301. Central to this, are public and business perceptions over the stability and sustainability of the prevailing political environment, anchoring the consistency and predictability of the economic reform agenda and programme.

Resource Constraints

302. The implementation of STERP experienced severe resource constraints, against the background of limited domestic revenues, and conditionalities over external financial support in the continued sanctions environment.

303. As such, the National Budget operated under a strict resource envelope, forcing Government to focus and re-prioritise its needs, against a background of heightened fiscal discipline and expenditure control over the utilisation of limited revenue resource inflows.

304. Severe resource constraints were also experienced by the private sector, central of which was very limited availability of critical external lines of credit to anchor the resuscitation of business activity and improved capacity utilisation.

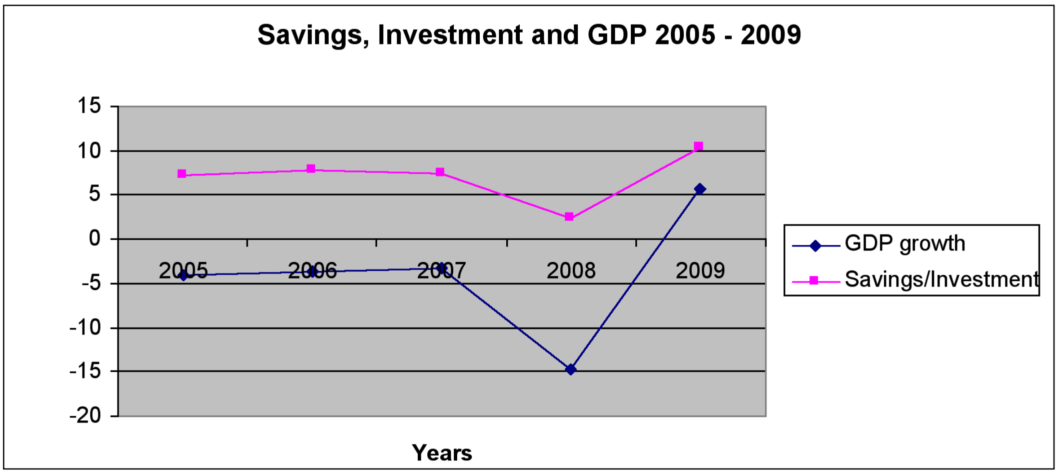
305. In the domestic financial sector, however, notwithstanding absence of aggressive outreach programmes by banks, emerging economic stabilisation is beginning to support mobilisation of domestic savings through the financial sector.

Savings & Investment

306. Despite the general improvements in production supply, as well as banking sector deposits in response to liberalisation of the economy ushered in under STERP, Zimbabwe's long term savings base still remains relatively low, especially with regards to comparative regional levels.

307. The low savings base, exacerbated by the short term nature of banking sector deposits, has limited scope for medium term lending to the productive sectors.

308. This development results in the economy being starved of internal domestic investment in both the private sector, as well as on critical public capital development projects.



309. The impact of this, coupled with absence of external capital inflows into the economy, is clearly manifested in the decayed and collapsed infrastructure, such as roads, rail network and telecommunications.

310. Furthermore, foreign private sector direct disinvestment from the country, as a result of the overwhelming political challenges arresting the country over the past decade, exacerbated the situation.

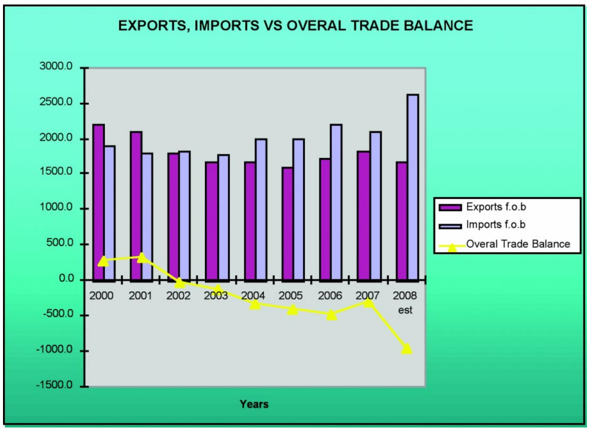
311. A key lesson from STERP is, therefore, the need for measures to enhance the economy's gross national capital formation to levels of over 20% of GDP by end of the Framework period.

312. This will require that Government not only provides for higher capital expenditures, but also begins to take measures to generate the surpluses required to underpin the economy's overall capital formation.

Trade & Export Promotion

313. One of the key lessons under STERP is the reality of the significant loss of export markets as a direct result of the economic down-turn the country experienced since 2000.

314. This reality had forced the country to rely on the export of a limited number of commodities, largely in the form of unprocessed and semi-finished commodities, often vulnerable to volatile commodity markets.



315. However, export of a very limited number of products often cannot generate adequate foreign exchange, especially against the background of prospects of decline in international prices of volatile traditional commodity export products.

316. In this environment, production of industrial goods suffered, along with the associated downstream sub-sectoral inter-linkages which allow for development and value addition of differentiated products for export.

317. Hence, moving forward requires institution of trade and export promotion measures in support of widening of the economy's production and export base.

Capacity Utilisation

318. Capacity utilisation, notwithstanding some positive developments, remains below the envisaged STERP targets of averages around 60%. Hence, only modest gains have been reported with regards to recovery in the productive sectors.

319. Indications on the ground reflect average capacity utilisation of around 35%, though for some sub-sectors rates above this are being noted.

Entrenched Conservative Business Culture

320. The initial slow adaptation to the demands of the new business environment by both public entities and private sector entrepreneurs also posed challenges for rapid realisation of the opportunities ushered in by STERP.

321. In the private sector, often business could not quickly adjust to the liberalised business environment, notwithstanding that this offered scope for planning, stability of prices, sustainable access to supplies of raw materials and other inputs, investment opportunities, among others.

322. Similarly, public sector institutions' response to deregulation was often characterised by unsustainable monopolistic business behaviours over pricing of tariffs, fees and charges.

Economic Stabilisation

323. Overall, however, some progress has been recorded in the implementation of STERP particularly in the area of economic stabilisation. The introduction of stable multiple currencies, removal of various distortions which characterised the pre-STERP period were behind this.

324. The stable macro-economic environment, which also led to improved supply of goods and services as well as delivery of public services in health, education, water, and public transport, was the major positive stride which has brought much relief and hope to the people.

Debt Overhang

325. A key lesson from the implementation of STERP remains the urgency to overcome the hurdle posed by the country's external payment arrears of US$3.8 billion over new inflows of financial support from both bi-lateral and multi-lateral sources.

326. The current external debt and arrears are an impediment to large-scale external support and, hence, it is imperative that an External Debt and Arrears Clearance Strategy be put in place.

