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## **MOTION**

1. Mr Speaker Sir, I move that leave be granted to bring in a Bill to make Provisions in connections with Revenues and Expenditures of the Government of Zimbabwe for the period ending 31 December 2009 and to make Provisions for matters ancillary and incidental to this purpose.

## **INTRODUCTION**

2. Mr. Speaker Sir, it is exactly 150 days since the Inclusive Government began work on Monday, 16 February 2009.
3. This Mid-Year Fiscal Policy Review updates Honourable Members and the Nation on the State of the Economy, focussing on both fiscal and overall economic developments as we implemented our Short Term Emergency Recovery Programme during the first half of the year.
4. Mr Speaker Sir, given the reality of our situation, and the fact that we are basically starting afresh, this Review will devote itself to economic developments before 2009. An approach that looks at the past creates the necessary platform to correctly inform and excavate the necessary policy adjustments and measures for the future.

5. Most importantly, it is history and our collective understanding of the past which must stand against the temptation to go back to omissions and commissions of the past.
6. The Review also aims to consolidate the framework of openness and economic freedom enunciated in the Short Term Emergency Recovery Programme (STERP). Put simply, it is intended to further rehabilitate the economy from a past of controls and dirigisme, whilst at the same time ensuring the enhancement of safety nets and social protection programmes of STERP.
7. This Review will also realign the 2009 Budget expenditure priorities to expected revenue inflows, consistent with the Cash Budgeting policy thrust we adopted in February 2009. In short, we will continue “*eating only that which we have hunted*”.
8. Mr Speaker Sir, before turning to the State of the Economy, Honourable Members will acknowledge the inter-linkage between the prevailing political dispensation and developments on the economic front since the formation of the Inclusive Government following last year’s signing of the Global Political Agreement.
9. Mr Speaker Sir, it is common cause that the principal political parties executed a political agreement on 15 September 2008.

That agreement represented a voluntary getting together of political actors that were involuntarily brought together by the harsh reality of economic and political factors that forced the same to board the same bus of compromise.

10. The Global Political Agreement represented on both sides the absence of a viable or alternative option to the attrition, stalemate, conflict, violence, debilitating and disempowering effect of a decade long political crisis.
11. That crisis had seen a massive de-industrialisation of the economy, deep seated poverty, sustained periods of negative GDP growth rates, the collapse of social services, food shortages, and massive despondency in the country.
12. The fundamental reality that brought all the actors into an unhappy compromise has not gone away. However, it seems that a few of us either have amnesia or short memories, and that a few were never convinced about the inevitability of the project at the first instance. Whatever the case may be, it is an unacceptable reality that five months down the line there are still critical foundational, qualitative and quantitative issues in respect of this relationship.

13. Furthermore, that there are various breaches of the Global Political Agreement still outstanding and, more fundamentally, that there is little delivery and execution of agreed positions taken in the Global Political Agreement, particularly on matters around human rights and the rule of law is as regrettable as it is unwelcome.
14. The reality of the matter is that political factors need to be liquidated as a matter of urgency so that the country does not continue to be held hostage to the past. Getting politics out of the way requires one thing and one thing alone, the full, proper, unequivocal and unambiguous implementation of the Global Political Agreement in its letter and spirit.
15. Notwithstanding the above, Mr Speaker Sir, this “ship” has left the dock and is in motion. The reality of the matter is that the Inclusive Government is in a net surplus position, performance wise. What is critical, therefore, is to consolidate the gains of the past few months, whilst at the same time ensuring full compliance, implementation, execution and delivery on the outstanding issues.
16. Mr. Speaker Sir, our country had sunk to unacceptably high levels of fragility that bordered on total State failure. Thus, the work of

the Inclusive Government involves rehabilitating and rebuilding this country. Put in simple terms, the Inclusive Government's fundamental function is to re-lay the foundation of a normal functional vibrant African democracy.

17. The foundation stones and the relevant concrete mixes which we laid out in the Short Term Emergency Recovery Programme (STERP) are:

- The establishment of peace and stability in the country;
- The pursuit of a programme of national healing;
- The Constitutional making process and the democratisation agenda;
- Provision of adequate and quality basic social services, social safety nets in the rural and urban areas and, indeed, the execution of a comprehensive social protection programme;
- Macro-economic stabilisation in our country; and
- The socio-economic transformation of Zimbabwe through capital and institutional development that places at the centre, information communication technology.

18. Furthermore, as stated in STERP, our Vision of the house we are constructing is an inclusive, sustainable developmental Zimbabwe that is based on participatory democracy.

19. In this regard, the operational objectives of the Inclusive Government as clearly enunciated in STERP are:
- *The creation of a responsive, yet efficient State that uses redistributive mechanisms, social rights, while maintaining social development,*
  - *Building of a strong economy, using market principles with careful State interventions to advance social protection and justice;*
  - *Establishment of a participatory political democracy through the new people driven Constitution and the rebuilding of fundamental democratic institutions in our country.*
20. Indeed, it is in the best interest of every Zimbabwean that the above Vision becomes a shared one. We do not have a right to abuse future generations by kidnapping the future to the present order of political uncertainty, hypocrisy, opportunism, prevarication and political fornication. We have a duty to be decisive, consistent, reliable, honest and true to our agreements.

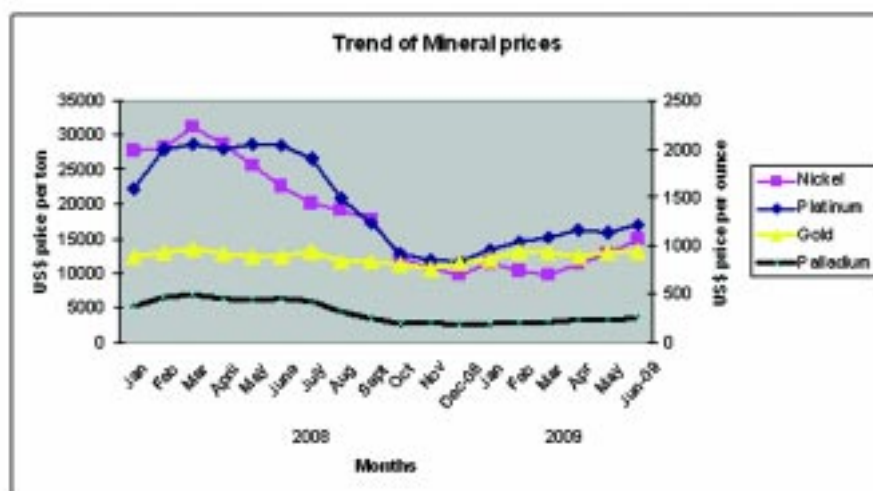
## **THE GLOBAL FINANCIAL CRISIS**

21. There is now evidence that the global financial crisis is having a devastating impact on African economies. For Africa, it is

translating into a development crisis that is wiping out industries, mines, jobs, revenues and livelihoods.

22. Sub-Saharan Africa's GDP growth is forecast at 1.7% for 2009 compared to the average of 6.9% in 2007 and 5.5% in 2008, which was when the crisis began. For the first time in more than a decade, growth in per capita income for Africa is being reversed given an average population growth of 2.3% per annum in sub-Saharan Africa.
23. Major drivers of growth such as trade flows, capital inflows, diaspora remittances, Government revenues and donor funds are significantly declining across the continent.
24. Zimbabwe has not been spared by the global financial crisis despite having already been in recession for the past decade. Notable sectors affected include manufacturing, tourism, mining, and finance through difficulties in accessing lines of credit, low tourist arrivals, depressed mineral prices, low investment and depressed remittances from non resident Zimbabweans.
25. From the second half of 2008, mineral prices particularly for platinum and nickel at the international markets began to fall as a result of the Global Financial crisis.

26. Platinum prices dropped from US\$2 048 per ounce in May to US\$834 per ounce by December 2008.
27. Gold prices also fell but with a smaller margin with March prices averaging US\$968 per ounce and recording an average price of US\$816 per ounce by December 2008.
28. In the first half of 2009 mineral prices, however, started stabilising as a result of interventions through fiscal stimulus packages introduced by most developed countries.



## STATE OF THE ECONOMY

29. Honourable Members will recall the severe socio-economic challenges experienced since 2000, as the economy performed well below its potential, registering consecutive declines in gross domestic product.

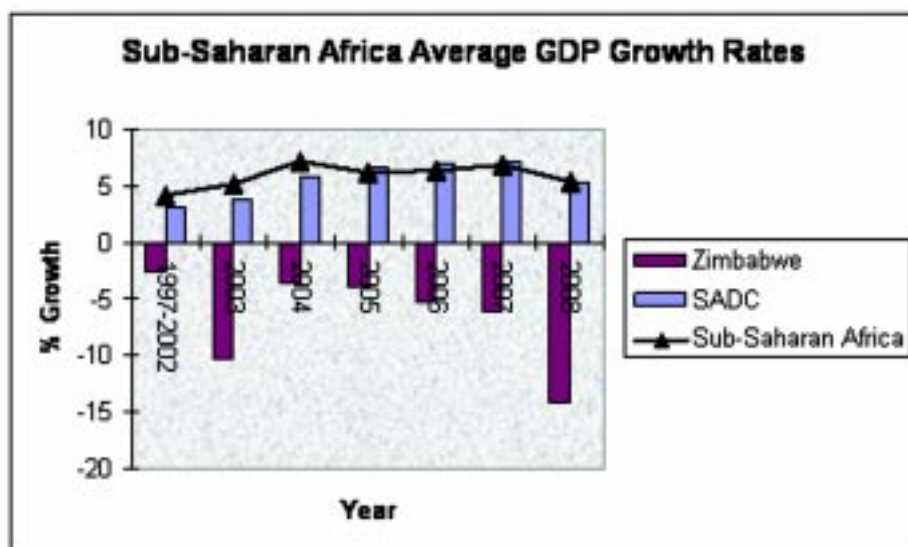
30. During the same period, inflation was steadily on the increase, eroding real incomes, savings and investments, thereby impacting negatively on the productivity and capacity of virtually all productive sectors of the economy and having a disastrous effect on the lives of the overwhelming majority of Zimbabweans.
31. The above challenges were a result of a combination of both endogenous and exogenous factors. These were further fuelled by the domestic political conflict which prevailed in the country since 2000.
32. The devastating impact of the economic collapse was reflected in de-industrialisation of the economy and declining per capita GDP from an average of US\$720 during 1997–2002 to about US\$265 by 2008. Furthermore, formal unemployment rose to over 60%, leading to sharp contraction of wages as a share of GDP and overall increase in poverty levels, among others.
33. Human poverty in the country as measured by the Total Consumption Poverty Line and the Human Poverty Index is estimated to have risen above the 63% and 51% recorded in 2003 and 2006, respectively.

### ***Gross Domestic Product***

34. As already noted, Zimbabwe's real GDP, which recorded remarkable positive growth rates averaging 3.9% per annum in

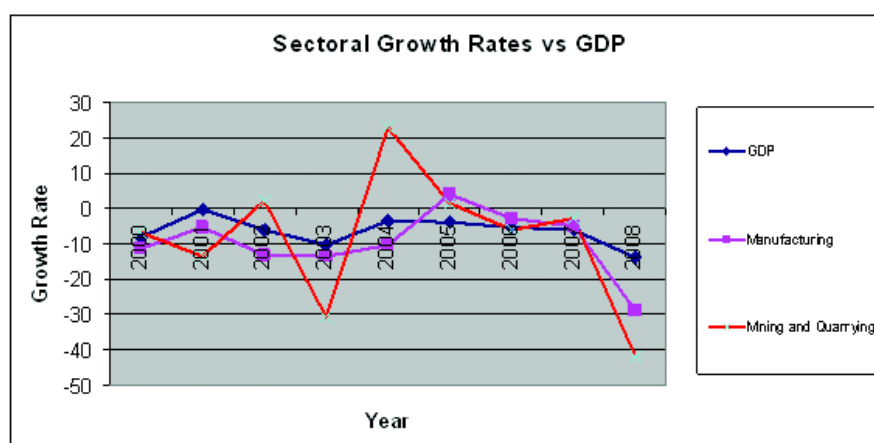
the 1980s and 1990s, shrunk by more than 40% during the period 2000–2007 and 48% by the end of 2008.

35. Ironically, this GDP decline was experienced when the rest of SADC and Sub-Saharan Africa recorded positive growth rates averaging over 3% per annum over the period 2000–2008.



36. Zimbabwe's consistent GDP declines were the result of negative growth rates in the productive sectors of the economy.
37. Agriculture, which is the main pillar of the Zimbabwean economy with strong linkages to the rest of the sectors, contracted by an annual average of -7.1% between 2000 and 2008. Cumulatively, agricultural output contracted by -79.4% during 2002 – 2008.

38. Similarly, the mining and manufacturing sectors recorded average annual declines of -9% and -9.5%, respectively, during the same period.
39. Sector performances during 2000–2008 are indicated in the graph below:



40. Reflecting economic gains recorded during the first half of 2009 and prospects for economic recovery to the end of the year, the country's real gross domestic product is poised to grow by an estimated 3.7% in 2009, breaking the decline trend posted over the past decade.
41. The recovery in our agricultural production, estimated at 24.3% in 2009 is playing a significant role in contributing to this year's anticipated overall positive economic growth.

42. This is being complemented by the various initiatives under STERP to restart mining activity, also benefiting from the buoyant mineral commodity prices in the international markets.
43. Manufacturing is also projected to play a positive role in contributing to the overall recovery of the economy, benefiting from improved capacity utilisation across the various sub-sectors.

### ***Agriculture***

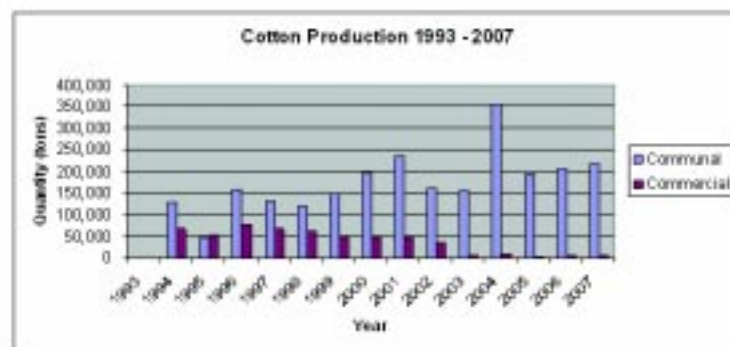
44. Mr Speaker Sir, given the central role of agriculture in the economy, Government has since our Independence in 1980 continued to prioritise support to this sector. The various forms of support have ranged from direct inputs assistance to farmers, research and training, pricing and marketing policies in support of communal land development programmes.
45. Government direct support primarily targeted small holder farmers in the production of maize and cotton, while commercial farmers financed themselves through credit facilities provided by the financial sector.
46. Support for the communal farmers was also availed through expansion of maize and cotton collection depots throughout the

country and concessional loans provided by the Agricultural Finance Corporation.

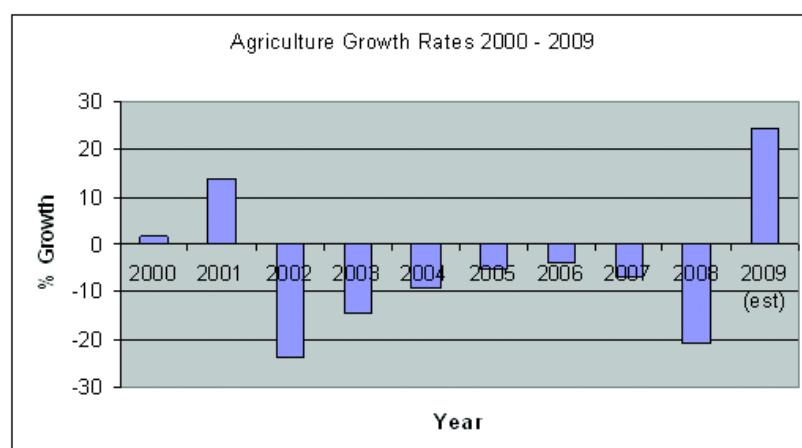
47. As a result, the combination of both commercial and communal farmers' output growth averaged 4% between 1980 and 1986 and kept ahead of population growth of 3.1% per annum. This remarkable growth rate was sustained between 1986 and 2000, except for the drought years.
48. With regards to the production of maize and cotton, small-holder farmers made a notable contribution, achieving record production levels which surpassed those of commercial farmers as indicated below:

### Maize and Cotton Production Statistics





49. However, from 2002, performance of the agricultural sector took a downturn with consecutive declines which averaged -7.1% between 2002 and 2008 as also indicated below.



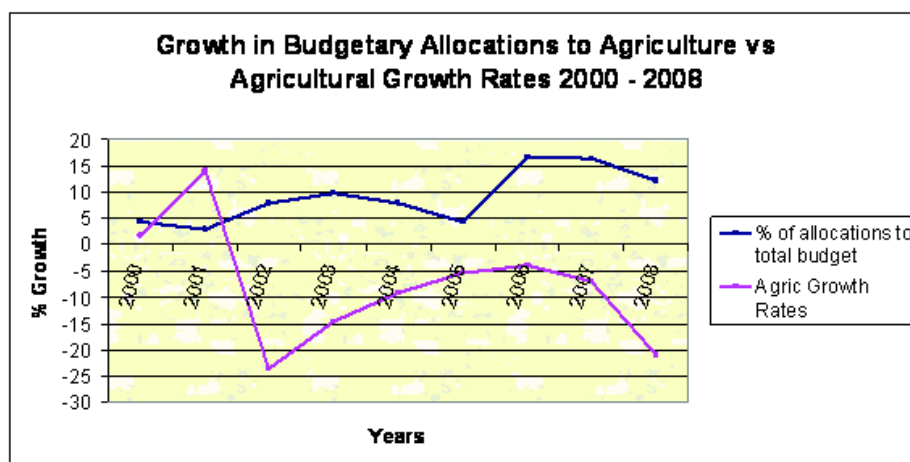
50. This decline in agricultural performance was notwithstanding massive direct Government and Central Bank support through free and concessional facilities, mainly to commercial A2 farmers.
51. This support was primarily aimed at capacitating our new farmers following the land reform programme.

52. As part of the Government support, various farm equipment and implements were distributed to farmers under Phases 1 and 2 of the Farm Mechanisation Programme as a way of enhancing productivity in the sector. These included the following:

### **Farm Mechanisation Programme**

| <b>Equipment</b>         | <b>Quantity</b> |
|--------------------------|-----------------|
| Combine Harvesters       | 124             |
| Tractors                 | 3 217           |
| Disc Ploughs             | 1 587           |
| Disc Harrows             | 1 982           |
| Planters                 | 460             |
| Boom Sprayers            | 672             |
| Vicons                   | 323             |
| Hay Balers               | 30              |
| Power Tillers            | 6               |
| Knapsacks                | 60 357          |
| Animal Drawn Ploughs     | 49 829          |
| Animal Drawn Harrows     | 13 856          |
| Animal Drawn Planters    | 209             |
| Animal Drawn Cultivators | 18 048          |
| Scotch Carts             | 7 970           |
| Track Chains             | 59 288          |
| Seed Drills              | 345             |
| Grinding Mills           | 496             |
| Motor Cycles             | 1 101           |
| Hoes                     | 564             |
| Shovels                  | 994             |
| Mattocks                 | 586             |
| Pick Heads               | 108             |
| Wheelbarrows             | 359             |

53. Over and above the support to agriculture through the Central Bank, the sector received prioritised incremental direct annual budgetary allocations. These allocations, however, did not match the sector performance as indicated below.



