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ZIMBABWE

THE 2011 MID-YEAR FISCAL POLICY REVIEW

"Riding the Storm: Economics in the Time of Challenges"

Presented to Parliament by

Hon. T. Biti; MP

Minister of Finance

26 July 2011

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Unless the Lord builds a house, the work of the builder is wasted.
Unless the Lord protects the city, guarding with sentries will do no good.

Psalms 127:1

INTRODUCTION

1. Mr Speaker Sir, Section 7 of the Public Finance Management Act [Chapter 22:19], reads as follows:

7(1) It shall be the duty of the Minister: –

a. To develop and implement a macro-economic and fiscal policy for Zimbabwe and he or she shall, for that purpose: –

i. Supervise and monitor the finances of Zimbabwe; and
ii. Coordinate international and inter-governmental financial and fiscal relations.

(2) For the purposes of the full discharge of the duties set out in subsection (1), the Minister shall ensure that:–

a. full and transparent accounts are from time to time and not less than annually made to Parliament *indicating the current and projected state of the economy, the public resources of Zimbabwe and the fiscal policy of the Government.*

2. Consistent with Section 7 (2)(a) above, and with precedent, I hereby present the 2011 Mid Year Fiscal Policy Review, which seeks to give progress on this year's fiscal and economic developments to June and the outlook to December 2011.

3. Mr Speaker Sir, the present Review is being made two years and 160 days into the life of the Inclusive Government that was ushered in by the Global Political Agreement (GPA), executed on 15 September 2008.

4. The GPA, in Article IV, committed itself to restoring macro-economic stability in the country, and in reviewing the performance of the first half of 2011, it is only fair to consider whether or not the Government has remained loyal to the dictates and imperator of Article IV of the GPA.

5. Mr Speaker Sir, allow me also at this juncture to acknowledge the launch of the Medium Term Plan (MTP) by Government on 7 July 2011. This will be an essential tool and campus in navigating the stormy waters of Zimbabwe's growth and recovery from 2011 – 2015.

6. Mr Speaker Sir, let me also from the onset indicate that, this year's Mid Year Fiscal Policy Review, marks a shift from previous reviews, which under the then unstable macro-economic environment took the mode of mini mid-year Budgets.

7. This follows the positive economic developments since 2009, which now anchor the prevailing stable macro-economic environment. We now have opportunity to revert back to embracing processes rooted to sustain the integrity of a 12 monthly planning and implementation cycle for the Budget.

8. Therefore, Mr Speaker Sir, this Review is not a Supplementary Budget but a sobering account on the current challenged state of our economy, with interventions that are necessary to ensure that we keep afloat for the remainder of the year.

9. Furthermore, to improve effectiveness and efficiency in budgetary processes, budget formulation will now take a three year planning horizon.

10. Consistent with this, Government is introducing the concept of a Budget Strategy Paper (BSP) as a prelude to the actual Budget. This will outline the broad budget policy framework for the medium term. Hence, the initial BSP will cover the period 2012 – 2014 and will be anchored on STERP and the Medium Term Plan.

11. Accordingly, the BSP is a tool meant to facilitate broader participation and in-depth debate on the national priority issues. This approach, unlike in previous years, allows more time for stakeholder participation during the consultative and formulation phases of the budget and, hence, enriching the budgeting system.

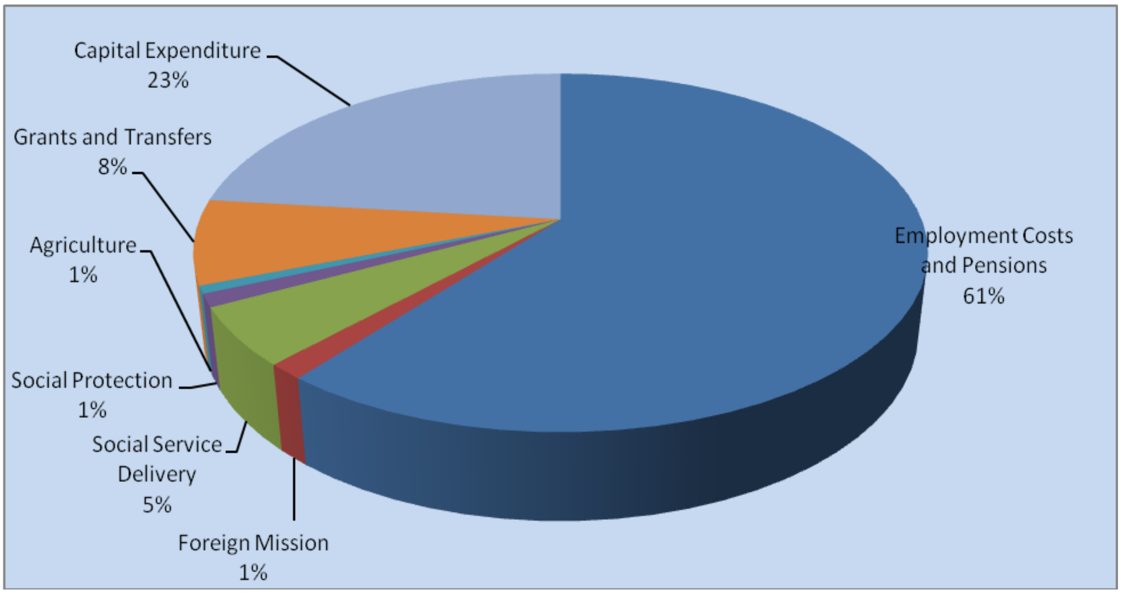
12. Mr Speaker Sir, I propose to launch our first Budget Strategy Paper for the coming year during early August, in this August House for debate by Parliament and by a wider range of our stakeholders once this has gone through Cabinet.

BACKGROUND: THE 2011 BUDGET THRUST

13. It will be recalled that on 14 December 2010 Parliament approved a US$2.746 billion Budget to be financed from domestic revenues. Table 2 below shows selected Provisions under this Budget:

Table 2: Selected 2011 Budget Provisions

Expenditure Item	US$ mil	Percentage of total Expenditure
Employment Costs and Pensions	1,441	61%
Foreign Mission	33.3	1%
Social Service Delivery	124.6	5%
Social Protection	27.8	1%
Agriculture	16.6	1%
Grants and Transfers	181.6	8%
Capital	551	23%



14. The above expenditure allocations were premised on the imperator of **"creating a Fair Economy**". Thus our aspiration as a Nation should be to sculpture a Modern Democratic State whilst also dealing with issues of exclusion and marginalisation in development programmes.

15. Four issues were critical:

i. Implementation of supply side policies to resuscitate and increase sustainable growth and creation of jobs in the economy;
ii. Increasing expenditure on rehabilitation and maintenance of our infrastructure, also embracing rural development;
iii. Increasing expenditure on basic social services, particularly in health and education; and
iv. The execution of pro-poor economic development policies, integrating the participation of marginalised groups,

including the youth, women, people living with disabilities and HIV/AIDS.

16. Pursuant to the above, the 2011 Budget made it clear that the challenge was to **create a Shared Economy, Shared Development and Shared Transformation.** Three Ss and a T that would engender and mitigate the overwhelming sense of unfairness and exclusion prevailing in the economy.

17. Whilst we are on course to meet our revenue targets, it is fair to say that a number of structural challenges remain arresting our economy. At the epicentre of these challenges is the critical failure to appreciate that we can only spend that which we have. More importantly, is the lack of appreciation that supply side challenges and bottlenecks need to be resolved urgently to create a bigger and better economy, more capable of meeting the demands and expectations of the people of our country.

URGENT CHALLENGES

18. Mr Speaker Sir, allow me to expand on the key issues inhibiting the economy from moving forward and derailing the attainment of our fiscal targets. In my view, the following issues make the difference between our current levels of growth and a double digit growth rate:

- Political Environment;

- Absence of Fiscal Space & Alternative Financing Instruments;
- Lack of Implementation Capacity;
- Slow Pace of Reform; and
- Unsustainable Debt.

Political Environment

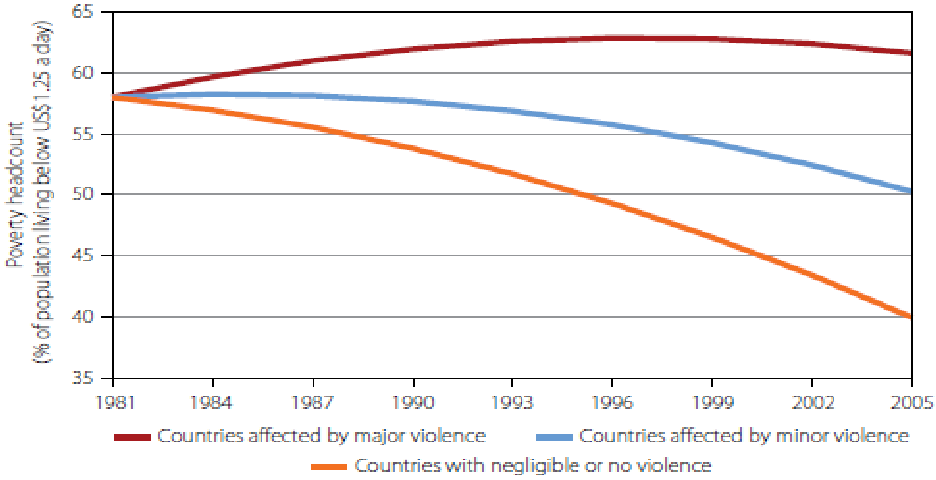
19. Political challenges surrounding the Inclusive Government and the slow or non-implementation of certain sections of the GPA have remained the number one nightmare. The fact that Zimbabwe continues to be a permanent agenda at SADC is bad enough.

20. Therefore, political issues are imposing serious shocks and pressures on our economy. More importantly, the same are reducing the planning horizon, creating the matrix of policy inconsistencies and double-speak as well as compounding country risk.

21. Political conflict, violence and discord impose a tax on a country's development.

22. This reality can be drawn from the history and experience where throughout the 1980s, countries that were affected by conflict and violence lagged in poverty reduction by 8% and those that experienced major violence by 16%.

23. The widening gap in poverty between countries affected by violence and those not experiencing violence is shown in the graph below:



24. In our case, Mr Speaker Sir, between 2000 and 2008, Zimbabwe cumulatively lost about 40% of its GDP and hence descended from being the second strongest economy in 1996 in terms of GDP in the SADC region to eleventh. This clearly highlights the extent to which political conflict has cost us.

Fiscal Space & Alternative Financing

25. Mr Speaker Sir, Zimbabwe continues to suffer from the trilemma of high demand, huge expectations and weak fiscal space – a paradox often faced by fragile states.

26. The financial pressures on the Budget for 2011 precede the July 2011 salary increase. In reality, at its inception, the 2011 Budget

was already facing a myriad of arrears on debt and to service providers in addition to various other demands.

27. Regarding civil service salaries, Government is aware of the current low wage levels for our civil servants and, therefore, recognises the need to adequately remunerate them in order that they meet their basic needs.

28. This notwithstanding, a wage bill absorbing 70% of the total Budget clearly leaves little room for the 13 million Zimbabweans looking for support from this same Budget.

29. The huge demands and expectations on the Budget are against domestic revenue collection rates, which by international standards are already at peak levels of over 30% of GDP, implying limited fiscal space.

Comparison of Revenue as % of GDP for Selected Sub-Saharan African Countries

	1985-1990	1991-1996	1985-1996
Zimbabwe	32.4	30.9	31.6
South Africa	24.4	25	24.7
Kenya	19.9	22.7	21.3
Malawi	18.6	17	17.8
Zambia	18.1	16.2	17
Mozambique	16.2	17.4	16.8
Tanzania	14.3	12	13.2
Nigeria	13.7	12.5	13.1
Ghana	11.6	14.2	12.9
Ethiopia	12.2	8.5	10.4
Rwanda	9.9	7.6	8.8

Uganda	5.8	7.8	6.8
Sub-Saharan Africa un-weighted averages	17.3	16.4	16.9
Oil-producing countries	20	18.2	19.1
Non-oil production countries	16.9	16.2	16.6

	2005	2006	2007	2008	2009	2010
Zimbabwe	18.3	10.5	4	3.3	17.3	30
South Africa	26.8	27.7	28.4	29.4	27.5	27.2
Kenya	21.2	21.1	22	22.1	22.8	23
Malawi	19.2	17.7	19.4	20.9	22.3	25.3
Zambia	17.6	17.2	18.4	18.6	16	17.2
Mozambique	14.1	15	15.9	16	17.8	18.8
Tanzania	13.3	15.3	17.4	17.3	17	17.7
Nigeria	37.9	33.9	28.4	32.8	19.9	25.8
Ghana	21.8	21.9	22.7	23	22.7	25.5
Ethiopia	14.6	14.8	12.7	12	12	13.4
Rwanda	12.5	12.1	12.3	14.9	12.8	12.8
Uganda	12.2	12.5	12.6	12.8	12.5	12.7

30. The limited fiscal space is also against a background of limited investment, leaving Zimbabwe largely relying on its own resources for capitalisation.

31. Furthermore, the country remains in the unenviable situation whereby the level of development assistance not only falls short of the levels enjoyed by other developing countries but largely remains outside the Government system.

32. Therefore, in my previous Budget Statements, I expressed the importance of channelling external development assistance through the Budget Vote of Credit in order to make it more effective.

33. Notwithstanding the above, the Inclusive Government appreciates the support our Development Partners have continued to pledge and disburse financial support towards various sectors of the economy.

34. Mr Speaker Sir, given the limited alternative sources of revenue, domestic revenue on their own cannot sustain Government's multitude of requirements. Containing and managing wastage and leakages in Government expenditure together with reprioritising and enhancing efficiencies of public expenditures are, therefore, critical.

35. Furthermore, Mr Speaker Sir, the 2011 Budget emphasised on transparency in the mining and sale of diamonds in order to obviate false expectations and public alarm over the extent of the perceived leakages.

36. The current fiscal challenges and the wage pressures have made this economy overly reliant on fresh diamond revenues. In this regard, it is important that there is a proper legitimate legal framework dealing with diamond revenue.

37. This should be consistent with the Constitution, the Public Finance Management Act and other laws of Zimbabwe, which demand that all public resources and income be accounted for through the Consolidated Revenue Fund.

Implementation Capacity

38. Inadequate implementation capacity remains one of the critical challenges facing the country. Years of political conflict and stagnation have destroyed the country's institutional and human resource capacity.

39. The 2011 Africa Capacity Building Foundation Indicators for Zimbabwe identifies a set of sixteen key capacity indicators with low scores. These include, among others, integration of capacity development, level of legitimacy of national development strategy, effective dialogue mechanism, existence of national statistics, agricultural policy, aid effectiveness, gender equality mainstreaming, social inclusion and capacity profiling.

40. Consistent with the above report, the Mid Term Implementation Progress Report of the Government Work Programme (GWP) presented by the Right Honourable Prime Minister on the 8^{th} July 2011 also indicated that the overall implementation of the GWP critical path targets ranged between 20% to 25% of the annual implementation target, compared to 35% and 40% for the same period in 2010.

41. This is also demonstrated by the fact that even where Treasury has provided resources, the execution and uptake levels for some capital and social projects remain low.

42. It is, therefore, important to rebuild institutions, and take a conscious approach in rebuilding the country's capacity. Investing in education and research capacity will be critical.

Pace of Reforms

43. In the 2011 Budget and indeed in the Government Work Programme, commitment was made to embark on major reforms in critical areas of our economy with a view of rationalising and modernising the same.

44. Areas of reform, among others, included execution of a progressive legislative agenda, rationalisation of the public service, including implementation of the Pay Roll and Skills Audit report which had identified 75 000 employees with void or voidable contracts of employment, as well as public enterprises reforms.

45. To date, there is hardly movement on any of the above issues save for the privatisation of Zimbabwe Iron and Steel Company and the unbundling of NOCZIM.

46. Therefore, moving with speed in the implementation of agreed reforms becomes critical. For example, acting on the Pay Roll and Skills Audit in order to establish genuine Government workers is critical not only with its help to free up fiscal space but it will allow Government to reward its genuine employees more decently.

Unsustainable Debt

47. The size of Zimbabwe's external debt at over US$7 billion has become a serious developmental constraint for the economy. With the continued build up in external arrears, the level of external debt implies that the country is now in debt distress and cannot leverage new financial support from both bilateral and multilateral sources. The economy cannot also sustain any new non-concessional borrowings.

MACRO-ECONOMIC DEVELOPMENTS & 2011 OUTLOOK

Real Sector

48. Mr Speaker Sir, Honourable Members will recall that the 2011 Budget projected economic growth of about 9.3%.

49. I am pleased to report that economic growth remains on course, driven by robust performance of agriculture and mining, with moderate contributions from tourism and manufacturing. Therefore, this makes Zimbabwe fall within the top ten performers in Africa in 2011.

Real GDP Growth Forecasts For 2011

GDP by Sector (%)	2009	2010 Est.	2011 Proj.
Real GDP	**5.7**	**8.1**	**9.3**
Agriculture, hunting and fishing	14.9	33.9	19.3

Mining and quarrying	8.5	47	44
Manufacturing	10.2	2.7	5.7
Electricity and water	1.9	1.5	2.5
Construction	2.1	1.5	1
Finance and insurance	4.5	0.5	2
Real estate	2	0.9	1
Distribution, hotels and restaurants	6.5	0.5	6
Transport and communication	2.2	0.1	5.5

Agriculture

50. Agriculture growth in 2011 remains in line with projections of 19.3%, largely attributed to better preparedness through support from Government and cooperating partners, timely availability of inputs through the open market, contract farming arrangements as well as own farmer resources.

51. A near normal rainfall season also contributed to this performance, although the asymmetrical rainfall pattern which depicted a prolonged dry spell in the second half reduced potential yields particularly for maize and cotton.

52. As a result, maize output increased by 9%, tobacco (44%), finger millet (34%) groundnuts (24%) and soya beans (20%) as illustrated in the Table below.