327. Such a strategy, agreed with external creditors, allows normalisation of relations with development co-operating partners for future support for economic recovery and growth.

Implementation Capacity

328. Experiences under STERP have also highlighted challenges related to absence of capacity to successfully implement some of the programmes critical for economic turnaround, both on the part of some of the institutions of Government, local authorities, parastatals, as well as in the private sector.

329. In a number of cases, capacity constraints in implementing line Ministries/Agencies meant that maximum value could not be extracted out of some of the little resources that became available.

330. It is, therefore, critical that design of projects, coupled with set targets and implementation programmes, fully takes account of the required capacities for timely and successful take off of initiatives and interventions.

Monitoring & Evaluation

331. Failure to prioritise resources, some unethical conducts over use of public resources, all served to undermine restoration of timeous provision of public services such as water supply, sanitation services, power, health, education and refuse collection, among others.

332. This was compounded by weak monitoring and evaluation systems, with absence of more effective co-ordination, synchronisation and greater accountability over STERP implementation and set targets also emerging as a critical focal area requiring redress for faster economic recovery and delivery of public services.

THE THREE YEAR POLICY FRAMEWORK

333. The objectives of the Three Year Macro-Economic Policy and Budget Framework draw from the experiences and lessons from implementing STERP during 2009, including completion and finalisation of some of the unfinished agenda and business of STERP during the period 2010 to 2012.

334. This is also in recognition of the reality that some of the STERP

programmes and projects were never planned and targeted to be implemented and come to fruition during its nine month life to December 2009.

335. Hence, continuation of all such programmes beyond 2009 was always implied from the onset in their design, resource requirements, and implementation capacity.

336. Furthermore, the objectives of the Framework are also informed by the need to move the country's economic reforms beyond macro-economic stabilisation, embracing the challenges of graduating the economy towards a sustainable rapid growth and developmental path.

337. In this regard, the Framework dovetails between the very short term STERP goals and those of the Medium Term Plan which is currently being developed.

Framework Objectives & Priorities

338. Drawing from the above, the Framework seeks to attain a number of objectives and priorities.

339. These are sectorised into clusters as follows:

- **Sustaining macro-economic stabilisation and consolidating STERP**, also embracing:

  - ➢ Completion of the implementation of all the unfinished STERP programmes and projects;
  - ➢ Improved production capacity utilisation;
  - ➢ Strengthening of social protection programmes;
  - ➢ Improved management and utilisation of public resources;
  - ➢ Strengthening of public institutions through capacity building and enforcement of accountability.

- **Ensuring food security and self sustenance, including support for optimum land utilisation**;

- **Restoring basic services**, through targeted improved delivery of such services as health, education, transport, power, water and sanitation;

- **Support for rapid growth**, development and employment creation, with annual targets upwards of 5% and targeted drastic reduction in prevailing unemployment;

- **Investment drive**, complemented by:

- Increased domestic savings and investment targets to above 20% of GDP in line with the experiences of rapidly industrialising countries;
- Programmed rehabilitation and development of infrastructure;
- Investment in information communication technology;
- Promotion of public private partnerships.

- **Promoting regional integration**, guided by the quest to broaden markets for domestic products in the region and beyond;

- **Restoring basic freedoms**, through:

  - Resolving all outstanding and disempowering political issues;
  - Legislative reforms;
  - Concluding constitutional reforms;
  - Rule of law;
  - Respect for property rights;
  - National healing.

- **Restoring of international relations**, to allow:

- ➢ Zimbabwe to retake its rightful place in the region and beyond;
- ➢ Access to international financial markets;
- ➢ Removal of sanctions and other restrictive measures.

Macro-Economic Targets for 2010 – 2012

340. The macro-economic targets for the Framework over the period 2010 – 2012 draw from an integrated account of the four main sectors of the economy. That is, the real sector's national accounts, fiscal sector's Government budget accounts, the external sector's balance of payments and the financial sector's monetary survey.

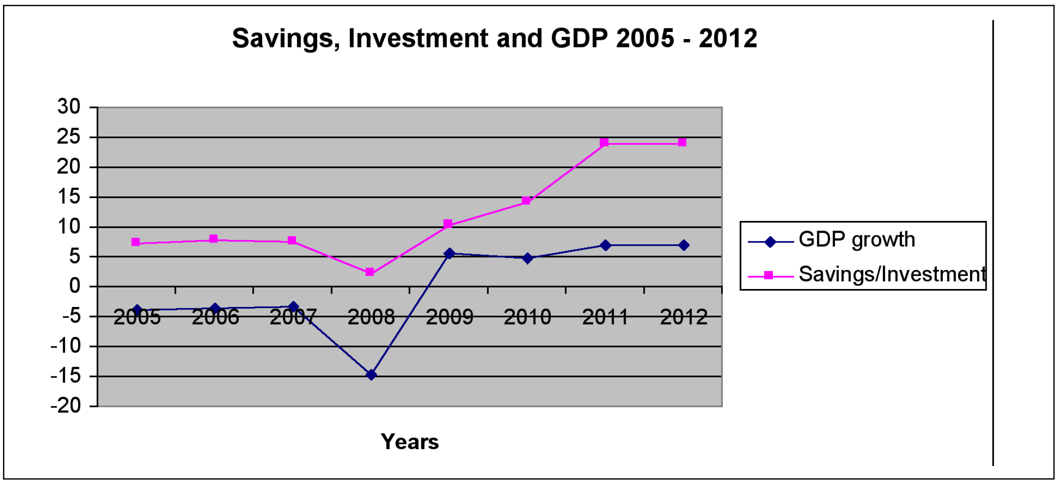
341. The Framework contains consistent relationships among the four sets of aggregate economic accounts, benefiting from STERP economic developments in 2009 and initiatives to improve national statistics compilation and co-ordination.

342. The Framework projections are based on the key macro-economic variables, whose prospects help identify policy intervention focal areas aimed at helping the economy cope with the downside risks. Central to realising the projected

macro-economic fundamentals will be the consistent and timely implementation of agreed measures.

343. The downside risks cover the following variables:

- The projected positive real GDP growth rates are highly dependent on a sustained accelerated recovery of agriculture and mining sectors. Less favourable weather conditions for agriculture will consequentially affect the performance of manufacturing, and exports of agro-based manufactured products.
- Projected economic growth rates of 7% in 2010 and 6.3% in 2011 and 2012 are also dependent on higher investment to GDP ratios. These, in turn, are a function of recovery of public investment, financing from foreign direct investment and project grants, imports of capital goods and a business environment conducive for investors.



- Higher levels of current account deficits during 2010 – 2012 imply growing needs of external financing to finance the fast growth of total investment, given the low levels of domestic national savings.

- Exports growth is dependent on the projected faster growth of agriculture and mining. Factors reducing the output growth in these sectors would also affect negatively the projected growth rates of exports during 2010 – 2012.