54. In 2009, agriculture is anticipated to grow by 24.3%, anchored by this year's 115% growth in maize output, estimated to reach 1.2 million tonnes.
55. Increased proceeds from agricultural commodities have also benefited from positive demand.

### *Tobacco*

56. In the case of tobacco, auction floor prices have averaged US\$3 per kg for the period to June 2009, a development which should spur future recovery as farmers' future plans are incentivised by the realisation of positive rates of return. The liberalisation of

retention, whereby tobacco farmers are now retaining 100% of their tobacco sales proceeds without any prejudice arising from the exchange rate or surrender requirements has further acted as an incentive for increased production.

57. Hence, expectations for the coming season are of a significantly higher expected tobacco crop of 80 million kgs, well above the 42 million kgs estimate for 2009. As at end of June 2009, tobacco farmers had realised US\$77.4 million from sales of 26.9 million kgs.
58. Furthermore, viable prices have contributed to increased aggregate demand, thereby stimulating other sectors of the economy.

### *Cotton*

59. Similarly, this year's agricultural production also benefited from improved cotton production, anticipated to reach 246 757 tons in 2009, from the 337 671 hectares planted.

### *Wheat*

60. The positive recovery in agriculture has unfortunately been weighed down by the unfolding low level of production in wheat under the 2009 winter programme.

61. This is as a result of lack of credit for wheat farmers in view of the financial and liquidity challenges currently being experienced in the banking sector. Wheat production is, therefore, likely to be well below the initially targeted 60 000 tons.

### *Livestock*

62. In the case of livestock, the shortage of stock feed and dipping chemicals had led to a significant reduction in beef production.
63. For the coming 2009/2010 agricultural summer season, it is the intention that Government plays a proactive role in the facilitation of early mobilisation of resources from the private sector, including the necessary lines of credit.
64. Other challenges relate to the economy's capacity to guarantee uninterrupted energy supplies in support of farm irrigation programmes.

### *Land*

65. As Treasury, we recognise fundamentally that the long term sustainability of our agriculture demands and requires that we deal decisively with outstanding political issues connected to our land. In particular, it is critical and imperative that the land

audit agreed in the GPA and well articulated in paragraphs 108 and 109 of STERP is implemented.

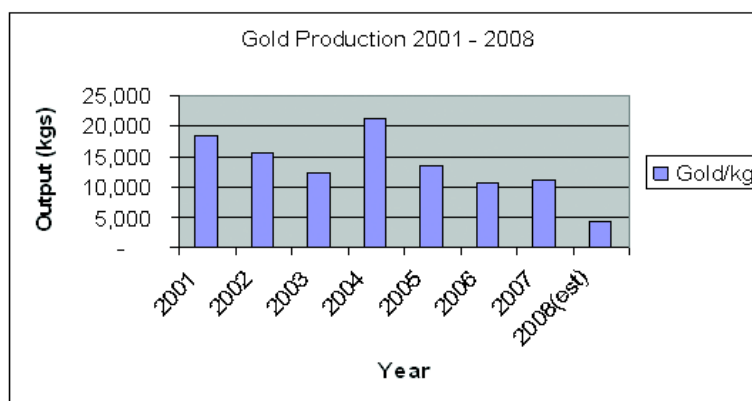
66. Furthermore, there has to be security on farms and anyone farming should be guaranteed of the right to harvest his/her crop. This is precisely why in STERP the Inclusive Government undertook to uphold the rule of law as well as to enforce law and order on farms “including arresting any further farm invasions which disrupt farming activities”.
67. More importantly, the long term solution in agriculture lies in restoring security of tenure and strengthening property rights in the form of long leases, title deeds and certificates of occupation, all of which can be securitised and hypothecated.
68. As clearly articulated in paragraph 107 of STERP, the salvation of our agriculture lies in *“clarity of land rights, as well as the strengthening of all critical arteries and enablers in the agriculture production value chain, including the revival of Hwange Colliery coal supply, restoration of ZESA power supply, rehabilitation and expansion of irrigation infrastructure and National Railways freight services”*.

## ***Mining***

69. Mining accounts for about 4% of the GDP and 16% of total annual foreign currency to the country.
70. Major minerals are gold, platinum, asbestos, chrome, iron, platinum group of minerals, nickel, copper, and coal. With the exception of chrome and nickel, production output of all other minerals declined between 1998 and 2008, as mining houses either scaled down operations or closed shop altogether as a result of the harsh economic environment.
71. The liberalisation measures introduced in 2009 and the 100% retention of foreign earnings, as well as increased dialogue on investment and shareholding, is restoring confidence in the mining sector. This has allowed closed mines to reopen and resume operations, particularly in gold mining.
72. Notwithstanding the above concessions, production in the mining sector will remain subdued as some mining houses such as in nickel and asbestos production will remain closed for the better part of the year owing to viability challenges associated with the Global Financial crisis.
73. As a result, mining output is expected to record a decline of -11.2% in 2009.

## *Gold*

74. Mr Speaker Sir, the country's gold annual output potential, given an environment conducive to accelerated investment and exploration, is estimated in excess of 50 tons.
75. However, over the years, output which rose to 27 tons in 1999 as Zimbabwe became the third largest producer on the continent has been declining, reaching a record low of 3.5 tons by 2008. This was largely a result of limited exploration and other challenges experienced since 2000, which included high inflation, inconsistent policies, financing constraints, unviable exchange rates and skills flight.



76. Furthermore, unrealistic prices offered to producers and non payments for gold deliveries by the Central Bank made the operating environment unviable, notwithstanding the firming up in gold prices in international markets.

77. As of 30 June 2009, gold mining companies were owed about US\$30 million for gold delivered in 2008, a situation which compromised operations of the gold mining houses and reduced confidence in the sector.
78. During the first quarter of 2009, there were no gold deliveries that took place as most mining companies remained closed owing to viability challenges in 2008.
79. However, the liberalisation measures introduced in 2009 on gold marketing, allowed gold mines which had either closed or were put under care and maintenance to start operating. As a result, deliveries in April and May stood at 700kg.
80. The issuance of gold dealership licences to gold producers has resulted in mining houses securing lines of credit, critical to increased production. To date, gold dealership licences have been issued to Blanket Mine, Forbes and Thompson, DTZ-OZEGIO of Russia, the Zimbabwe Gold Miners and Millers Association, the Chamber of Mines and Ashanti Gold Fields.
81. Zimbabwe's largest gold mine, Metallon Gold, which contributes more than 50% of total gold output has re-opened two of its mines, How and Shamva after getting a loan of US\$15 million

from Afreximbank (US\$10 million) and local financiers (US\$5 million) for working capital and refurbishment of plant and equipment.

82. The other three remaining mines will resume production by the end of the year. The company is targeting to raise gold output to 650 000 ounces annually in the next five years depending on power availability.
83. Other mining houses such as Blanket Mine and Forbes and Thompson, have also started operating and about 4 500 kgs is expected during 2009.

### *Platinum*

84. Notwithstanding the adverse macro-economic environment in the country, platinum production has been steadily on the increase from 500 kgs in 2001 to above 5 000 kgs in 2007.
85. This growth primarily reflected dispensations which allowed the then country's two existing platinum producers to sustain investment in plant and machinery on the back of operations in foreign currency through offshore accounts, that way surviving the turmoil undermining the other mining sub-sectors.

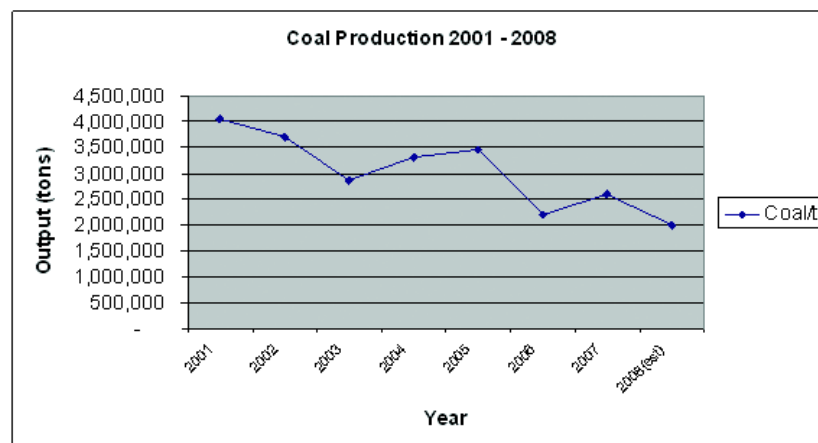
86. Currently there are two operating mines at ZimPlats Ngezi Mine in Mhondoro and Mimosa Mine in Zvishavane, with mine development taking place at the Anglo-American's Unki project in Shurugwi and many other projects under exploration. Production is likely to reach over 50 000 kgs per year in the next 15 years from 4 000 kgs in 2008 due to increased investment by new companies Unki and Mimosa.



87. In 2009, platinum output is projected at 6 000 kgs following the expansion programme by ZimPlats, anticipated firming up of international prices and general improvement in the macro-economic environment.
88. There is considerable potential for expansion of the existing platinum mining operations to production levels that would warrant the setting up of a local refinery.

## *Coal*

89. Capacity utilisation for coal production has steadily declined over the years to the current 20% of installed production capacity as a result of ageing equipment and sub-economic prices experienced over the years.
90. Non payment for coal, particularly by ZESA, has also compromised the working capital requirements of the country's major coal producer, Hwange Colliery.
91. As a result of the above, output declined from 4 million tons in 2001 to 2 million tons in 2008. This is, however, expected to marginally increase to 2.2 million tons in 2009, following ongoing refurbishment of some of the mining equipment and machinery.



92. Significant capitalisation in the coal sector is required to improve capacity utilisation and invest in new production facilities.

### *Base Metals*

93. Chrome and nickel production has been heavily affected by the world recession. With prices at 33% of the levels achieved in early 2008, most operations have been put on hold and the equipment has been placed under care and maintenance.
94. Therefore, nickel production in 2009 is expected to be 2 100 tons compared to the 5 900 tons of 2008, following resumption of production set for the last quarter of the year in line with the anticipated recovery of the world economy and base metal prices, presenting opportunities for nickel and chrome mines.
95. Similarly chrome production is expected to be 279 000 tons in 2009.

### *Diamonds*

96. Last year, diamonds output stood at about 400 000 carats, of which Murowa in Zvishavane accounted for 237 000 carats, whilst River Ranch in Beitbridge accounted for 75 000 carats.

97. Investment in production expansion should increase diamond output up to over 2 million carats over a three year period, complemented by the formalisation of ZMDC operations at the alluvial Chiadzwa diamond fields.

### *Other Minerals*

98. Opportunities for further investment exist with regards to such other minerals as iron ore, limestone, phosphates, pyrites, asbestos, black granite, vermiculate, among others. The potential for positive contribution to the country's economic recovery is significant.

### ***Manufacturing***

99. The Zimbabwean manufacturing industry was at its peak in the 1990s well known for its diversity of products and as an important contributor to the country's GDP (16%), exports and foreign exchange earnings (37%) and formal employment (15%).
100. Given that the Zimbabwean economy is dominated by agriculture and mining, the manufacturing sector is predominantly into agro-processing (54%), and mineral processing (25%).

101. Major manufacturing potential exists in foodstuffs, beverages, textiles, timber, paper and packaging, steel and other metal products, fertilisers, agricultural equipment and chemicals.
102. Since 2000, the manufacturing industry has significantly contracted as a result of some major problems which included a hyperinflationary environment, foreign exchange controls, depressed aggregate demand, shortage of foreign currency, working capital constraints and a regime of price controls, which compromised viability.
103. The sector also suffered from skills flight, power outages, and erratic supply of fuel as the economy sank deeper into recession.
104. As a result of the above issues, capacity utilisation gradually declined, reaching 35.8% in 2005, 33.8% in 2006, 18.9% in 2007, and dropping sharply to between 4–10% by the end of 2008.
105. Consequently, output contracted by 18% in 2006, 21.1% in 2007 and an estimated 29.6% in 2008.

### *Outlook*

106. Following the liberalisation measures introduced at the beginning of 2009, confidence has started building up, critical for the normalisation of day to day operations.

107. As a result, capacity utilisation in some industries has increased rapidly to between 25-50% in the first half of 2009 and businesses are generally optimistic that this will significantly improve further by end of the year.
108. However, the manufacturing sector continues to face challenges related to unreliable delivery of essential public utilities such as power, coal, water, transport and telecommunications. Other challenges relate to working capital, ageing equipment, low effective domestic demand as well as pressure for higher wages.
109. Central to addressing the above is securing lines of credit to allow improved capacity utilisation. Government will, therefore, pursue pledged support from the various countries and financial institutions.
110. Immediate requirements for the manufacturing sector amount to US\$1 billion. To date, US\$562 million has been identified as potential lines of credit.

### ***Energy Supplies***

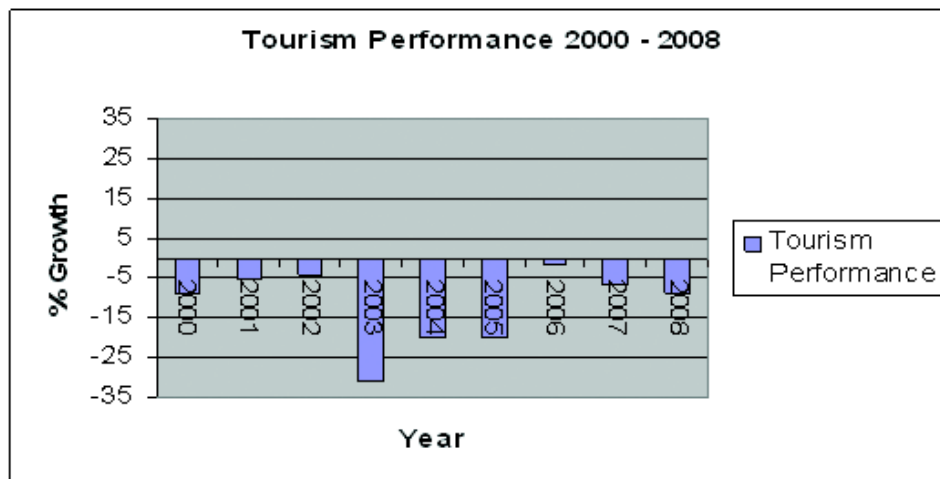
111. Despite our huge energy resource base, the country is currently facing enormous shortages of electrical energy due to generation shortfalls which have forced importation of at least 35% of power requirements from the region.

112. Out of a total installed capacity of 1960MW, only 820MW is currently available. Besides Kariba, Hwange is operating below capacity and the small thermal power stations are not operational due to high operational costs and coal shortages.
113. Depressed internal generation capacity is also a result of old generation, transmission and distribution infrastructure.

### ***Tourism***

114. World tourism, among the faster growing industries globally, is expected to register positive growth in 2009, notwithstanding the global financial crisis.
115. Domestically however, tourism which contributed an estimated 9% directly and indirectly to GDP in 1999, has been on a downward trend, negatively affecting the whole economy given its linkages with the other sectors.
116. This was despite the country's strength associated with its natural endowments such as the Victoria Falls and other enviable natural resources and attractions.
117. Major factors such as the perceived image of the country, the previous rigid exchange rate regime, unreliable fuel supplies,

high inflation levels as well as deteriorating quality of infrastructure all compromised the competitiveness of tourism.

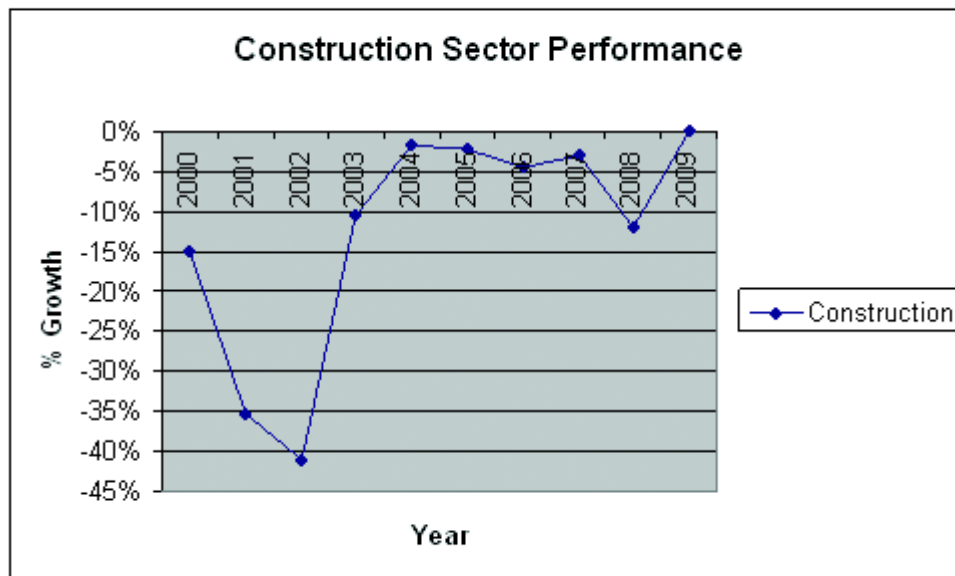


118. However, against the background of positive developments on both the political and economic front during the first half of the year, tourism is expected to record growth of 2% in 2009 from a decline of -9% in 2008.
119. This increase is largely underpinned by the prevailing peace and stability brought about by the Global Political Agreement and the aggressive marketing campaign for Zimbabwe as a safe tourist destination.
120. The introduction of multiple currencies also removed price distortions, which previously made tourism services in Zimbabwe highly uncompetitive relative to other destinations.

121. A much more robust recovery of tourism should be experienced as growth prospects for the world economy overcome the prevailing adverse effects of the global financial crisis.

### ***Construction***

122. The construction industry is a barometer of economic activity. The industry has strong forward and backward demand linkages with the rest of the economy and promotes strong multiplier effect in the economy.
123. The strong demand for inputs such as cement and other building materials, steel and electrical products, roofing material, among others, stimulates production and creates jobs in other related sectors. The construction sector is also important in meeting other critical social obligations such as housing delivery.
124. Viability challenges in a highly unstable macro-economic environment were at the centre of the downfall of construction.
125. As a result, between 2000 and 2008, the sector persistently declined by a cumulative -125% forcing most construction companies to either relocate to neighbouring countries or shut down altogether.



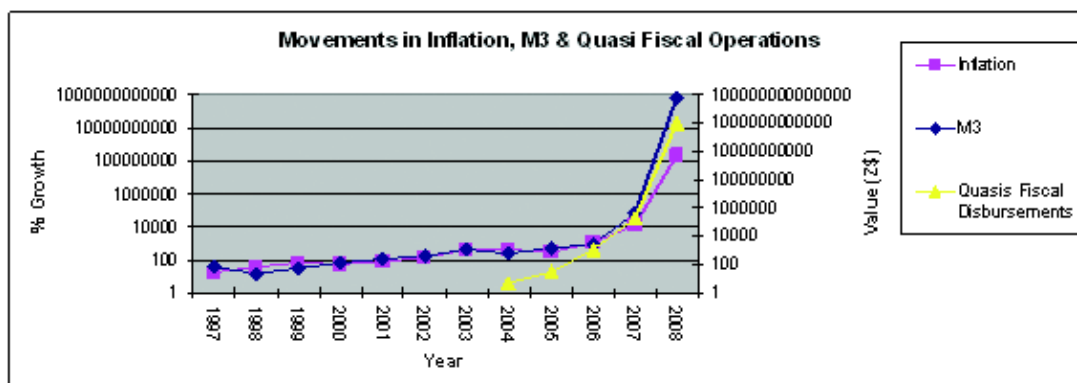
### ***Transport***

126. Stable developments in the economy during the first half of the year are also having positive effects on the transport sector.
127. This has seen improved provision of public transport, including in the rural areas where more bus operators are resuming operations, thereby enabling transport accessibility throughout the country.
128. Full recovery will, however, take time as operators still need capital to replace and re-equip their fleets.