2010/11 Season Crop Production

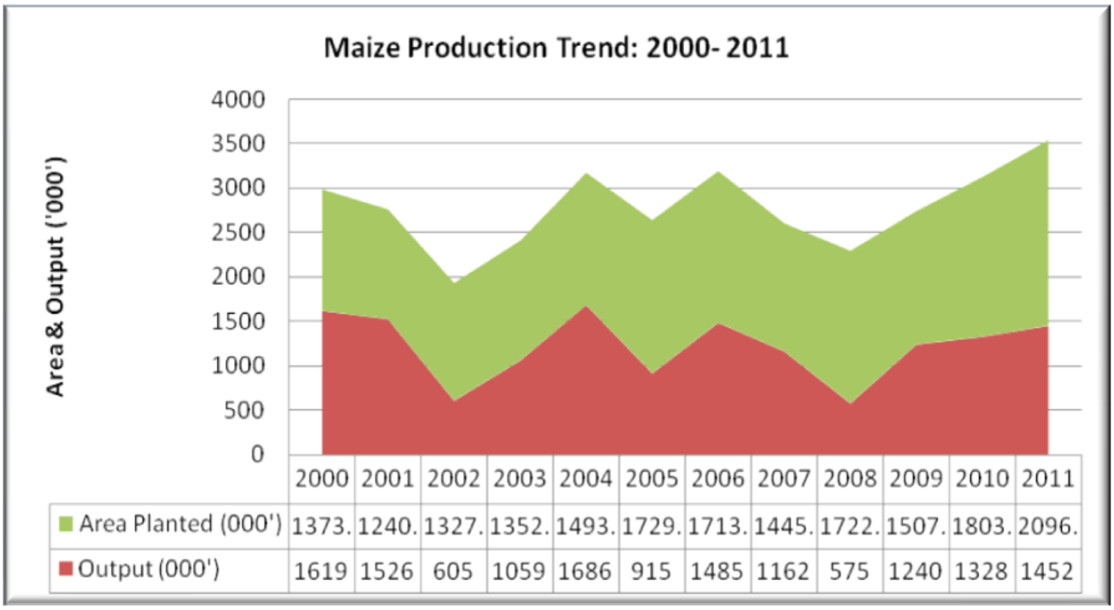
	Production (tons)		
Crop	**2010/2011**	**2009/2010**	**% Change**
Maize	1,451,629	1,327,572	9%
Finger Millet	16,627	12,403	34%
Groundnuts	230,475	186,214	24%

Tobacco	177,792	123,400	44%
Cotton	220,219	260,000	-15%
Soya beans	84,173	70,256	20%

Source: Second Round Crop & Livestock Assessment Report, Ministry of Agriculture

Maize

53. The Second Round Crop and Livestock Assessment Report indicates that maize output increased from 1 327 572 tons in 2009/2010 season to an estimated 1 451 629 tons during the 2010/2011 season. This is against the initial target of 1.5 million tons and total national maize requirements of 1.8 million tons.



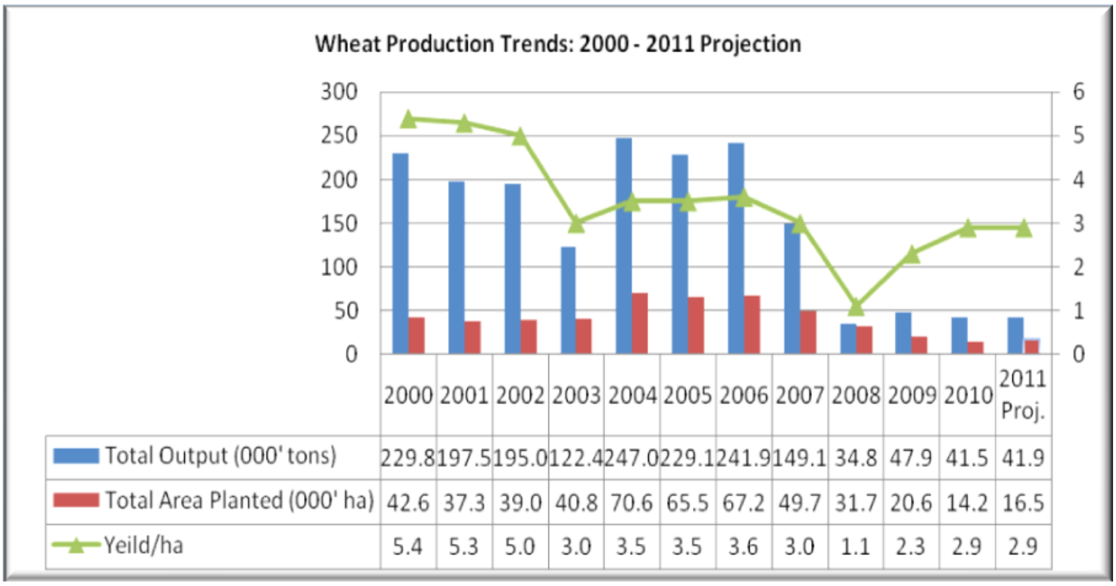
54. Of the total output, communal farmers accounted for the largest share of 43%, while large commercial and A2 farmers accounted for 4% and 20% respectively. The balance of 33% is attributable to A1 farmers (24%), old resettled farmers (5%), small scale commercial farmers (2%) and peri-urban farming (2%).

Contribution to Maize Production

Sector	2009/2010	2010/2011	2011 % Contribution	% Yield Change
Communal Areas	536,051	627,210	43%	17%
A1	296,964	357,408	24%	20.4%
A2	259,668	285,443	20%	9.9%
Old Resettlement	133,740	69,603	5%	-48%
Small Scale Commercial Farming Areas	40,454	29,909	2%	-26.1%
Large Scale Commercial Farms	60,695	56,704	4%	6.6%
Peri-Urban		31,522	2%	
Total	1,327,572	1,457,799	100%	9.8%

Wheat

55. Wheat production for 2011 season is targeted at about 130 500 tons from estimated 45 000 ha at an average yield of 2.9 tons per ha.



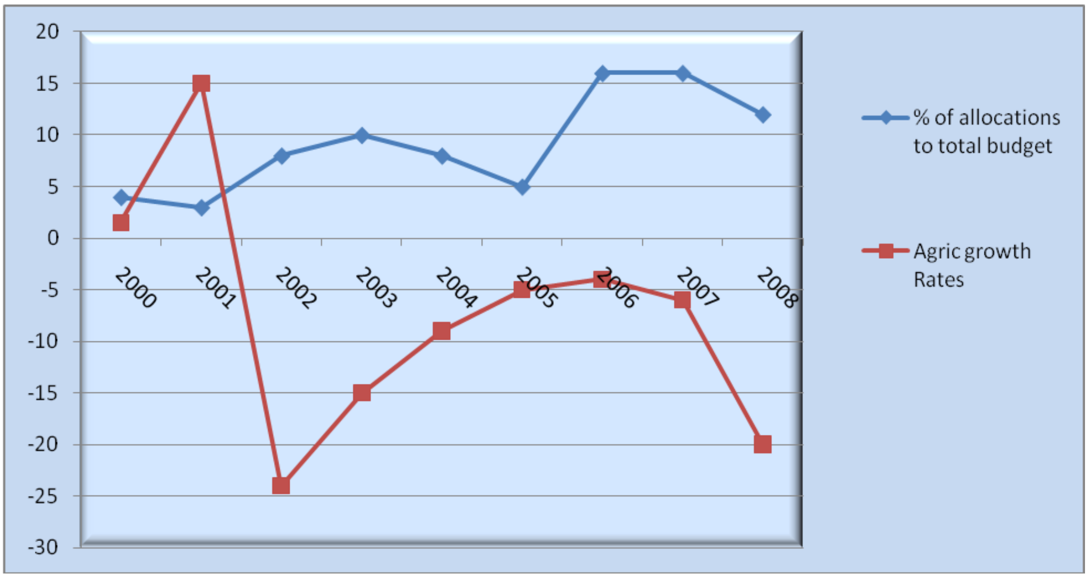
56. Winter wheat production, however, continues to face challenges related to financing, power cuts which disrupt irrigation schedules and damage from quelea birds. Based on preliminary estimates of

area planted of about 16 500 ha, output is projected at 42 000 tons in 2011.

Productivity

57. Over the years, huge resources were committed to agriculture without the requisite impact on production and productivity.

Growth in Budgetary Allocations to Agriculture vs Agricultural Growth Rates 2000 - 2008



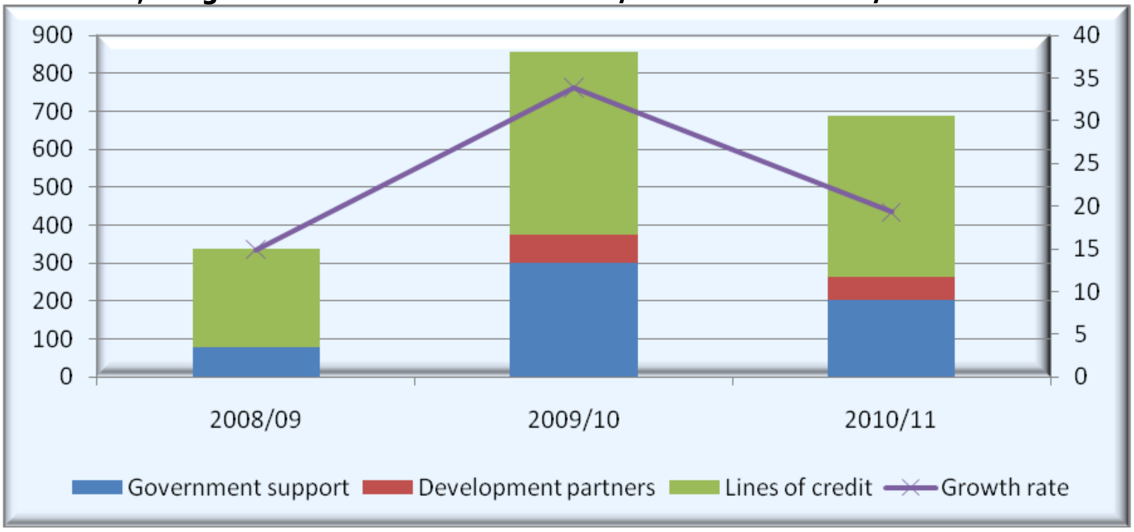
58. Between 2009 and 2011, the Inclusive Government together with international partners and private financiers have committed a total of US$1.9 billion into the agricultural sector. Budget support on its own has totalled US$552 million.

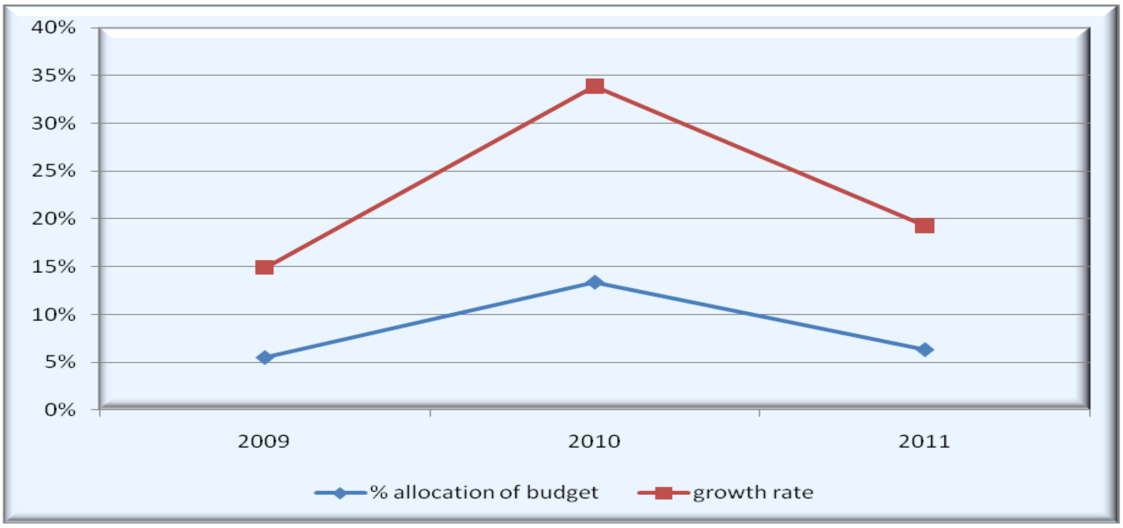
Support to Agriculture (US$)

Source of Funding	2008/09	2009/10	2010/11
Government support	79,040,040	300,206,439	172,730,737
Presidential facility			30,000,000
Development partners		74,000,000	60,000,000

Bank sector support	94,765,128	331,242,000	411,628,246
Lines of credit	162,746,635	150,379,749	14,500,000
Total	**336,551,803**	**855,828,188**	**688,858,983**
Total as % of Total Budget	*37*	*40*	*25*
Total as % of GDP	*6*	*13*	*8*

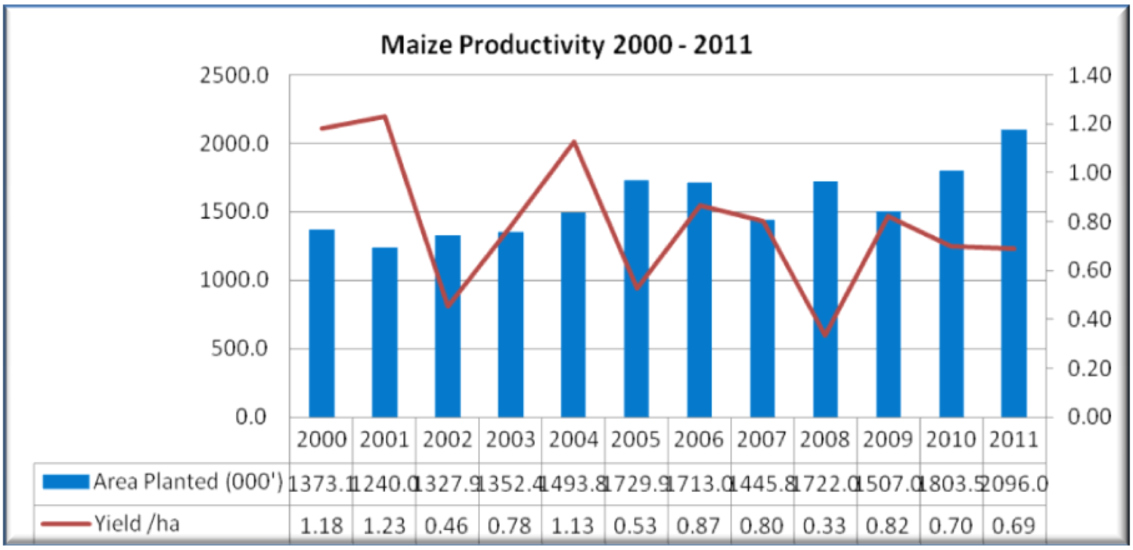
Support to Agriculture by Government, Development Partners & Private Financiers; & Agricultural Growth Rates: 2008/09 Season – 2010/11 Season





59. However, productivity for maize and wheat remains low compared to previous years and best international standards. Current maize yields averaging 0.7 tons per ha lag far behind best international yields of 8-12 tons per ha.

60. Similarly, current wheat yields of around 3 tons per ha are far behind the year 2000 yields of about 5.4 tons per ha and international yields of 8 tons per ha.



61. This, therefore, compromises the viability in maize and wheat production if international prices are applied.

62. It is, therefore, imperative to decisively address the structural challenges in our agriculture that are resulting in low productivity and wastage. The policy measures necessary to transform our agriculture have been laid out in various documents in particular the GPA, STERP and the MTP and relate to the obligation of creating a Comprehensive Agricultural Recovery Strategy (CARS).

63. Identified areas of intervention include:

- Finalisation of the Fast Track Land Reform Programme and the Land Audit;

- Defining the judicial framework governing property rights and in particular the restoration of the land market through a judiciary enforceable title;
- Development of Human Capital, infrastructure, biological capital and research including climate change;
- Strengthening use of technology including ICT;
- Establishing reliable and consistent private sector model of financing agriculture;
- Establishment of open commodity exchange markets for agricultural outputs; and
- Resolving the issues of compensation as defined in the GPA.

64. Complementing the above will be measures aimed at enhancing farmers' productivity through improvements in mechanisation, high yield seed varieties, use of fertilisers and chemicals, irrigation and provision of extension services.

Tobacco

65. Revised tobacco production stands at an estimated 177.8 million kg in 2011, up from the original target of 150 million kgs and 123.4 million kgs realised in 2010.

66. Since the opening of auction floors on 8 February 2011, a total of 120.1 million kgs was sold at an average price of US$2.73 per kg realising US$328.4 million by 30 June 2011.

67. This compares with 96.0 million kgs sold for US$284.7 million at an average price of US$2.96 per kg during the same period in 2010.

68. Tobacco production is set to further improve as more farmers join the sector attracted by viable prices.

Cotton

69. In 2011, the area under the cotton crop production increased from 338 270 ha to 379 689 ha. Average yield per hectare, however, declined from 0.7 tons per ha in 2010 to 0.58 tons per ha in 2011 translating into lower output of 220 219 tons.

70. Contract farming remains a major financing scheme for cotton production. However, incidences of side marketing activities by contracted farmers are threatening the existence of this financing scheme.

71. In the outlook, cotton production is set to increase owing to continued firming in the international prices which increased from an average of 150 cents per pound in the last quarter of 2010 to 207 cents per pound in the first quarter of 2011.

Livestock & Dairy Production

72. The 2011 National Budget prioritised livestock development targeting breeding and management, training of livestock farmers and strengthening of veterinary services. Accordingly, the 2011 National Budget set aside US$7 million to support livestock production in all categories from beef cattle to poultry.

73. During the 2010/2011 season, the calving rate was 45% up from 35% in 2009/2010, while kidding and lambing rates were at 108% and 43% respectively. This translated into an improved national herd as indicated in the table below:

Livestock Class	2010 Population	Current Population	2011 Target
Beef cattle	5 160 000	5 156 753	5 800 000
Sheep	391 000	502 205	470 000
Goats	3 321 000	3 072 850	4 000 000
Pigs	202 300	25 8091	380 000

74. The growth in livestock development is also reflected in the increase in beef production from average monthly slaughters of 36 000 in 2010 to an estimated 42 000 in 2011. If the trend continues, beef production for the year 2011 is estimated at 90 720 tons.

Dairy

75. Production in the industry peaked from 35.7 million litres realised in 2009 to 47.2 million litres in 2010. However, 2011 monthly production has slowed down to an average of 3.5 million litres per month from 4.5 million litres in December 2010. Therefore, milk

production in 2011 is expected to remain lower than the national annual demand of 96 million litres.

76. Major challenges include shortage of good quality breeding animals, forcing farmers to keep milking cows beyond their productive cycle. The use of obsolete milking equipment and disruptive electricity outages are also affecting the whole dairy production chain.

International Agriculture Commodity Prices

77. In general, prices of agricultural commodities continue to firm on the background of increasing demand in alternative uses of grain and other cereals particularly in bio-fuel production.

78. In 2011, wheat prices averaged US$330.5 per ton, up from an average price of US$283.6 per ton in 2010. Cotton prices also went up from an average of 150 cents per pound in the last quarter of 2010 to 207 cents per pound in the first quarter of 2011.

79. Similarly, maize prices which averaged US$186 per ton in 2010 shot up to an average of about US$283 per ton in the first quarter of 2011.