- Rapid substitution of domestically produced goods and services for imports will be necessary for decline in the overall ratio of imports to GDP.

- The projections are also based on a gradual improvement in the political stability of the country as this is a major factor affecting investor sentiment and external financing.

344. The Table below, which also includes years 2008 and 2009, highlights the key economic variables exposed to downside risks and their evolution during the period 2010 – 2012. Historical GDP data for 2000 – 2008 is contained in Tables 8 and 9.[6]

[6] See also Tables 10 & 11 for Growth Rates and Percentage Contribution

345. The economic variables in the Table below are expressed in US dollars, consistent with the introduction of multiple currencies for all transactions following the launch of STERP in March 2009.

Framework Targets

	2008	2009	2010	2011	2012
Real Sector and Inflation					
GDP level in US$ (Millions)	4958	5179	5561	5938	6345
GDP growth (%)	**-10**	**4.7**	**7.0**	**6.3**	**6.3**
Annual Average Inflation (%)		**-5.5**	**5.1**	**7.7**	**7.8**
Investment and Savings (% GDP)					
Total Investment	2.3	10.3	14.3	23.8	25.4
Total Savings	2.3	10.3	14.3	23.8	25.4
Central Government					
Total Revenue US$(Millions)		1040.7	1440	1905.9	2053.8
% of GDP		20.1	30.5	30.5	30.6
Total Expenditure US$(Millions)		1094.0	1440	1905.9	2053.8
% of GDP		21.1	30.5	30.5	30.6

346. The Framework projection for the rate of inflation takes account of the reality that, in the multiple currency environment, domestic price developments are mainly determined exogenously.

347. Growth in the ratio of Tax Revenue to GDP to 20.1–30.6% from 2010 to 2012 will determine growth in Government expenditure and public investment. This is in light of the vulnerable availability of compensatory external financing inflows that would help provide for shortfalls in tax revenue, grants and national domestic savings.

348. Given the Framework projections and targets of GDP of less than US$6 billion by 2011, it is clear that the economy is still small and fragile, implying narrow fiscal space to finance critical social and development programmes.

349. Hence, the country has much catching up to do with other comparative African economies such as Kenya, Tanzania and Botswana whose 2009 GDP levels are estimated above US$30 billion, US$20 billion and US$10 billion, respectively.

350. Similarly, savings and investment which are necessary for supporting growth remain low at projected levels of less than 15% of GDP in 2010.

351. Furthermore, a weak balance of payments, with current reserves of less than a week of import cover, cannot sustain the required import growth in support of rapid productive sector recovery and overall economic development.

352. The realisation of the above projected targets for economic turnaround will require adoption of decisive policies and their consistent implementation.

Policy Implications

353. Financing gaps in the central government budget and in the balance of payments call for the improvement of tax revenue or reduction of expenditures.

354. Tax revenues may be increased by increasing some specific taxes and/or improving tax administration, whose estimated potential is an additional 2% per year.

355. This would, however, not be enough to eliminate the projected fiscal gap over the Framework period 2010 – 2012.

356. Hence, additional measures will be necessary to improve tax revenue collections, especially against the background of the large informalisation of the economy.

357. Scope for reducing expenditure is limited, given the low levels of wages and salaries and the need to improve the provision of Government services.

358. Similarly, failure to support the capital expenditure budget would undermine the scope for recovery and sustainable economic growth.

Structure & Outline of Policy Framework

359. In line with the objectives and priorities outlined above, the structure and outline of the critical Three Year Macro-Economic Policy and Budget Framework measures starts with those whose focus and thrust is on consolidating what Government has already initiated under STERP, encompassing also the unfinished business and outstanding agenda of STERP.

360. This is followed by policy measures in support of sustaining the stabilisation realised on the macro-economic front, under which single digit inflation thresholds have been realised, consistent with the SADC macro-economic convergence criteria.

361. Thereafter, sectoral initiatives and interventions in support of the country's developmental thrust are indicated. This includes support for the key enablers of power, transport, water, coal, among others, that underpin overall economic performance across the entirety of the productive sectors.

362. Interventions to restore and improve the provision of social services in health and education, as well as social protection programmes are also an integral part of this Framework.

363. The Framework also highlights measures for increasing exports, savings and investment, including various incentives for promoting investment into infrastructure provision.

364. Consistent with the indigenisation and empowerment thrust, the Framework also contains measures in support of the various youths and women empowerment programmes, also as part of the poverty reduction strategy.

365. Furthermore, measures to address the outstanding political issues, including such legislative reforms as those related to the Constitution, Rule of Law and respect for property rights, as well as National Healing are also central.

366. Promotion of increased economic co-operation with the regional trading partners, as well as measures for re-engagement with the international community, all necessary for Zimbabwe to reclaim her place in the community of Nations, is also a critical component of the Framework.

<u>ECONOMIC STABILITY & CONSOLIDATING STERP</u>

SUSTAINING MACRO-ECONOMIC STABILISATION

367. The review of STERP has already highlighted the major achievements realised with regards to stabilising the macro-economic environment and taming the hyper-inflation phenomenon experienced prior to STERP, which wiped out years of people's savings, pensions, investments, as well as incomes.

368. This increased poverty, particularly as it impacted negatively on industries, infrastructure, public utilities and service provision in health and education, and social protection, among others.

369. Against this background, sustaining the macro-economic stabilisation gains under STERP is central to this Framework.

Fiscal Consolidation

370. Key to realising this will be Government perseverance with the fiscal discipline practiced during STERP.

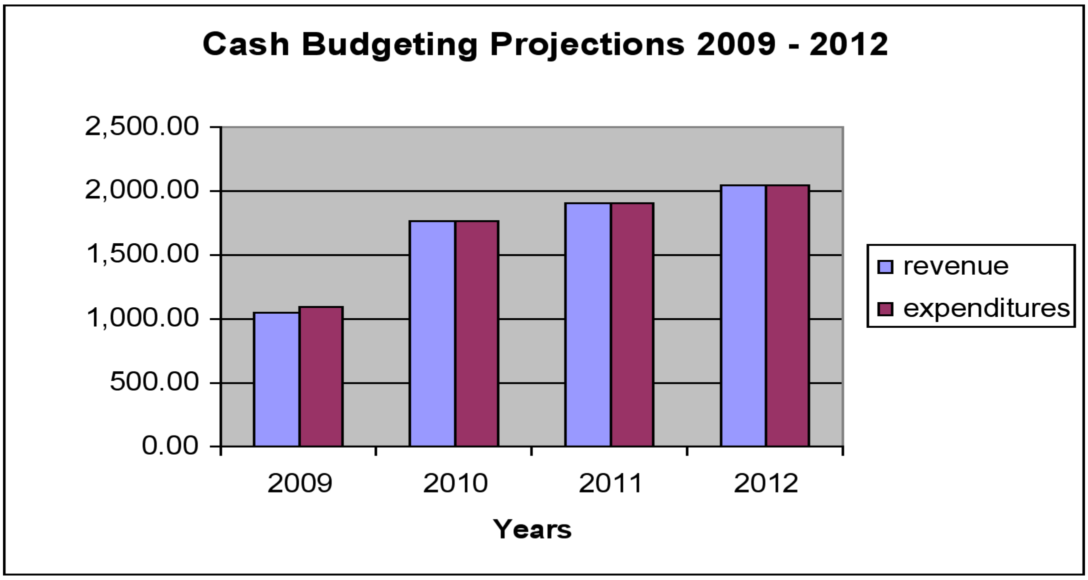
371. The cash budgeting principle adopted in March 2009 has meant that Government has had to operate within the available

resource envelope, automatically restraining all unfunded expenditures and also effectively containing inflation.