129. Furthermore, our roads infrastructure is in a deteriorated state due to lack of sustained maintenance, a bottleneck to full economic recovery.

### ***Inflation***

130. The most devastating problem which faced the economy since 2000 was inflation. During 1997 – 2002, inflation averaged 61.7%, after rising from 18.8% in 1997 to 135.1% in 2002.
131. From 2003, inflation spiralled out of control and reached recorded hyper-inflationary levels of 231 million percent by July 2008. This marked the death of the Zimbabwe dollar, which subsequently went out of circulation, resulting in the market pricing of goods and services in foreign currencies from October 2008.
132. High inflation was primarily driven by high money supply growth on account of expansionary quasi-fiscal activities by the Central Bank. This pro-inflationary macro-economic policy was compounded by speculative activities in financial markets and the underlying severe supply constraints in the economy.



133. The adoption of STERP has resulted in the country recording consecutive negative inflation levels, with the month on month rate experiencing deflation since January 2009.
134. Prices fell by 2.3% in January, 3.1% during February, and a further 3% in March. Developments in April and May saw prices decline by lower margins of 1.1% and 1%, respectively, reflecting cost pressures emanating from monopolistic tariff levels of public enterprises and local authorities, among other factors.
135. Sustained stability in prices also restores the real value of savings, and allows for longer term planning by both business and households.

136. It is, therefore, incumbent upon Government and all other stakeholders, including business and labour, to collectively avoid tendencies and practices that threaten the gains in containing the inflationary pressures of the past.
137. This will require close monitoring of all price developments, including the negative tendencies in fuel pricing which since June 2009 have seen inconsistent upward reviews.
138. Similarly, utility tariff adjustments by local authorities and some of our parastatals will also warrant close tracking of developments, with measures quickly instituted to ensure that our gains in inflation reduction are not reversed.
139. Business, on its part, remains urged to act responsibly in reviewing pricing arrangements.

### **Financial Sector**

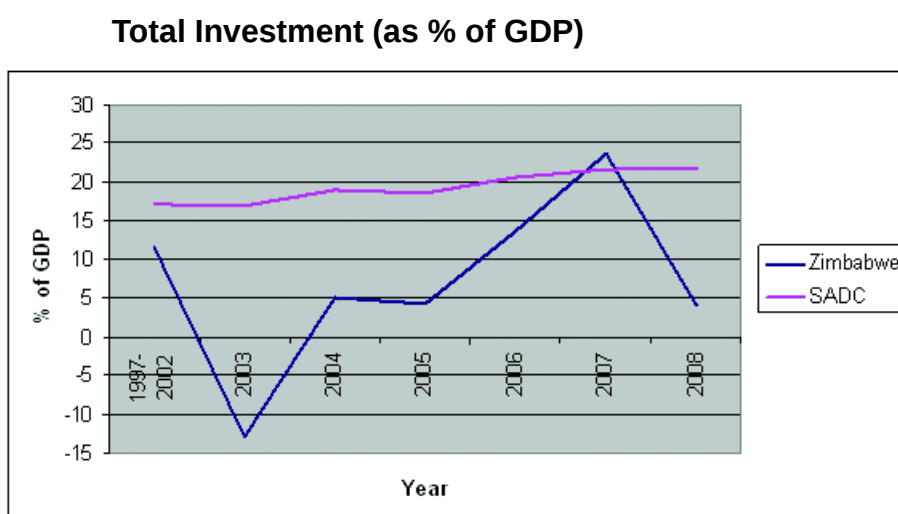
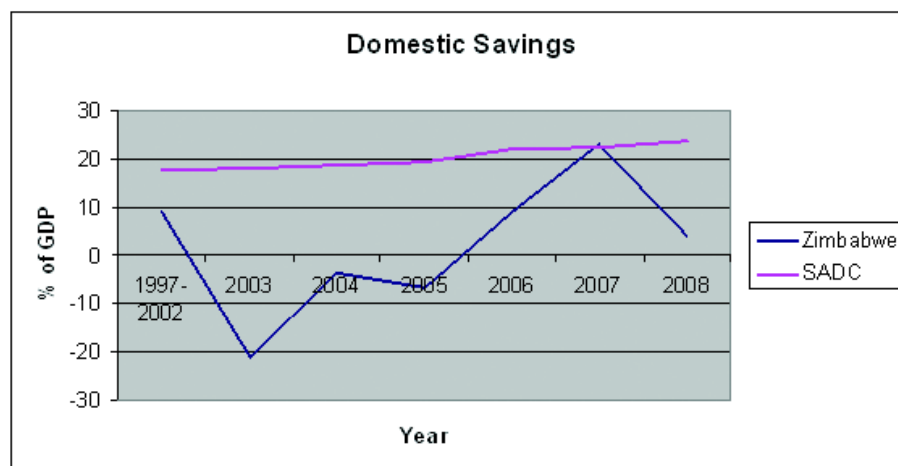
140. The financial sector plays a critical inter-mediatory role in mobilising savings and reallocating them for investment. The sector which demonstrated vibrancy and profitability was not spared from the hyperinflationary environment prevailing over the years since 2000.

141. Between 2000 and 2008, the sector was severely undermined by inconsistent macro-economic policies, negative real interest rates, massive capital flight and erosion of deposits.
142. Overall, the financial sector's balance sheets were reduced to less than 25% of their 2004 value, reflecting an erosion of the real value of financial assets and liabilities in Zimbabwe dollars.
143. In order to remain afloat, most banks have had to downsize their operations by closing some branches, especially those in the outlying service centres, leaving about 65% of the population un-banked, most particularly in the rural areas.

#### *Savings and Investment*

144. In this environment, savings and investment which are critical for GDP growth have been progressively falling over time, with marked declines from an average of 15% during 1995 – 2000 to around 4% of GDP by 2008. As shown in the graph below, Zimbabwe has been lagging behind the rest of other SADC countries.
145. The fast growing economies of East Asia have had savings and investment ratios of at least 25% of GDP and often more than 30%. China's double digit rates of GDP growth in recent years

have been underpinned by savings rates of the order of 40% of GDP.



146. In Zimbabwe's case, investment at levels as low as 4% of GDP means there has been virtually no new investment projects, and grossly inadequate levels of capital maintenance and replacement investment in recent years.

147. The country now faces the daunting task of having to restore the pre-existing capital stock while at the same time wanting to move forward with investment into new areas. In the infrastructure sectors, the deterioration due to inadequate maintenance is very obvious-having to rehabilitate existing capital items is going to be much more expensive than regular maintenance would have been.
148. The legacy of the recent economic crisis in terms of destruction of capital, loss of skills and the creation of highly unequal society has not just pushed Zimbabwe down to a much lower starting point, but has also reduced the economy's growth potential.

*Recent Developments in the Banking Sector*

149. Financial intermediation by the banking sector is slowly recovering, in line with the performance of the economy and gradual improvement in banking sector stability and confidence. Banks are now starting to underwrite meaningful business and this should boost internal capital generation.
150. Since the adoption of multiple currencies, deposits into the banking system have grown to US\$705.7 million by 30 June 2009.

151. The increased deposits, coupled with short term capital inflows in foreign credit lines, have gradually improved the capacity of banks to provide credit finance to the private sector.
152. To date, however, growth in loan advances by banks has, albeitly been at a slow pace. The total amount of loans and advances made as at 30 June 2009 was only US\$263.5 million, against deposits of US\$705.8 million, implying a loan to deposit ratio of only 37.3%.
153. Furthermore, whilst there has been a general increase in deposits, most banking institutions are not paying commensurate interest rates on deposits and, therefore, effectively undermining savings mobilisation, a pre-requisite for investment and economic growth.
154. As of 30 June 2009, reported deposit rates ranged from 0% to 2.65% for all deposit taking financial institutions. This is inconsistent with financial institutions reported effective lending rates reaching up to over 12%.
155. The sectoral distribution of credit by the banking sector as at 30 June 2009 was as follows:

| <b>Sector</b>   | <b><sup>1</sup>Loans &amp; Advances<br/>(US\$ Million)</b> | <b>% of Total Loans</b> |
|-----------------|------------------------------------------------------------|-------------------------|
| Distribution    | 83.1                                                       | 31.56                   |
| Agriculture     | 72.4                                                       | 27.47                   |
| Manufacturing   | 52.6                                                       | 19.96                   |
| Services        | 16.6                                                       | 6.29                    |
| Mining          | 14.7                                                       | 5.57                    |
| Transport       | 6.5                                                        | 2.48                    |
| Individuals     | 5.9                                                        | 2.24                    |
| Communication   | 5.6                                                        | 2.12                    |
| Financial Firms | 4.8                                                        | 1.82                    |
| Construction    | 1.3                                                        | 0.50                    |
| <b>Total</b>    | <b>263.5</b>                                               | <b>100</b>              |

### ***Capitalisation of Banks***

156. A capital verification exercise conducted by the Reserve Bank in April-May 2009 indicated that of the twenty eight (28) banking institutions operating in the country, fifteen (15) were found to be in compliance with the minimum capital requirement, whilst three (3) are marginally below, with the remaining ten (10) being undercapitalised.

<sup>1</sup>Source, Reserve Bank

## ***National Payments System***

### *Real Time Gross Settlement System (RTGS)*

157. Following the signing of the Tripartite Agreement between the Ministry of Finance, the Reserve Bank and the Bankers Association of Zimbabwe (BAZ) on 14 April 2009, the RTGS system started processing US dollar denominated transactions.
158. Resumption of the RTGS system improved convenience to the settlement of high value domestic foreign transactions for both corporates and individuals. The system has been performing efficiently and in line with international best practice.
159. Increased use of the RTGS has seen growth from 200 transactions per day (US\$4 million) in mid April to 3 500 transactions per day (US\$40 million) by the end of June 2009. Cumulatively, this meant that 115 000 transactions valued at US\$1.1 billion had been processed through RTGS.

### *Plastic Money*

160. Since the adoption of the multiple currency regime, only seven (7) out of eighteen (18) Zimswitch member banks are now active on the Zimswitch platform and processing US dollar denominated

transactions. The remaining members are still at various stages of technical configurations and collateral issues to become active on the Zimswitch Platform.

161. The volume of transactions, however, remains very limited.
162. Furthermore, while the process of engaging international credit card providers, such as VISA, has started for merchant acquiring licences, this has remained very slow, prompting outcries from the public including visiting tourists.

### ***The Zimbabwe Stock Exchange***

163. The Zimbabwe Stock Exchange (ZSE) plays an integral part in mobilising resources for the development of the economy.
164. The adverse macro-economic situation also had its toll on the local bourse which was forced to suspend trading in November 2008 owing to unwarranted share price movements driven by speculative behaviour from individuals, bank officials and stock brokers who were using unfunded cheques.
165. The Zimbabwe Stock Exchange, however, resumed trading in multiple currencies on 19 February 2009 following the establishment of stringent regulations necessary to bring normalcy on the stock exchange trading.

166. Since resumption of trade in US dollars, both the industrial and mining indices have risen from the bases of 100 each to 151.12% and 273.27 %, respectively, as at 2 July 2009.
167. Volumes of trade started at 6.9 million valued at US\$536 285.60, rose to 11.6 million in April 2009 valued at US\$202.8 million and reached 57.2 million valued at US\$804.7 million at the end of June 2009. Share prices registered phenomenal growth with some shares such as Hippo gaining over 2 000% and Econet 200%.
168. The Table below shows the trading trends at the ZSE over the period 19 February to 2 July 2009:

| <b>Month</b> | <b>Turnover (US\$)</b> | <b>Volume</b> | <b>Industrial Index</b> | <b>Mining Index</b> |
|--------------|------------------------|---------------|-------------------------|---------------------|
| February     | 536,285.60             | 6,804,679     | 58.56                   | 126.31              |
| March        | 3,014,535.47           | 68,474,347    | 67.73                   | \$81.88             |
| April        | 11,634,695.64          | 202,899,250   | 99.81                   | 158.81              |
| May          | 35,721,245.51          | 415,378,287   | 139.53                  | 288.47              |
| June         | 57,173,844.68          | 804,724,442   | 154.42                  | 271.65              |

169. The improved performance in volumes and share prices is reflected in the improvement in market capitalisation which

increased from US\$1.7 billion to the current US\$3.9 billion as indicated below:

| March 2009         | April 2009         | May 2009           | June 2009          |
|--------------------|--------------------|--------------------|--------------------|
| US\$ 1 666 281 985 | US\$ 2 996 173 519 | US\$ 3 568 236 326 | US\$ 3 895 117 155 |

170. Notwithstanding the improved performance on the bourse, demand still remains depressed owing to low liquidity arising from subdued economic activity. This has resulted in share prices not reaching levels that were obtaining prior to suspension of trade in November 2008.
171. Other challenges include the high transaction costs which at 7.5% are by far much higher than those prevailing in the region as indicated below:—

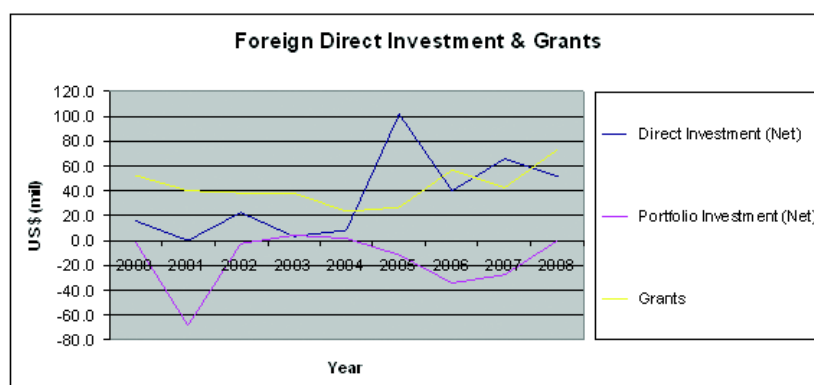
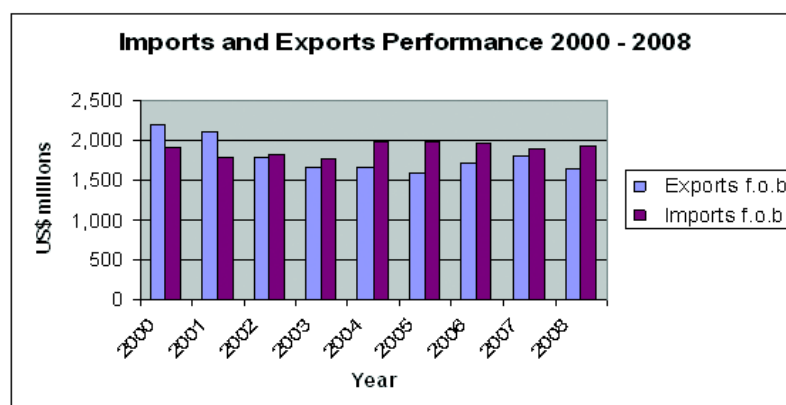
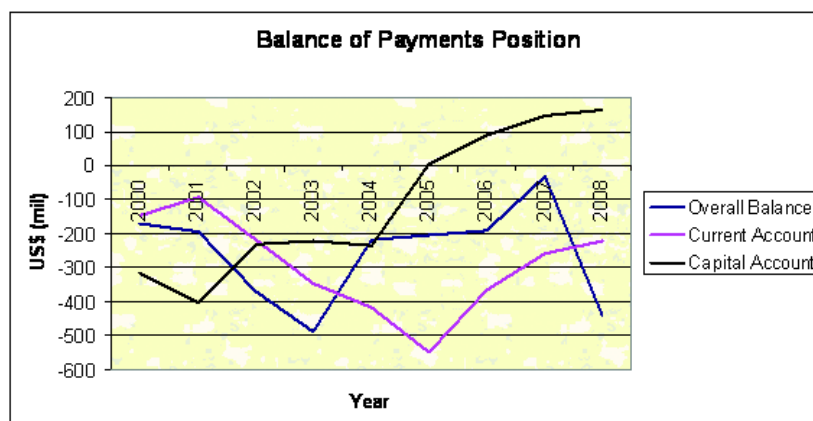
| Transaction Costs                                | Buying (%) | Selling (%) |
|--------------------------------------------------|------------|-------------|
| Brokerage fees                                   | 2          | 2           |
| Stamp duty (Buying)                              | 0.5        |             |
| Capital Gains Tax (selling)                      |            | 1           |
| Securities Commission levy                       | 0.2        | 0.2         |
| Investor Protection Levy                         | 0.5        | 0.5         |
| VAT at 15 % on Brokerage                         | 0.3        | 0.3         |
| Total costs                                      | 3.5        | 4           |
| <b>Total costs for both buying &amp; selling</b> | <b>7.5</b> |             |

### *Demutualisation of the ZSE*

172. Furthermore, there is need to unlock value in the ZSE for it to be a viable and attractive entity that would lure prospective shareholders to come on board.
173. This entails demutualising the ZSE in terms of the Securities Act. However, prior to demutualisation, there is need to develop the market to ensure growth in revenue streams. The ZSE has been tasked to develop a business model on demutualisation which should be submitted during the last half of this year.

### **External Sector**

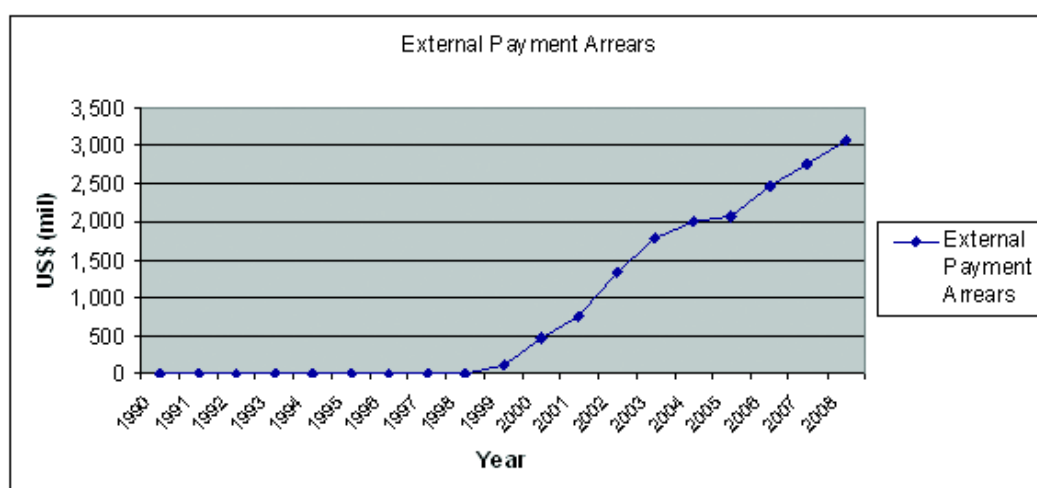
174. Mr. Speaker Sir, external sector developments in decline since 2000, remain constrained by poor performance of exports which declined from US\$2.19 billion in 2000 to US\$1.52 billion by end of 2008, as well as absence of external capital inflows.
175. This has constrained the country's capacity to finance critical imports such as food, drugs, industrial inputs, power and fuel.
176. Limited external flows have since 2000 largely been restricted primarily to humanitarian assistance channelled outside Government's official systems.