Actual Market Price for Agricultural Commodities

		Annual Average			2011Monthly Averages					
Commodities	Units	2008	2009	2010	Jan	Feb	Mar	Apr	May	Jun

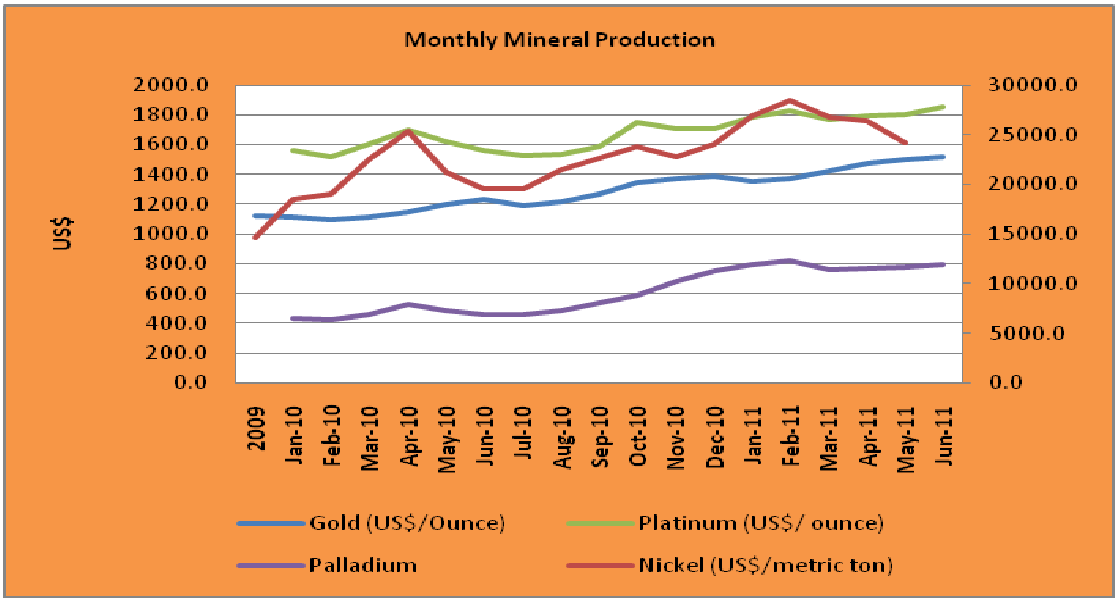
Wheat	$/MT	325.9	223.4	223.7	326.6	348.1	316.8	336.1	354.5	326.5
Maize	$/MT	223.2	165.5	186	265.3	293.4	290.4	318.7	308.6	310.5
Rice	$/MT	700.2	589.4	520.6	528.4	535.2	515.2	500.6	500.5	515.4
Barley	$/MT	200.5	128.4	158.4	195.1	196.4	202.5	208.7	208.7	210.2
Soybeans	$/MT	453.3	378.5	384.9	511.1	512.1	498.7	501.5	498.8	499.8
Groundnuts	$/MT	1567.7	994.6	1239.4	1568.6	1600	1600	1600	1659.1	1776.4
Beef	cts/lb	121.1	119.6	152.5	185.6	183.7	187.7	193	184.1	178.4
Pork	cts/lb	64.6	55.8	74.4	75	83.2	80.8	92.1	92.4	94.5
Poultry	cts/lb	84.6	85.6	85.8	85	85.1	86.1	86.4	86.5	86.9
Sugar (Free market)	cts/lb	12.5	18.2	20.9	29.7	29.3	25.9	23.9	21.9	24.9
Cotton	cts/lb	71.4	62.8	103.5	178.9	213.2	229.7	216.6	165.5	164.9

Source: International Actual Average Commodity Prices, IMF Data & Statistics

Mining

80. As international mineral prices continue to firm, supported by improved power supply arrangements with ZESA, output growth was strong in the first half of 2011, consolidating the mining sector's position as one of the major GDP growth drivers alongside agriculture.

81. The international prices for gold reached an all time high of around US$1500/ounce during the first half of 2011. Platinum prices also remained buoyant at around US$1800 during the same period.



82. As a result, the sectors' capacity utilisation is expected to increase from current levels of around 45 – 50% to reach 60% by year end, enabling mining to achieve its targeted growth of 34%.

83. Reflecting this, cumulative gold output to June 2011 stood at 5.5 tons, compared to 4 tons recorded during the same period in 2010, representing a positive change of 37.2%. This momentum is anticipated to be maintained resulting in the sector meeting its 2011 output target of 13 tons.

84. Similarly, annual platinum production in 2011 is projected to increase by 20% from 8 639 kg in 2010 to 12 000kg, benefiting from the coming onboard of Unki Mine.

85. The positive growth trajectory is also projected for all other minerals except for asbestos where there is no current production.

2011 Monthly Production

	2009	2010	Jan	Feb	Mar	April	May	June	Total June 2011	2011 Total Proj.
Gold/kg	4 966.0	9 620	827.6	796	893.2	990.9	1047.6	966	5 521.3	13 000
Nickel/t	4 857.5	6 133	601.1	519.6	643.2	736.6	657.1	700.8	3 858.4	8 400
Coal/t	1 606 315.0	2 668 183	190 185	148 979	233 354	210 910	235 115	230156.0	1 018 543	3 000 000
Asbestos/t	7 807.0	2 030	0	0	0	0	0	0	0	0
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Platinum/kg	6 848.1	8 639	840.8	702.6	862.9	984.4	935.9	978.7	5 305.3	12 000
Paladium/kg	5 354.9	6 916	659.7	545.4	686.3	770.3	725.3759.4	460.9	2 661.7	9 600
Diamonds/ carat	1 305 692.9	8 435 584	191 784	481 262	386 998	257 995	598 960.4	207 137.7	2 329 441.2	8 200 000
All Minerals										

86. With regards to asbestos, the re-opening of Shabani Mine is a critical imperator for the economy. It is a tragedy that Zvishavane is increasingly becoming a ghost town with upstream and downstream industries which depend on asbestos mining having now collapsed.

87. Therefore, the on-going legal disputes between the Government and the original shareholder must be resolved amicably in order to allow immediate commencement of production.

Challenges

88. The sad reality of Zimbabwe's mining sector in general is that the phenomenal growth is not translating into commensurate increased revenue for the fiscus as well as increased benefit into the economy.

89. A number of factors account for this. First, are the challenges of the industry associated with an over-accommodating tax structure.

Second, is the virtual absence of beneficiation and value addition in the economy. Third, is an obscure legal regime codified in the current Mines and Minerals Act.

90. Therefore, the long overdue amendments to the Mines and Minerals Act must be legislated.

Diamonds

91. Wherever rough diamonds exist and are not managed transparently and openly, they become a major source of suspicion, conflict and national dislocation. Put simply, there are times when resources, instead of being a blessing, can become a curse.

92. Zimbabwean diamonds continue to be arrested by problems associated with the Kimberly Process Certification Scheme as well as internal issues of transparency and accountability.

93. In general terms, 18% of the alluvial diamonds mined at Marange are gem quality and 23% of Zimbabwe's kimberlite diamonds are gem quality. For the past 12 months, the price of gems has ranged between US$5 000 for top quality gems and US$1 300 for low grade gems. The average for industrial gems has been at least US$200.

94. The reality of Zimbabwe's situation is that there is no connection between Zimbabwe's income from diamonds, its output and international prices.

95. Between January and June 2011, Zimbabwe exported 716 958.50 carats from its alluvial diamond mines in Marange (Marange, 357.819.80 and Mbada, 359 138.70).

96. However, during the first half of 2011, only US$103.9 million of diamond export shipments was accounted for.

Monthly Rough Diamond Export Shipments (US$)

Month	2011	2010	Variance	% Variance
January	20,951,856	3,755,236	17,196,620	458
February	35,282,858	2,833,968	32,448,890	1145
March	21,624,124	1,370,000	20,254,124	1478
April	12,696,602	16,827,413	(4,130,810)	(24.6)
May	8,185,792	-	8,185,792	100
June	5,177,701	-	5,177,701	100
Total	**103,918,936**	**24,788,627**	**79,130,309**	**68.86**

Source: RBZ

97. Despite the huge production at Marange in 2011, no payment has been received by Treasury for income earned between 1 January and 30 June 2011. The only payment made in February 2011 was on account of 2010 diamond production.

98. It is, therefore, imperative and urgent that Government concludes its work on the Diamond Revenue Bill. This Bill will create a proper legal framework dealing with the audit trail of all diamond

revenue, its sharing and distribution, as well as the role of ZIMRA at both production and marketing levels.

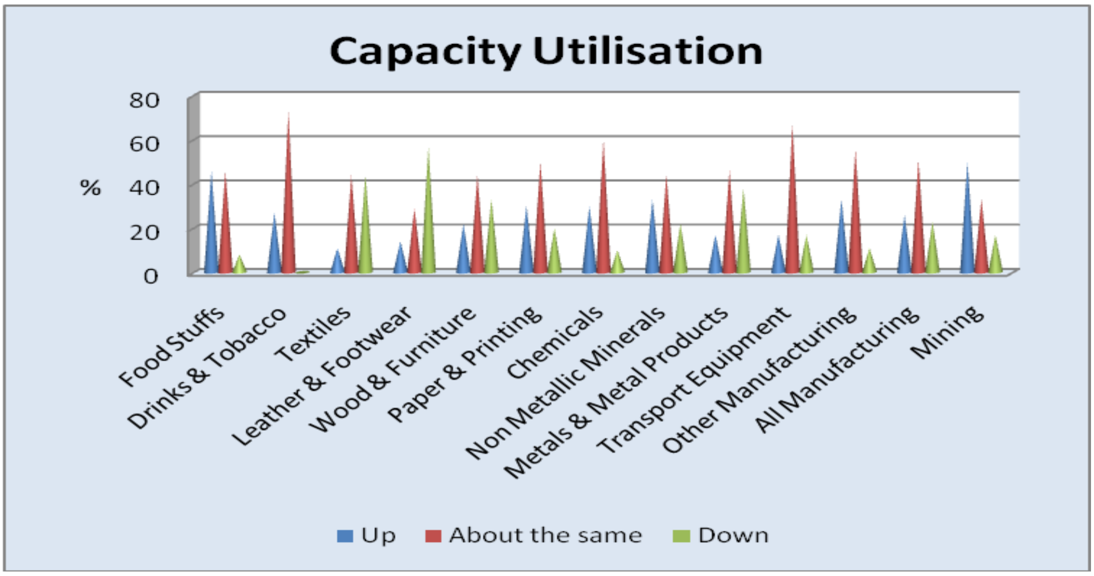
99. Furthermore, it is important that the international community recognises the compliance levels attained by Zimbabwean companies and hence accord Zimbabwe the right of selling its diamonds within the Kimberly Process Certification Framework.

Manufacturing

100. According to a recent ZIMSTAT survey, average capacity utilisation during the first half of 2011 remains within the 40-50% bound, reflecting high levels of idle capacity.

101. However, companies in the foodstuffs, drinks, beverages and tobacco, non-metallic minerals, mining and chemicals recorded slight improvements in capacity utilisation of over 50%, reflecting marginal investments in those sectors.

Industry Capacity Utilisation Trends: 2011



102. The major challenge facing industries in the manufacturing sector is lack of affordable working capital, in an environment of domestic liquidity constraints characterised by short term expensive loans against low external investment inflows.

103. The rest of the manufacturing sector continues to rely on expensive domestic loans for working capital in order to maintain current levels of capacity utilisation.

104. The hardest hit industries are the textiles, leather, wood processing and metals subsectors, which are failing to stand competition from imports.

Textile Industries

105. At its peak, the sector employed over 18 000 direct workers, consuming approximately 30 million kgs of locally grown cotton

and processing on average 2 million metres of cotton fabric a month. However, employment numbers have now dropped from 7 500 in 2010 and further to 3 000 workers in 2011.

106. Influx of imports, working capital constraints and obsolete equipment are major factors eroding competitiveness in the textile industry. Capacity utilisation has fallen further to 8% from the 2010 level of 30%.

107. In the Paper Printing and Packaging sector, most companies have closed down with only about 160 out of 217 companies being active. As a result, average capacity utilisation has fallen to 25% from the 30% realised in 2010.

Tourism

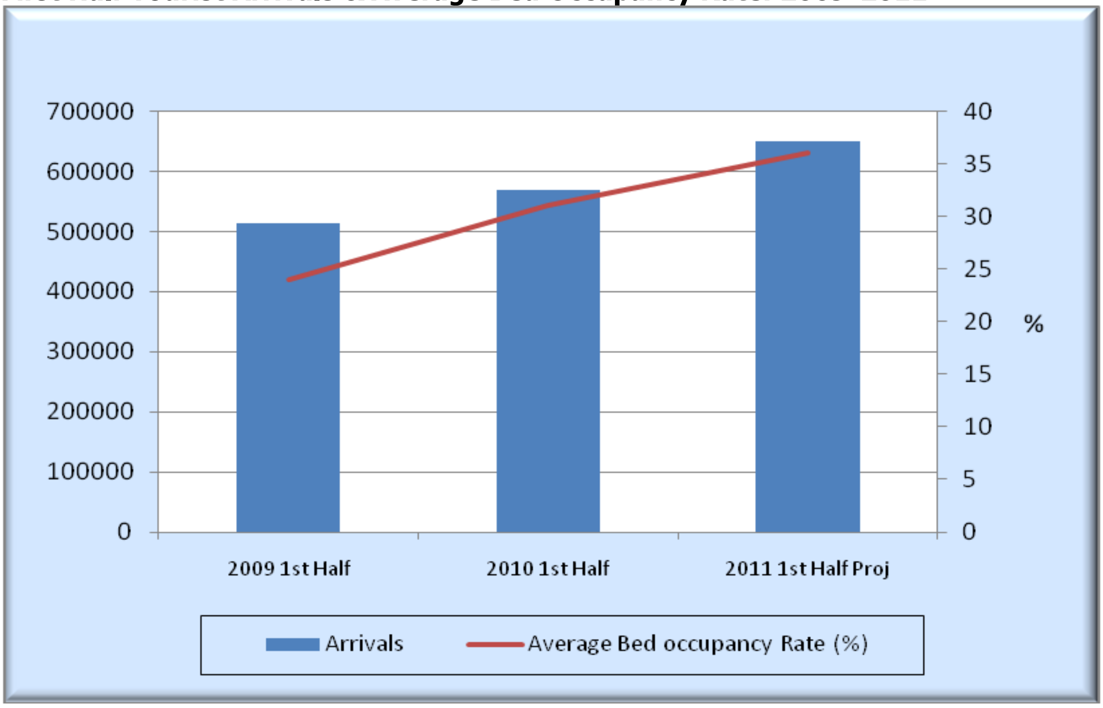
108. The tourism sector performed better during the first half of 2011 with tourist arrivals and bed occupancy rate having both registered a 14.3% growth when compared to the same period in 2010.

109. A total of 650 000 tourists visited the country during the first half of 2011 while average bed occupancy rate increased from 31% to 36%.

110. Lines of credit from Afreximbank and the PTA Bank to the tourism sector have allowed major hotels to embark on a refurbishment

programme and, hence, have improved standards in those hotels. The sector accessed US$11.85 million from the PTA bank and US$7.5 million from Afreximbank.

First Half Tourist Arrivals & Average Bed Occupancy Rate: 2009-2011



	2009	2010	2011
Arrivals	514 607	568 706	**650 000**
Average Bed occupancy (%)	24	31	**36**

111. Tourism performance could have been enhanced during the first half of 2011 had it not been for the challenges facing the national airline which constrained tourists mobility in the country. This is moreso, given delays in the implementation of the "Open Skies" policy, which allows operation of other airlines.

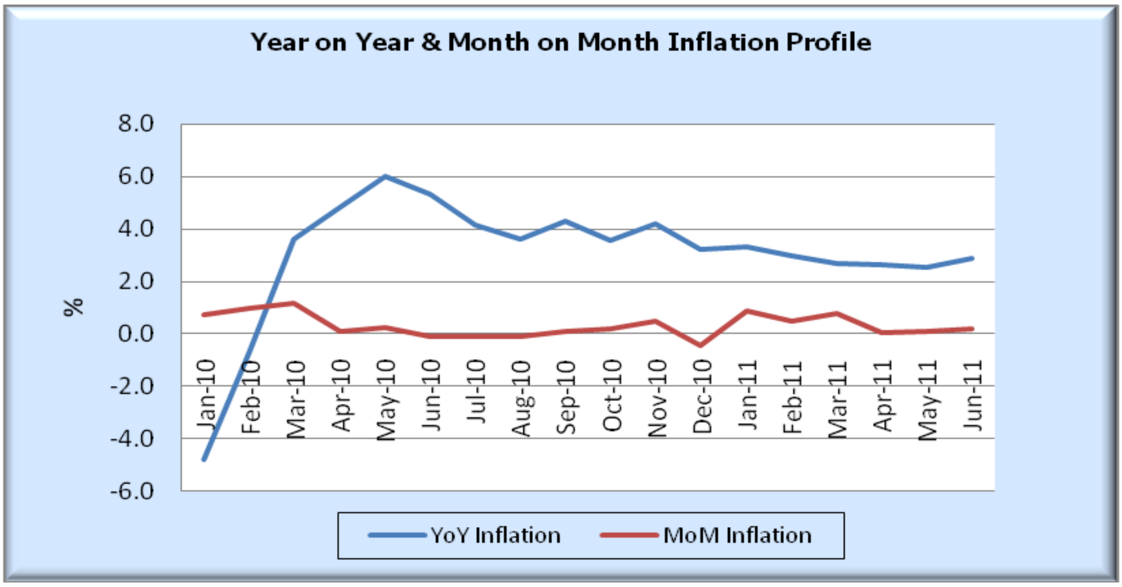
112. The year 2011 is expected to yield close to 2.4 million arrivals translating to an estimated 1.75 million arrivals in the second half of the year which is generally the peak season for tourism.

113. This growth will be underpinned by a targeted marketing approach already being implemented by Zimbabwe Tourism Authority and initiated by other players in the sector.

Prices

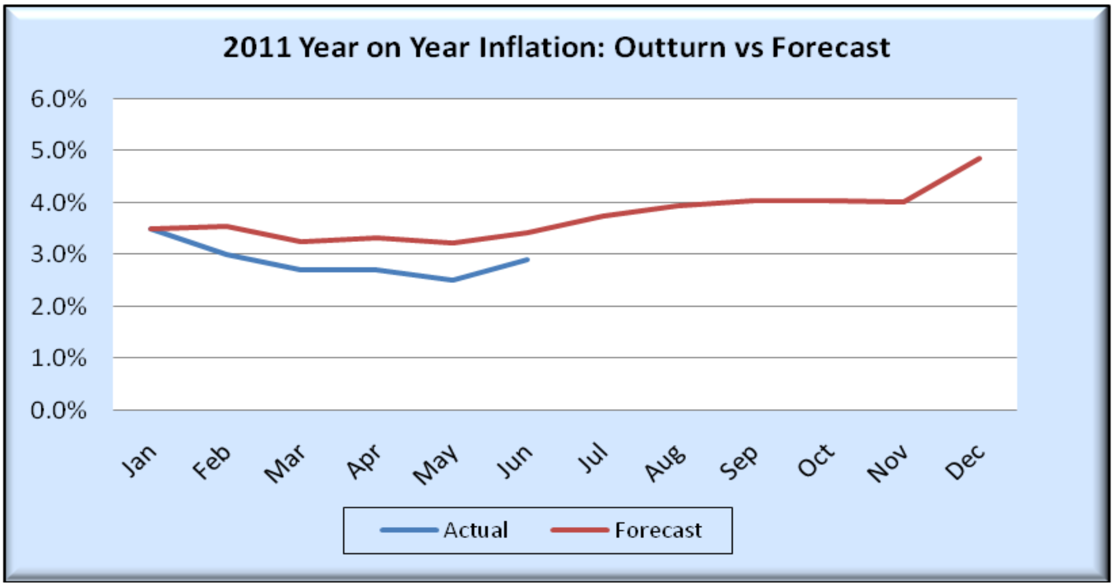
114. A moderate inflation rate of around 4-5% is targeted for 2011, anchored on continued use of multiple currencies and increasing production capacities of the industries.

115. During the first half of 2011, year on year inflation declined from 3.5% in January to 3.0% in February. In March and April inflation dropped to 2.7% before further decelerating to 2.5% in May. However, inflation marginally peaked at 2.9% in June 2011. This performance is in line with the SADC and COMESA inflation targets of single digit levels.