372. The basic culture of 'living within our means', thereby avoiding further rapid accumulation of the National debt and arrears, already at unsustainable levels, will have to be nurtured during the Framework period 2010 – 2012.

373. This is notwithstanding the challenges arising from cash budgeting, especially with regard to related limitations over funding of large developmental programmes and projects meant to support and stimulate economic activity.

374. Hence, Budget expenditures for 2010 to 2012 will be aligned to available revenue inflows, a STERP principle that has so far underpinned macro-economic stabilisation and reduction of inflation in the economy to the prevailing single digit levels.



375. This is an unavoidable component of the Framework measures to further improve on the STERP prudent management over public resources, especially in light of the current absence of meaningful external financial support for the Budget and unlocked opportunities for large scale resource mobilisation for development programmes.

Expenditure Management & Control

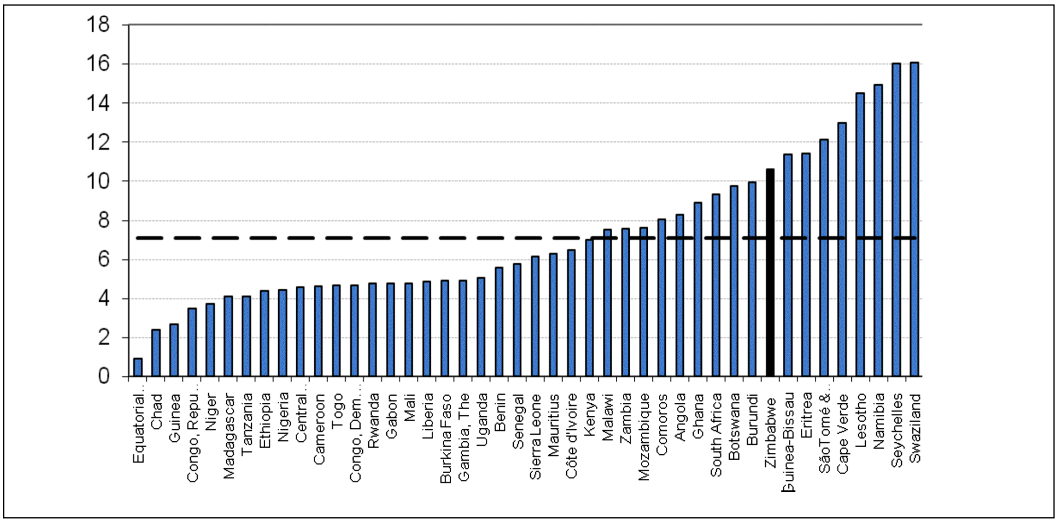
376. A key input towards successful fiscal consolidation will be expenditure management and control under this Framework, targeting that the Budget framework remains in line with the resource envelope, and that programmes and projects are implemented timeously and efficiently.

377. Given the prevailing Budget resource constraints, prioritisation of expenditure programmes becomes critical, with non-priority activities restricted in favour of allowing for adequate funding of those designated as critical.

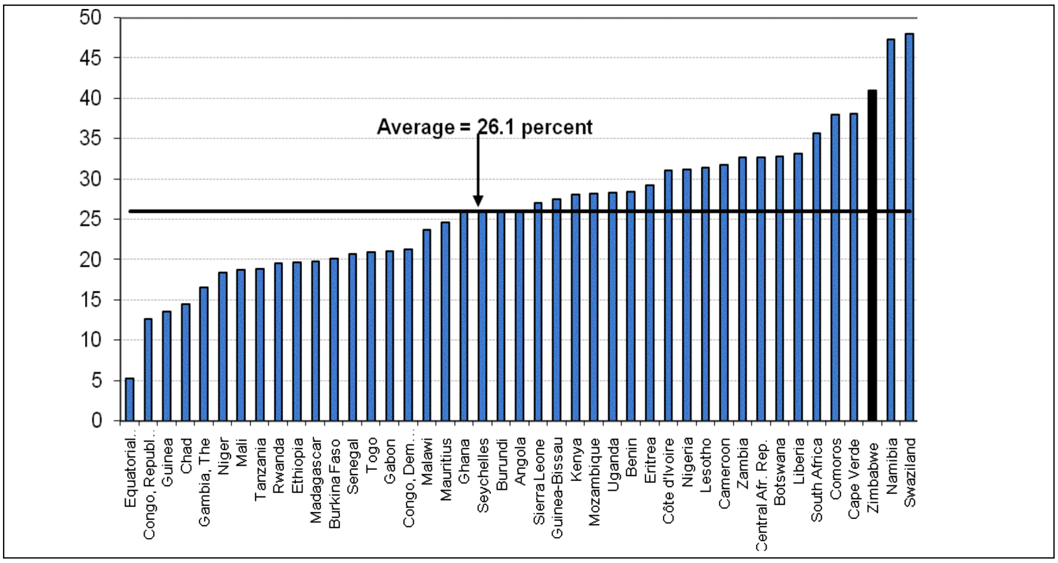
378. Pursuant to the above, weekly and monthly Treasury disbursements to line Ministries and Government departments will, under the Framework, be programmed in line with Government priorities and revenue inflows.

379. In addition, as part of the expenditure management strategy, the size of the Budget wage bill and other public service employment costs will be related to levels prevailing in economies of similar per capita incomes.

Sub-Saharan Africa Civil Service Salaries (% of GDP)



Sub-Saharan Africa Civil Service Salaries (% of Expenditure)



380. This will be complemented by undertaking of the Civil Service Payroll Audit, already recognised in STERP as a necessary measure to streamline the wage bill, and to ensure that Government pays only those in its employment.

381. The conduct of a thorough payroll audit will also offer opportunity for carrying out skills audits to ascertain the current Public Service strength during the Framework period 2010 – 2012.