177. This situation has not only compromised the country's gross international reserve position, but led to an accumulation of external payment arrears currently estimated at US\$3.1 billion.

178. The country first defaulted on its external obligations in the year 2000.

179. Clearance of our outstanding external payment arrears is one of the key conditionalities for unlocking new balance of payments support from multilateral international financial institutions such as the IMF, World Bank and the African Development Bank.



### *Funding for STERP*

180. The country's financial requirements under STERP amount to US\$8.4 billion of which US\$1 billion is required for immediate direct Budgetary support and another US\$1 billion for supporting the private sector through self liquidating lines of credit.

181. To raise the above resources, Government has been engaging international development cooperating partners within the region and beyond.
182. While these engagements have yielded positive results through the opening up of dialogue with our cooperating partners, Government is yet to realise meaningful resources for direct budgetary support and lines of credit for capacitating our industries.

### ***Grant Pledges***

183. Mr. Speaker Sir, allow me to acknowledge the support that the Government of Zimbabwe is receiving from various cooperating partners in support of its economic recovery efforts.
184. Mr Speaker Sir, unfortunately, the bulk of the limited available donor external financial support has largely remained pledges, with disbursements mainly outside of our Budget framework, and through NGOs.
185. Treasury is working with cooperating partners, NGOs, and Government Ministries with a view of consolidating information on all the pledges and targeted support areas.

186. This is critical for aid coordination and the Nation's appreciation of the quantum of overall donor support. Indications so far point towards pledges of over US\$500 million, mainly for humanitarian assistance and demonstrating the strong commitment of our cooperating partners to improve the socio-economic status of the disadvantaged.
187. Mr Speaker Sir, while Treasury is still ascertaining the overall level of pledges by donors, I can confirm the US\$391 million to be channelled through Government and which amount I propose to capture under the Vote of Credit.
188. Hence, on behalf of the Government of Zimbabwe, I wish to express our profound gratitude to the various multilateral and bilateral donors who have responded to the funding requirements in the STERP.
189. It goes without saying that the cholera pandemic would have been difficult to contain were it not for the assistance the country received in the form of drugs, the rehabilitation of water and sanitation facilities in the country, including personnel payments to staff in the public health sector.
190. Mr Speaker Sir, I however remain concerned that the resources secured so far fall short of the STERP requirements, necessitating intensification of efforts to raise more resources from cooperating partners.

### ***Private Sector Lines of Credit***

191. Mr Speaker Sir, with regards to our ongoing efforts to secure private sector capacity enhancement facilities, the amounts pledged so far fall short of requirements for agriculture, importation of manufacturing raw materials, communication, tourism, transport, energy and mining, among others.
192. However, Mr Speaker Sir, allow me to acknowledge and extend my appreciation to the cooperating partners ready to participate in boosting capacity utilisation in our industries.
193. These include the Governments of Botswana and South Africa, the PTA Bank, Afreximbank, China Exim Bank, China Development Bank, the African Development Bank and the Development Bank of Southern Africa, among others.

### **FISCAL DEVELOPMENTS**

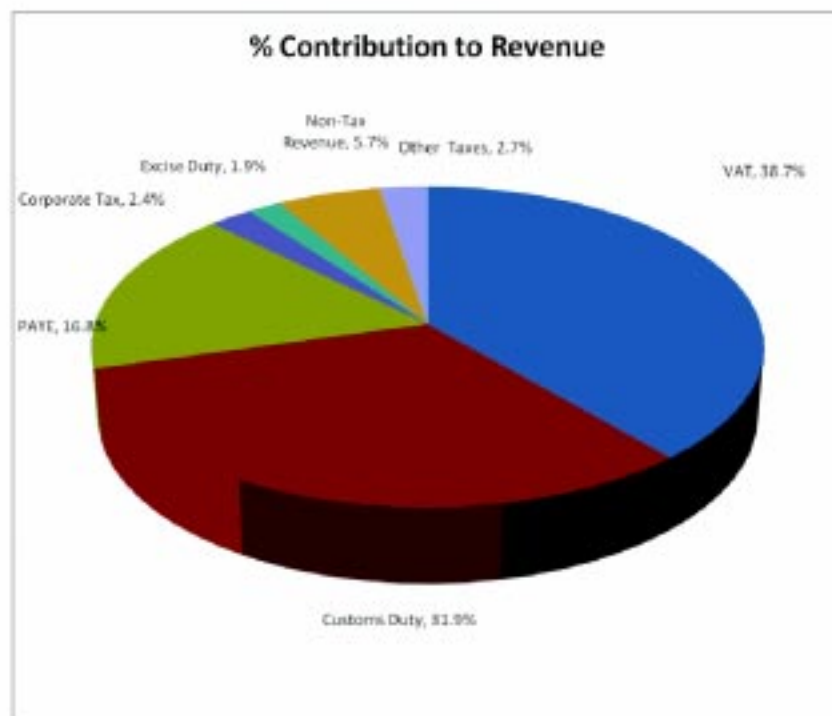
194. Mr Speaker Sir, this year's Mid-Year Fiscal Review comes against the background of last year's developments which had seen rising inflation erode the real value of Budget revenues, and in the process Government's capacity to undertake public expenditure programmes.

195. The ultimate effect of this erosion was evident on ordinary Zimbabweans as provision of public services collapsed. The most affected sectors included health, education and infrastructure sectors.
196. In the health sector, central hospitals were either closed or operated well below capacity. Drug stocks fell to below 36% of normal supply, whilst most essential equipment was non-functional.
197. In education, most schools failed to open and there were high rates of absenteeism from work as teachers joined other professionals in search of greener pastures beyond our borders.

## **Revenue**

198. Mr Speaker Sir, the 2009 Budget provides for total revenues of US\$1 billion. Based on the concept of Cash Budgeting that we adopted this year, our expenditure and net lending is also of an equivalent amount.
199. Cumulative revenue collections for the period January to June 2009 amounted to US\$285.4 million, against a target of

US\$321.2 million. The bulk of the revenue was collected from Value Added Tax (VAT), Customs Duty and Pay As You Earn (PAYE).



### ***Value Added Tax (VAT)***

200. VAT collections amounted to US\$110.5 million or 38.7% of total revenue surpassing a target of US\$85.5 million. The positive performance of VAT is attributable to improved household incomes, resulting in increased expenditure on vatable goods as well as the visibility of ZIMRA through taxpayer audits.

### ***Customs Duty***

201. Customs duty collections for the period under review amounted to US\$90.9 million or 31.9% of total revenue collected, against a target of US\$97.3 million. The sluggish performance of customs duty is attributable to lower than expected volumes of imports and incidences of smuggling.

### ***Pay As You Earn (PAYE)***

202. PAYE collections amounted to US\$47.9 million or 16.8% of total revenue collected, against a target of US\$40.2 million. Performance of this revenue head is expected to improve as employers review salaries in line with the anticipated increase in productivity, instead of the current allowances which have remained below the tax free threshold.

### ***Corporate Tax***

203. Corporate tax contributed US\$6.9 million or 2.4% to total revenue, against a target of US\$32.6 million. Low industry capacity utilisation due to insufficient credit facilities to acquire inputs resulted in poor performance of this revenue head.

### ***Excise Duty***

204. Revenue collections for the period January to June amounted to US\$5.3 million or 1.9% of total revenue against a target of US\$19.2 million. The bulk of the excise duty was realised from beer and second hand motor vehicles.

### ***Non-Tax Revenue***

205. Whereas fees and charges for Government services were reviewed to cost recovery level, revenue collected during the period January to June amounted to US\$16.3 million or 5.7% of total revenue against a target of US\$33.8 million. The negative variance is attributed to depressed demand for Government services.

### **Expenditure**

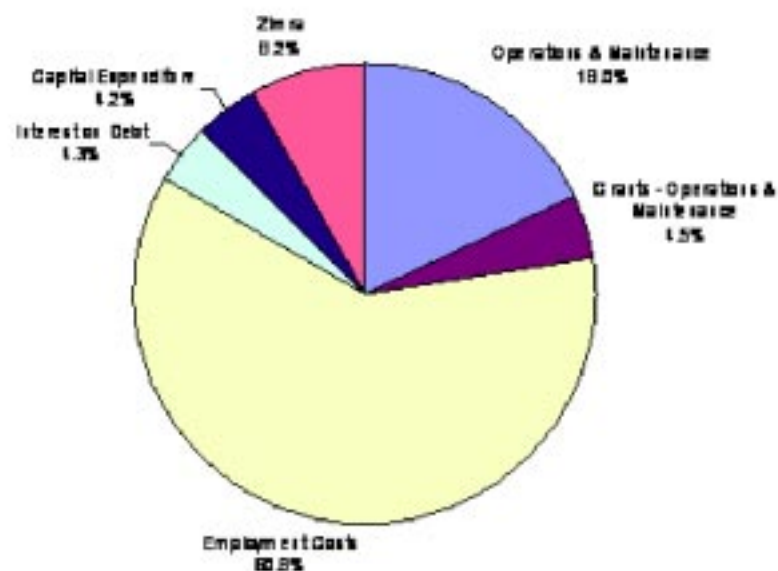
206. The expenditure target for the period up to June 2009 was pegged at US\$304 million, of which US\$31.8 million was for capital expenditure.

207. However, in line with revenue collections and the cash budgeting thrust, actual expenditures and net lending to June 2009

amounted to US\$257.2 million, implying an expenditure shortfall of US\$46.8 million.

208. The graph below shows the distribution of this expenditure to the various heads.

**EXPENDITURE TO JUNE BY ECONOMIC CLASSIFICATION**



209. Of the total actual expenditure of US\$257.2 million, an amount of US\$156.5 million (60.8%) is with respect to payment of allowances for civil servants and grant aided institutions, as well as pension payments, whilst US\$46.3 million was for Ministries' operational expenses (18%).

210. Payment of interest and service charges to various banks during the first half of the year, including for the processing of the Goods Purchase Vouchers in February 2009, all accounted for US\$11 million (4.3%).

211. Operational expenses for grant aided institutions were US\$11.5 million (4.5%), whilst capital expenditure amounted to US\$10.9 million or 4.2% of total expenditures.

212. Of the US\$257.2 million in total expenditure to June 2009, ZIMRA accounts for US\$21 million. This relatively high level of expenditure was spent on its operational requirements, of which staff costs amounted to US\$11 million, operational costs US\$6 million, whilst capital expenditure stood at US\$2.4 million.

213. Performance of individual expenditure heads was as follows:

### ***Employment Costs***

214. Cumulative expenditures up to June 2009 were US\$156.5 million.

215. Mr Speaker Sir, it will be recalled that in order to provide relief to civil servants whose welfare had deteriorated sharply during the last half of 2008, Government introduced payment of a monthly

allowance of US\$100 per member, effective from February 2009. The same was extended to staff under grant aided institutions.

216. For pensioners, payment in foreign currency was from March 2009, the amount for the allowance being a proportion of the allowance for a serving member.

217. The expenditure of US\$156.5 million under employment costs comprises of an amount of US\$117.5 million in payments to public servants, some US\$27.4 million in pensions and US\$11.6 million in respect of staff under grant aided institutions.

218. Introduction of payment of the US\$100 monthly foreign currency allowance encouraged public servants, service wide, to continue offering their services, critical to the socio-political dispensation consummated in February 2009. Government, despite the meagre Budget revenue base, has managed to sustain these payments, thereby minimising attrition rates and attracting former civil servants back into service. For example, in the education sector, vacancy rates had dropped from 60% to 35% by mid June 2009.

219. Mr Speaker Sir, whilst this intervention was most welcome, Government is aware that the current levels of payments to our

civil servants and pensioners remain inadequate. There is also already some sustained pressure by staff associations' representatives for an improvement in the US\$100.

### ***Operations and Maintenance***

220. To sustain existing Ministries' operations as well as provide for new Ministries' requirements, expenditures to June 2009 amounted to US\$46.3 million, against a target of US\$77.4 million.

221. The resources were mainly used to finance expenditures related to rentals and vehicle and other hire services (US\$13.6 million), foreign travel (US\$11 million), Ministries' programme expenses (US\$6.5 million), maintenance (US\$5.4 million), other operational expenses (US\$8 million), and domestic travel (US\$1.8 million).

### ***Rentals and Vehicle and Other Hire Services***

222. The amount of US\$13.6 million spent on rentals and hire charges includes payments to CMED for vehicle hire charges incurred by Ministries and their Departments. Also included are rentals paid for Government offices in private buildings.

223. Mr Speaker Sir, my Ministry has engaged CMED with a view of revisiting its business model. Currently, CMED imposes a charge that penalises Ministries should a vehicle on hire not clock a minimum mileage of 2 500 kilometres.
224. We also find the rates with respect to office rentals too high. My Ministry is working with the Ministry of Local Government, Urban and Rural Development to review this area, in consultation with estate agents.
225. Mr Speaker Sir, it is important to note that our foreign missions have also accumulated substantial arrears on rentals and other hire charges due to our inability to meet their payment requests on a regular basis.

### ***Foreign Travel***

226. The expenditure on foreign travel of US\$11 million was related to efforts aimed at raising resources in support of the STERP requirements. This has seen missions being dispatched to Europe, Americas and the Far East.
227. This re-engagement process has seen multilateral institutions offer Zimbabwe technical assistance as well as pledges for financial support.

### ***Foreign Missions***

228. Prior to our adoption of foreign currencies, our embassies were facing a multitude of problems, including inability to meet bills for basic services, as well as arrears in payment of salaries for staff.
229. We have now managed to avail a total of US\$9 million to the Ministry of Foreign Affairs since March 2009 towards the running costs of our diplomatic missions.
230. While the above intervention has alleviated challenges faced by missions, we are still to accommodate funding to liquidate the full amount of arrears on rentals, salaries, water and electricity, as I alluded earlier.

### ***Maintenance***

231. Expenditure on fuel and vehicle maintenance as well as maintenance of Government buildings amounted to US\$5.4 million.

### ***Health***

232. Out of the expenditure for Operations and Maintenance of US\$46.3 million, the Ministry of Health and Child Welfare and

its institutions accounted for US\$5.1 million. As Honourable Members are well aware, this sector was facing serious challenges. With the above intervention, coupled with support from cooperating partners, services at most institutions have been restored.

233. Harare Hospital has so far benefited from the special targeted approach, whereby US\$3.4 million has been earmarked to meet their immediate requirements. So far, an amount of US\$1 million has been disbursed.
234. The US\$1 million intervention has allowed the hospital to reopen the Children's Hospital which had been closed since June 2008, refurbish three second floor theatres, rehabilitate the maternity and general wards as well as procure drugs, cleaning equipment, detergents and linen.
235. The hospital has also been able to repair lifts, rehabilitate plumbing and electrical works as well as start works on infrastructure.
236. The improvement in service delivery has brought much needed relief to the general public who rely on the institution for health services. The hospital's bed occupancy has increased from about 180 patients in March to 576 patients in May, whilst

the re-opening of the Children's Hospital has now seen 120 admitted children.

237. As Government, within our limited capacity, we will continue with the targeted approach in resuscitating the health delivery system. Working in consultation with the responsible Ministry, Mpilo hospital has been identified as the next institution to be accorded priority followed by Mutare Provincial Hospital and others thereafter.

238. The balance of US\$4.1 million for other health institutions has resulted in hospitals being able to improve food provisions to in-patients, drug supply stocks and maintain hygienic standards as well as provide specialist services.

### **Grants and Transfers**

239. A total amount of US\$11.5 million was expended under this item. Of this amount, US\$8 million relates to operational expenses for grant aided institutions, whilst the balance of US\$3.5 million was towards contributions to regional and international organisations such as COMESA and the African Union.

240. The operational component of US\$8 million covers support to grant aided institutions, which include US\$2.5 million for

operational support for State universities, US\$1.6 million to ZIMSEC for the marking and grading of 2008 examinations, as well as preparations for the June 2009 examinations, whilst Parirenyatwa hospital and mission hospitals have received US\$1.1 million.

## **Capital Expenditures**

241. In line with the 2009 Capital Budget thrust to focus on prioritised projects with potential to immediately contribute towards the recovery of the economy, expenditures amounting to US\$10.4 million have been incurred against a target of US\$31.8 million. This represents 4.2% of total expenditure. The low budget support was a result of limitation in fiscal space in view of revenue constraints.

## ***Vehicles***

242. Mr Speaker Sir, the creation of new Ministries and the hosting of the COMESA summit necessitated the procurement of vehicles. In this regard, an amount of US\$8 million was spent towards procurement of vehicles. Of this amount, US\$1.8 million was for conditions of service vehicles and the balance was for Government operational vehicles.

243. Regarding vehicles for use by the Parliamentarians, Government stance is that this be implemented taking into account our resource limitations. Therefore, we have started acquiring the vehicles on a staggered basis, mindful of the need to avoid crowding out service delivery. Full coverage of all deserving Members this year is only possible if we make our local car assemblers suppliers of first choice.

### ***Roads Rehabilitation***

244. Mr Speaker Sir, I had anticipated to spend US\$11.1 million towards road rehabilitation during the first half of the financial year. Owing to the limited revenue inflows, I have only been able to intervene in this area to the tune of US\$425 000.

245. This expenditure would have been augmented by revenue generated from toll fees. However, there have been bureaucratic delays in the implementation of toll gates, which has seen us forego an estimated US\$12.5 million in revenue notwithstanding ZIMRA's readiness. All the necessary basic collection facilities are already in place.

246. However, I am glad that Cabinet has now resolved to immediately introduce collection of toll gate fees at half the previously stipulated thresholds without any further delay. This will assist to pave way

for collection of revenue in support of roads rehabilitation and maintenance.

247. I indicate the specific toll fees later in this Review as part of the proposed revenue measures.

### *Water*

248. Most urban areas are currently faced with persistent water shortages against the background of inefficient old water treatment systems and limited financial local authorities' capacity to procure water treatment chemicals.

249. To facilitate the resumption of water treatment chemical supplies by Zimphos, Government availed US\$0.8 million to ZINWA to clear its debt.

250. Provision of public financial support will have to be complemented by resources arising out of the application of both the user and polluter pay principles.

### *Agribank and IDBZ*

251. As part of its commitment to capitalise Agribank and the Infrastructure Development Bank of Zimbabwe (IDBZ), Government availed US\$500 000 to enable the two institutions' mobilise additional resources

from the private sector/financial institutions in support of agriculture and infrastructure development, respectively.

### ***Service Delivery***

252. The modest allocations availed to Ministries and Government departments during the first half of 2009 are beginning to facilitate the restoration of service delivery, especially in the health and education sectors where institutions had either closed or operated way below capacity.

253. Budgetary disbursements are being complemented by revenue retentions, following the approvals over the charging of economic fees/tariffs for public services. In addition, contributions by the donor community have been of immense help in our quest to revive critical services.

### ***Education***

254. One of the major challenges that confronted the education sector at the time of the presentation of the 2009 Budget was the failure to mark and process public examinations. In addition all public schools were not conducting lessons on account of non availability of teachers.