116. The marginal increase of inflation in June was related to price adjustments in rentals, medical products, domestic services and alcoholic beverages.

117. In the outlook, indications are that inflation will remain below 5%, assuming limited impact from exogenous shocks such as fuel prices and rand appreciation as well as containment of domestic costs particularly the wage bill.



SADC Inflation

118. As already alluded above, Zimbabwe's inflation levels, if maintained, will enhance the country's competitiveness. Currently, Zimbabwe has the lowest inflation at below 3% in the region as indicated below:

Year on Year Inflation for selected SADC countries (%): 2011

Country	Jan	Feb	Mar	Apr	May	Jun
Angola	15.3	15.1	14.8..	14.63	n/a	n/a
Botswana	7.5	8.5	8.5	8.2	8.3	7.9
Lesotho	3.1	3.2	4.5	4.1	4.3	n/a
Malawi	6.6	7.0	7.2	7.1	7.0	n/a
Mauritius	6.4	6.8	7.2	4.4	4.8	5.1
Mozambique	16.5	15.23	13.8	12.77	11.8	10
Namibia	3.5	3.1	3.8	4.8	5.2	5.4
South Africa	3.7	3.6	4.0	4.1	4.6	5.0
Swaziland	4.4	5.4	4.3	6.65	7.1	6.4
Tanzania	6.4	7.5	8.0	8.8	9.7	10.9
Zambia	9.0	9.0	8.8	8.9	9.0	9.0
Zimbabwe	3.5	3.0	2.7	2.7	2.5	2.9

Financial Sector

Banking Sector

119. The overall banking system remains sound. However, a few banks still face some challenges associated with under-capitalisation, unsustainable levels of non-performing loans, the short-term nature of deposits and liquidity constraints.

Bank Capitalisation

120. As at 30 April 2011, 20 out of 25 banking institutions (excluding POSB) were in compliance with the prescribed minimum paid up capital requirements. Out of the 5 non complying banks, 3 are critically undercapitalised.

121. The deadline for compliance was 31 March 2011. However, those banks which were courting investors and had the potential to

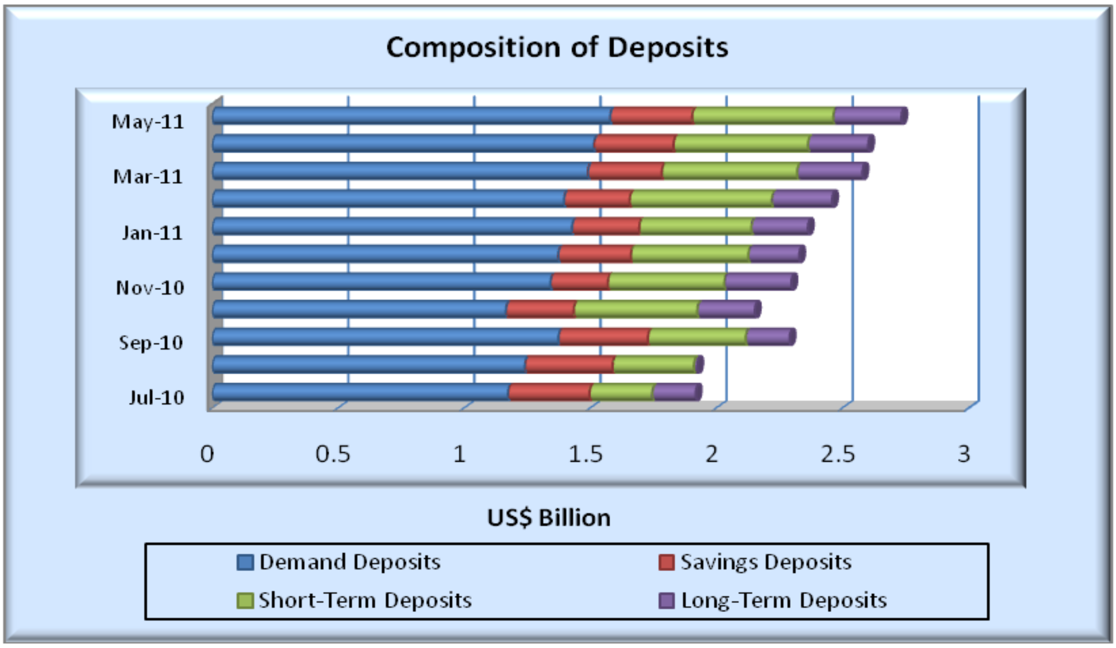
comply were granted extensions to September 2012 by the Reserve Bank.

122. With regards to critically undercapitalised banks, the Reserve Bank is working on a road-map whose details will be availed by the Governor in his Monetary Policy Statement. The road-map will give an outline of short-term measures as well as medium to long-term strategies for addressing capitalisation issues as well as dealing with vulnerabilities in the banking sector.

Deposit Base

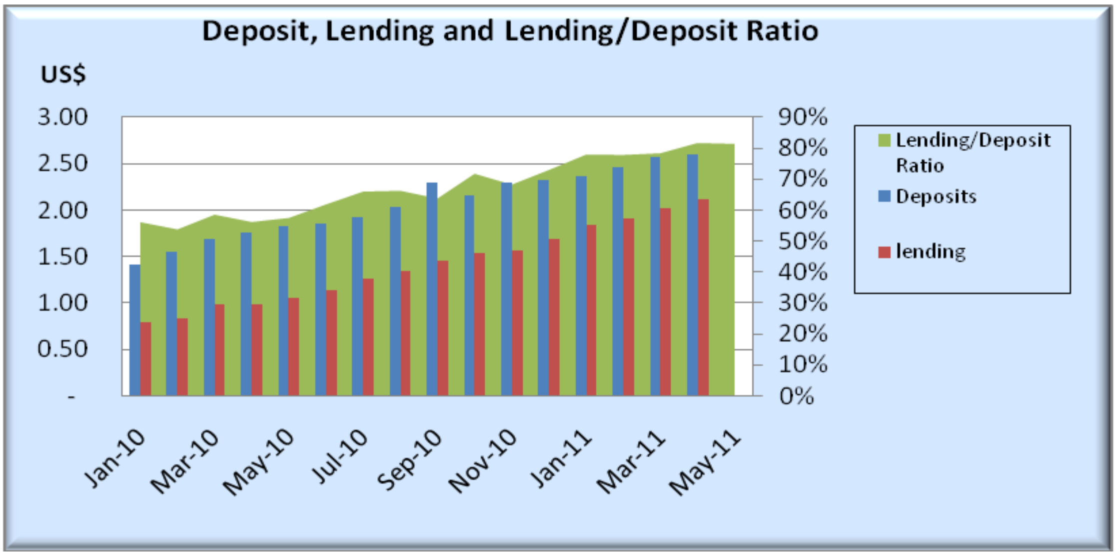
123. Deposits in the financial sector increased from US$2.36 billion in January to US$2.85 billion in May 2011. This increase is consistent with projected growth in economic activity, particularly in mining and agriculture.

124. However, deposits remained highly volatile with short term deposits accounting for 90.8% of total deposits, hence, there is a mismatch between the short term deposits and the medium to long term financing requirements by industry.

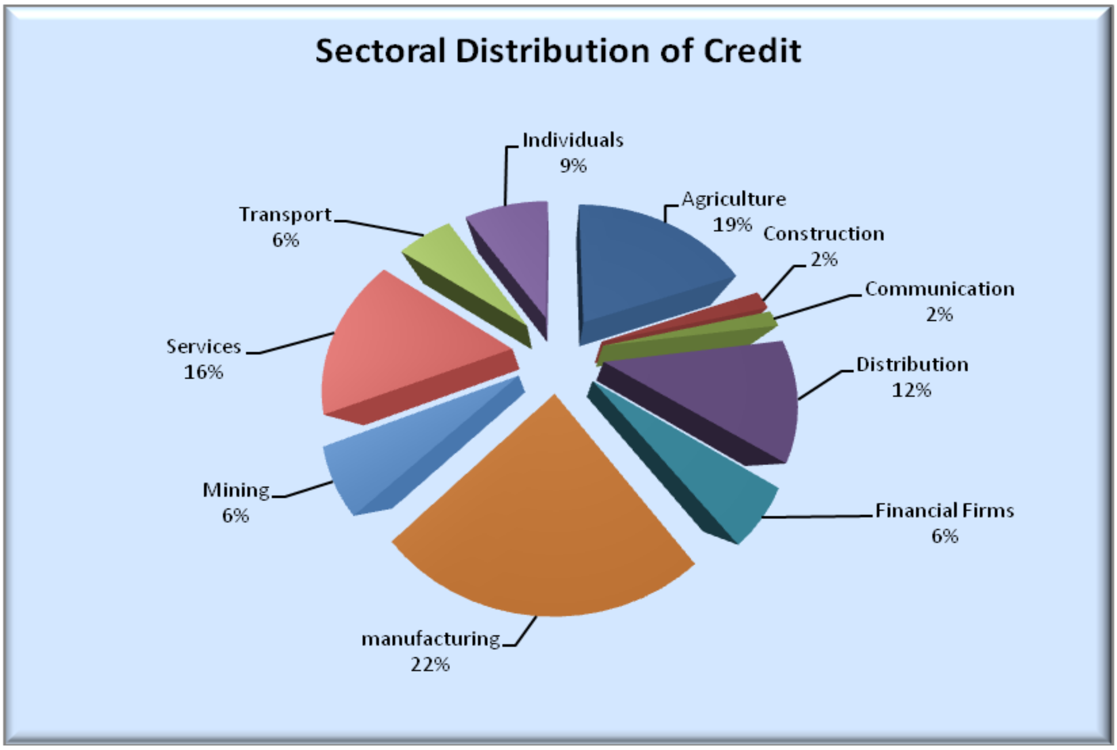


Bank Lending

125. Total loans and advances for the same period, amounted to US$2.01 billion compared to the June 2010 figure of US$1.09 billion. This translates into a loan to deposit ratio of 71.4% against international standards of 70-90%.

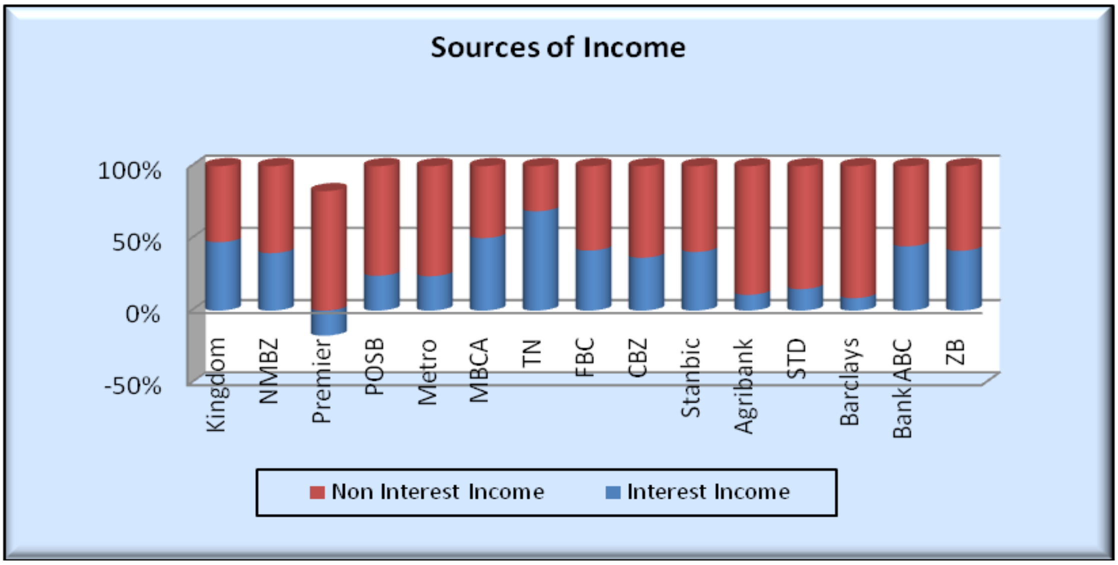


126. Of the total lending, 20.41% was channelled towards agriculture, 19.63% to manufacturing, services (18.37%), distribution (13.24%) with 28.34% going to individuals, mining, construction, financial firms, transport and communication.



127. Notwithstanding the above high lending ratio, interest income remains low contributing on average only about 33% with the remainder being non-interest income. This is a result of lower drawdown of approved loans in view of high lending rates of between 15% – 40%.

128. High interest rates are also a major risk factor to the increasing rate of non-performing loans currently averaging 37% and, hence, contributing to increased vulnerability in the financial sector.



Securities Market

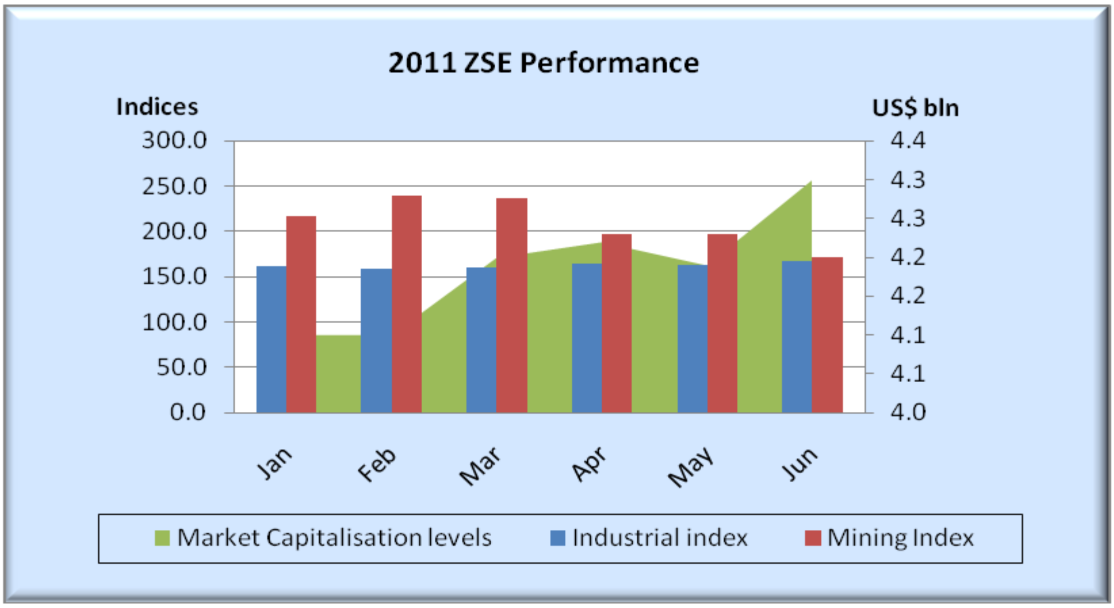
129. The securities market remains thin, dominated by the Zimbabwe Stock Exchange, which has been subdued owing to liquidity challenges. The local market during the review period was, therefore, largely driven by foreign investors, whose participation continue to rise steadily from 22.42% in January, 52.97 % in March and peaking at 71% in May 2011.

Zimbabwe Stock Exchange

130. Trading at the local bourse for the first six months of the year has generally been depressed, with the industrial index starting off the year at 161.1, rising to 164.66 in April and closing the month of June at 167.32.

131. The Mining index opened the year at 216.82, peaked up at 239.08, before dropping to 197.47 in May 2011 and closing at 171.32 in June 2011. Mining was affected by perceived risks associated with the indigenisation and empowerment regulations.

132. Subdued trading in both the mining and industrial shares is reflecting through the market capitalisation which has been floating around US$4.1 billion and US$4.2 billion since the beginning of the year. June market capitalisation stood at US$4.3 billion.

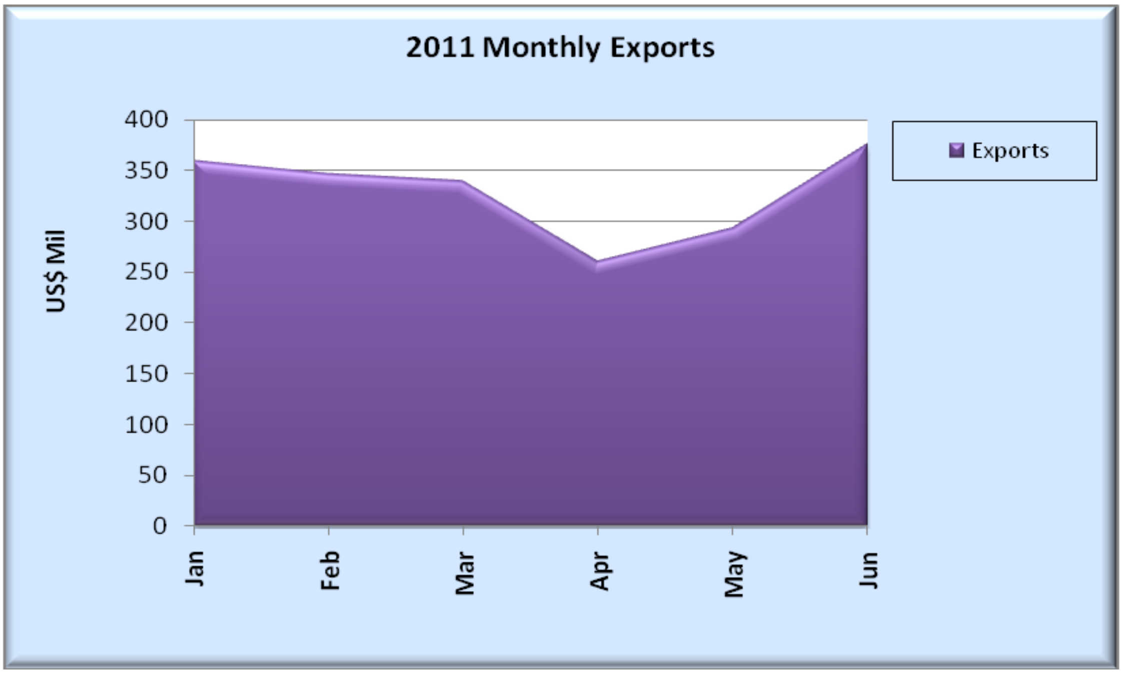


133. In the remainder of the year, slow growth is projected in both the mining and industrial index owing to subdued investor confidence.

