Undo the over regulated business environment given the duplicity of responsibilities and demands by various government departments for the common men in the informal sector.
- Limit political interference in the operation of local authorities to entrench efficiency.
- Impede grand corruption and systemic economies of affection impeding good governance and institutional autonomy. The Kunzvi dam tender scandal is a case in point where government lost US\$43 million by deliberately awarding the tender to an expensive bidder. This contradicts good governance and effective institutional building and reflects disregard of the rule of law, institutionalized corruption, poor governance, and weak value for money audits which are all effective dynamics that should foster the ease of doing business. The 2022 fiscal year must address these institutional weaknesses.
- The effort to revise the Public Finance Management tools must be finalized in 2022 and instill the requisite political will to fight corruption. Proper legislative framework must clear the way for transparent public finance management going forward.

- The PFM Bill must arm the Parliament and the Auditor General Office with sanctioning power to enforce compliance.
- The Zimbabwe Anti-Corruption Commission (ZACC) should be accorded prosecution authority to enhance its efficacy in fighting corruption.

6. SOCIAL PROTECTION

Social protection is at the core of human capital development and wellbeing. It is quintessential in building a vibrant human capital base which is prerequisite in attaining national competitive advantage against regional and international peers. In Zimbabwe social protection covers the following areas:

- i. The Basic Education Assistance Module (BEAM); (over 4 million in need of assistance)
- ii. The Harmonized Social Cash Transfer Programmes; (Z\$1400 per individual no longer sufficient)
- iii. Drought Mitigation Programme; (2.8 in extreme poverty)
- iv. The Health Assistance Programme.
- v. The Child Protection Services; (2.6 million children suffering from Severe Malnutrition)
- vi. The support of the elderly and people living with disabilities.

To this end, the government intends to enhance inclusive social protection programmes by increasing the number of people receiving social assistance from 65% in 2021 to 70% in 2022 and livelihoods support from about 5% in 2021 to 8% in 2022. While the government's emphasis on increasing assistance and social protection is welcome, the

2022 national budget must:

- Address the current anomalies associated with social protection systems to ensure that a robust foundation and wider outreach is laid down. The state of the database of the vulnerable is unknown and neither is the criteria for one to qualify for social safety nets.
- Increase Zimbabwe's social protection spending as it is currently below the 4.5% Social Policy for Africa (2008) benchmark – reflecting miniature resource allocation to social spending. This trend of allocating meagre funds to social protection has been on-going for the past five years and no meaningful change has been attained. In 2017 the government allocated 0.50% of the budget in 2018 0.77%, in 2019 0.73% in 2020 3.88% and 1.40% in 2021. To this end, ZIMCODD submits that an allocation of at least 4.5% will be acceptable for a start.
- Increase the reach of social safety nets given the increase in urban poverty.

5. EFFECTIVE INSTITUTIONS & GOVERNANCE

Food and Nutrition Security remains the bedrock of a healthy and productive nation. Over 2.8 million people are in extreme poverty relying on the assistance of the World Food Programme in partnership with various humanitarian organisations such as World Vision, Care International, Goal International and Plan International. The hardest hit by drought are Mutare Rural, Chipinge Rural, Buhera and Mutasa to mention but a few. Accordingly, the 2022 national budget is expected to:

- Boost agricultural production through an incremental budgetary allocation of at least 10% of the GDP will help revive the sector and redress hunger and poverty levels which are now considered as extreme.
- Promote climate-smart agriculture to reverse the effects

of climate change on agriculture production.

- Mapping of food needs and planning intervention strategies in time.

10. DEVOLUTION & DECENTRALIZATION

Devolution is a lynchpin to effective institutional building and governance aimed at strengthening the organizational capacity of local authorities across the country. The Budget Strategy Paper (BSP) section 162 notes that devolution is expected to promote inclusive growth and structural transformation in the economy through local communities empowerment calibrated to boost provincial GDP. Given dilapidated sewer systems, lack of piped and running tap water and the impending health disasters in most local authorities, devolution must reverse these social ills. Accordingly, devolution must result in economic power at provincial level and each province must have own economic development blueprint addressing the following challenges:

- Provinces are not well capacitated for their own economic research and development.
- Provincial factor endowments are not being fully researched and exploited.
- Localized economic development, investment and job creating is key to inclusive growth.
- Set up, fund, and capacitate provincial economic research and economic development centers to provide economic information and facilitate investments within the province.
- Establish Provincial Investment Venture Capital Fund managed at provincial level.

11. ENVIRONMENTAL PROTECTION, CLIMATE RESILIENCE AND NATURAL RESOURCE MANAGEMENT

The sustainability of farming in the future continues to be threatened by climate change. Whereas climate smart initiatives are being adopted it is important for the 2022 budget to adopt the following submissions:

- Draft and adopt a climate-smart farming policy.
- Adopt an actionable irrigation expansion plan.
- Sanitize the granting of mining rights to enable the rehabilitation of mine dumps.
- Limit greenhouse gasses emission from industries
- Widen use of clean renewable energy.