255. Government's intervention so far has enabled the marking, grading and publication of the 2008 examinations.
256. Additionally, the US\$100 allowance being paid to all civil servants has seen teachers, including those who had left the country, return back to work. Parents have also contributed significantly to the recovery of education through supplementary allowances to teachers by the Schools Development Committees (SDCs).
257. With regard to tertiary institutions, the University of Zimbabwe is the only institution that has remained closed because of severe water shortages and the brain drain.
258. Efforts to restore adequate water supply at the University continue. Recently, nine boreholes were drilled and installed with financial assistance from UNICEF. With the ongoing rehabilitation and upgrading of the water reticulation system within greater Harare, full restoration of water supply at the University of Zimbabwe should be achieved.
259. Government has also availed an amount of US\$432 000 for procurement of examination materials, other operational expenses and infrastructure rehabilitation for the institution.

260. The above measures should soon see the institution opening its doors to students.

261. Mr Speaker Sir, while there is a semblance of service delivery as I have sought to highlight above, a lot more needs to be done. It is therefore, critical that between now and December 2009, Government deploys its minimal resources in a targeted manner towards such areas as mending of social and economic infrastructure, including rural roads, schools and clinics.

### **Domestic Debt**

262. Under the hyperinflation environment in 2008, revenues were much higher than expenditures, allowing Government to redeem the entire domestic debt by February 2009.

263. Since the introduction of the multi-currency system in February 2009 and the adoption of cash budgeting in March 2009, Government no longer holds any domestic debt.

264. However, Government is establishing details of the over US\$1 billion Central Bank indebtedness.

### ***Public Enterprises and Local Authorities***

265. Public utilities such as ZESA, NOCZIM, ZINWA, Air Zimbabwe, GMB, ZISCO, Hwange, NRZ, PTC, among others, as well as local authorities have been under-performing since 2000, notwithstanding absorbing huge public resources through fiscal grants, advances, Central Bank support through PLARP and direct and indirect subsidies from the Government.
266. Causes for the poor performance of these entities range from unviable Government pricing policies, under-capitalisation, direct Government interventions in the day to day management of these entities, corruption and mismanagement.
267. Poor service delivery and perennial losses of these enterprises directly contributed to the cost of doing business, macro-economic instability and overall economic downturn.
268. Accelerating the rate of implementation of public enterprises reforms will help to stabilise the macro-economy and will make a major contribution to improving the competitiveness of this economy.

## **BUDGET CHALLENGES**

269. A major challenge that the 2009 Budget remains faced with is the low levels of revenue inflows that have made it impossible to meet disbursements for requirements by Ministries to the levels budgeted for.
270. Furthermore, the Budget will have challenges with regard to supporting the financial requirements of agriculture. Requirements for the 2009/10 summer cropping season, estimated at US\$880 million, are not only almost equal to the entire 2009 National Budget, but are also in excess of the domestic financial sector savings deposit base.
271. Additional Budget challenges emanate from requests by some Ministries for funding in areas that had not been covered within the US\$1 billion 2009 envelope.
272. Ministries, notwithstanding their appreciation of the realities of cash budgeting, continue to raise bids for additional requirements.
273. The requests include services for the audit of the payroll, requirements for decent public service remuneration, public service delivery, infrastructure, the new Constitutional making

process, diplomatic missions running expenses, national examinations expenses, and other outstanding creditors.

## **MACRO-ECONOMIC AND BUDGET FRAMEWORK**

274. Mr Speaker Sir, given the above characteristics of the state of our economic recovery developments up to the first half of 2009, it becomes necessary that our Budget Framework to year end recognises the absence of adequate and firm external Budget financial support, notwithstanding the number of Government missions to mobilise such support.

275. Hence, it is unavoidable that review of our Budget Framework remains within the domestic resource envelope, as we rehabilitate the economy.

276. This is against the background of the reality of a fragile economic recovery, with a number of risks and threats which cannot be masked by such yet to be nursed emerging “little green shoots” reflected through improvement in the supply of goods and services.

277. On the Budget revenue front, the notable gains experienced with collections during the first half of the year have been largely underpinned by consumption, rather than being rooted solidly in enhanced production recovery.

278. Partly reflecting the above, is a narrow space of the fiscal and domestic financial sector to finance productive sectors as well as capital development programmes. This has meant failure on the part of the Budget and our financial system to adequately capacitate such critical engines of economic recovery as agriculture.

279. The fragility of our economic recovery is also compromised by our lack of fiscal discipline, as exemplified by the level of expenditures on travel, fuel and vehicle purchases for both Government and Parliament.

280. Projections to December 2009 indicate the outlook for the 2009 Budget framework as follows:

| Variable                   | Original 2009   | Revised 2009      |
|----------------------------|-----------------|-------------------|
| Real GDP (% Growth)        | 2.8%            | 3.7%              |
| Inflation (Annual Average) | 6.9%            | 6.4%              |
| Nominal GDP                | US\$3.5 billion | US\$3.4 billion   |
| Revenues                   | US\$1 billion   | US\$970 million   |
| Revenues (% of GDP)        | 30%             | 28%               |
| Expenditures               | US\$1 billion   | US\$1.361 billion |
| Expenditures (% of GDP)    | 30%             | 38.9%             |
| Overall balance            | —               | US\$391 million   |
| Vote of Credit/Grants      |                 | US\$391 million   |
| Vote of credit as % of GDP | —               | 11.2%             |

281. Hence, our interventions should be guided by the above 2009 revised Budget Framework which is consistent with our objectives and targets of the March 2009 Budget.

282. Such consistency is also necessary for building confidence and a reputable track record agreed with our international cooperating partners.

### **BUDGET EXPENDITURE REALLOCATION**

283. Cash budgeting entails that expenditures can only be accommodated to the extent of revenue collections. Consequently, whilst there could be areas of Government programmes and projects where additional funding is required, it is not feasible to consider them in the absence of corresponding revenues.

284. Therefore, fiscal space to accommodate inescapable expenditures can only be created by rationalising and reallocating some of our 2009 budget expenditures.

285. I, therefore, propose to make provisions financed through reallocations amounting to US\$220 million.

286. The additional provision of US\$220 million has been occasioned by the need to meet expenditures under the wage bill, operations and maintenance for some selected Ministries, including our foreign embassies. The provision also caters for support to the Reserve Bank.

287. Mr Speaker Sir, allow me to provide further details on the above:

### ***Employment Costs***

288. The reallocation in favour of increased expenditure on Employment Costs is necessitated by the proposal to review the US\$100 allowance, which has been paid structured into a single band for all public servants irrespective of rank or grade.

289. Mr Speaker Sir, payment of a decent living wage to civil servants remains our first priority as this has the potential of improving on service delivery. The US\$100 allowance whilst initially welcome, has now proved to be inadequate on account of high costs on utilities, rentals, fuel and school levies. This has, therefore, led to calls from staff associations for a review of the current remuneration framework.

290. I, therefore, want to take this opportunity to commend our civil servants for their resilience and understanding during these trying times.
291. Government will, with effect from this month, review the remuneration framework taking into consideration the need to differentiate between grades. The ultimate objective is to begin to pay a salary to our public servants, though initially modest in line with the little available revenue.
292. I am, therefore, proposing to set aside an additional US\$151 million to year-end to support implementation of a modest pay structure which begins to recognise grade, albeit initially across only limited differentiated bands.
293. In line with this, effective 1 July 2009, I propose to set aside an additional US\$14 million per month over and above the current US\$34 million to support a review covering the period from July 2009. Reviews that allow for decompression of the wage scale will improve motivation and retention of skilled civil servants.
294. The Public Service Commission, guided by the above resource envelope, is working out the pay structure effective from July 2009 after which payments should be processed by month-end.

295. Currently, our wage bill accounts for 35% of total expenditure and 13% of estimated GDP. To avoid crowding out non-wage expenditures, additional reviews will in future be implemented in line with international best practices with regards to the ratio of the wage bill as a proportion of total expenditure and GDP, respectively at about 30% and 8%.
296. Hence, while noting requests to structure remuneration levels consistent with the historical salary scales previously in place, these can only be considered in line with the overall recovery of our economy. This will also be a subject of our 2010 Budget.
297. In view of the resource constraints facing Government during these early stages of our economic recovery, Government is also urging public servants, including pensioners, to exercise restraint on wage demands that are beyond the capacity of the budget and the economy at large.
298. I also wish to emphasise that we cannot spend what we do not have and, therefore, the decompression of the wage bill I have made in “*casu*” is consistent with the total absence of fiscal space characterising this Government. We are no longer printing our own money, therefore, the days of inflationary and populist wage increases are gone.

299. Moreover, in the absence of an exchange rate regime, the civil service wage has become a normative indicator of the cost of doing business in Zimbabwe. That being so, and consistent with STERP, it is critical and essential to keep Zimbabwe as a low cost producing country. Any ambitious and inflationary wage increase, whilst beneficial in the immediate short term, is a disaster in the long term.
300. Finally, it is critical to de-link our mindset from the era of the Zimbabwean dollar. All increases being made are in hard currency. Furthermore, the era too where retailers and other economic actors would increase their prices the minute salary increases were made should also be a bygone one.

### ***Civil Service Audit***

301. Government's capacity to accommodate higher remuneration packages would also be enhanced by payroll audits intended to remove ghost workers.
302. In this regard, Government through line Ministries is carrying out a payroll audit with the objective of not only verifying the payroll establishment but also assessing personnel capacities and competencies, critical for the instituting of remedial measures.

303. Hence, the audit is expected to produce the following outputs/ outcomes:

- A payroll aligned to the establishment;
- Rectification of all irregularities on the civil service payroll;
- Strengthening of the systems and mechanisms of enhancing the validity of the payroll;
- A detailed profile of the civil service;
- Recommendations on attraction and retention measures.

### ***Foreign Missions***

304. I also propose to make provision of US\$15.4 million with respect to Foreign Missions in order to allow us to meet outstanding obligations, including rentals and utilities.

### ***Goods and Services***

305. Furthermore, I propose to provide US\$30.8 million for Goods and Services to enable Ministries and Departments as well as Parliament to sufficiently meet their operational requirements to end of the year.

### ***Reserve Bank***

306. Given the impact some of the reforms contained in our STERP have had on the capacity of the Reserve Bank to generate income, I am also proposing to make a Budgetary provision of US\$3.5 million to cater for the Bank's operational funding requirements to end of the year.

### ***Interest on Debt***

307. I also propose to provide US\$11.1 million for interest on debt payments.

### ***Vote of Credit***

308. I further propose to make provision of an amount of US\$391 million under the Vote of Credit.

309. This Vote is the channel through which donor funds are integrated into the National Budget for comprehensive disclosure to Parliament.

310. Mr Speaker Sir, international community assistance to Zimbabwe channelled outside the Government systems does not form part and parcel of the Vote of Credit.

311. The proposed US\$391 million Vote of Credit comprises of US\$117 million already received under various programmes since January as well as expected disbursements to December 2009.
312. Mr Speaker Sir, we have already received US\$1 million from the African Development Bank towards the cholera response. In addition, the Bank has pledged to assist us in capacity building within Government (US\$6 million), agricultural inputs (US\$6 million), rehabilitation of water and sanitation infrastructure for Chitungwiza (US\$2.6 million) and general Budget support (US\$20 million).
313. China on the other hand has already disbursed the US\$5 million pledge targeted at general Budget support and 4 000 tons of soya beans worth US\$1.2 million.
314. Our neighbour, South Africa pledged R300 million for general Budget support. Of this, Government has already received R200 million. The Budget support from South Africa is over and above the earlier support covering procurement of maize and wheat seed as well as fertilizer, worth US\$30 million.

315. The Budget support received from South Africa has since been channelled towards infrastructure rehabilitation for the City of Harare (R160 million) as well as revitalisation of Harare and Mpilo Central Hospitals.
316. The support to the City of Harare has been targeted at funding the Morton Jaffray Waterworks, water distribution network and rehabilitation and upgrading of sewerage infrastructure at Firle and Crowborough plants.
317. The above interventions will result in an increase in water production of 100 mega litres per day, a reduction in water leakages from 45% to 25% as well as reduction in pipe bursts and sewer blockages, thereby reducing inconveniences and residents' exposure to diseases.
318. With regards to the European Union, out of an amount of US\$104.2 million pledged, some US\$40.1 million has already been received mainly targeted at food security, procurement of drugs, capacity building, support to orphans and vulnerable children, health, education and energy infrastructure.
319. The United Nations (UNDP, UNFPA and UNICEF) has pledged a sum of US\$106.4 million, out of which US\$40.2 million has already been received. The amount received has been applied

towards strengthening governance systems, cholera, capacity building, gender mainstreaming, health and nutrition, social protection, water and sanitation education and climate change and community recovery.

320. The World Bank has pledged US\$16.5 million towards support in the procurement of 100 tons of maize, peace and nation building.

321. Mr Speaker Sir, we remain indebted to our well wishing friends who include China, Germany, the United Kingdom, Norway, Sweden, South Africa, and the United States of America and many others whose contributions come through the European Union and the UN who are coming to our rescue during our hour of need.

### ***Financing***

322. The financing of the above reallocations will be met from expenditure cuts as already alluded to.

323. This stance allows us to remain within the 2009 Budget of US\$1 billion I presented to Parliament on 17 March 2009. The Vote of Credit amount is self financing and, hence, has no deficit implications.

324. To effect the reallocations and provide for the Vote of Credit, Parliamentary approval is necessary.

## **PUBLIC RESOURCES MANAGEMENT**

325. Given the resource constraints, Government will maximise on the little resources by efficiently and effectively applying them in order to meet the economic recovery objectives as outlined in STERP.

### ***Results Based Budgeting (RBB)***

326. In an environment characterised by shortage of resources, RBB allows Government agencies to achieve their micro and macro level results in a more coordinated systematic, integrated and cost effective manner.

327. As we re-engage the international community, the concept of Results Based Budgeting becomes even more critical. The resources availed should have the necessary impact to the intended beneficiaries in a transparent and cost effective manner.

328. The stability that has accrued to the economy following the introduction of the multi-currency system creates a conducive

environment for firm planning and commitment to achievement of results. This, therefore, sets the tone for implementation of RBB in 2010. The remaining period of 2009 will, thus, be used to lay a foundation for implementation of RBB and address some of our Public Service delivery challenges.

### ***Payment of Arrears***

329. Mr Speaker Sir, Ministries have accumulated arrears to the tune of US\$21.7 million, especially for utility bills such as electricity, water, telephones and vehicle hire.

330. I urge all Ministries to support the service providers concerned by prioritising such payments within the modest monthly resources they are receiving in order not to affect the viability of these institutions.

331. To curb further accumulation of arrears, Treasury is instituting the following measures:—

#### *Telecommunication Services*

332. Conversion of existing contract lines for some Government officials into pre-paid lines, with air time ceilings being

maintained at current levels given that by their nature, contract lines do not impose a hard spending limit on the user.

333. For those still on contract lines, service providers will be requested to withdraw ability to make a call on contract lines that exceed set spending ceilings. In addition, Government will streamline the number of Government officials warranting provision of handsets and air time allowances.

#### *Vehicle Hire*

334. Mr Speaker Sir, I have already alluded to the existing billing framework by CMED, which provides for payment of flat monthly fixed charge per vehicle (dead mileage) of US\$1 000 (2 500km at \$0.40 per km). This encourages unnecessary use of Government vehicles, subsequently leading to high demand for fuel.
335. Outstanding bills for CMED vehicle hire charges to June 2009 stood at US\$6.7 million, and continue to grow. There is, therefore, need to introduce measures that will contain this expenditure.
336. Treasury is, in consultation with CMED, introducing a new billing framework that minimises on the use of Government

vehicles. Details of this framework will be announced in due course.

### *Fuel Allocation*

337. Fuel consumption by Government remains a cause of concern, more so in view of the current shortages. There are some reports of consumption levels that reflect imprudent use of this commodity. Accordingly, the following measures are being put in place:—

- Setting fuel consumption limits for Senior Officials;
- Setting fuel consumption levels per Ministry, with the cap informed by nature of duties.

### *Foreign Travel*

338. A disproportionate share of revenue is being spent on foreign travel. In certain instances, Ministries are initiating foreign travel requests which are not commensurate with the benefits to the economy.

339. Expenditures related to foreign travel have been at levels that, if sustained over the course of the year, will crowd out other operational costs.

340. I propose that expenditures on foreign travel be limited to a given allocation with travel approvals related to availability of funds.

### ***Legal Framework***

341. As enunciated in STERP, Government has set the strengthening of governance and accountability as one of its key objectives.

342. The enactment of appropriate legislation is critical to provide the necessary anchor for systems and processes that will be put in place to ensure sound public finance management.

343. In this regard, Government is reviewing the legal framework that governs the management of public resources to strengthen the governance and accountability arrangements.

344. Already, Government has approved the principles of the proposed Public Finance Management and Audit Office Bills.

345. The Public Finance Management Bill seeks to repeal the Audit and Exchequer Act [*Chapter 22:03*] and the State Loans and Guarantees Act [*Chapter 22:13*] and to merge, strengthen and replace them with a Public Finance Management Act, while the Audit Office Bill intends to strengthen the legal arrangements

governing the operations of the Office of the Comptroller and Auditor-General.

346. Detailed provisions of the two Bills are under consideration for submission to Parliament and subsequent enactment into Law.

347. This also includes the proposed amendments to the Central Bank legislation, which Cabinet has already approved to support the credibility and integrity of the Bank in its supervisory and regulatory role of the financial and monetary system.

### ***Financial Reporting***

348. In addition to current efforts to enhance the legal framework, Government has sought technical assistance to carry out a review of the existing financial management systems and processes.

349. Such reviews of our systems will enable Government to put in place measures necessary to adopt and implement international best practices and standards.

350. In particular, the review will assess the adequacy and effectiveness of the Public Finance Management System

(PFMS) including the computerised accounting and financial management system currently in use by Government.

***Public Finance Management System (PFMS)***

351. During the hyperinflationary environment period leading to 2009, recording of some transactions was done outside the PFMS, as the software was not designed to accommodate the number of the resultant digits.
352. However following the redenomination of the local currency through slashing of the twelve digits during the last half of 2008, and the subsequent transition into multi currency regime, the PFMS system has now been re-configured and the PFMS platform is now available for use.
353. Loss of trained personnel will necessitate extensive training, complemented by replacement of obsolete equipment procured in 2000, computerisation and integration into the PFMS of the National Development Fund for donor aid.
354. In order to instill fiscal discipline, with effect from 1 August 2009, no supplier should accept a manual purchase order from Government Ministries.

355. All purchases should be PFMS generated. Suppliers should not extend any credit to any Government Ministry or Department without Treasury Authority, and Government will not be responsible for any such claims from any supplier.

#### *Outstanding Bills*

356. In order not to negatively affect operations of the various service providers due to non-payment, Government Ministries and Departments will be required to prioritise clearance of their debts.

357. The necessary measures to prevent unjustified accumulation of bills inconsistent with Cash Budgeting are being instituted.

### **SUPPORTIVE POLICY MEASURES**

358. Notwithstanding the macro-economic stability being witnessed, our economy remains fragile and requires additional resources as well as implementation of various supportive policy measures to allow for improved capacity utilisation beyond 50%.

359. Similarly, measures will be necessary to improve on our savings and investment levels beyond the prevailing estimates of 5% of

GDP, which fall below levels of above 25% necessary for sustaining rapid economic recovery.

360. Furthermore, low external financial inflows have not been enough to provide the country's recovery requirements, also against the background of exposure to external payment arrears.

361. Given the foregoing State of the Economy, in particular the fragility still stalking us, it is critical that Government and the Nation at large institute measures in all pertinent facets of the economy that would promote the realisation of full economic turnaround.