External Sector

Exports

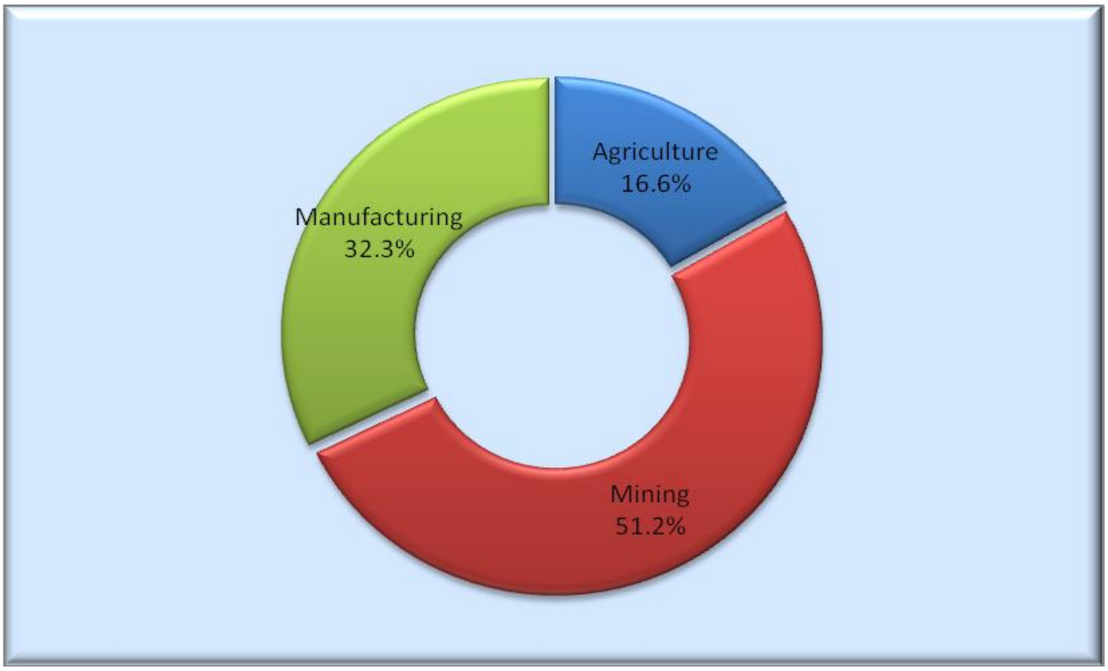
134. During the first half of 2011, exports increased by 56.5% to US$2.0 billion compared to US$1.3 billion over the same period in 2010. This improvement is attributed to the recovery of global demand, which also pushed up export prices.



135. Major mineral exports were gold, platinum, nickel and diamonds while tobacco and cotton contributed a bigger share of agricultural exports.

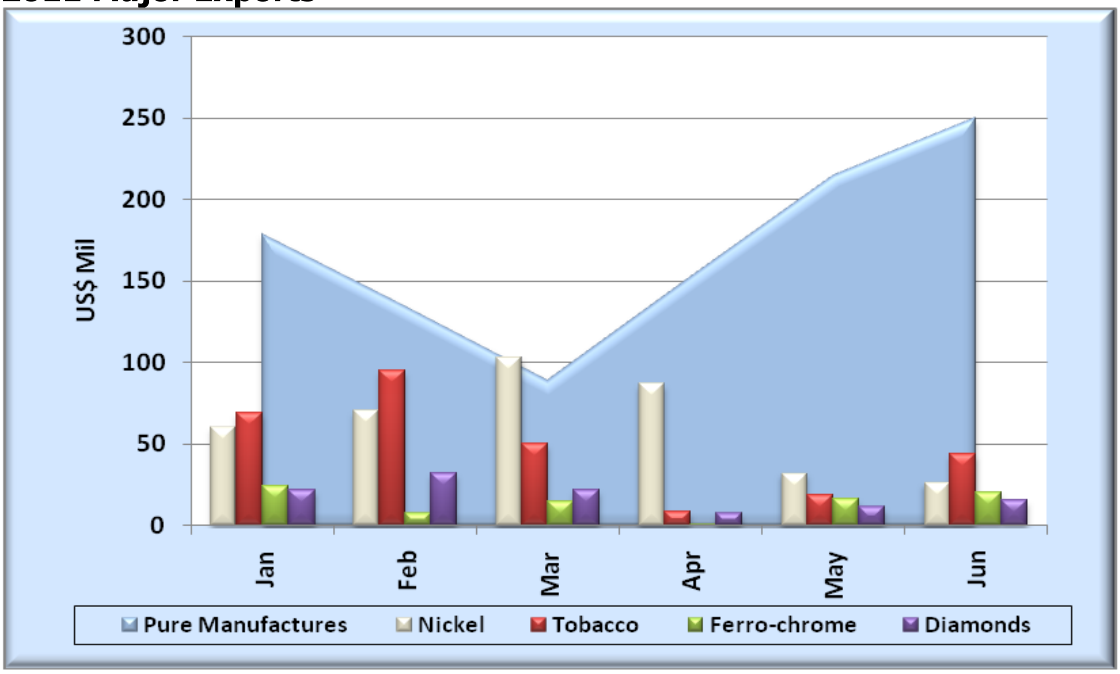
136. The manufactured exports are projected to be 32.3% of total exports by the end of 2011 and the major exported products would be high carbon ferrochrome, cotton lint and pure manufactures.

Exports Distribution



137. Therefore, it is evident that the country's exports are concentrated on primary commodities accounting for over 60% of the total exports. Reliance on a few primary commodities such as tobacco and gold increases the country's risks to external shocks. Hence, the promotion of beneficiation and value addition becomes critical.

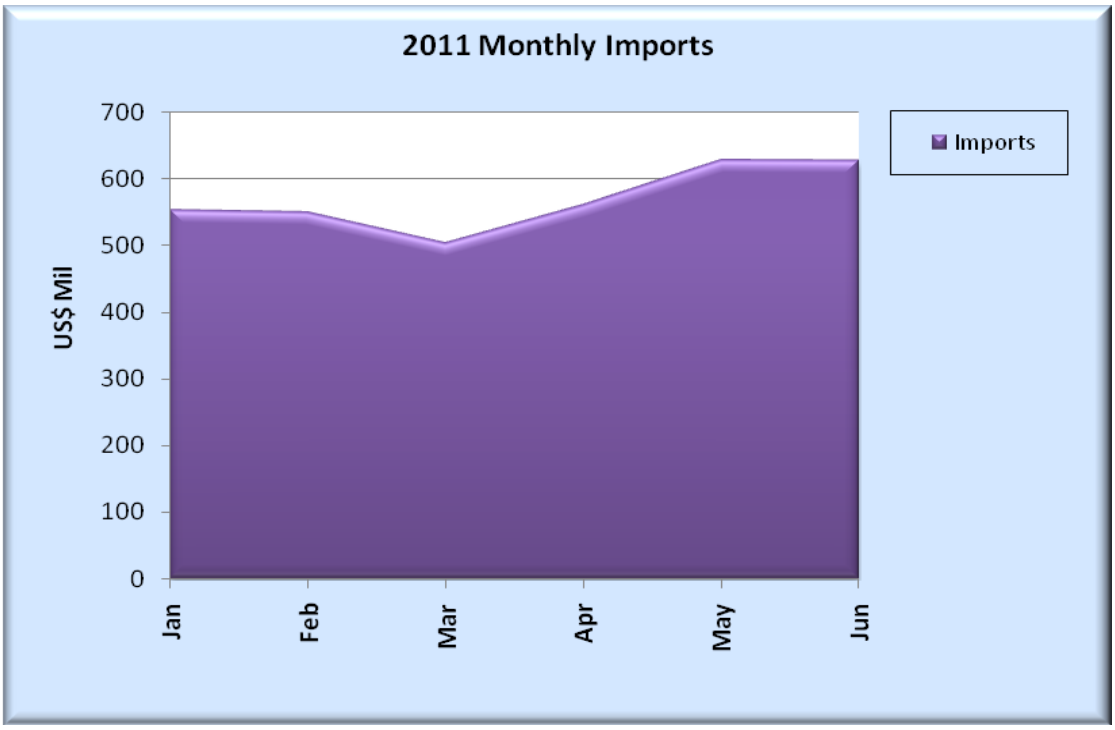
2011 Major Exports



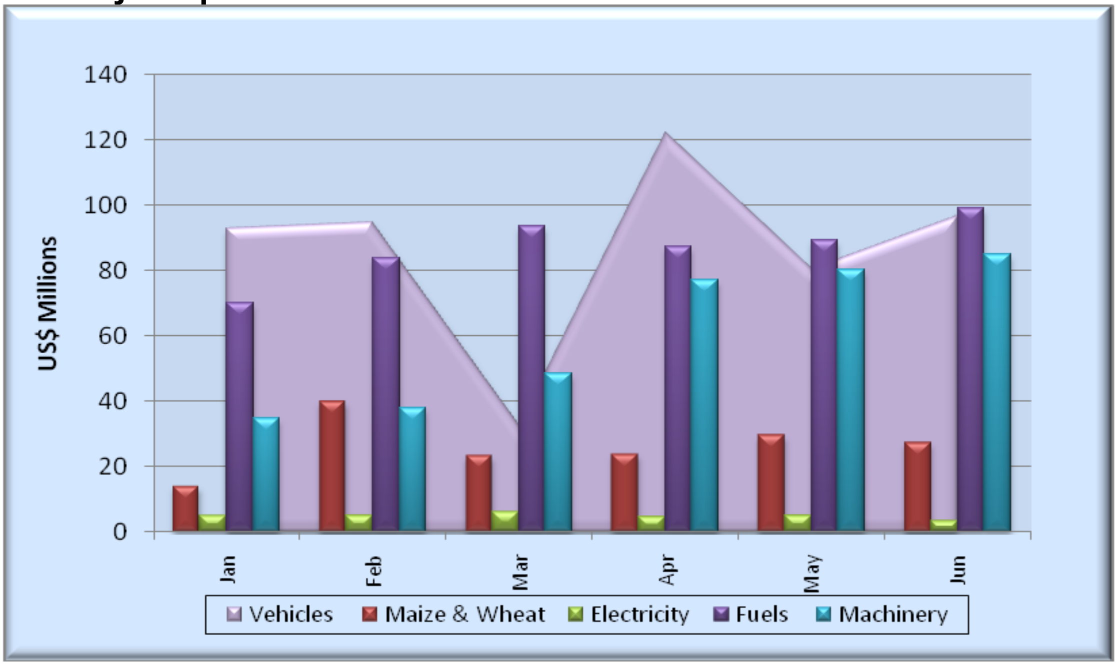
138. Total exports are projected to increase by 22.6% and reach US$4.1 billion by December 2011 from US$3.4 billion in 2010. The increase is being sustained by the growth momentum in agriculture, mining and manufacturing whose exports are also expected to increase by 15.5%, 30.6%, and 16.9% respectively.

Imports

139. Imports increased significantly by 32.9% during the first six months of 2011 from US$2.6 billion in 2010 to US$3.4 billion. The increase in imports reflects the influx of cheap imports of clothing and textiles, motor vehicles and machinery as well as rising crude oil prices.



2011 Major Imports

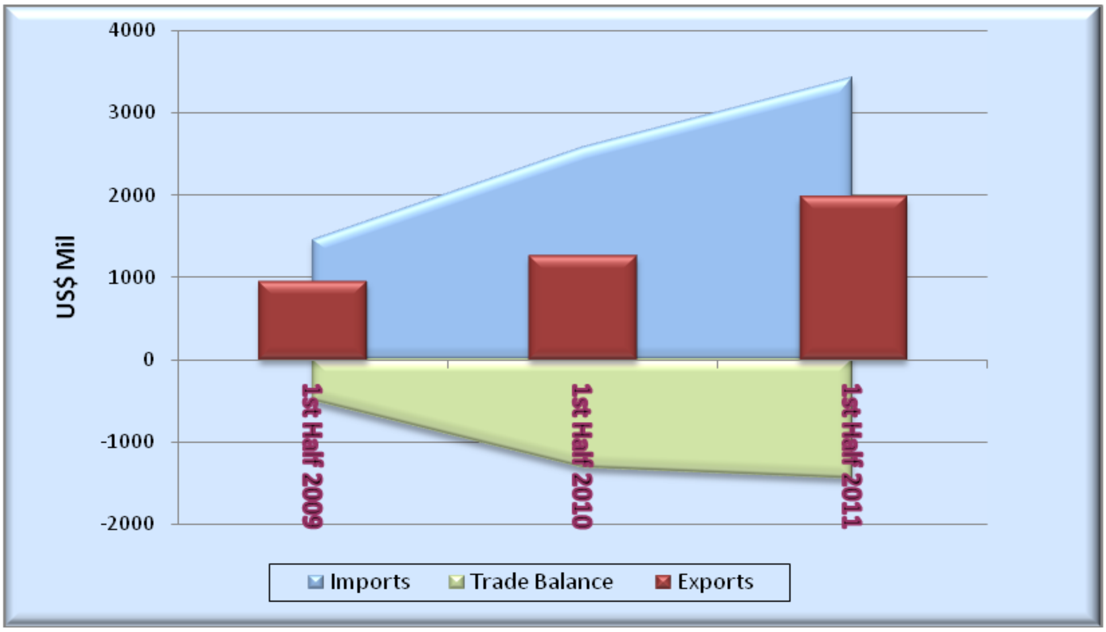


140. By the end of 2011, imports are projected to increase by 8.5% from their 2010 levels, as the country continues to absorb raw materials, intermediate goods and crude oil in a move to put the industry on the growth trajectory.

Trade and Current Account Balances

141. The trade balance during the period under review slightly widened from –US$1.3 billion in 2010 to –US$1.4 billion in 2011 as imports grew faster than exports. The widening of the trade balance can be attributed to fewer exports as a result of suppressed economic activity during the beginning of the year, which is synonymous with the business activity.

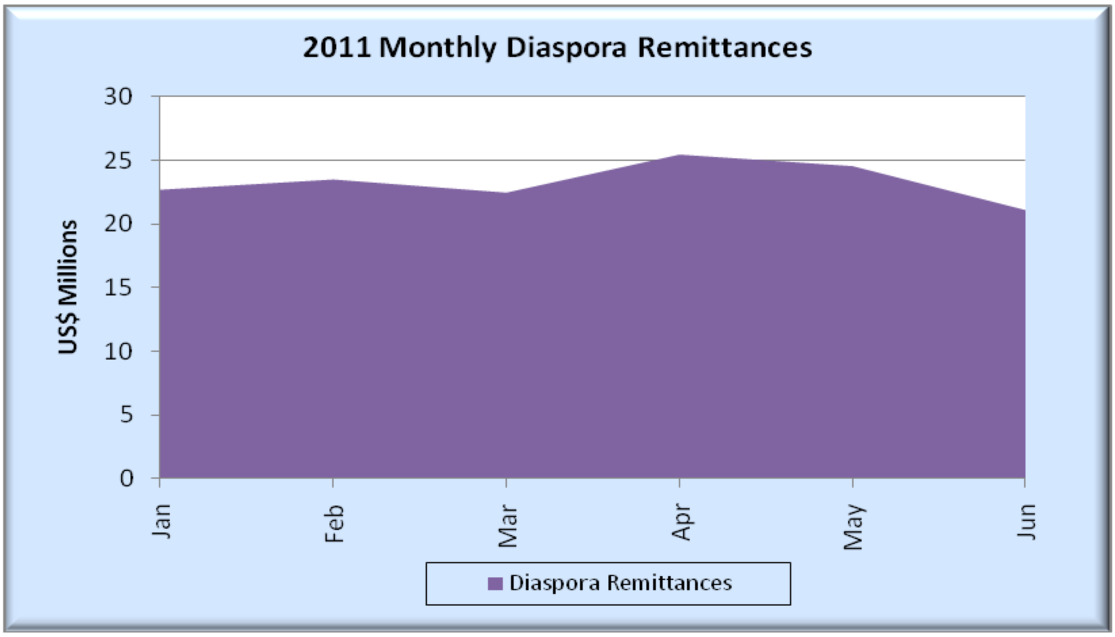
142. However, the trade balance is projected to improve in 2011 although remaining in deficit to -US$1.5 billion compared to -US$1.8 billion of 2010. Similarly, the current account is also expected to improve from -US$1.9 billion in 2010 to –US$1.6 billion in 2011. The improvements will benefit from improvements in business activity as the year progresses as well as commodity prices.



Remittances

143. Remittances from Zimbabweans in the diaspora are continually increasing since the introduction of the use of multiple currencies. This is attributed to the use of multiple currencies which eliminated the exchange rate distortions and encouraged non resident Zimbabweans to remit through the formal channels that are safer.

144. During the first half of the year, a total of US$139.6 million was remitted compared to US$115.7 million during the same period last year. These remittances have also become a major source for financing imports. Worldwide, worker remittances continue to improve as incomes in industrialised economies improve.



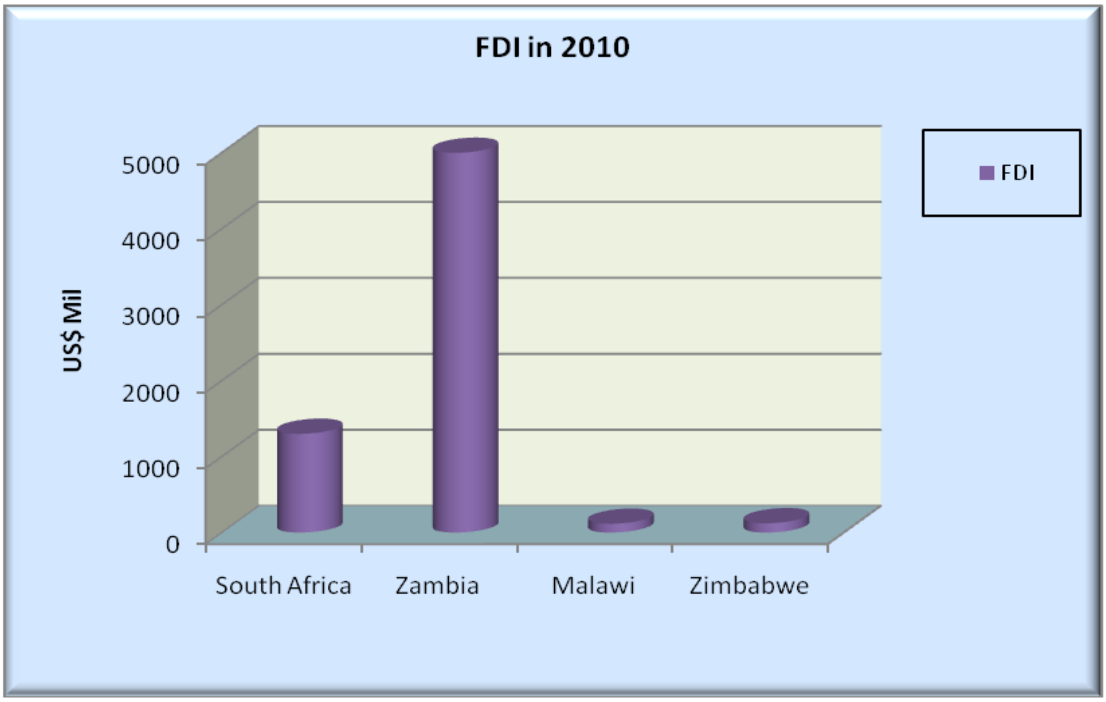
Foreign Direct Investment

145. Sustained economic growth requires significant non debt external inflows in form of foreign direct investment, to augment domestic resources. The ability of the country to attract foreign investment is being undermined by the high country risk profile.

146. However, Zimbabwe is not benefitting significantly from the recent surge in foreign direct investment flows into the sub-region. In

2011 FDI inflows into the country is projected at US$125 million from US$123 million in 2010. This is too low compared to the those received by other SAC countries as indicated below:

FDI in Selected Sub Saharan Africa Countries



Lines of Credit

147. Disbursements from approved facilities of about US$1.6 billion during the period January to June 2011 amounted to US$613.9 million. The distribution of the US$613.9 million among the various sectors was as follows:-

Sector	Approvals (US$ m)	Disbursements (US$ m)	Disbursements as a %
Manufacturing	290.03	52.72	8.59
Agriculture	439.83	172.83	28.15
Financial	283.84	20.34	3.31
Mining	250.86	88.00	14.34
Telecommunications	259.91	259.91	42.34

Distribution	44.00	20.08	3.27
Tourism	10.00	0	
Total	**1 578.47**	**613.88**	**100%**

148. The low uptake of lines of credit can be attributed to capacity issues, protracted approval processes by the lenders and the delays in fulfilling the conditions precedent by the local banks. There are instances where the processes have taken over 12 months to finalise and yet the facilities will have been announced as available to Zimbabwe.