382. Findings from the skills audit exercise would enable Government to establish a skills inventory, identify critical skills deficiencies, and institute necessary corrective measures.

383. The payroll audit will be extended to also cover audit of payment of pensions, where phenomenal growth in pension expenditures is being experienced.

Results Based Budgeting

384. Government has since 2005 been implementing an Integrated Results Based Management (IRBM) system, in order to promote greater efficiency and effectiveness, transparency and accountability in the public sector.

385. In compliance with the Results Based Management (RBM) approach, the Framework focuses on the appropriate and timely achievement of relevant results, premised on national priorities, national key result areas and goals, as well as cluster key result areas and goals.

386. The aforementioned higher level national priorities will have specific and realistic targets and baselines in order to systematically inform strategic planning, policy formulation, policy implementation, resource usage, performance monitoring and evaluation.

387. Consequently, outputs from all public sector programmes and activities will not only be produced efficiently, but will also lead to the realisation of desired outcomes.

Public Service Pension Reform

388. Currently, Government pension payments are met from the Budget as expenditure, with serving members' pension contributions treated as part of Government revenue. This system has defined benefits, unrelated to contributions and, dependant on the economy's capacity to sustain such budget expenditures.

389. Experiences worldwide demonstrate that such systems are not sustainable in the long run, especially as the number of workers supporting pensioners decline due to a variety of factors. This often results in pension payment shortfalls having to be met from the Budget.

390. Consequently, the growth of pension outlays to pensioners across the public service, including uniformed forces, has become unsustainable relative to available resources.

391. It has, therefore, become necessary to review retirement conditions with a view of containing growth of these pension outlays, however, mindful of the necessity of a pension which guarantees reasonable welfare of public servants upon retirement.

392. The necessary consultations with stakeholders will be undertaken, prior to drafting and amendment of the Pension Bills and Regulations.

Public Service Pension Fund

393. In this regard, Government will move from the current Defined Benefit Pension Scheme to a Defined Contribution Pension

Scheme in order to ensure the sustainability of Government pension payments.

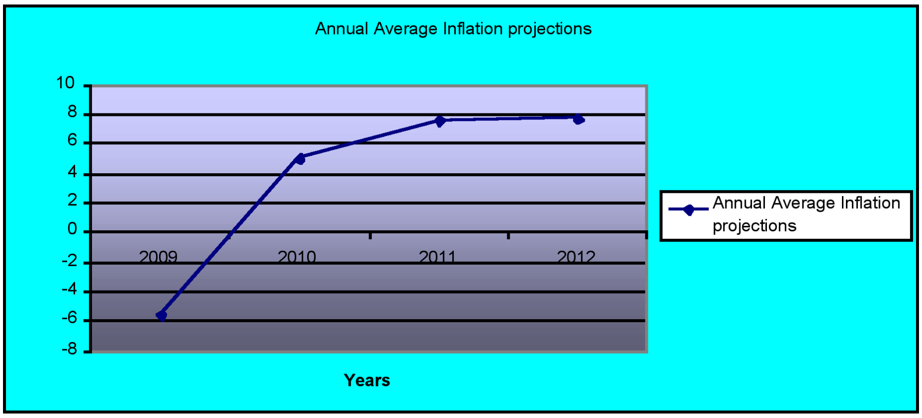
394. A Defined Contribution Scheme will entail the creation of a Civil Service Pension Fund, already approved by Cabinet as way back as 1999, and to be managed by Fund managers outside of the Budget framework in line with market best practices.

395. Work on the proposed Civil Service Pension Fund, including a new actuarial evaluation, will be undertaken during the course of 2010 with the unveiling of the new Fund earmarked from 2011.

Inflation

396. The above fiscal consolidation stance for the Three Year Macro-Economic Policy and Budget Framework targets containing inflation within the single digit levels for the period 2010 – 2012.

397. This is also consistent with Zimbabwe's regional integration obligations under the SADC macro-economic convergence target for single digit inflation levels.



Multiple Currencies

398. There is continued debate on the merits and demerits of re-introducing the Zimbabwe dollar and other currency regimes.

399. This debate is being triggered by some shortcomings and challenges associated with the current use of multiple currencies, which include shortage of smaller denominations, clarity on the 'reference currency', and arbitrage opportunities arising from application of 'sticky' exchange rates, particularly between the rand and the US dollar.

400. However, as indicated in the Mid Year Fiscal Policy Review Statement of 16 July 2009, a desirable currency regime can only be sustained by strong macro-economic fundamentals, which are all necessary for creating the necessary confidence in the economy.

401. These, among others, include a sound track record of policy consistency and implementation, high sustainable levels of savings, a strong financial sector, a sustainable external position, high investment and rapid growth.

402. Currently, the economy remains fragile with savings and investment levels below 10% of GDP, negligible Gross Official Reserves estimated at less than US$6 million, a weak financial sector and most industries operating at capacity levels below 50%.

403. Government will, therefore, maintain the principle of use of multiple currencies over the Framework period 2010 – 2012, during which the economy's productive capacity and utilisation should have developed, and the gains and confidence of the prevailing stable macro-economic environment consolidated.

404. This would allow for the restoration of high production levels across the key productive sectors to levels commensurate with supply responses and macro-economic fundamentals, necessary for sustaining recourse to domestic currency.

Public Finance Management Legal Framework

405. In support of measures on enhancing management of public

resources, Government has introduced two Acts – the Public Finance Management and the Audit Office Acts.

406. The new Public Finance Management Act shifts financial management from Appropriation Accounting and Reporting to the Value for Money Approach.

407. The new Act, anticipated to take effect from 2010, will also facilitate comprehensive financial reporting, which embraces Local Government and public enterprises, allowing for constant monitoring of performance and improved accountability and efficiency in the use of public resources.

408. The new Audit Act will strengthen the Audit Office by separating the Comptroller and Auditor General's functions from the existing Audit and Exchequer Act. It also provides for the audit of accounts, to facilitate oversight over the management of public resources.

409. The Act also seeks to improve accountability in the audit process, and eliminate the operational limitations which were inherent in the Audit and Exchequer Act.

410. This will be achieved through creating an independent National Audit Office, in line with international best practice, during 2010.

Taxation Reforms

411. Taxation is one of the public policies that has comprehensive effects on the economy and its people. The viability of expenditure programmes of Government depends on revenue generated. Taxation policy also influences income distribution and the direction of investments to preferred activities.

412. To enable taxation to accomplish policy goals of equity and efficiency, it must continuously respond to the changing needs of the economy. The key to the implementation of tax reforms is an efficient tax administration, characterised by low administrative and compliance costs.

413. There are urgent revenue requirements, following the pre-STERP economic slump and contraction of the tax base. Over the past five years, the flow of real tax revenues has declined as a result of falling output and widespread informalisation of economic activity. Government, thus, faces the challenge of resuscitating economic activity in order to rebuild the revenue base.