362. Therefore, over and above Cash Budgeting, I am proposing the following measures to address our challenges:

### **Confidence Building**

363. Mr Speaker Sir, consistent and timely implementation of credible policies is essential for building confidence in the economy. During the first half of 2009, Government embraced and started implementing liberalisation policy measures, which are already building a reputable track record necessary for instilling confidence in the economy.

364. Already, the economy is on a recovery path as reflected by macro-economic stability, inflation reduction, enhanced capacity utilisation, resulting in improved supply of goods and services as well as overall growing business confidence.
365. Government will, therefore, maintain the above momentum and deepen implementation of the liberalisation measures in order to consolidate the above gains realised so far.
366. Furthermore, Government will also ensure that all agreed policies and measures are consistently and fully implemented without any unjustified and unnecessary reversals.
367. Notwithstanding the above, there are some areas where timeous implementation of agreed policies was compromised as a result of bureaucracy or other constraints.
368. Government will, therefore, ensure that such policy measures are implemented in line with the undertakings contained in both STERP and the 2009 Budget.
369. These include, among others, the introduction of road toll fees meant to mobilise resources for the maintenance and upgrading of our road network and the proposed unit tax on A1 and A2

farmers targeted at assisting the restoration of such essential rural services as road grading, dipping and maintenance of schools and clinics.

370. I am, therefore, urging respective line Ministries to play their part in ensuring timeous and effective implementation of agreed Government policies.

371. Taking advantage of this would require that we sustain a stable macro–economic environment to allow for long term planning in the execution of projects.

372. This will have to be complemented by investments in reliable infrastructure, especially with regards to electricity, transport and communication.

### ***Demonetisation of the Zimbabwe Dollar***

373. The hyperinflationary environment, which became more severe in 2008, left the Zimbabwean dollar valueless, leading to the adoption of multiple currencies by Government beginning February 2009.

374. As part of the process to formally complete the transition into the multiple currency system, I propose the demonetisation of

all the remaining Zimbabwe dollar balances held by the financial sector as well as notes and coins in circulation.

375. Formal demonetisation should allow for settlement of all remaining Zimbabwe dollar transactions and obligations prior to the introduction of the multiple currency system as well as the revaluation of all other Zimbabwe dollar balances for accounting purposes.

376. At the present moment, estimates indicate that about US\$6 million will be required to purchase the entire stock of Zimbabwe dollar balances with banks as well as cash outside the banking system. However, current capacity to raise the required US\$6 million is limited.

377. I am, therefore, proposing that Zimbabwe's debt to the economy arising out of demonetisation be handled on the same terms and legal framework that I will propose to govern some of the debt obligations of the Reserve Bank.

378. Implementation details, which will take into account the necessity of protecting holders of small balances will be announced at an appropriate time.

379. The conclusion of this process will officially bring to an end claims on the use of the Zimbabwe dollar as a unit of account, medium of exchange and store of value.

### ***Currency Reforms***

380. Mr Speaker Sir, while the adoption of multiple currencies has been of much benefit to the economy, this has also had its challenges. The new currency regime, by stabilising the macro-economic environment with inflation contained, has also allowed medium to long term planning for businesses and individuals, restored the real value of savings and brought overall confidence in transactions and investment.

381. Furthermore, the use of foreign currency has removed scope for unjustifiable money printing which was one of the major drivers of inflation.

382. The economy, however, remains fragile to sustain the re-introduction of domestic currency. Average capacity utilisation remains below 30%, while the economy can only afford a small Budget of below US\$1 billion, with most resources directed towards recurrent expenditures. Similarly, savings and investment remain relatively low at below 5% of GDP,

which falls below sustainable levels of above 25% necessary for sustaining a healthy economy.

383. Furthermore, the country's meagre reserves remain negligible to provide for any meaningful import cover, while a strategy to overcome our external payment arrears is still to be developed.
384. Government will, therefore, maintain the use of multiple currencies, whilst addressing the attendant challenges such as improving the liquidity of the domestic financial system, challenges of smaller denominations and change in business transactions, in as well as standardising currency use in accounting.
385. Review of use of multiple currencies will be undertaken once there is clear evidence of a strong economy, characterised by a sound track record of policy consistency and implementation, a sustainable external position, and a strong financial sector, necessary to support and sustain the desired currency regime.
386. Such a review will also consider a number of currency regime options, guided by the SADC objective of achieving a unitary currency by 2018.

387. Mr Speaker Sir, allow me to, therefore, reassure the banking public that there will be neither conflicting signals nor surprises from Government with regards to the management of the multiple currency regime. Fears by some sections of the public that by depositing their hard earned US dollars in our banks they would run risks of forced conversions into a reincarnated Zimbabwe dollar are unfounded.

388. Hence, all those keeping their foreign currencies in mattresses, or in neighbouring countries at banks in Botswana, South Africa and Zambia for fear of confiscation of their deposits by Government are urged to deposit with our local financial institutions. Their deposits will be safe.

### ***Enhancing the Integrity of the Financial Sector***

#### *Central Bank Institutional Reforms*

389. Mr Speaker Sir, a strong and credible Central Bank is critical for the achievement and maintenance of price stability, as well as supervising and regulating a strong modern financial sector.

390. However, our Central Bank has been experiencing a number of challenges which became more evident with hyper-inflation.

391. These include weaknesses in the current Reserve Bank Act, the absence of a functioning Board, involvement of the Bank in non core activities, as well as deficiencies in the Central Bank's accounting practices.
392. As a result, the Bank's operating, accounting and reporting systems have not been complying with requirements of the International Financial Reporting Standards (IFRS), thereby masking the extent of the negative net worth of the institution.
393. These challenges compromised the Central Bank's credibility and integrity in its supervisory and regulatory role, thereby contributing to overall monetary instability in the economy.
394. Government is, therefore, working on amending the Reserve Bank of Zimbabwe Act [*Chapter 22:15*], principally with the objective of realigning the Reserve Bank's institutional framework to the economic reforms that the country has adopted.
395. At the core of the proposed Amendments is the recognition that the country has to restore the confidence of local and foreign stakeholders in the Central Bank.
396. The proposed Amendments seek to put in place a Reserve Bank governance structure that will ensure effective oversight and

accountability of the Bank through an appropriate non executive Board and refocusing the Bank to its core functions of supervising and regulating the financial sector, monetary policy and the payments system.

397. The amendments will also align and conform the Reserve Bank functions and powers to the new monetary reality in the country and at the same time ensure its independence by appropriately limiting Government's role in its operations and oversight, while ensuring that effective accountability mechanisms are in place.

398. Already, Government has approved the principles of the Bill that seeks to give effect to these amendments and support the credibility and integrity of the Central Bank in its supervisory and regulatory role of the financial and monetary system.

#### *Reserve Bank Capitalisation*

399. Furthermore, Government will recapitalise the Reserve Bank after establishing its assets and liabilities, including the over US\$1 billion indebtedness. This exercise will also inform us on the appropriate Reserve Bank debt management strategy.

### *Banking Sector*

400. Mr Speaker Sir, I have already alluded to the fact that due to hyper-inflation, our financial sector has not only lost its intermediation capacity, but is also confronted with other vulnerabilities, which include a large share of non-performing assets and challenges in meeting new minimum capital requirements.
401. The absence of an inter-bank market and Central Bank liquidity support exposes our banking system to sudden liquidity shocks, notwithstanding maintenance of high liquidity ratios by some.
402. The Reserve Bank will, therefore, be engaging banks with a view of coming up with appropriate market-based interventions to deal with the above challenges, including concerns by business and the public over the current low loan-to-deposit ratios, high bank charges, low deposit rates and punitive lending rates, as well as prioritising lending to productive activities.
403. I am, therefore, urging the banking sector to start building confidence in the banking public, through reducing transaction costs and awarding appropriate interest rates on deposits, that way attracting savings and, hence, alleviating liquidity challenges.

### *Re-capitalisation of Banks*

404. In order to give banks ample time to recapitalise, capitalisation requirements will be phased over time with 50% expected by 30 September 2009 and 100% by 31 March 2010.
405. The Reserve Bank will hold consultations with those banks which fail to meet the minimum recapitalisation requirements with a view of advising them to look for strategic partners.

### *Levy on Super Profits*

406. Government introduced a 5% levy on net profit of banks in 2001, when banks were making super profits. Given the challenges in the banking sector already alluded to, I will be proposing the scraping of this levy in the 2010 National Budget.

### *Insurance and Pensions*

407. Pensions and insurance companies are important institutions for mobilising resources for investment, as well as guaranteeing future retirement incomes.
408. The hyperinflationary environment eroded the savings and investments made by the public and corporates through these institutions and left them on the verge of collapse.

409. It is, therefore, critical that insurance and pension companies be revived in order for them to play their role in supporting economic recovery and development of the country.

410. However, because of the nature of pension and insurance business, their recovery much depends on the performance of the economy, particularly industrial activity as well as generation of meaningful incomes which allow channelling of savings to insurance and pensions contributions.

411. I am, therefore, proposing a number of measures in support of pension and insurance companies.

412. Mr Speaker Sir, these relate to:—

#### *Taxation*

- Review of tax allowable limits on contributions to pensions funds;
- Exemptions on capital amounts paid into pension schemes, and
- Non taxable proportion of retrenchment packages.

#### *Bank Charges*

413. The pension industry also made proposals to have bank transaction charges on low value pensions waived. I have

since engaged with the banks and consensus has been reached to have bank charges waived for minimum monthly pensions of US\$25.

### *Occupational Pension Schemes and NSSA*

414. In line with what was originally envisaged when NSSA was established, I am engaging the industry and other stakeholders, including the Insurance and Pension Commission (IPEC), the Ministry of Labour and Social Services, to come up with the necessary Framework to ensure co-existence between NSSA and other Occupational Pension Schemes.

415. The Framework will also take into consideration concerns that have been raised by players in the pensions industry with regards to levels of contributions to NSSA and the removal of the salary cap on pensionable allowances to NSSA.

416. Details of the Framework will be announced in due course.

### *Prescribed Asset Requirements*

417. The original 2009 Budget of 29 January 2009 set the prescribed asset requirements for the pension and long-term and short-term insurance industries at 10% and 7.5%, respectively.

418. Given that Government is now operating on a cash budget and taking into account the small premiums that the insurance and pension industry is receiving, I propose the suspension of the prescribed asset requirements until the end of the year.
419. This will be reviewed in the 2010 Budget in line with future levels of income streams to the industry as well as Government's borrowing requirements.
420. It is hoped that the concession on the prescribed requirements will allow the industry to have more resources at their disposal to look after their members as well as their regulator, the Insurance and Pensions Commission.

### *Stock Market*

421. Mr Speaker Sir, I have already alluded to challenges related to high transaction costs at the ZSE which, at 7.5%, are by far much higher than those prevailing in the region.
422. It is, therefore, necessary that these levies be reviewed and aligned to regional parity levels.

### ***Agriculture***

423. Beginning 2009, there was a policy shift in Government participation in agriculture, over both the financing of farmers, marketing and pricing of agricultural commodities.

424. With regards to financing, this shift was driven by the need to find an effective and sustainable means of financing agriculture given the resource constraints facing Government and the potential financing capacity of the banking system, other private players, including farmers themselves.
425. Hence, Government introduced liberalisation and deregulation measures which allowed for the marketing and pricing of agricultural commodities through the open market.
426. This enhances the viability of farmers through a market based distribution and marketing framework, whilst at the same time doing away with the abuse of Government assistance.
427. Government is also encouraging agro-processing companies and farmers to enter into contract farming arrangements that are mutually beneficial to both parties. This is potentially an important component of restoring agricultural production.
428. Mr Speaker Sir, our agriculture can only be financed adequately through market resources. Already, the GMB is being supported to raise resources from the market through Grain Bills to purchase maize. This allows Government to target its own direct support towards vulnerable farmers, as well as infrastructure development, extension services and other public services.

### *The 2009/10 Summer Cropping Season*

429. Intervention measures during the last half of the year will, therefore, target support for the 2009/10 summer cropping season outside of the Budget, complementing improved farmer viability as part of the liberalisation of the agricultural marketing arrangements.
430. Central to this will be strategies to guarantee availability of seeds, fertilisers, and chemicals in the market for all farmers.
431. In this regard, discussions are underway with cooperating partners and domestic banking sector for lines of credit, which will benefit productive sectors, also taking cognisance of the medium term loan requirements in agriculture and other sectors.
432. Already, on the back of recovery in banking sector deposits, US\$72.4 million has been made available as loans towards financing agriculture, though this is still not commensurate to the domestic deposit base.
433. The above support will be complemented by own resources from farmers whose capacity to finance themselves has been enhanced by the deregulation of the marketing and pricing of agricultural commodities and the removal of surrender requirements. This is particularly so for tobacco farmers who realised US\$77.4 million from the 26.9 million kgs sold up to June 2009.

434. With regards to vulnerable groups, targeted interventions will be necessary with Government availing as well as coordinating cooperating partners' support through provision and financing of crop input packs, that way, enhancing food security.
435. Total financial requirements for crop input packs for the communal farmers during the 2009/10 summer cropping season amount to US\$142.4 million.
436. Of this requirement, a total of US\$66.5 million has so far been availed in support of the above by the European Union (EU), United States, United Kingdom, Ireland and Japan through the Food and Agricultural Organisation (FAO).
437. This support is expected to benefit more than 600 000 households, and the inputs will be distributed through established local non-Governmental organisations.

#### *Land Utilisation*

438. Efforts by Government to mobilise adequate financial resources in support of agriculture should benefit from other initiatives to expedite issuance of 99-year leases, improve security on farms, and undertake land audits as part of measures to deal with land under-utilisation.

439. The audit will form the basis for accountability, eliminating dual allocations and taking appropriate action to ensure gender equity and productivity on agricultural land.
440. Issuance of 99-year leases which are registrable and transferable at the Deeds Registry offer entitlement and security of tenure. These features make the leases bankable, and provide collateral for purposes of loan negotiations, thereby facilitating agricultural financing and investment on the land.
441. It is envisaged that more than 16 000 A2 beneficiaries of the recent land reform programme will be issued with 99-year leases once all the processes involved, inclusive of title surveys, are completed.
442. In the case of conservancies and wildlife areas, 25-year leases will be issued.

### *Irrigation and Water Development*

443. Given the agro-based nature of our economy, the development of water bodies will unlock further value in agriculture through expanded irrigation.
444. This will in turn improve overall economic performance through down stream agro-industries' output and employment.

## ***Manufacturing***

445. The manufacturing sector continues to face challenges relating to working capital for raw materials, spares and replacement of obsolete equipment, low domestic demand, unreliable delivery of services by public utilities such as power, water, coal, transport as well as pressure for higher wages.
446. Central to addressing the above challenges is securing improved participation of our banks in supporting our industries through increased credit lending in line with growth in the domestic banking sector deposit base.
447. Government will therefore, institute the necessary market based measures to increase the loans deposit ratio in conjunction with the banking sector.
448. While banking sector concerns over risk assessments remain critical, it will be necessary that lending rates of banks be related to banks' cost of funds, including the prevailing domestic deposit rates.
449. This will be complemented by Government interventions to pursue prospective new lines of credit with cooperating development partners and financial institutions to allow improved capacity utilisation.

450. The improved business environment also opens up foreign direct investment opportunities in the country. Already, a growing number of foreign investors from the region and beyond are exploring joint venture opportunities with a number of Zimbabwean private companies.

451. Aggressive promotion and support of these investment initiatives by Government will be necessary.

### ***BIPPAs***

452. Mr Speaker Sir, success in this regard will require our unequivocal commitment to adhering and upholding obligations to all existing as well as new investors.

453. Central to this is guaranteeing the protection and honouring of foreign investments covered by Bilateral Investment Protection and Promotion Agreements (BIPPAs).

454. In this regard, Government will conclude negotiations and ratification of all outstanding BIPPAs.

### ***Investment by Non-Residents***

455. Non-residents Zimbabweans can immensely contribute to the development of the country by directing their remittances to investment areas.

456. Now that challenges associated with macro-economic instability are being addressed, non-resident Zimbabweans will be encouraged to take advantage of the positive economic developments to invest in the development of the country.
457. Such engagements will focus on providing adequate information on potential areas of investment, investment incentives, security of investments, establishment of formal and secure remittance services, remittance of dividends as well as addressing the issue of dual citizenship.

#### *Trade Promotion*

458. The sustainability of the current multiple currency regime is anchored on a viable and increased trade promotion strategy.
459. Through increased exports, the country will be able to generate adequate resources for the importation of critical raw materials and equipment necessary for further capacitating our industries in production of goods and services for both the domestic and external markets.
460. In this regard, Government is prioritising trade promotion as part of the STERP strategy, targeting support to exporting companies and improving their productivity and competitiveness.

461. Government will also aggressively participate in international exhibitions as a way of finding new markets for local products including strengthening of trade promoting institutions such as ZIMTRADE.

462. Furthermore, Zimbabwe as a member of both SADC and COMESA will maximise the benefits arising from the two trading blocs by increasing its market share.

### ***Mining***

#### *Investment*

463. Mr Speaker Sir, mining investment will be central to rebuilding working capital for reopened mines, acquire spares and build stocks of consumables, refurbish/replace degraded equipment and plant, resume development drilling to begin to rebuild mineral reserve base at existing mines and reassess and proceed with mine improvement and expansion plans.

464. Furthermore, investment will also be needed for new mines and mineral processing plants and for mineral exploration, as well as for pursuit of initiatives to increase beneficiation and value addition of major minerals.

465. This will entail Government support for lines of credit to the mining industry.

*Legislative Framework*

466. Mr Speaker Sir, in support of increased mining investment, the Inclusive Government, consistent with the undertakings made in STERP, is working on major amendments to our Mines and Minerals Act that will guarantee increased capacity in mineral production, continuous exploration, beneficiation, and value addition of minerals.

467. Part of the changes to the Law will entail the crafting of an exploration, registration and extraction mining policy consistent with the new philosophy and thinking of the Extractive Industries Transparency Initiative.

468. The finalisation of the amendments to the Act should provide for an improved and competitive mining legislative framework, targeted at coming up with a user friendly operating mining environment.

469. The review will present a more investment focused legislation based on a win-win principle, also addressing issues of levies and taxes to reflect prudence in the application of mineral rents.

470. Given the global competition for investment and the dependency of mining growth on exploration, the Indigenisation/ Empowerment legislation aspects will be developed and implemented in a way that does not undermine the attraction of much needed direct foreign investment.
471. Already, the growth potential of the mining industry has been limited by little mineral exploration during the past ten years, notwithstanding Zimbabwe's geological competitiveness.
472. Even larger external investment capital is required throughout the other mining cycles beyond exploration. These include mining production, beneficiation, marketing, and investment in downstream industries.

### *Marketing of Minerals*

473. Government is cognisant of enhancing viability in the mining sector through removal of unnecessary barriers and other restrictions that are counter productive.
474. It is in this spirit that Government in STERP liberalised the marketing of gold, wherein gold mining houses can now directly market their gold and receive full proceeds. The liberalisation reforms in the mining sector also provided for retention of sale

proceeds by all the other mineral exporters, renewing confidence in support of increased productivity in the sector.

475. However, Mr Speaker Sir, where producers do not benefit from the current MMCZ marketing arrangement, under which MMCZ is entitled to charge a fixed commission of 0.875% on realised sale values, maintenance of the commission would represent additional taxation on mining.

476. Hence, further liberalisation of minerals marketing will require review of the continued mandatory marketing of a range of minerals by MMCZ.