Zimbabwe Economic Trade Revival Facility (ZETREF)

149. Following the signing of the Facility Agreement on 9 March 2011, the first batch of banks selected included BancABC (US$5 million), NMB (US$5 million), TN Banking Corporation (US$5 million) and FBC Banking Corporation (US$10 million).

150. To date, only FBC bank and NMB bank have submitted projects for funding. This has resulted in the disbursement of US$12.8 million to various sectors and regions of the country.

151. Government is, therefore, calling upon all selected banks to take advantage of this facility to assist their clients access affordable resources for their capital requirements.

Aid Flows

152. The 2011 National Budget projected aid support of US$500 million. However, during the course of the first half of the year, an additional US$118.3 million was pledged giving a total of US$618.3 million in donor support.

153. This support was targeted at programmes in the areas/sectors of health, agriculture, water & sanitation, social protection, technical assistance and governance.

154. To date, a total of US$142.5 million has been disbursed for various projects as indicated below.

Period	Pledges (US$ mil)	Amount Disbursed (US$ mil)	Targeted Sectors/ Programmes
2010	600.0	617.4	Sanitation, Social Protection, Technical Assistance & Governance
2011	618.3	142.5	

Programmatic Multi-Donor Trust Fund (Zim-Fund)

155. In order to facilitate and ensure continued emergency and urgent assistance to Zimbabwe, a number of cooperating partners established a Multi-Donor Trust Fund, also known as the Zim-Fund to provide additional resources required to continue with rehabilitation works in some key sectors of the economy.

156. As at 30 June 2011, the Zim-Fund had total pledges of US$72 million, of which US$57.6 million was redeemed to the Fund.

Statement of Zim-Fund Commitments and Disbursements as at 30 June 2011

COUNTRY	PLEDGES (in original currency of pledge)	REDEEMED Actual (US$)
Australia (FED Foreign Department)	A$ 10,000,000.00	10,070,040.00
Norway	NOK 41,000,000.00	7,073,818.00
Denmark	DKK 30,000,000.00	5,318,082.00
Sweden	SK 40,000,000.00	5,888,240.00
United Kingdom (UKaid)	£10,000,000.00	15,546,000.00
Germany (KfW)	US$ 26,200,000.00	13,769,937.00
TOTAL	US$72.06 million	**57,666,117.00**

157. Currently, the Zim-Fund is targeting two projects on water and sanitation and power generation.

158. The water and sanitation projects amount to US$30 million and will benefit municipalities of Harare, Masvingo, Mutare, Chegutu, Kwekwe and Chitungwiza. This will finance rehabilitation of critical installations including pumping stations, electro-mechanical works, treatment plants, and water supply distribution system, trunk and outfall sewers, booster pump stations and treatment and effluent disposal facilities.

159. Similarly, about US$35 million is earmarked to finance the refurbishment of Hwange Thermal Power Station.

BUDGET PERFORMANCE AND 2011 OUTLOOK

160. Given the total anticipated revenues of US$2.746 billion, the implied monthly average collection becomes US$230 million.

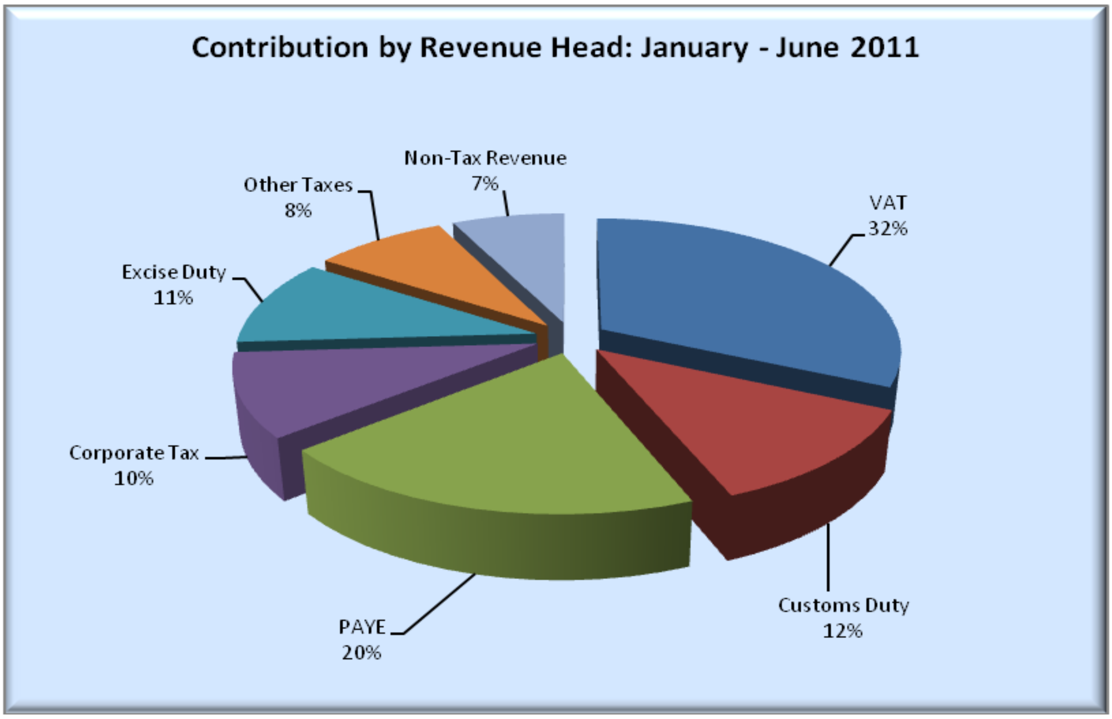
Actual collections in the first half of the year only exceeded this target in June at US$277.3 million, while the rest of the other months were below the target.

161. By end of June 2011, total Budget expenditures reached US$1.14 billion. This aggregate expenditure outturn was within the collected revenue levels. However, this performance is masked in low and constrained disbursements with respect to the capital and operations budget.

162. Employment costs, however, exceeded the target.

REVENUES

163. Cumulative revenue collections for the six months of the year to June 2011, amounted to US$1.352 billion and major contributors to revenue remained VAT (30%), PAYE (20%), Customs (12%) and Excise Duty (10%).



Ongoing Tax Reforms

164. There are current and ongoing Tax reform initiatives, including the Fiscalised Electronic System, which are meant to enhance compliance and minimise leakages.

165. Other deficiencies in tax administration are being addressed through the introduction of the Cargo Tracking Systems, scanners and overall reorganisation of tax collection systems at ports of entry, among other measures.

Diamond Revenue

166. In 2010, declared total proceeds from diamond sales amounted to **US$313,504,567.36.** These were distributed as follows:

Institution	Amount US$	%
Government of Zimbabwe	174,223,814.88	56%
Grandwell Holdings	70,426,950.09	23%
Working Capital: Mbada Diamonds	30,302,739.29	10%
ZMDC Management and Depletion Fees	13,538,653.66	6%
Core Mining	3,453,891.39	4%
MMCZ Commission	2,650,453.73	1%
Total	**313,504,567.36**	**100%**

167. Of the above amount, US$48,458,968.78 was received as a dividend by Government in 2010, while US$41,631,487.79 was belatedly received in February 2011. The remainder of the amounts were paid directly to ZIMRA in the form of royalties, corporate tax, VAT and withholding tax.

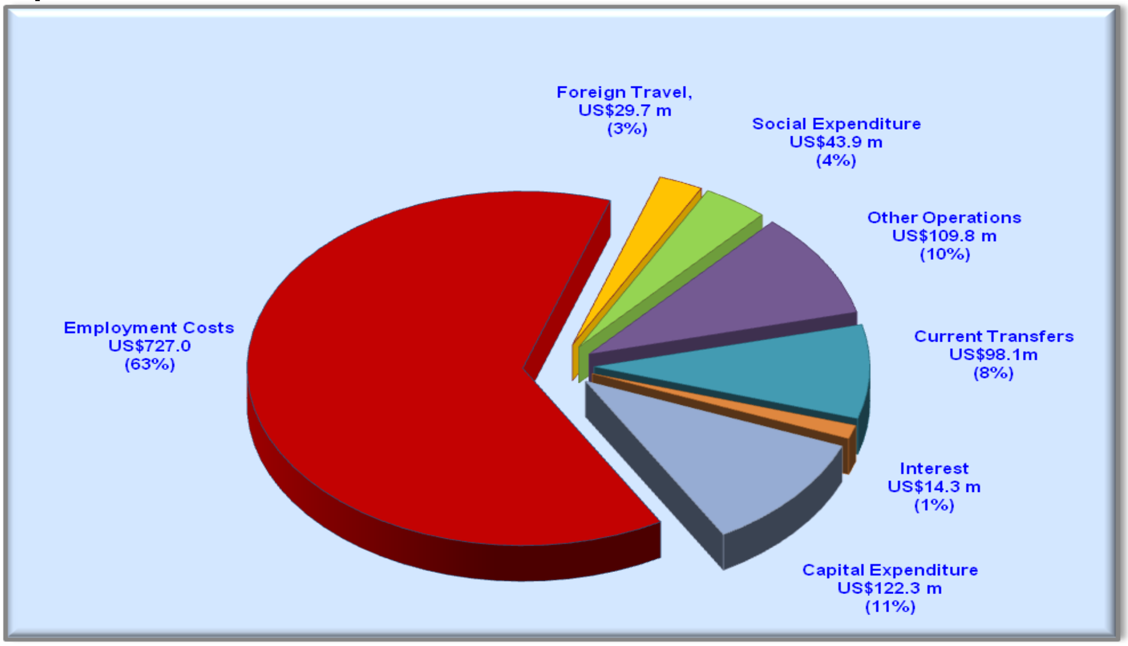
168. Needless to say, it is self evident from the above Table that a clear revenue allocation structure needs to be defined to avoid the current prejudice to the State. Under the current ownership and taxation structure the net proceeds to the Zimbabwe Government from the Marange diamonds should be at least 75% of the gross proceeds. A Diamond Revenue Act ought to address this issue.

169. Diamond receipts for the first half of 2011, arising from mining activities in 2011 are still being ascertained. However, there is now a commitment by the Zimbabwe Minerals Development Corporation that realisations of up to US$167 million will be remitted to the Exchequer by December 2011. This, clearly, falls short of the financing requirements on employment costs and other national programmes.

EXPENDITURES

170. During the period under review, total expenditures amounted to US$1.14 billion, comprising the following:

Expenditure Outturn to June 2011



Current Expenditures

171. Notwithstanding overall expenditures being on track, current expenditures at US$1 billion exceeded the target of US$991 million on account of expenditure overruns on employment costs, medical costs and foreign travel.

Employment Costs

172. The first half performance on total employment cots is shown on the graph below.

173. The original 2011 Budget provided for a civil service wage bill of US$1.305 million. The January 2011 review created a Budget overrun of US$110 million bring the total bill to US$1.415 billion

174. The Inclusive Government has placed the welfare of its workers on the forefront and has never defaulted on any wage obligations. As Treasury we recognise the importance of a well paid workforce. Indeed this explains why we regard wages as priority of priorities.

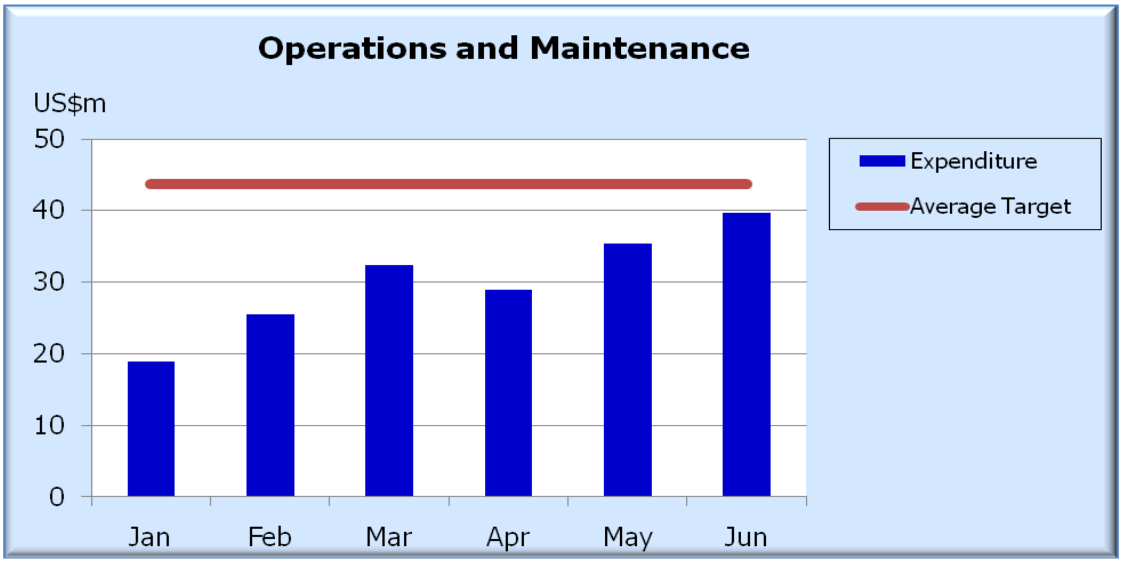
175. Honourable Speaker, as of the 31st of December 2008, a civil servant in grade D, was earning the equivalent of US$0.35. You are aware, Honourable Speaker, that the Inclusive Government raised this to US$100 in February of 2009. Since then, there have been adjustments of 284%, confirming commitment to improving the welfare of civil servants.

176. Our concern for the plight of our workers must be balanced by the fact that the same Budget from which they are paid from, has to look after 13 million of our people. Employment costs cannot disproportionally consume the entire Budget. Unfortunately, this is the current unsustainable position.

Operations and Maintenance

177. The 2011 National Budget set aside US$524.6 million in support of social service delivery, payments to service providers, foreign service and general operating costs of Government.

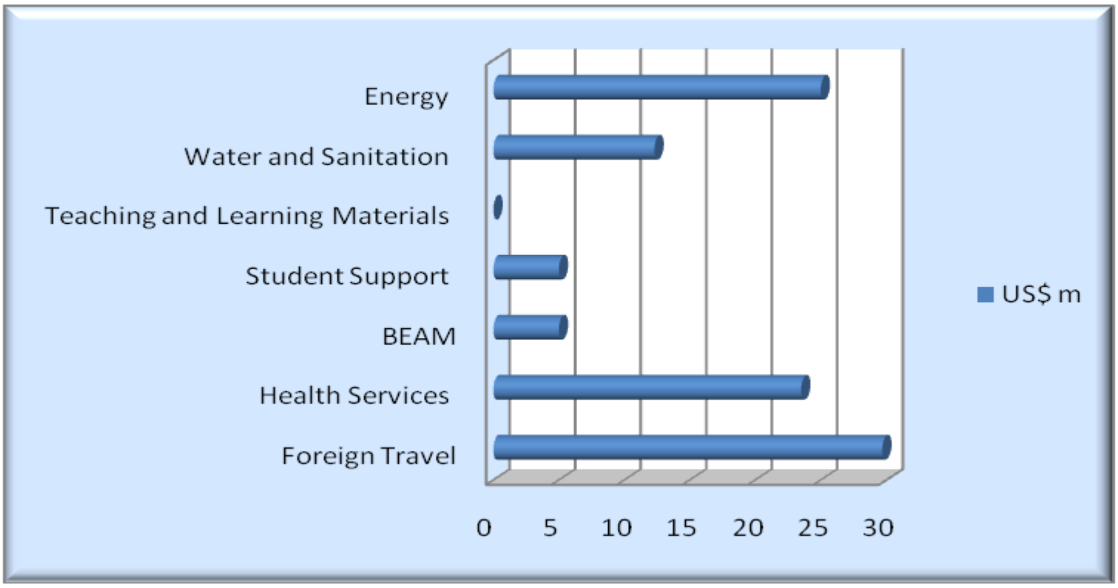
178. Monthly expenditure outlays averaged US$30.1 million against an average monthly target of US$43.7 million. First half performance is illustrated in the graph below.



179. In my previous National Budget and Mid-Term Policy Review Statements, I have lamented the paucity of resources allocated to the operations and maintenance budget as a result of the disproportionate share expended on items such as employment costs and foreign travel.

180. The following graph illustrates that foreign travel expenditure remains disproportionately high in comparison to other Budget items, including priority capital projects.

Foreign Travel and Other Budget Items



Capital Expenditures and Net Lending

181. Against the 2011 Budget allocation of US$551 million for capital expenditures, total disbursements during the first half were at US$101.6 million.

182. The low disbursements are a reflection of the disproportionate level of non-discretionary recurrent expenditures which dominate available monthly revenues.

183. The following table reflects the utilisation rates across sectors against appropriated resources.

SECTOR	2011 BUDGET ALLOCATION US$	DISBURSEMENTS TO DATE US$	BUDGET UTILISATION US$	% BUDGET UTILISATION US$	% UTILISATION AGAINST DISBURSEMENTS
ENERGY	65,000,000	25,000,000	25,000,000	38.5%	100
WATER & SANITATION	71,845,000	12,815,000	12,293,000	17.1%	95.9
TRANSPORT & COMMUNICATION	93,654,000	10,445,800	9,755,751	10.4%	93.4
HOUSING	88,062,800	19,862,300	15,121,842	17.2%	76.1
HEALTH	46,825,000	7,823,395	5,409,893	11.6%	69.2
EDUCATION	51,842,400	9,094,930	7,458,029	14.4%	82.0
IRRIGATION	11,763,500	2,000,000	1,929,651	16.4%	96.5
Total	**428,992,700**	**87,041,425**	**76,968,166**	**17.9%**	**88.4**

Utilisation of Funds under the IDBZ

184. Over and above the appropriations of US$551 million under the 2011 Budget, other Government infrastructure projects are being managed through the Infrastructure Development Bank of Zimbabwe (IDBZ). As at January 2011, the resource balances under this arrangement stood at US$122.3 million. Utilisation levels against these available resources for the period to June 2011 have ranged between 100% and 7% as indicated below.

PROJECT	AVAILABLE PROVISION	UTILISATION FROM JANUARY TO JUNE	UTILISATION AGAINST DISBURSEMENTS
	US$	US$	%
Tokwe Murkosi Dam	30,000,000	20,244,660	67.5
National Railways of Zimbabwe	15,460,000	4,976,269	32.2
Harare International Airport	14,000,000	6,084,874	43.5
J.M Nkomo International Airport	9,153,478	9,214,711	100.7
Harare-Gweru Dualisation	4,026,687	2,696,082	67.0
Harare- Masvingo Dualisation	2,918,900	2,220,885	76.1
Mtshabezi Pipeline	15,056,486	7,483,667	49.7
Harare City Council	2,000,000	1,352,168	67.6
Marondera Town Council	2,498,005	512,033	20.5
Bulawayo City Council	6,101,229	1,338,941	21.9
Transmedia	465,000	454,657	97.8
National Housing Projects	3,771,788	8,699,272	230.6
Telone	14,500,000	1,015,155	7.0
Central Registry	2,380,443	555,269	23.3
Total	**122,332,016**	**66,848,643**	**54.6**

185. In general, even where resources are readily available, utilisation levels have tended to be low on account of low implementation capacity of line Ministries. Implementation challenges relate to tender procedures, lack of skills as well as obsolete plant and equipment.