With regards to natural resources, government must be transparent enough to address the leakages of mining resources and the graft linked to the granting of tax holidays and mining rights to foreigners. Accordingly, the following action must be prioritized:

- Finalization of the mining cadastre system.
- Disband tax holidays granted in unclear circumstances.
- Change the mining exploration rules from number of years to amount of ore mined.
- Address rampant mining sector corruption, gold smuggling, leakages, and illicit financial flows.

IMAGE BUILDING, ENGAGEMENT & RE-ENGAGEMENT

Zimbabwe has been isolated from the International Community since 2001 with targeted sanctions leading to stifled economic growth potential, limited international space, and voice of the country, increased perceived country risk by both outsiders and locals, limited FDI flows, and bad reputation. Therefore, building international relations and engaging creditors is undeniably a persuasive need. The 2022 national budget should consider the following in thawing international relations:

- Review and adjust the engagement and re-engagement strategy with a view to prioritize genuine international engagement.
- Given that Zimbabwean diaspora plays an outside role in contributing more than an estimated US\$1 billion in remittances – there is need for GoZ to invest further in formally integrating Zimbabwean Diaspora in the national economic decision-making processes, investment drives and participating in elections. The government must incentivize the channeling of remittances through official channels.
- Arrears remain a major challenge to the Zimbabwe's debt management processes as they form 77% of total external debt. Debt clearance is crucial to unlock additional external financing. There remains a strong need to manage debt contraction process through facilitating robust Parliamentary oversight and scrutiny; transparent reporting on debt contraction and engagement of Civil Society and other stakeholder in the development of debt management strategies.
- Government has initiated the EU, USA and Commonwealth dialogue and there is very limited progress, due to the international community's concerns over reports of continuing political harassment and incarceration of opposition figures, limited freedom of

speech, lack of lasting approach to deal with corruption and slow progress on the much-needed political and economic reforms. The following can help in setting the stage for broader reforms:

- a. Key economic reforms to create an inclusive economy to attract foreign financing and FDI
- b. Better macro-economic stability and exchange rate management to create confidence with international financial institutions and development partners.
- c. Strict government expenditure management through the new PFM bill to reduce borrowing for non-productive purposes.
- d. Transparent and accountable diaspora engagement and meaningful inclusion.

13. INFRASTRUCTURE AND UTILITIES

Infrastructure development is supportive of socio-economic development and structural transformation, and it is commendable that government continues to invest in infrastructure facilities in transport, water, and sanitation as well as power generation. The 2022 National Budget must address the following:

- The elevated road construction needs, given the road damage from the past rain season require massive investment.
- The need to transform the railway transport system that is using aged coaches.

- The ramping up of power generation and the provision of adequate running water across the country's urban areas.
- Adopting a staggered approach in the financing of infrastructure given limited financing resources.
- The promotion of renewable and environmentally friendly power alternatives is key in reversing climate change.
- The following sectors need invigorated investment: housing, health facilities, road networks, sporting facilities, street lighting, water and sanitation infrastructure and social amenities.
- The 2020 national budget should increase local participation in infrastructure development so as to reduce the debt burden and corruption associated with outsourcing and potentially exploitative Public Private Partnership Agreements. Increased local participation in infrastructure will also encourage technology transfer and multiplier effects of such investment on the economy.
- Infrastructural development priorities have tended to privilege infrastructure development to facilitate resource extraction over infrastructure development to facilitate human development. This weakness must be addressed by the 2022 national budget considering infrastructure gaps prevalent in the economy.

14. YOUTH, SPORT AND CULTURE

Youth constitute above 67% of the population. However, they are increasingly falling into the poverty trap as unemployment is being amplified by the rising cost of education inhibiting the progression of many children from poor families. High unemployment has seen a significant number of the youth indulging in drugs, prostitution, early childhood marriages, and crime – activities that are rapidly decimating their potential and future. In relation to youth empowerment, participation in sport and promoting the culture, the 2022 national budget must address the following:

- Decentralize the national venture fund to accord youth across the country access.
- Pursue structural transformation, industrialize, and create decent jobs for the youth.
- Modernize sporting facilities to allow youth to participate in international competitions.
- Promoting rewarding cultural events for youth.
- Equipping the youth with competent skills for easy engagement with industry.

CONCLUSION

Whereas the 2022 National Budget has a multiplicity of expectations given the diverse needs of the society and business, it is vital for government to be guided by the available financing options in deploying resources to various MDAs. It is apparent that the fiscal space has been shrinking thus a calculative approach has to be adopted to keep the economy ticking whilst at the same time prioritizing debt servicing, advancing social service delivery and providing for the vulnerable. It is vital for government to cooperate with development partners to expedite the support of vital services such as health, education, and food relief programmes. Being accountable remains a key role for government to garner policy support and enable wider stakeholder engagement



@zimcodd1

9 Bargate Road,
Mt Pleasant,
Harare
+263 242 776830
zimcodd@zimcodd.co.zw