### *Mining Royalties*

477. It is necessary that the Nation benefits from the exploitation of its non-renewable natural resources.

478. I will, therefore, be making proposals in the 2010 Budget to reflect this through the design and the application of our tax measures for the mining sector.

479. Such tax measures will also compel the mining industry to play its part in meeting some of the costs related to environmental degradation and depletion of the non-renewable product.

480. Mr Speaker Sir, to answer 'John Holloway', the view of the Inclusive Government is not to see mining as a short term goose that must lay some metaphorical golden egg. We don't see the mining sector as a cash cow to be milked, but as a prime bull that can be the source of many profitable cows.

### *Mining Licencing*

481. Mr Speaker Sir, an efficient and transparent licencing system is central to allocating mineral rights and promoting sustained mineral exploration and mining activity.

482. Introduction of a system of escalating fees to be levied on holders of Mining Claims and of Exclusive Prospective Orders (EPOs) based on the hectrage covered by the licence would incentivise exploration work and deter holding onto land for speculative purposes.

483. Mr Speaker Sir, the new measures will also ensure the transparent auctioning of new mining concessions.

484. Furthermore, these will contain incentives to ensure that as the private sector plays a fundamental role in mining it will be subject to good governance, transparency, environmental discipline and the need and obligation to invest in local communities.

485. In addition, to the extent that minerals are not finite, consideration is being given to the setting up of a National Sovereign Fund, where deposits will be set aside to guarantee the continued existence of economic activity for the local community long after the mine have run their full cycle.

### *Skills*

486. Other areas that require attention in support of the recovery of mining include:

- Stemming the flight of human resource skills.
- Targeted interventions to overcome the challenges at the mining training institutions.

### *Suppliers*

487. Measures to support mining will have to be complemented by the strengthening of the suppliers and services base.

488. This will require concerted efforts on the part of the entirety of the mining industry, and Government is ready to play its part.

### *Energy*

489. The expected growth forecasts in mining, manufacturing, agriculture and tourism sectors among others will largely depend

on the availability of adequate and reliable energy supplies particularly electricity.

490. Interventions to improve power supplies will include:

- Further opening up of generation to private players through Public Private Partnerships;
- Continuation of economically viable tariffs, in line with competitive regional parity levels;
- Overcome of coal supply and distribution constraints; and
- Investment in refurbishment of distribution network and rehabilitation of the national grid at a cost of US\$82 million and US\$116 million, respectively.

491. In the case of liquid petroleum products, coordinated structured fuel financing facilities should improve efficiencies, also benefiting from the prevailing liberalised importation, marketing and pricing of petroleum products by the oil industry, with pricing based on a trigger mechanism.

492. Overall, the National Energy Policy aimed at creating the legal and regulatory framework to ensure the correct exploitation of Zimbabwe's energy resources and their appropriate application for socio-economic development is being finalised in support of increased investment, efficiency and competition.

493. This will allow the country to fully exploit its large energy resource base divided into renewable, that is hydro-electricity and solar, and non-renewable resources, coal and methane.

### ***Tourism***

494. Policy measures during 2009 in support of the recovery of tourism being developed under Government's National Tourism Growth Strategy centre on:

- Destination Rebranding;
- Review of our International National Marketing Strategy; and
- Development of market specific Marketing Programmes, targeting the world's top tourist generating markets.

495. Furthermore, the 2010 World Cup to be hosted by neighbouring South Africa provides an opportunity for the country to tap on the spill over effects that come along with this important event.

496. Taking advantage of Zimbabwe's proximity to the hosting country, South Africa, Government will revamp the tourism sector to ensure that the country is well prepared to host the respective tourists and thereby maximising benefits from the World Cup tournament.

497. This will entail improving our tourist facilities such as renovations of stadiums, hotels, improvement in essential services provided by local authorities, road resurfacing and pot hole filling, among others.
498. Already, Government has introduced a number of incentives such as exemption of duty payments on capital goods and equipment used for expansion, modernisation and renovation of tourist facilities.
499. The prevailing political stability ushered in by the Global Political Agreement, also provides space for aggressive marketing of Zimbabwe focusing on high value tourist source markets in the Americas, Europe and Asia.

### **Information and Communication Technology (ICT)**

500. ICT has become paramount in facilitating access to information, efficient communication and business transactions, which are all necessary for enhancing the country's competitiveness. Efficient ICT infrastructure is also a vital condition for attracting investment into the country.
501. Currently, the country has a lot of under utilised capacity in the telecommunications sector with some dormant licenced

operators taking advantage of weak institutional and regulatory arrangements and laws, respectively.

502. In order to address the above challenges, Government has finalised the Information, Communication and Technology (ICT) Bill, consistent with targets of the 100 Day Plan.

503. The Bill seeks to ensure that there is convergence of best practices of regulations as well as licencing of new and existing players in the communications sector.

504. It also seeks to facilitate the improvement of information and communications infrastructure, through introduction of submarine cables which will complement the existing satellite transmission system in order to improve data transmission and expand internet facilities in the country.

505. Already, Government is working on increasing bandwidth on the internet gateway by 40%, as well as increasing capacity utilisation in the sector by 20%, as pronounced in the 100 Day Plan.

506. Protectionist policies which promote inefficiencies in the sector will also be reviewed, by allowing licencing of other operators with the capacity to introduce modern technology such as Third Generation Mobile Networks (3G), and Internet Protocol Telephone (VoIP).

507. In order to facilitate increased importation of ICT equipment and other related learning materials into the country, Government will continuously review the respective import duty levels in order to make them affordable to the public.

508. The above measures will usher a new era in communications and related services. Already, some mobile operators, taking advantage of this dispensation has already started importing modern equipment under their expansion programmes.

### **Public Private Partnerships**

509. Successful Public Private Partnerships (PPPs) not only overcome public financial resource constraints, but also introduce in some instances, critical technical support, efficiency and expertise in the development of public infrastructure and services. They also provide improved project implementation management capacity.

510. Areas for possible cooperation include energy and power generation, water provision, upgrading and construction of the main national highways, air and rail transport, as well as service delivery in health, among others.

511. In support of this, Government has already developed the Framework underpinning PPP investment, including the policy guidelines for use by potential private sector investors. Over and above this, a key Public Conference on PPPs was held on 3 June 2009 in Harare.

512. This was followed up by an International Investment Conference also in Harare on “Zimbabwe: Redefining the Business and Investment Environment” over 9-10 July 2009.

### **Utility and Local Authority Tariffs**

513. Services provided by public enterprises and local authorities are essential inputs and enablers for efficient operation of productive sectors.

514. In this regard, Government has noted wide spread outcry from stakeholders over the high levels of some of the tariffs being charged by our utility companies, local authorities, including some Government departments, often taking advantage of monopolistic positions.

515. There are also concerns regarding cost structures of these entities, particularly their salary and wage levels that are much higher than those prevailing in the economy and, therefore, a major source of inflationary pressures.

516. The prevalence of the high cost structures across our various industries would negate the overall Government objective of a competitive lower cost economy.
517. Government will, therefore, ensure improved corporate governance in public enterprises, including the implementation of a wage policy that aligns the wage levels and other costs of public enterprises to economic developments and the overall capacity of the economy.
518. The necessary details will be announced by the respective Ministries in due course, in conjunction with Treasury.

### **Local Authorities' Service Delivery**

519. The current stable macro-economic environment provides a unique opportunity to resuscitate most local authorities and enable them begin to provide minimal service delivery to rate payers, thereby effectively facilitating the economic recovery and growth process.
520. In order to ensure resumption of effective service delivery by local authorities, Government will ensure implementation of the wage bill, services ratios of 30% and 70%, respectively to ensure adequate funding for those services.

521. On the other hand, residents should also honour payments of service rates and charges in order to empower their local authorities for enhanced service delivery.

522. Furthermore, local authorities should also take advantage of the ongoing Government re-engagement efforts with other countries, to promote mutual cooperation with other foreign local authorities in areas of investment and development.

### **Environmental Management**

523. In line with international best practices on environmental management, Government will promote the policy on ensuring a cleaner, safer and sustainable environment through minimising polluting emissions and other environmental degradation methods.

524. In that regard, Government will review its taxes and other penalties on environmental degradation practices.

### **External Support**

525. Mr Speaker Sir, in line with the experiences of all the other developing countries, our domestic savings and investment gap is such that in the absence of external capital inflows it would

take us far much longer to meet our Millennium Development Goals.

526. Given this reality, it is necessary that we pursue the pledges of the various development cooperating partners, complemented by the negotiation of new lines of credit.

527. Mr Speaker Sir, around 60% of Sub Saharan African countries are extensively dependent on Official Development Assistance (ODA) that range from 35-75% of their Budgets. Global ODA averaged US\$90 billion a year between 2003 and 2006 which amounts to US\$24.6 million per day.

528. It is, therefore, inevitable and unavoidable for Zimbabwe to request for support through ODA. However, it is evident that it will be sometime before a large part of that assistance is developmental as opposed to humanitarian assistance. More importantly, we are still a long way from ODA being channelled as transformative assistance into our infrastructure, fibre optics, railways, roads, energy, among others.

529. Furthermore, Mr Speaker Sir, notwithstanding the extensive efforts of the past few months, there is still more to be done to convince our developmental partners that we can be trusted with direct budgetary support.

530. In the immediate and short term, the absence of meaningful ODA into Zimbabwe has made it critical and imperative that we recognise that the heartbeat of our development must be those factors and drivers that we can control.
531. These drivers include agriculture, technology, foreign direct investment, tourism, manufacturing, and public private partnerships, in and for our infrastructure development.
532. The economic drivers highlighted above will never be the “mid-field Generals” we want them to be unless and until the key enablers are put on their feet. These enablers are power, electricity, water, and the road and railway network, as well as liquid fuels.
533. Mr Speaker Sir, it is, therefore, as unpalatable as it is unacceptable that the country’s industrial capacity is not yet able to produce more than a quarter of our requirements. In addition, we cannot accept failure to provide water to our urban and service areas when we have more than 80% of our dams full. Similarly, the situation where the country’s rail network cannot move more than a fifth of the country’s cargo is unacceptable.
534. Therefore, in the remaining half of the year, special attention will be given to these enablers in the manner I have already alluded to.

535. Furthermore, it is proposed to hold a “Marshal Plan” based “Friends of Zimbabwe Conference” in October 2009 that should seek support not just for the transformation of these enablers but indeed for the long term reconstruction of our country.

### ***Aid Coordination***

536. Mr Speaker Sir, to ensure the effective implementation of donor supported programmes Treasury, as the custodian of all public funds, is mandated as enshrined in the Constitution of Zimbabwe, State Loans and Guarantee Act, and the Audit and Exchequer Act, to be the entry point of all official external inflows.

537. Consistent with this mandate, all financial agreements are signed by the Ministry of Finance on behalf of the Government of Zimbabwe. In the event that any financial agreements are signed without Treasury approval, Government will not be held responsible for any financial prejudice.

538. Furthermore, Government recently approved an Aid Coordination Policy, which lays a strong foundation for a robust framework for proper planning, effective engagement and ensuring financial accountability of all resources channelled to the country by international cooperating partners.

539. This Policy Framework also promotes effective coordination with donors, and defines clear structures for dialogue so as to improve the process of aid management as well as align aid with national development priorities.
540. To this end, all Government Ministries, donor agencies and all relevant stakeholders are encouraged to acquaint themselves with the Aid Coordination Policy so as to ensure its effective implementation.
541. While some donors have indicated preferences that their resources support be coordinated and managed through the World Bank's Multi Donor Trust Fund (MDTF), success of the MDTF hinges on the support and commitment of subscribing donors and streamlining of bureaucratic requirements.
542. In light of these concerns, other donors are indicating preferences for other direct disbursement modalities on the basis of bilateral arrangements. Government views these, including the MDTF, as interim arrangements which should fall away as the Public Finance Management System (PFMS) becomes fully functional to receive, account and manage public funds.
543. Mr Speaker Sir, given the precedent of shortcomings with the Multi Donor Trust Fund in Sudan and other places, we urge the

World Bank to move with speed to ensure that the Multi Donor Trust Fund proposed for Zimbabwe is operational and functional in nature, without inherent delays whose experiences have left a bitter taste in some countries.

### ***External Debt Relief***

- 544. Zimbabwe's total external debt including arrears amounted to US\$4.7 billion as at 31 December 2008. Of this total debt, Government owed US\$3.6 billion, with the rest owed by Parastatals and the Private Sector.
- 545. Clearance of the above outstanding arrears is critical for unlocking new financing for the country's recovery programme.
- 546. Given that the country does not have the capacity to repay its external payment obligations, Government has initiated the assistance of international cooperating partners with debt relief and write offs as part of the re-engagement process with multilateral and bilateral creditors.
- 547. In this regard, Government is currently carrying out a debt reconciliation exercise with external creditors, critical for consideration of the country's arrears clearance strategy and eligibility for external debt relief.

548. Already, with the assistance of the African Development Bank (ADB), the Government has contracted a debt expert to support the Government in formulating the external debt and arrears clearance strategy, which will form the basis for debt relief.
549. The country is also engaged with the World Bank for assistance in clearing multilateral arrears and benefiting from debt relief under the framework of the Highly Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI).
550. Already, work is underway to meet some of the conditionalities for HIPC eligibility, such as:
- being an International Development Assistance (IDA)-only country, which entails being reclassified from blend category;
  - demonstration that our debt burden is unsustainable;
  - establishing a track record of reform and sound policies through the IMF and IDA supported programmes; and
  - development of Poverty Reduction Strategy Paper (PRSP) through a broad-based participatory and consultative process.

## **REVENUE MEASURES**

551. Mr. Speaker Sir, allow me now to present the revenue measures of this Mid-Year Fiscal Policy Review. The revenue proposals

are intended to underpin the increase in capacity utilisation in the productive sectors of the economy that we are beginning to witness so far and to facilitate the imports of inputs and capital goods which are critical to sustain recovery of economic activity.

552. The revenue measures I am proposing have also benefited from the technical assistance received from the International Monetary Fund and other inputs solicited from stakeholders.

### **Accounting Issues**

553. Mr. Speaker Sir, the hyper inflationary environment that prevailed over the past decade resulted in the loss of value of the local currency, rendering it unacceptable as a medium of exchange by most traders. In order to facilitate business transactions, Government formalised the use of multiple currencies. Consequently, all transactions are now conducted in foreign currency.

554. However, some of the balances brought forward as at 31 December 2008 are derived from transactions denominated in Zimbabwean dollars. It is, thus, necessary to denominate such balances in foreign currency. The challenge that arises is to determine an appropriate exchange rate to convert the local currency balances into foreign currency.

## ***Accounting Procedures***

### *Balances Carried Forward*

555. Mr. Speaker Sir, the exchange rate of 1US\$:ZW20 that was applied before the adoption of the multiple currency system may be used to convert balances arising from transactions in local currency to foreign currency. However, in some instances, it is unrealistic as it results in nil balances for assets that still have a residual value, for tax purposes.
556. In cases where taxpayers have prepared balance sheets in foreign currency and have documentary evidence to prove that transactions were conducted in foreign currency, I propose that the Commissioner General approves such financial statements for tax purposes.
557. In respect of other cases where carried over balances from 2008 are denominated in local currency, taxpayers will be obliged to convert such balances to foreign currency. The Commissioner General will provide guidelines on the conversion factor of these balances.

## ***Capital Gains***

### *Immovable Property*

558. Mr. Speaker Sir, capital gains is currently assessed after providing for an inflation allowance on the purchase price of the property. The inflation allowance is calculated using the difference between the All Items CPI in the month of disposal and purchase divided by the CPI for the month of purchase.
559. Although in the past capital gain has been indexed for inflation, the inflation-adjusted cost of capital assets has become impractical to determine due to unavailability of consumer price indices for the last half of 2008.
560. I, therefore, propose that immovable property purchased in Zimbabwean dollars prior to 1 February 2009 be subject to a deemed Capital Gains Tax of 5% on the capital amount realised from the sale.
561. Gains arising from disposal of immovable property purchased after 1 February 2009 will be subject to capital gains tax as provided for in the Capital Gains Tax Act.

### ***Marketable Securities***

562. With regards to marketable securities, a final withholding capital gains tax of 1% will apply with effect from 1 August 2009.

### ***Employee Share Option Schemes***

563. Mr. Speaker Sir, companies often reward employees through the granting of share options at an offer price equivalent to the market price of the shares at the time of the offer. Employees usually dispose of such shares at a future date when the market price is more favourable. The benefits arising from the exercise of these options are subject to PAYE or capital gains, depending on the timeframe of holding the share options.
564. The current calculation of the benefit entails the granting of an inflation allowance to give relief to taxpayers. Application of this formula has become a challenge due to lack of consumer price indices.
565. I, therefore, propose to simplify the calculation of the tax on share options through application of a flat rate of 5% on gross sale proceeds. This shall apply to share options granted before 1 February 2009.

### ***Conversion of Amounts Denominated in Zimbabwe Dollar Values***

566. Mr. Speaker Sir, monetary deductions, allowances and exemptions in the tax legislation are currently denominated in Zimbabwe dollars, whereas all business transactions are conducted in foreign currency.

567. I, therefore, propose that all Zimbabwe dollar amounts in the tax legislation be denominated in foreign currency. Annexes 1 and 2 show the new amounts converted into US dollars.

568. This measure is with effect from 1 August 2009.

### **Income Tax**

#### ***Corporate Tax Rate***

569. Mr. Speaker Sir, the basic corporate tax rate is 30% plus an AIDS levy of 3%. However, a variety of rates are applicable to corporations in different sectors of the economy such as mining, different tax designated zones, for example Growth Points and corporations engaging in different types of activities such as Tourist Development Zones. The rates are as follows:

**Table 1: Summary of corporate tax rates**

|                                                                    |       |
|--------------------------------------------------------------------|-------|
| General corporate tax rate                                         | 30.9% |
| Licensed investor                                                  |       |
| First five years                                                   | Nil   |
| Thereafter                                                         | 15%   |
| Holder of special mining lease                                     | 15%   |
| Mining company                                                     | 15%   |
| Person engaged in BOOT or BOT arrangement                          |       |
| First five years                                                   | Nil   |
| Second five years                                                  | 15%   |
| Industrial park developer (after fifth year of operations)         | 15%   |
| New manufacturing project in Growth Point Area                     | 10%   |
| Tourist facility in approved zone (after fifth year of operations) | 15%   |

570. Multiple rates of tax are likely to be ineffective in achieving their objectives, since they create economic distortions and greatly complicate the tax system, among other unintended consequences. Furthermore, tax exemptions and allowances reduce effective tax rates, leading to lower revenue yields to the fiscus.

571. I, therefore, intend to review the corporate tax rate, tax exemptions, deductions, Special Initial Allowance (SIA) and business tax incentives in the 2010 Budget Statement. Stakeholders are, thus, invited to make submissions on this proposal.

### ***Non-Residents Tax on Interest***

572. Mr. Speaker, Sir, non-residents' tax on interest is imposed on non-residents receiving interest from a source in Zimbabwe at a rate of 10%. However, in practice, the withholding tax on interest is paid by the domestic borrower, hence increasing the cost of capital.

573. In order to reduce the cost of capital and attract additional foreign investment, I propose to repeal non-resident withholding taxes on interest with effect from 1 August 2009.

### **Value Added Tax**

#### ***Accounting for VAT***

574. Mr. Speaker Sir, registered operators are required to account for VAT on an accrual basis. This concept requires VAT remittances to be based on invoices issued to clients irrespective

of whether payment would have been received. Consequently, some registered operators end up borrowing in order to pay VAT.