414. A significant number of provisions in the tax legislation provide incentives or relief to particular taxpayers, hence are, in effect implicit spending programmes. Furthermore, the increasing

size of the informal economy poses challenges to the economy and fairness of the tax system. Small business activities and the self employed should, thus, be brought into the tax system.

415. It is, thus, necessary to undertake a review of tax policy reforms including redrafting of the Income tax legislation with a view to making it more compatible with tax policy principles, simple to administer and consistent with international best practices.

Capital Allowances

416. Capital assets should be depreciable over their useful life at a rate that corresponds as close as possible to their annual loss in value. However, the current generous depreciation rates amount to a large implicit subsidy for new investment that undoubtedly distorts business investment decisions.

417. Government will, therefore, review the depreciation rates so that they closely correspond to the economic life of the assets.

Corporate Tax Rate

418. A wide variety of rates are applicable across the different sectors

of the economy, different locations of the country and those engaged in different types of activities.

419. Government will, therefore, review tax holidays and other business tax incentives and implement an appropriate corporate tax rate that takes into account the need to raise revenue and overcome any distortionary effects of the tax rate on investment decisions.

International Taxation

420. Multinationals frequently manipulate the prices that related subsidiaries charge one another when they transfer goods and services between themselves across national borders in order to reduce their profits.

421. Government will promulgate the necessary legislation that clearly incorporates the use of arms' length principles in controlling transfer pricing.

Taxation of the Informal Sector

422. The tax administration faces challenges of collecting tax from small business persons who should ordinarily pay income tax.

These business persons, in most circumstances, do not maintain books of accounts and are, hence, unable to prepare relatively complicated income tax returns.

423. Government will, therefore, review the current presumptive tax system with a view to incorporate small businesses into the formal economy in line with regional best practice.

Value Added Tax

424. Whereas the VAT regime is designed in line with best international practice, the current list of zero-rated products is, however, relatively long.

425. Government will rationalise the zero-rated list of goods and services and also review the status of the remaining goods from zero-rated to exempt.

Tax Administration Reforms

Zimbabwe Revenue Authority Act

426. The ZIMRA Act confers executive powers on the Revenue

Authority Board. There should however be a clear distinction between oversight and guidance, and day-to-day management of ZIMRA operations, hence, the ZIMRA Act should be amended to conform to international best practice.

427. Furthermore, the ZIMRA Act does not specify any organisational structure or units, giving the Board, on recommendation of the Commissioner General, wide latitude to establish organisational structures to discharge the delegated responsibilities.

428. Government will, therefore, propose amendments to the ZIMRA Act, in order to incorporate the ZIMRA organisational structure into the ZIMRA Act and also remove executive powers of the Board.

Re-organising the Zimbabwe Revenue Authority

429. ZIMRA operations are currently fragmented, with many roles and responsibilities duplicated. Furthermore, the organisational structure, which combines the administration of domestic and international trade taxes, is inherently inefficient, and hence the need for review.

430. Government will, thus, re-examine the ZIMRA structure with a view to implementing an ideal structure that will focus on core business of revenue collection and trade facilitation and remove duplication of roles and responsibilities.

Taxpayer Segmentation

431. Large taxpayers contribute about 70% of the domestic taxes. It is, thus, essential to develop skills to manage large tax payers.

432. Taxpayers will be segmented into large, medium and small units, with the relevant offices established to improve compliance and receipt of the bulk of the much needed revenue earlier.

Objections & Appeals

433. An effective dispute resolution process is critical to the integrity of the tax system. The formal mechanisms for resolving disputes should be simple and transparent.

434. Government will propose the amalgamation of the Fiscal Appeals Court and the Special Court for Income Tax Appeals or any other suitable alternative.

Business Process & Procedures

435. Representations have been made to the effect that the current tax and customs processes and procedures are inefficient and non-responsive to client needs.

436. In order to improve efficiency, ZIMRA will review business processes in tax and customs collections, including upgrading of information communication technology systems.

Customs Administration & Operations

Valuation, Risk Management & Post Clearance Audit

437. Currently, there are no effective and comprehensive valuation procedures, risk management and risk-based post-clearance audit programmes in place.

438. For effective compliance, taxpayer facilitation and monitoring, ZIMRA will establish the following dedicated Units:

- Valuation, Origin and Tariff Unit;
- Risk Management Unit;
- Post Clearance Audit Office;

- Anti-Smuggling Unit; and
- Transit Compliance Unit.

Customs Duty Exemptions, Rebates & Remissions

439. A multiplicity of regimes where duty is exempted, rebated, remitted or suspended currently exists. It is extremely difficult for the various schemes to be properly administered and effectively monitored. Audit for end-use is minimal, hence, the extent of abuse is largely unknown.

440. Government will, thus, review and rationalise the duty exemption regime, rebates and remission schemes and, in particular, repeal those that no longer reflect policy priorities.

FINANCIAL SECTOR

Savings Mobilisation

441. The Framework recognises the role of banks in mobilising domestic savings, especially in light of the waned culture of savings under hyper-inflation.

442. In this regard, incentives for attracting financial resources

outside the banking system will be implemented under the Framework. This will include the restoration of the positive role interest rates payable on bank deposits have with regards to savings mobilisation.

443. Hence, Government through the Central Bank will be requiring financial institutions to begin paying interest on bank deposits.

Interest Rate Spreads

444. The prevailing situation of extremely wide interest rate spreads between deposit rates and lending rates, ranging up to 15%, is not sustainable.

445. Narrower levels of spreads ranging up to 5% as happens in other economies are consistent with best practices, and the economy's overall quest for economic recovery and turn-around.

446. Challenges with regards to banks carrying high overheads as the basis for justification of very high lending rates of up to 25% for US dollar denominated loans should not be allowed to undermine both savings mobilisation and support for the productive sectors.

Domestic Market Liquidity

447. Following the adoption of the multi-currency regime, the general liquidity position in the economy remains too tight.

448. This is notwithstanding the increase in total deposits in the financial sector to levels of over US$1 billion by end of October 2009.

449. Greater savings mobilisation will be necessary for significant reversal of impairments to the functionality of money and capital markets brought about by hyper-inflation which wiped out the value of all financial instruments held by savers.

450. Additional measures in this regard include the resuscitation of a savings culture within the economy. As alluded to above, this will require re-introduction of positive interest rates on all savings and time deposits of banks.

451. This will allow for restoration of the vibrancy of the money and capital markets, smooth trading of appropriate financial instruments and the financial sector's intermediary role between savers and borrowers which had all been incapacitated by inflation.

452. Furthermore, measures to ease the tight liquidity conditions in the market will also target increased micro-finance sector activity, whose viability is also compromised by the prevailing liquidity challenges.