PUBLIC ENTERPRISES REFORMS

186. Government, in August 2010 identified ten (10) Public Entities for reform under the first phase of the State Enterprises and Parastatals Reform Programme. These are Ziscosteel, CSC, ZESA, GMB, Air Zimbabwe, Agribank, NOCZIM, NRZ, NetOne and TelOne.

187. In identifying the companies, Government considered their strategic importance to the economy as well as the financial impact on the fiscus.

188. However, the restructuring of State Owned Enterprises is moving at a slower pace than previously expected. In terms of progress, Government has successfully privatised Ziscosteel, after selling its 53.4% shareholding to an Indian firm, Essar Holdings. This reduced Government shareholding from 89% to 35.6% whilst the minority shareholders own the remaining 11%.

189. Furthermore, the National Oil Company of Zimbabwe was unbundled into two companies namely Petrotrade (Pvt) Ltd and the National Oil Infrastructure Company of Zimbabwe (Pvt) Ltd. The two companies became operational on 1 January 2011.

190. With regards to other state owned enterprises, the Inter Ministerial Committee on Commercialisation and Privatisation of Public Enterprises in conjunction with the respective entities is developing details on the restructuring for the rest of the identified Parastatals consistent with the Government restructuring thrust.

MACRO-ECONOMIC FRAMEWORK

191. Mr Speaker Sir, our macro-economic framework remains valid as elaborated above in terms of GDP, inflation and balance of payments as indicated below:

	2009 Act	2010 Est.	2011 Proj
Real Sector and Inflation (US$ m and %)			
Nominal GDP level in US$ m	**5623**	**6716**	**8998**
Real GDP growth (%)	**5.4**	**8.1**	**9.3**
Annual Inflation (average %)	-7.7	3.0	4.5
Central Government (US$ m and % of GDP)			
Total Revenue and Budget Grants	**974.4**	**2339.1**	**2744.9**
Revenue (Tax and Non Tax)	933.1	2339.1	2744.9
% of GDP	16.6	34.8	30.5
Budget Grants	41.3	0.0	0.0
Off Budget Grants	93	500	500
Total Expenditure Central Government	**920.9**	**2106.9**	**2744.9**
% of GDP	*16.3*	*31.4*	*30.5*
Capital	45.2	415.3	550.0
Recurrent	804.0	1603.3	2140.2
External Sector (US$ m and % of GDP)			
Exports (fob)	1613.3	3380.1	4143.7
% of GDP	*28.7*	*50.3*	*46.1*
Imports (fob)	3213.1	5161.8	5599.6
% of GDP	*57.1*	*76.9*	*62.2*
Current Account Balance	-1140.3	-1852.5	-1565.0
Capital Account	-656.5	617.5	775.4
Overall Balance of Payments	-1867.0	-412.1	-789.7

STRUCTURAL CHALLENGES

192. Mr Speaker Sir, in updating the Nation on the budgetary and other economic developments, allow me to also restate some of the structural problems in our economy, most of which I underlined when I presented the 2011 Budget in December 2010.

193. These include:

- The existence of a dual enclave economy that perpetuates and reproduces inequality, undermining greater integration of the economy's subsectors.
- The absence of a viable alternative accumulation model beyond mere production of raw goods in agriculture and mining.
- The absence of a matrix of sustainable and inclusive growth.
- The absence of consensus on a unifying National Vision.
- Structural debt overhang and inadequate foreign direct investment, including lines of credit.
- High cost of utilities, partly related to obsolete equipment, poor maintenance, under investment and inefficient management.
- Low capacity utilisation, coupled with labour costs unrelated to productivity.
- High unemployment and poverty levels with absence of sustainable social safety nets.

194. The above challenges reflect a fragile state, with limited capacity to deliver on core services to the majority of its people.

195. Mr Speaker Sir, fragility also denotes our lack of political oneness over the implementation and execution of all the necessary measures for successful economic turn around and transformation, which unavoidably entail pain and sacrifice.

196. In this regard, it would be an indictment on our collective political leadership that, two and a half years into the Inclusive Government, we are not yet on a development platform where our internal systems automatically seize on all arising opportunities, critical for leap frogging to levels consistent with the potential of our economic and social transformation within the region.

BUDGET CHALLENGES & PROPOSED INTERVENTIONS

BUDGETARY PRESSURES

197. Mr Speaker Sir, while the 2011 National Budget provided expenditures of US$2.7 billion, indications remain that, as pointed out above, the revenue performance to date shows a half year shortfall of US$65 million.

198. This is at a time when we face additional expenditure pressures totalling about US$550 million related to critical priority programmes in a number of areas.

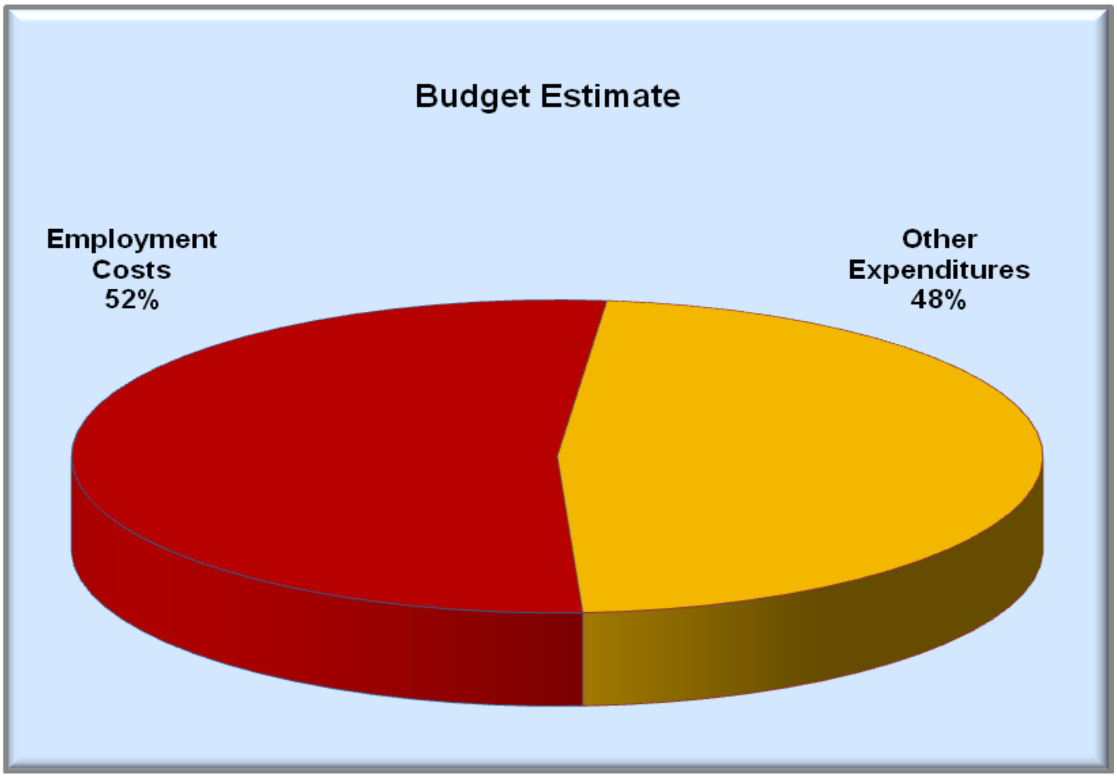
Employment Costs

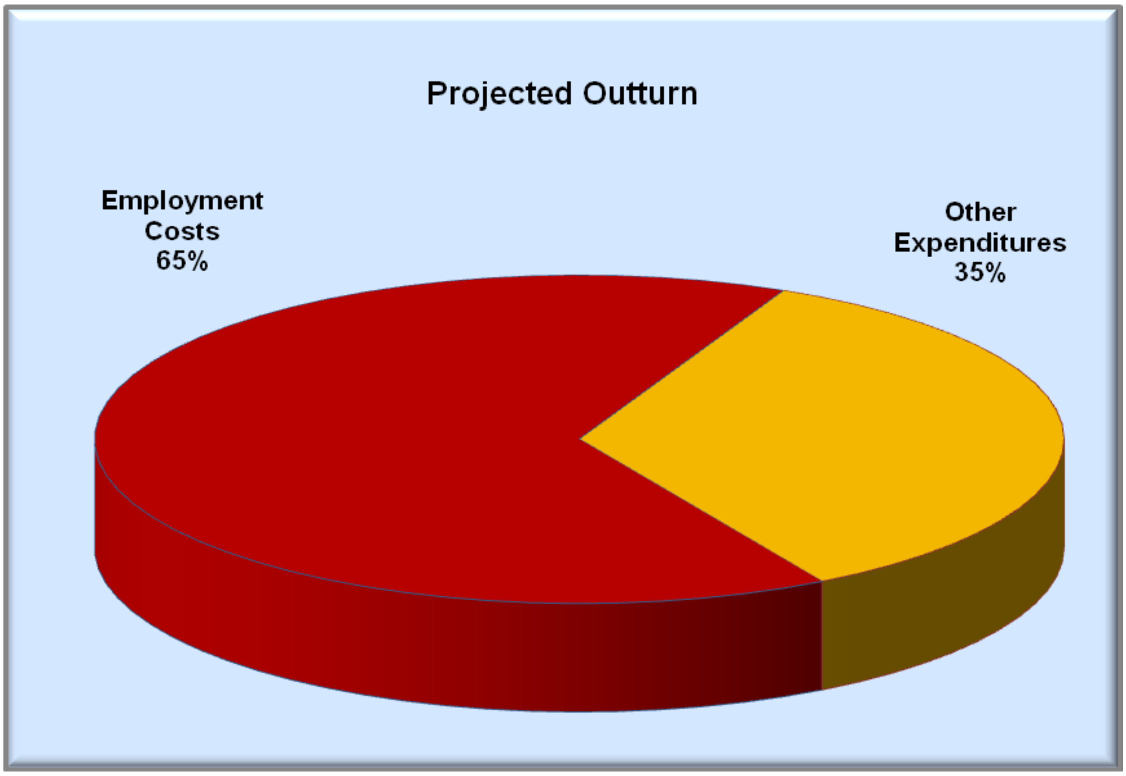
199. Budgetary pressures are particularly compounded by cost overruns arising out of the January and July 2011 unbudgeted employment costs. The January 2011 review created a Budget overrun of US$110 million while the July 2011 review increase will create an additional shortfall of US$262 million.

200. The net effect of this is that our monthly employment costs have risen from US$120 million in June to US$162 million from July, effectively requiring that the Budget raises fresh money to the tune of at least US$42 million per month.

201. The projected outturn on employment costs to December 2011, inclusive of employer contributions for medical insurance and NSSA is, therefore, estimated at just over US$1.8 billion. This is against a budget provision of US$1.4 billion, hence, an overall financing gap of at least US$402 million.

202. Mr Speaker Sir, failure to identify additional revenue sources will imply that the above cost overrun will reduce and crowd out budget support for recurrent and capital expenditure programmes to US$0.9 billion, as illustrated by the graphs below.





203. The present Budget and Budgets in the foreseeable future will essentially be absorbed by wages, leaving little room for much

needed recurrent and capital expenditure programmes. In other words, the nation must embrace itself on **riding the storm**, as I shall elaborate later after going through all the pressure areas.

Arrears to Service Providers

204. Arrears to service providers as at end of June 2011 amounted to US$87.7 million and resources will be required for their clearance.

205. Mr Speaker Sir, major arrears to service providers by Government Ministries and Department relate to:

• ZESA:	US$10.1 million;
• Local Authorities:	US$12.1 million;
• Net-one:	US$1.9 million;
• Tel-one:	US$53.4 million;
• ZINWA:	US$7.2 million; and
• CMED:	US$3 million.

206. Failure to clear these arrears will constrain service providers' operations, whose services are critical for sustenance of the current economic recovery momentum.

Food Security

Food Assistance

207. According to the second round crop assessment survey, about 164 000 households are confirmed to be food insecure in the country's eight provinces. In this regard Government will be required to feed the affected households.

208. To this effect, an implementation framework with requirements amounting to US$32.4 million has been put in place to facilitate distribution of the food.

209. This programme will be co-financed, with Government contribution amounting to US$18.7 million and the balance of US$13.3 million to be met by Cooperating partners.

Winter Wheat

210. The 2011 Budget made a commitment to coordinate financial sector support for the 2011 winter wheat programme and expected farmers to play their part in meeting the requirements for borrowing from the market.

211. Subsequently, Government made arrangements with input suppliers for the delivery of inputs worth US$10.1 million through the GMB for the farmers. Farmers are also expected to pay back for the inputs at a 50% subsidy, making a total of US$5 million.

212. Government is, therefore, required to provide bridging finance of US$10.1 million for full settlement to input suppliers. However,

about US$5 million will be recovered from farmers through a stop order arrangement between the GMB and farmers.

Support for the Summer Crop Programme

213. Late preparations for summer cropping in previous years compromised our objective for guaranteeing food security at both national and household levels.

214. For the 2011/2012 summer grain cropping season, Government is targeting 2.63 million ha for grain crops, of which 2 million ha will be under maize and the remaining 630 000 ha under small grains.

215. At an average yield per hectare of 1.2 tons, total maize production of about 2.4 million tons is projected against the national grain requirement of 2.2 million tons.

216. The inputs requirements for the grain production programme, which include fertilizer (548 000 tons), seeds (57 000 tons), lime (298 000 tons), tillage service and agrochemicals (2m litres), are estimated to cost US$497.5 million. Taking into account working capital and tillage requirements of US$154.4 million and US$50.3 million, total grain production requirements amount to US$702.2 million as indicated below:

Quantity and Value of Grain Input Requirements 2011/12 Season.

	MAIZE INPUTS (QTY)	SMALL GRAINS INPUTS (QTY)	TOTAL INPUTS(QTY)	TOTAL COST:US$
Targeted Area(ha)	**2,000,000**	**630,000**	**2,630,000**	
Inputs requirements		-		
Seed (mt)	50,000	6,560	**56,560**	**121,560,000**
Compound D(mt)	245,000	21,125	**266,125**	**156,527,500**
AN (mt)	260,000	21,625	**281,625**	**167,515,000**
Lime (mt)	288,000	10,000	**298,000**	**35,760,000**
Agrochemicals	1,748,160	340,000	**2,088,160**	**16,145,280**
Subtotal costs				**497,507,780**
Tillage (wet rate US$250 per ha)		-	**-**	**154,400,000**
Working capital for the vulnerable households		-		**50,287,500**
Total cost		-	**-**	**702,195,280**

217. The fertilizer requirements for the 2011/2012 cropping season indicated above are above the 335 000 tons to be supplied by the local industry. The issue of capacity utilisation for the fertiliser industry, therefore, remains pertinent.

Vulnerable Farmers

218. The Vulnerable Households Input Support Scheme is estimated to cost US$100 million, targeting one million vulnerable households, with inputs packages comprising 10 kgs maize/small grain seed, 50 kgs compound D and 100 kgs top dressing. About 400 000 ha will be targeted.

219. Under this scheme, Government will contribute about US$45 million for about 500 000 households, with the balance of US$60 million being met by development partners.

Other Financing

220. Other than vulnerable farmers, Government will mobilise and coordinate banks, development partners, seed houses, farmers unions, fertilizer companies, individual farmers to put in place the necessary financing arrangements for the 2011/2012 summer cropping season.

221. These facilities include the hire purchase scheme in support of the acquisition of agriculture machinery, spare parts and other inputs.

222. The facilities will be complemented by own resources from various sources such as tobacco proceeds.

Strategic Grain Reserve Procurement

223. Mr Speaker Sir, I have already alluded to the role of grain procurement by Government in empowering farmers raise financial resources towards their next season's cropping programmes.

224. Pursuant to this, resources amounting to US$110 million are required for GMB in support of procuring about 300 000 tons of maize. These resources are inclusive of transportation, handling and storage expenses amounting to US$25 million.

225. This year's deliveries are significantly up on last year's, with cumulative deliveries to mid July 2011 amounting to 90 000 tons valued at US$27.1 million. Of this, Government has released US$6.4 million to the GMB to pay farmers for maize deliveries made between April and June, leaving an outstanding additional funding requirement of US$20.7 million.

226. Farmers, however, also have an option to receive seed and fertilizer inputs available at some selected GMB depots against their grain deliveries, a situation that will also ensure their timely readiness for the next farming season. Available inputs largely comprise of left-over stocks under the Winter Wheat Inputs Scheme.

National Census Preparations

227. Mr Speaker Sir, the National Census is the largest and most detailed source of current information about a country and for planning purposes.

228. The last National Census was carried out in 2002 and consistent with international best practices, the next one will be held in 2012.

229. Preparations for the upcoming National Census have commenced, with various activities at different stages of implementation. Currently, the mapping exercise is underway and additional

resources amounting to US$6 million are required to complete the mapping exercise.

230. Furthermore, ZIMSTAT will be conducting a pilot Census in 100 Enumeration Areas across all the ten provinces during the last half of August. This will allow for the testing of Census instruments – which include Census questionnaires, enumeration and data processing methods, manuals as well as logistics and administrative arrangements for the main Census. As in a Census, enumerators will cover all of the households in their enumeration areas.

231. Mr Speaker Sir, the pilot Census is a national project that requires the support of all Government Ministries, private sector, civil society, research and training institutions and other stakeholders.

232. Government is also calling for support and cooperation from all organisations and individuals on various upcoming programmes and the conduct of the National Census to make this critical project a success.

Basic Education Assistance Module

233. In my 2011 Budget Statement, I alluded to co-financing arrangements towards educational support for disadvantaged children to the tune of US$28 million, with Government

contribution amounting to US$13 million and the balance of US$15 million provided for by cooperating partners.

234. The combined support was targeting to assist 560 000 primary pupils and 240 000 secondary students. I wish to report to this August house that the Cooperating partners stand ready to honour their pledges. Equally, the budget should still fully disburse the allocated amount of US$13 million.

Constitutional Making Process

235. To wind up the Constitution Drafting Process, additional resources amounting to US$8 million are required to clear outstanding payments amounting to US$3.2 million and to cover expenses related to drafting and endorsement of the constitution by stakeholders before the conduct of the referendum.

236. The above drafting stage of the Constitution Making Process is being fully financed by Government.

237. It is also envisaged that resources amounting to at least US$100 million will be required to facilitate voter education and registration as well as the conduct of the forthcoming referendum.

Housing Development

238. Government is supporting eight ongoing housing projects across the country in partnership with the IDBZ and the private sector. These projects are now at an advanced and critical stage and require an additional US$15 million for completion.

Demonetisation

239. Government in previous Budgets acknowledged the need to demonetise the Zimbabwe dollar balances in bank accounts and outside the banking system, upon availability of resources. It is estimated that the demonetisation exercise will cost about US$6 million. This amount will need to be provided for through the Budget.