575. I propose that in exceptional circumstances which are subject to approval by the Commissioner General, registered operators remit VAT based on actual revenue receipts with effect from 1 August 2009. However, VAT accounting will remain on accrual basis.

### ***Accelerated VAT Remittances***

576. Mr. Speaker Sir, in order to improve cash inflows to the fiscus under the current cash budgeting system, registered operators are required to make a provisional VAT payment on the 15<sup>th</sup> day within the tax period and a final payment on the 5<sup>th</sup> day following the end of the tax period.

577. In view of the improved revenue inflows to the fiscus and the need to enable operators to offer credit to their clients, I propose to remove the provisional (mid-monthly) VAT payment with effect from 1 August 2009.

### ***Rationalisation of Zero Rated Products***

578. Mr. Speaker Sir, under the SADC Protocol on Finance and Investment, Member States are urged to rationalise and

harmonise VAT zero rated and exempt goods and services in line with international best practice, whereby the list of goods and services should comprise a few essential commodities.

579. As alluded to in previous Budget Statements, a long list of zero rated and exempt items undermines the tax base and is not in line with regional practice. I will be reviewing the list of these goods and services during the 2010 Budget.

### ***Valuation Base for Import VAT***

580. Mr. Speaker Sir, the base for import tax used to include Cost, Insurance and Freight (CIF) value plus duty prior to 2004, in line with international best practice. This method ensures that import tax is levied on a comparable basis on the consumption of goods, sourced from domestic production or imported. A similar principle is applied on excisable products.

581. I, therefore, intend to change the method of assessing VAT on imports to a duty-inclusive basis. However, given the fragility of industry during this period of recovery, I have deferred implementation of this measure to the 2010 Budget to allow for broader consultations with representatives of industry and commerce.

### ***Registration for VAT***

582. Mr Speaker Sir, under the current VAT legislation registered operators may apply for any separate trades, branches or divisions to be registered separately for VAT purposes. Business Partner Numbers are, thus, issued to each trade, branch or division, registered separately. This unnecessarily overcrowds the taxpayer register.

583. The ideal practice is to issue one unique taxpayer identification number to a taxpayer who will then account for all tax liabilities using that number. I, therefore, propose to remove the option for a registered operator to apply to register separate trades, branches or divisions for VAT purposes.

584. This measure takes effect from 1 January 2010.

### **Customs Duty**

### ***Information and Communication Technology***

585. Mr. Speaker Sir, access to information is essential to enhance decision making in the global village. In order to encourage the development of Information Communication Technology (ICT)

in line with international trends, I propose to reduce rates of customs duty on computers, printers and telephone handsets and newspapers, with effect from 1 August 2009, as follows:

**Table 2**

| <b>Tariff Code</b> | <b>Description</b>                         | <b>Rate of Duty</b> | <b>Proposed Rate of Duty</b> |
|--------------------|--------------------------------------------|---------------------|------------------------------|
| 4902.9010          | Newspapers                                 | 40%                 | 0%                           |
| 8517.1100          | Line telephone sets with cordless handsets | 25%                 | 5%                           |
| 8517.1210          | Cellular telephone handsets                | 25%                 | 0%                           |
| 84.71              | Computers and printers                     | 5%                  | 0%                           |

***Capital Goods, Raw Materials and Intermediate Goods***

586. Honourable Members would be aware that customs duty on raw materials and intermediate goods was reduced from a range of 0%-25% and 10%- 25% to 0%-15% and 10%-15% respectively, during the 2009 Budget. Representations have been received from industry on further reduction of duty on raw materials, intermediate and capital goods.

587. I, therefore, propose to reduce customs duty rates on raw materials, intermediate and capital goods with effect from 1 August 2009, as follows:

**Table 3**

| <b>Product Category</b> | <b>Current Rates of Duty</b> | <b>Proposed Rates of Duty</b> |
|-------------------------|------------------------------|-------------------------------|
| Raw Materials           | 0-15%                        | 0-10%                         |
| Intermediate Goods      | 10-15%                       | 10%                           |
| Capital Goods           | 0 – 5%                       | 0%                            |

***Finished Goods Used as Raw Materials***

588. Mr. Speaker Sir, although there has been a significant improvement in capacity utilisation, some producers are still operating at low capacity levels as a result of the high cost of inputs and lack of working capital. Industry has, therefore, requested for reduction of duty on some inputs that are used for production but are classified as finished products and attract customs duty of 40%.

589. In order to reduce input costs to industry, I propose to suspend customs duty on inputs with effect from 1 August 2009, as follows:

**Table 4**

| <b>Product</b>                                                   | <b>Current Rates<br/>of Duty</b> | <b>Proposed<br/>Rates of Duty</b> |
|------------------------------------------------------------------|----------------------------------|-----------------------------------|
| Powdered Milk                                                    | 40%                              | 0%                                |
| Butter oil                                                       | 40%                              | 0%                                |
| Leather in slabs, sheets or strip                                | 40%                              | 10%                               |
| Palm Stearine                                                    | 40%                              | 10%                               |
| Waste leather                                                    | 40%                              | 10%                               |
| Wadding textile fibres                                           | 40%                              | 10%                               |
| Binding and baler twine of sisal                                 | 40%                              | 10%                               |
| Twine of synthetic fibres: sisal,<br>baler twine and manila hemp | 40%                              | 10%                               |

### ***Suspension of Customs Duty on Basic Commodities***

590. Honourable Members would recall that customs duty was suspended on some basic commodities from May 2008 to July 2009, in order to enhance their availability, whilst allowing local manufacturers to resuscitate production. The commodities on which duty is suspended include cooking oil, margarine, rice, flour, salt, mealie-meal, bath and laundry soap, washing powder, toothpaste and petroleum jelly.

591. Capacity utilisation level is improving, albeit, at a slow pace. I, therefore, propose to extend duty suspension on basic commodities to 31 December 2009.

### ***Rationalisation of Customs Duty Rebates***

592. Mr. Speaker, Sir, most of the current customs duty rebates were introduced prior to 2001. Given the dynamics of the economic environment and changes in investment patterns, some of the customs duty rebates in place no longer reflect policy priorities.

593. I, therefore, intend to review the customs duty rebates during the 2010 Budget in order to remove those that no longer reflect policy priorities. This review is also envisaged to curb abuse of the duty rebate schemes and lessen the administrative burden.

### ***Commuter Omnibuses***

594. Commuters in both urban and rural areas continue to face transport challenges, partly due to a depleted fleet of road worthy commuter omnibuses. Consequently, commuter operators have, thus, resorted to the use of vehicles which are not road worthy to transport passengers. This has, in a number of cases, resulted in road carnage.

595. In order to ease commuter transport problems, Government in the 2004 Budget suspended customs duty on commuter omnibuses with a carrying capacity of 26 passengers and above. Furthermore, public transport type passenger motor vehicles designed to carry 15-20 persons including the driver attract customs duty of 20%-25%.
596. I, therefore, propose to reduce customs duty on public transport type passenger motor vehicles of 15-20 persons to 15% with effect from 1 August 2009.
597. Commuter omnibus operators are, thus, urged to take advantage of this dispensation on the existing customs duty exemption and reduction on commuter omnibuses in order to refurbish and expand their existing fleet of vehicles.

### ***Single Cab Trucks***

598. Mr. Speaker Sir, in recognition of the key role played by single cab trucks in the transport of goods, customs duty was reduced from 40% to 25% during the 2009 Budget. The level of customs duty is, however, relatively high such that small traders are finding it difficult to import vehicles to transport their goods.

599. I, therefore, propose to reduce customs duty on single cab trucks from 25% to 20% with effect from 1 August 2009 in order to facilitate transportation of goods.

### ***Smuggling***

600. Mr. Speaker Sir, incidences of smuggling of dutiable goods through border posts and undesignated points have been on the increase, resulting in revenue leakages. Cases where bus drivers collect money from passengers purportedly intended to bribe customs officials have been reported. Furthermore, residents of border posts, notably Beitbridge, are being used by individuals and companies to clear goods using their monthly travellers' rebates.

601. In addition, some shipping and forwarding agencies engage in activities which prejudice Government of potential revenue through false declaration of goods, even under circumstances where clients would have availed adequate funds for payment of customs duty. Importers, thus, risk forfeiture of their goods to the State and loss of hard earned cash to the clearing agent.

602. In order to combat these highly deplorable corrupt activities that lead to revenue leakages, punitive measures will be meted on such offenders. Government, through the Zimbabwe Revenue

Authority, will intensify educational campaigns on import legislation, procedures and taxpayer obligations.

### ***Forfeiture of Motor Vehicles Used in Smuggling***

603. Mr. Speaker Sir, a trend whereby some leased vehicles are used for smuggling goods has been observed. In most cases, owners of such vehicles often profess ignorance that their vehicles were used for smuggling. ZIMRA is, thus, forced to release the vehicle once the owner pleads innocence. The reality, however, is that in most of these cases, there is collusion among vehicle owners, drivers and clearing agents.

604. In order to reduce incidences of smuggling, I propose that any vehicle used by an individual or company in such malpractices be liable to forfeiture in the event that the same vehicle is used to commit a similar offence.

605. This measure takes effect from 1 August 2009.

## **Excise Duty**

### ***Cigarettes and Tobacco***

606. Mr. Speaker Sir, excise duty on locally produced cigarettes and tobacco is relatively low compared to rates charged in other

countries in the region. I, therefore, propose to increase the rate of excise duty from 60% to 80% with effect from 1 August 2009.

### ***Wines and Spirits***

607. Excise duty on locally produced wines and spirits has been maintained at modest levels in order to promote consumption of quality products which are not hazardous to society. However, these rates are relatively low compared to those charged in the region.

608. I, therefore, propose to review upwards excise duty on wines and spirits from 10% and 15% to 15% and 20%, respectively, with effect from 1 August 2009.

### **Fuel**

#### ***Excise Duty***

609. Mr. Speaker Sir, customs duty on diesel and petrol is levied at rates of 25% or US 12.5 cents per litre and 55% or US 22.5 cents per litre, whichever is higher, respectively. Under the ad valorem basis, customs duty fluctuates in line with the international price of fuel, whilst it remains constant when specific rates of duty are applied.

610. As I have already announced through the Press, application of different rates of customs duty on petrol and diesel has partially resulted in price distortions and opportunities for arbitrage. In addition, the fiscus is prejudiced of potential revenue which is critical to finance inescapable expenditures. I, thus, had announced the replacement of customs duty on fuel with a specific excise duty of US20 cents per litre of both diesel and petrol in order to avoid tax-driven fuel price distortions in the economy.

611. In view of the impact of prices of diesel on the productive sectors which are the backbone of the economy, I propose to review excise duty on diesel from US20 cents to US16 cents per litre with effect from 17 July 2009.

612. Excise duty on petrol remains at US20 cents per litre.

### **Royalty on Precious Metals**

613. Mr. Speaker Sir, a royalty of 3% is levied on the gross mineral value of precious metals, which include gold and platinum. In order to enhance viability in the mining of gold, the royalty on gold was suspended in 2004.

614. In my Statement on the 2009 Budget, I announced that taxation and royalty levels will be reviewed in line with international best practices. However, in order to allow ample time for consultations, taxation of the mining sector will be dealt with in the 2010 Budget.

615. In view of the progress already registered in the mining of gold, I propose to lift the suspension of royalty remittance on gold, with effect from 1 August 2009.

### **Fees and Charges on Registration and Renewal of Mining Claims**

616. Mr. Speaker Sir, the current level of fees does not discourage holders of mining claims from retaining un-worked ground. In addition, the mining legislation does not require compulsory relinquishment of claims after a specified period of time, if no operations are undertaken. Furthermore, the Ministry of Mines and Mining Development does not have the capacity to follow up on holders of small claims to ensure payment of annual claim fees.

617. Mining claims are being held onto for too long by both individuals and corporates without being exploited. In order to enforce the “use it or lose it” principle, mining claim fees will be reviewed periodically in consultation with the Ministry of Mines and Mining Development.

## Toll Gates

618. Mr. Speaker Sir, the then Minister of Finance announced during the 2009 Budget Statement that Government has taken a decision to install toll gates as part of efforts to provide for resources necessary to maintain and upgrade our national road infrastructure. ZIMRA was, thus, directed to set up rudimentary toll gate structures to facilitate the collection of toll fees along major highways with effect from 1 March 2009.

619. It has, however, taken much longer than anticipated to put in place the appropriate administration and security arrangements for the collection of toll fees. The delay has, however, allowed us to receive further input from the motoring public and other stakeholders.

620. I am, however, pleased to announce that all the logistics for levying toll gate fees have been put in place and the toll fees have been reviewed as follows:

| Vehicle Type        | Original Fee (US\$) | Current Fee (US\$) |
|---------------------|---------------------|--------------------|
| Light Motor Vehicle | 2                   | 1                  |
| Minibuses           | 3                   | 2                  |
| Buses               | 5                   | 3                  |
| Heavy Vehicle       | 7                   | 4                  |
| Haulage Trucks      | 10                  | 5                  |

621. The collection of toll gate fees will, thus, commence from 1 August 2009.

## **CONCLUSION**

622. Mr Speaker Sir, it is clear from the above that we are slowly liberating ourselves from the era of economic fascism and economic hedonism. It is clear beyond reasonable doubt that STERP is on course and that STERP is in motion.

623. In the next few months, it is important that we continue to water the green shoots of recovery that have sprouted in the economy. More importantly, we should not allow politics to decapitate and uproot this zygote in the making.

624. We have a duty to rise above the mediocrity of subjectivities and the sterility of conflict. We have a duty to ignore the long sulk of “godfathers”. We have a duty to remain at the crease and bat the entire innings.

625. Zimbabwe is too valuable a dream to be squandered.

626. Mr. Speaker Sir, I therefore, commend this Mid Year Fiscal Policy Review and the necessary Supportive Measures before this August House.

627. In conclusion, Mr Speaker Sir, I also accordingly now place the Supplementary Estimates of Expenditure, for the service of Zimbabwe to the year ending December 2009 on the Table for consideration by the August House.

I thank you.

### ***Annex 1: Conversion of Specified Amounts into Foreign Currency***

| <b>Description of Item</b>                                                                                                                              | <b>Proposed maximum amount allowable per annum (US\$)</b> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| 1. Arrear Pension contributions: allowed as a deduction                                                                                                 | 1 800                                                     |
| 1.1 Annuity, Allowance or Pension paid to former employee                                                                                               | 500                                                       |
| 1.2 Annuity, Allowance or Pension paid to former partner                                                                                                | 200                                                       |
| 1.3 Annuity, Allowance or Pension paid to a dependent of a former employee or partner                                                                   | 200                                                       |
| 2. Payments to the Public Private Partnership Fund                                                                                                      | 50 000                                                    |
| 3. Payments to the Destitute Homeless Persons Rehabilitation Fund                                                                                       | 50 000                                                    |
| 4. Co-operative Societies: Deductions allowed in respect of income derived by a Co-operative, Agricultural Company or Co-operative Society              | 500                                                       |
| 5. Expenditure allowed on maintenance of roads, buildings, bridges or water, public or sanitation works managed by the local authority                  | 50 000                                                    |
| 6. Passenger Motor Vehicle (PMV): Prohibited deduction — amounts incurred in excess of the restricted amount in leasing a Passenger Motor Vehicle       | 10 000                                                    |
| 7.1 Small amounts of tax to be written off on assessment: No tax liability to a taxpayer where the amount is less than the prescribed amount            | 0.50                                                      |
| 7.2 Small amounts of tax to be written off (where PAYE is credited): No tax liability to a taxpayer where the amount is less than the prescribed amount | 0.50                                                      |

|      |                                                                                                                                                                                                                                      |                      |
|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| 8.   | Lump sum payments (Pensions) which shall not be included in gross income. Annuity definition — Part 1 Beneficiary. Maximum amount above which commutation in full is not allowed.                                                    | 1 800                |
| 9.   | Valuation of Farm trading stock (Livestock): Definition of Fixed Standard Value and stud livestock: The cost price limit used to determine appropriate valuation of stud livestock.                                                  | 150                  |
| 10.  | Capital Expenditure (staff houses): Expenditure on permanent building used as a dwelling by staff employed at a school, hospital, nursing home or clinic in connection with mining operations: Expenditure restricted to this amount | 10 000               |
| 11.  | Capital expenditure on Schools, Hospitals, Nursing Homes and clinics: Excess amounts to be disregarded                                                                                                                               | Expenditure Incurred |
| 12.  | Staff Housing: In respect of any one building used wholly or mainly as a staff house .                                                                                                                                               | 5 000                |
| 13.1 | Renewal or Replacement expenditure on buildings, works or equipment (mining)                                                                                                                                                         | 10 000               |
| 13.2 | Renewal or Replacement expenditure on buildings, works or equipment: where mine is owned, tributed, or leased by a company under the control of not more than 4 individuals                                                          | 4 000                |
| 14.1 | Benefit Fund Contributions by Employers that are allowed as a deduction                                                                                                                                                              | 1 500                |
| 14.2 | Employee Pension Contributions allowed as a deduction                                                                                                                                                                                | 1 800                |
| 14.3 | Employer Pension Contributions allowed as a deduction                                                                                                                                                                                | 1 800                |
| 15.1 | Crediting of PAYE: Excess amount of PAYE deducted that shall not be refunded, that is if excess is below this amount                                                                                                                 | 0.50                 |
| 15.2 | Crediting of PAYE: Shortfall on PAYE deducted that will be written off by the Commissioner. That is if excess is below this amount                                                                                                   | 0.50                 |

|      |                                                                                                                                                                   |        |
|------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| 16.  | An amount paid by way of a wage to domestic worker. The amount should not exceed a monthly minimum wage                                                           | 150    |
| 17.  | Resident Shareholders Tax: The Commissioner shall authorise a refund where the client who is over 55 yrs old and is in receipt of dividends and interest income.  | 600    |
| 18.  | Resident Shareholders Tax: The Commissioner shall authorise a refund where the client who is below 55 yrs old and is in receipt of dividends and interest income. | 480    |
| 19.  | Informal Traders Presumptive Tax: Definition of an informal trader. Threshold above which one qualifies as an informal trader.                                    | 6 000  |
| 20.  | Asset Value for Definition of small or medium enterprise (SME)<br>Value of assets below which a company qualifies as an SME.                                      | 20 000 |
| 21.  | Fine for failure to register for banking Institution levy                                                                                                         | 1 000  |
| 22.  | Definition of assessed loss proviso: Amount of loss that is written off in any year                                                                               | 100    |
| 23.1 | Exemptions from CGT in respect of sale of marketable securities: Clients over 55yrs old.                                                                          | 1 800  |
| 23.2 | Deductions allowed in determination of CGT: Amounts to be deducted where the final CGT is a small amount. This implies the small amount is written off.           | 50     |

## ***Annex 2: Deemed Loan Benefits***

| <b>Description of Loan Benefit</b> | <b>Statutory Interest Rate</b> | <b>Proposed Threshold where no interest is Charged ((US\$)</b> | <b>Proposed Statutory Rate</b>                                                                           |
|------------------------------------|--------------------------------|----------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| Loan benefit below ZW\$35 000      | 12.5%                          | 1 000                                                          | Difference between interest charged by the employer and the Statutory rate of interest of 5% above Libor |
| Loan benefit above ZW\$35 000      | 16%                            | 1 000                                                          | Difference between interest charged by the employer and the Statutory rate of interest of 5% above Libor |