453. This has sustained the plight of those particularly dependent on this segment of the financial sector. These include SME operators, the self employed and people in the rural and peri-urban areas.

National Payments System

454. The adoption of multiple currencies beginning 2009 stabilised both large and small value payment systems in the country, reversing the effects of hyper-inflation which had rendered a robust national payment system built over years inefficient and ineffective.

455. During the Framework period, the Central Bank will continue to implement measures targeted towards realising further notable strides to resuscitate, modernise and diversify the national payment system through collaborative efforts with the banking industry and other relevant partners.

Card Transactions

456. In this regard, measures will be instituted to broaden the use of plastic money, such as debit cards, introduction of credit cards and other transfer methods, as ways of facilitating transactions without necessarily resorting to cash, which has to be imported.

457. Broadening the use of plastic money through ZIMSWITCH, VISA and Master Card platforms will considerably satisfy the huge appetite for cash from the market as well as providing much relief on the need for small change.

458. Hence, the banking industry will remain engaged with VISA and Master Card to facilitate smooth and efficient use of their platforms in order to provide convenience to both residents and visitors in making various non cash transactions within the country.

Points of Sale & Cheque Transactions

459. Furthermore, notwithstanding that the Real Time Gross Settlement System and Automated Teller Machines have been operationalised, measures by the banking industry will be necessary to popularise use of Points of Sale and acceptance of Cheque Payment systems.

Perceived Risks

460. Increased use of various products under the National Payment and Settlement System will also require address of the perceived risks and infrastructure constraints which have so far limited utilisation.

461. Hence, co-ordinated efforts to lay a solid base for the National Payments System, involving banks, retailers, credit card companies and telecommunication companies, will be made.

462. In this regard, the Central Bank will implement guidelines from the Bank for International Settlements' Committee, as well as the recommendations for security settlements, in order to enhance financial stability through ensuring the safety, soundness, and efficiency of clearing and settlement systems.

Capitalisation of Banks

463. STERP recognised that the sustainable participation of banks in the mobilisation of savings in support of increased investment will require the prioritisation of the re-capitalisation of financial institutions, most of which had become undercapitalised as a result of years of hyperinflation.

464. Adequately capitalised banking institutions play a pivotal role in the economic turnaround process through efficient financial intermediation.

465. Given that the first phase of re-capitalisation has been completed, with most institutions meeting the extended deadline of end October 2009, the focus of the Central Bank will, therefore, be on progressions to the next phases.

466. This will require that financial institutions comply with reviewed minimum capital adequacy requirements through injection of fresh capital by the holding companies, private placements, rights issues and strategic partnerships with new investors.

467. Those that would have failed to comply will be encouraged to merge or consolidate.

Deposit Protection Scheme

468. In order to mitigate the effects of failing banks, Government, through the Banking Act, established the Deposit Protection Board in 2003.

469. The First Phase of the Board was confined to that of a ‘pay box’ whereby the Board would pay off depositors of affected

banks. This saw the Board making payments to depositors of failed banks, such as Trust, Royal and Barbican.

470. Phase Two of the Scheme would expand the mandate of the Deposit Protection Board beyond its current ‘pay box’ role.

Micro-Finance

471. There are indications that a greater part of the economically active population in Zimbabwe is excluded from access to formal financial services, often forcing some reliance on informal channels.

472. The Framework, therefore, prioritises increasing provision of access to financial services by a larger segment of the population, with micro-finance institutions also a vehicle for realising financial inclusiveness.

473. In this regard, the Framework also promotes development of a legislative framework that recognises the unique features of micro-finance, and fostering the up-scaling of institutions’ financial systems to enable the mobilisation of savings, in addition to provision of credit.

474. The Money-lending and Rates of Interest Act that controls interest rates will also be reviewed so as to allow micro-finance institutions to set market interest rates commensurate with their cost structure.

Credit Information Infrastructure

475. In order to improve access to finances by the general population, the Framework promotes the creation of verifiable credit profiles of borrowers through the establishment of credit bureaux charged with the effective distribution of high-quality credit information.

476. Financial services institutions will, therefore, be urged to create the necessary credit-information infrastructure for the benefit of the entire financial services sector.

477. This will be important for facilitating the expansion of bank credit to small-scale borrowers beyond the prime clients currently being served by the traditional banking sector.

478. Government will also be sourcing capacity building support from development financial institutions for building the necessary infrastructure for hosting the credit information database.

Regulation of the Securities Market

479. With regards to the Securities market, the thrust will be to operationalise the Securities Act. This will entail the Securities Commission working on rules and regulations that will address issues of registration, licencing, corporate governance, insider trading, mergers and acquisitions, Central Securities Depository, advertising, among others.

480. Already, the first set of rules which deals with registration, licencing and corporate governance is at an advanced stage and will be gazetted once all the approval procedures have been completed. The Framework targets operationalisation of the rules and regulations by mid 2010.

Zimbabwe Stock Exchange

481. Stock exchange best practices require that investors trade under systems which provide speed, accuracy, and confirm completeness and irreversibility of transactions.

482. They also require links between settlement and clearing systems, which ensures that when securities' deals are undertaken, the cash and script pass at the same time.

483. However, the Zimbabwe Stock Exchange (ZSE) is currently trading on an open outcry system, which is manual, outdated, and cumbersome. In times of high activity, the system becomes overwhelmed, that way undermining efficient functioning of the capital markets.

484. The backbone of the securities trading system, the back office, which comprises of clearance and settlement of script and cash, is also completely manual and based on paper script, making tracking of transactions cumbersome and prevention of fraud difficult.

485. These challenges are being overcome under this Framework through implementation of measures to automate the front office, trading platform, back office and the stock exchange's Central Security Depository.

486. Successful achievement of the above will also be in line with the SADC efforts of spearheading interconnectivity of SADC Exchanges and Central Securities Depository.

487. Consultations towards implementation of this computerisation project are underway with various stakeholders, including the Johannesburg Stock Exchange.

Demutualisation of the ZSE

488. The Framework also recognises the need for transforming the ZSE into a viable and attractive entity.

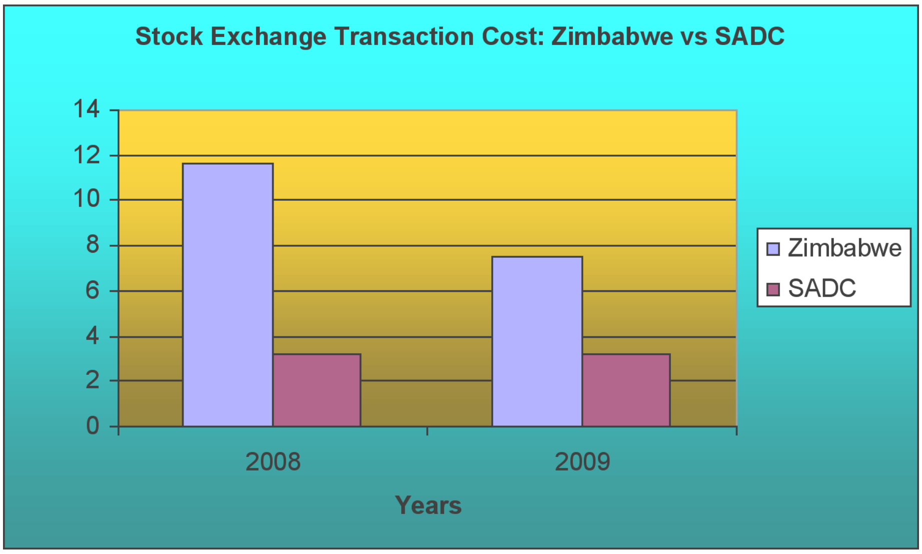
489. This would take a two pronged approach, whereby the ZSE would be transformed from a club to a company owned by shareholders.

490. Already, the ZSE is in the process of developing a demutualisation business model, and efforts to find prospective partners to invest in the local bourse are underway.

Transaction Costs

491. Transaction costs on the ZSE still remain higher than those obtaining in the region.

492. The Framework, therefore, prioritises the streamlining of all levies and related transaction costs with those in the region to minimise the costs of share trading and to make locally listed shares more attractive to foreign investors.



Role of the Securities Commission

493. The Three Year Macro-Economic Policy and Budget Framework also prioritises the clarification of roles between the Securities Commission and the ZSE.

494. In this regard, the Securities Commission will be strengthened to ensure enhanced regulation and supervision of the local bourse.

Shareholding by Foreigners

495. The potential of the stock exchange to mobilise foreign portfolio investment inflows is immense, with large scope for improving both money and capital markets' liquidity from foreign investors whose disposable incomes are much higher than those of domestic investors.

496. In order to tap into this potential, the current legislative framework regarding thresholds for foreign participation on the local bourse will be reviewed.

497. Presently, foreign participation on the stock exchange is limited to 40% of total equity, with a single foreign investor being allowed to acquire a maximum of 10% of shares.

498. The Framework will, therefore, be reviewing the various legislative Frameworks to enable enhanced participation on the equities market by foreign investors.

Equity Investment Incentives

499. In to further deepen the capital market, the Framework will also introduce tax incentives for publicly listed companies as a way of encouraging privately owned companies to go public.

500. Furthermore, a second tier capital market that will be used as a vehicle for raising finance will also be created in order to improve access to capital by small and medium-scale enterprises (SMEs) as well as foster financial inclusiveness in capital markets.

501. This second tier capital market will have simpler listing requirements that facilitate the participation of SMEs on the stock market.

Regulation of the Insurance & Pension Industry

502. The insurance and pension industry is regulated by the Insurance and Pensions Commission (IPEC) through three Acts, namely the Insurance and Pensions Commission Act [Chapter 24:21], the Insurance Act [Chapter 24:07] and the Pensions and Provident Act [Chapter 24:09].

503. To improve corporate governance and strengthen IPEC oversight over conduct of the insurance and pension industry, the Framework will undertake the following:

Publication of Information by Insurance Companies & Pension Funds

504. Insurance and pension funds deal with public funds, and will, thus, be required to publish annual reports, including information on their performance, currently only submitted to the Commissioner of Insurance and Pension Funds.

505. Furthermore, they will also be required to make public announcements on such key appointments as their investment and fund managers. This requirement is not provided for in the current Acts.

Appointment of Top Management of Pension Funds & Insurance Companies

506. Other amendments relate to specification of minimum eligibility criteria for appointment to senior management positions in pension funds and insurance companies.

Prescribing of Qualifications for Trustees & their Appointments

507. Currently there is no provision prescribing qualifications of Trustees and procedures to be followed on their appointment. This has resulted in appointment of incapable people who cannot effectively discharge their functions.

508. The Act will be reviewed to overcome this aspect and ensure that people appointed meet the minimum specified criteria.

Appointment to the IPEC Board

509. Review of the IPEC Act will also be undertaken to revise the clause on appointment of board members to avoid potential for conflict of interest that might arise in the event of appointment to the IPEC Board of shareholders of companies.

Shareholding in Insurance Companies

510. Compliance measures over shareholding limits in an insurance company for both individuals and corporates, currently provided for in the rules and regulations, will be strengthened.

RESTORING CAPACITY UTILISATION

AGRICULTURE & FOOD SECURITY

511. Agriculture contributes the largest share to GDP. The sector employs a greater part of the population, and is important to the economy's foreign currency generation efforts. It also has strong inter-linkages with the other sectors of the economy.

512. Having completed the land acquisition phase of the agrarian reforms, the challenge facing the country is the full utilisation and improved productivity of all acquired land so as to guarantee food security and adequate supply of agricultural output to other sectors of the economy.

513. The Framework strategies to transform Zimbabwe's agriculture will involve a greater reliance on efficient inputs delivery and farm output marketing systems and a smooth integration of agriculture with the domestic, regional and international markets. Therefore, annual double digit growth of agriculture is targeted for during the period 2010 – 2012.

514. This will be anchored by an Agriculture policy vision which will guide the transformation of agriculture into a commercial and highly mechanised sector, with stronger linkages to value addition manufacturing.

515. Central pillars to Agriculture's policy vision and effective land utilisation will be the following:

- Security of tenure, to overcome uncertainty, facilitate access to credit, and improve investment on farms and agricultural production;
- Financing, underpinned by sustainable self financing revolving loan facilities;
- Pricing, that rewards production and contributes towards the restoration of farmer viability;
- Mechanisation, essential for productivity and transformation of agriculture;
- Irrigation development, to ensure utilisation of water bodies and mitigate drought;
- Capacity building, through support for agricultural institutions, training and extension services, strengthening of farmer organisations, as well as research;

- Agro-stockists and dealers, restoring the role of retail agricultural outlets and avoiding over-centralisation of procurement and distribution of inputs;
- Strategic grain reserves, that guarantee food security during poor agricultural seasons;
- Agro-distributors, to assist stabilise seasonal availability of perishable produce, that way also support produce price stabilisation.

Security of Tenure

516. STERP recognised the need to overcome all uncertainties undermining investment by farmers on allocated farms over concerns related to issues around security of tenure.

517. The nature of the present 99 – year leases introduced by Government for A2 model farmers does not adequately address this concern.

518. Long term sustainable viability of agriculture can only arise if there is security of tenure through among other instruments, leasehold title, land permits and private financing of agriculture as recognised in the Global Political Agreement (GPA).