240. A Committee comprising officials from Government and the Bankers Association of Zimbabwe is currently working on the requisite details and modalities to operationalise the process.

Capital Projects

241. Additional resources arising out of variations on the programmed works of the on-going projects in 2011 amount to about US$62.5 million. These projects include Harare-Skyline and Harare-Norton road dualisation works (US$5 million), Tokwe Mukorsi (US$20 million), J.N. Nkomo Airport (US$12 million), Central Registry building (US$4.5 million), Lupane State University (US$6 million),

support to SMEs (US$5 million) and Zimra scanners (US$10 million).

Other Government Operational Areas

242. Additional resources amounting to US$180.1 million are also required to finance Government operations, for which current provisions have been exhausted, such areas include war veterans welfare (US$6.8 million), Student support (US$35.2 million), Constitutional Referendum (US$100 million), support to security areas (US$7.2 million) and international and regional community obligations that entail provision for foreign travel (US$30.9 million).

Financing

243. Mr Speaker Sir, notwithstanding the above Budgetary pressures, Government will not be tabling as part of this 2011 Mid Year Fiscal Review, a Supplementary Budget.

244. Consequently, I have deferred compilation of Supplementary Estimates of Expenditure for presentation to Parliament until the last Quarter of the year as certainty on additional revenue flows improves and measures identified by Cabinet to rationalise on some expenditure line items take effect.

CRITICAL SUCCESS FACTORS

245. Mr Speaker Sir, it is in light of the budgetary pressures highlighted above and the inability to concretise on additional revenues that I reiterate my earlier submission that we take a firm stand that enables us to **ride the storm**.

246. It is a cardinal sin for any Government to spend what it does not have. The elementary rule of common sense economics is that "*you eat what you kill*". Or put simply, "*you reap what you sow*". **We have sown the wind of an unbalanced budget and we will reap the whirlwind of economic instability**.

247. As Treasury, the challenge we have is that of managing the **economy in a time of uncertainty and fragility**. That being the case, it is imperative that we craft a programme that allows us to **ride the storm**.

248. In **riding the storm**, the following six success factors and therefore, measures, are going to be critical:

Additional Revenues

249. Alleviating pressures arising from the above expenditure requirements will require additional revenues. Proceeds of diamond sales have been targeted towards facilitating to meet the

additional US$402 million required for employment costs to year end.

250. However, greater transparency and accountability over diamond revenues will be critical. Non performance of this sector poses serious budgetary and wage payments challenges.

251. A Cabinet Committee on resource mobilisation will focus on this issue.

Implementation of the Civil Service Audit

252. The Civil Service Skills and Audit Report identified the existence of 75 000 civil servants as suspect and, hence, in need of investigation and scrutiny. Urgent implementation of the results of this audit has scope for realising savings from the wage bill.

Expenditure Controls

253. Among some of the measures to contain and manage expenditures, Government has already identified and communicated to Ministries and Departments a number of cost cutting areas.

254. These include tightening of the freeze on new recruitment within the Public Service, restrictions on foreign travel, training outside the country, vehicle procurement, transfers to non-performing

state enterprises, and adherence to the Treasury Circular regulating travel and subsistence, among others.

255. The Cabinet Committee on Cost Cutting Measures will have to solidify their recommendations for implementation.

Public Enterprises Reforms

256. Non-performing state enterprises continue to be a continuous drain on the fiscus must be rationalised urgently within the context of the mandate and plan of the Ministry of State Enterprises & Parastatals and the Inter Ministerial Committee on Commercialisation, Privatisation and Rationalisation of State Enterprises.

Revenue Retentions

257. There is also scope for reviewing of revenue retentions outside the Consolidated Revenue Fund to allow for fiscal consolidation and allocative efficiency.

Strengthening of Institutional Structures

258. Closing loopholes and leakages in Government, including addressing the issues of corruption, inefficiency and misallocation of resources will also be critical. This will require strong

monitoring of Government programmes through Results Based Management.

259. Mr Speaker Sir, the implementation of the above will require the unequivocal and unambiguous and active involvement of the political leadership.

260. Mr Speaker Sir, the implementation of the above will require the unequivocal and unambiguous and active involvement of the political leadership. We cannot afford to politicise our fragile situation. The President, the Prime Minister and the rest of Cabinet must stand by these austerity measures.

261. Therefore, **riding the storm** requires **collective leadership, collective implementation, collective accountability and collective trust**.

262. Furthermore, every Zimbabwean – in Government, trade unions, churches, civic organisations, and business – must appreciate that a **business as usual approach** will not assist us **ride the storm**.

263. Hence, in **riding the storm** during the last half of the year, six things are going to be critical.

Budget Developments in the Last Half of the Year

264. Mr Speaker Sir, notwithstanding the challenges that I have alluded as I outlined on the fiscal developments during the first half of the year and the attendant pressures, allow me to reassure Honourable Members that, for now, the 2011 Vote Appropriations remain valid.

265. Pursuant to this, Treasury will endeavour to support Ministries and Departments as they implement their programmes and projects during the last half of the fiscal year.

266. Mr Speaker Sir, the 2011 National Budget provided for Non-Wage Expenditures amounting to US$1.3 billion of which US$418 million has already been utilised, leaving a balance of US$887 million which Treasury will strive to protect during the course of the second half of the year, only to the extent of actual revenue inflows.

267. This is meant to allow for the implementation of projects and programmes as envisaged in the 2011 Budget as I announced last year.

268. Where necessary, and as additional revenue sources are identified, resources will be allocated to ensure that the programmes are fully implemented, that way avoiding prejudicing the public of vital public services.

Peace and Security

269. Mr. Speaker Sir, against our constrained financial environment, budget support to our defence and security forces for the period ending June 2011, is affording the sector to execute their mandates.

270. In keeping with my pronouncements on budget support to this sector, as reported in my 2011 National Budget Statement to this August House, on the 25th November 2010, I shall endeavour to maintain current support levels within Vote balances to year end of US$114.4 million.

Health

271. Our 2011 Budget is supporting the restoration and rehabilitation of an effective public health system.

272. Notwithstanding this thrust, budget support for health services in the first half of the year was below target. Priority will, therefore, be given towards improving funding levels above the balance of US$103.8 million for this sector in the second half of the year.

Education

273. The education sector is in dire need of significant funding requirements necessary for the improvement in learning outcomes and the attainment of the Millennium Development Goals.

274. Key interventions in the second half of 2011 will be on the provision of resources in support of learning and teaching materials, public examinations as well as the provision of stipends for learners at our tertiary institutions. The remaining resources of about US$102.2 million should be adequate for this purpose.

Social Protection

275. Mr. Speaker Sir, our quest to develop a Fair Economy mandates us to provide adequate and comprehensive social safety nets and welfare services.

276. Social protection interventions in the first half of the year were marginal, hence, it becomes imperative for the 2011 Budget to recover lost ground by ensuring that Treasury endeavours to make available the remaining resources amounting to US$9.1 million during the last half of the year.

Empowerment

277. The economic upliftment of our citizenry, in particular, women and the youth, is a major pillar of a Fair Economy, as it allows for broad-based development.

278. The 2011 Budget made provision for US$9.5 million under the Women, Youth and Economic Empowerment Funds, at levels of US$2 million, US$2.5 million and US$5 million, respectively.

279. Taking account of the disbursement of US$1 million under the Youth Development Fund and US$0.8 million under the National Indigenisation and Economic and Empowerment Fund during the period up to June 2011, efforts are being made to mobilise the balance of US$7.7 million over the last half of the year.

Energy

280. An amount of US$40 million still remains to be disbursed out of a total allocation of US$65 million towards the rehabilitation of the power generation plants and the rural electrification programme.

281. Given the long lead time for delivery of equipment and spares for the rehabilitation of generation plants, efforts will be made to facilitate payments to enable work to continue so as to ensure reliability of current generation capacity.

282. Under the rural electrification programme, projects on the electrification of public institutions such as schools, clinics, among others, will continue to be prioritised during this period in order to improve the quality of life and service delivery to rural communities.

Water and Sanitation

283. Infrastructure for water and sewer reticulation, including pumping capacity in most local authorities, requires urgent repair and maintenance. In order to avoid the recurrence of the cholera epidemic that the country experienced in 2008 as well as improving water supplies to residents, I will endeavour to avail the balance of about US$59.6 million to this sector to facilitate the implementation of planned projects in the 2011 Budget.

284. This will include the implementation of the Mtshabezi Pipeline, Tokwe Murkosi Dam, borehole rehabilitation and construction in rural areas as well as water supply schemes for small towns and growth points.

Transport and Communication

285. Our intervention in the sector has been largely limited to completion of ongoing projects such as the construction of the two road dualisation projects, rehabilitation and upgrading of Harare and J.M. Nkomo Airports as well as the railway infrastructure.

286. Implementation of these projects will be speeded up in order to ensure availability of these services to the public.

287. The rehabilitation and maintenance of rural roads, most of which were affected by the incessant rains during the last rain season will also be prioritised during this period in order to improve service levels for business and communities throughout the country.

288. In addition to the above, the procurement of road rehabilitation equipment estimated to cost $53 million dollars will be protected. Tender processes are already underway and delivery of the equipment is expected during the last quarter of the year.

Social Infrastructure

289. The rehabilitation of health and education infrastructure under the targeted approach will equally be given priority during the second half of the year.

290. Support for the rehabilitation of primary and secondary schools will be through the disbursement of the per-capita grants amounting to US$15 million and the necessary modalities for implementation are being finalised with the relevant Ministry.

Information Communication Technology

291. Progress achieved so far particularly on the implementation of the Harare-Bulawayo-Beitbridge Fibre Optic Link and the Rehabilitation of the Broadcasting Transmission Network will be sustained by

prioritising the remaining resources of about US$35.5 million for the projects.

292. In addition, implementation of the Automated Fingerprint Identification System will be speeded up in order to improve the operations of the Zimbabwe Republic Police (ZRP).

Housing

293. Some of the Government housing projects under implementation are nearing completion with some units already on sale to the public whilst others will be completed during the later part of the year. This includes construction and rehabilitation of institutional accommodation such as Dzivarasekwa housing project, CID headquarters and Tomlinson flats.

294. Remaining resources of about US$55.7 million will, therefore, be prioritised to ensure that the completion targets are met.

295. It will, however, be critical for implementing agencies to strengthen their capacity for timely implementation of the projects during the remainder of the year.

Lines of Credit

296. Improving capacity utilisation and competitiveness of the local industry hinges on availability of affordable financing for

recapitalisation. In order to boost domestic financing facilities and other private initiatives on external lines of credit, Government is pursuing, during the last half of 2011, a number of facilities in support of the local industry.

ZETREF

297. Given the high demand for ZETREF Facility, Government will strive to remove bottlenecks and streamline bureaucratic requirements. It is anticipated that by the end of the year, over US$70 million of the Facility will have been disbursed to industry and commerce, requiring further replenishment.

298. The replenishment will be augmented by timeous loan repayments and accordingly, I am encouraging all beneficiaries to comply with the payment terms in order to sustain the revolving nature of the Facility.

Distressed and Marginalised Areas Fund (DiMAF)

299. In order to address capital challenges faced by distressed and marginalised industries, Government is introducing a US$40 million Distressed and Marginalised Areas Fund (DiMAF), in collaboration with a local pension house.

300. On its part, Government will avail US$20 million with a similar contribution coming from the Government partner. Details of this scheme are being developed and will be announced shortly.

SMEs Support

301. An amount of US$0.5 million has been disbursed to SEDCO for on-lending to small and medium enterprises out of the Budget allocation of US$3.35 million.

302. In order to meet the high demand from these important enterprises, Government is setting aside an additional US$5 million, which is being complemented by a further US$10 million from CBZ Bank (US$5 million) and the Arab Bank for Economic Development in Africa (US$5 million).

303. It is my expectation that these resources will meaningfully capitalise the micro-finance revolving facility for the disadvantaged SMEs who were hard hit during the macro-economic turbulence period and ordinarily lack access to bank credit.

Housing Fund

304. Official statistics show that 1.2 million households have no access to affordable houses whilst 0.5 million are living in un-serviced shanty structures.

305. In order to ease the housing backlog, Government is setting up an Insurance & Pensions Sector Housing Fund from resources mobilised from the Pension and Insurance industry. These resources will be in fulfilment of the Prescribed Asset status requirements, currently at 10% for Pensions Funds, 7.5% for long term insurance and 5% for short term insurance.

306. It is expected that about US$40 million will be raised from the insurance and pension industry including NSSA. The pooled resources will be channelled through Building Societies for the construction of housing units for low, medium and high income earners. Beneficiaries of the funds will be first time home owners who are members of the pension funds.

National Reserves

307. The country received IMF Special Drawing Rights equivalent to US$505 million in 2009 as a rescue package following the global financial crisis of 2008. Out of these resources, Government allocated US$150 million to the following areas:

- Infrastructure US$80 million
- Agriculture US$50 million
- Lines of credit US$20 million

308. Given that the country is basically relying on its own domestic resources for various requirements, it becomes prudent to

maintain a buffer, critical for meeting any exigencies and other unanticipated calamities.

309. Maintaining a buffer/reserves is a common virtue for all progressive states for purposes of allowing continuity of critical national programmes during times of crisis and, hence, ensuring national security.

310. In this regard, Government will maintain the US$215 million SDR balance at the IMF as national reserves, after offsetting our obligations to the IMF’s PRGF facility of US$140 million. At this level, our net SDR holdings are inadequate to pay the public service wage bill of two months.

311. Furthermore, this level of reserves is equivalent to less than a month’s import cover. The SADC/COMESA targets are of at least three months of import cover.

Debt Strategy

312. Government has already agreed on the Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy (ZAADDS) as a strategy for resolving Zimbabwe‘s debt challenges. The strategy focuses on reengagement and normalising relations with creditors and at large the international community in order to secure maximum debt relief, thereby opening up scope for acquiring new

financing to augment domestic resources for sustainable economic growth and development.

313. Notwithstanding the approval of ZAADDS, little progress has been made in its implementation, which requires a good track record in policy consistency, credibility, predictability and effective engagement with the International Financial Institutions.

314. As a way forward, Government in the next six months will focus on those issues raised by creditors to facilitate the full reengagement process. These include fiscal management, financial sector reforms and timely data reporting, among others.

315. Furthermore, I am also proposing that the country limit its future borrowings to only concessional loans. This prudent borrowing not only reduces costs but helps in the improvement of relations with current creditors, especially in view of arrears accumulation.

Financial Sector Services Reforms

Banking Sector Vulnerabilities

316. Notwithstanding the recovery of the financial sector as reflected through growth in deposits and lending, a number of vulnerabilities persist in the financial sector and, hence, threatening its viability.

317. Further deepening of financial sector reforms in order to guarantee confidence will continue to be prioritised, focusing on challenges related to undercapitalisation by some banks, increasing ratio of non-performing loans and strengthening the function lender of last resort, among others.

318. Furthermore, resolving the Reserve Bank debt of over US$1.2 billion as well as restructuring of the bank's balance sheet should also be concluded.

319. In this regard, the Reserve Bank Board has come up with a Special Purpose Vehicle on the debt and an appropriate Bill is being developed and will be tabled before Parliament before the end of the year.

Lending Rates

320. Government is concerned with the outcry from the industry over exorbitant lending rates and other handling charges being levied by banks. This practice is not consistent with Government's objective of supporting industry to meaningfully contribute to sustainable economic recovery and growth. High interest rates are also a major factor behind most company closures and, hence, defeating the employment creation objectives.

321. Whilst Government will allow market forces to be applied and does not intend to squeeze the banks out of profit, it nevertheless

expects financial institutions to play their role in building the economy whilst also observing ethics and good corporate governance.

322. Therefore, Government welcomes the stance taken by NSSA to put a maximum applicable interest rate to banks lending NSSA resources. Under this arrangement, banks will be mandated to lend up to a maximum of 10% interest rate plus 3% handling and other charges of not more than 2%, bringing a maximum lending costs to 15% per annum.

323. Given the magnitude of NSSA resources, this will provide a huge relief to industry who will be able to access working capital at affordable terms.

324. Similarly, Government is adopting and promoting the same approach for all public investments.

325. Further details and guidance regarding this approach will be provided in the upcoming Monetary Policy Review by the Reserve Bank.

326. Government is, therefore, urging other institutions to emulate NSSA in support of economic recovery and growth.

ZSE Institutional Capacity

327. A key factor to the efficient functioning of the ZSE is the institutional capacity at the bourse. Currently, the ZSE is poorly staffed and lacks requisite infrastructure to effectively discharge its mandate.

328. Cognisant of the important role of the ZSE in the development of the securities market, Government is in the process of instituting reforms at this systemically important institution.

329. An independent, professionally diversified Interim Board was appointed to take over the oversight of the ZSE from a Management Committee mainly comprised of stock brokers. The rationale for appointing this independent Board was to separate ownership, management thus eliminating conflict of interest arising from stock brokers supervising the market.

330. Membership in the Interim Board has also been expanded to allow representation of other stakeholders in the securities market.

331. The Interim Board is now seized with ensuring that ZSE has adequate skills mix to run the bourse and is, in liaison with the Securities Commission, working on the demutualisation of the ZSE, establishment of a Central Securities Depository (CSD) and automation of trades.

Insurance and Pensions Sector

Conversion of Pension and Insurance Values

332. Following the adoption of the multiple currency regime in 2009, the pension industry converted their Zimbabwe dollar denominated assets and liabilities into US dollars without appropriate and approved guidelines. This is raising concern with regards to transparency in the accounting and conversion methods used.

333. This is undermining confidence in the Life Insurance and Pension business and impacting negatively towards sustaining higher savings mobilisation.

334. In view of this, Government, through the Ministry of Finance has directed the Insurance and Pension Commission (IPEC) to carry out an industry-wide audit of the conversion process and the results will be made public. This will facilitate restoration of confidence in the pension and life insurance business.

Review of Financial Sector Laws

335. The decade long economic crisis up to 2008 and recent events in Zimbabwe's financial system show that financial institutions are vulnerable to systemic risk emanating from poor corporate governance and inadequate regulatory oversight of financial conglomerates.

336. As a result, corporate governance in the sector had weakened and in some instances collapsed as rent seeking, speculative activities and other unethical survival modes took centre stage.

337. A case in point is the unethical activities which led to the Renaissance Merchant Bank being put under curatorship.

338. In view of this, Government is reviewing a number of financial sector legislation including the Securities Act, the Insurance Act, and the Pensions & Provident Funds Act.

Amendment of the Securities Act

339. At the core of the amendments to the Securities Act is the recognition of the inadequacy and shortcomings of the current Act which has resulted in compromised supervision and regulation of the securities market. The inadequacy of the Act has seen the regulator, the Securities Commission, being challenged in the courts by the players in the market, particularly the Zimbabwe Stock Exchange.

340. In view of this, my Ministry is currently working on reviewing the Act with the objective of strengthening the regulatory function of the Securities Commission. The exercise is expected to be finalised by end of the year.

Micro-finance Bill and Deposit Protection Corporation Bill

341. Furthermore, Government will expedite the completion and gazetting of new legislations - the Microfinance Bill and Deposit Protection Corporation Bill as well as considering the creation of a Financial Services Authority/Board with the sole responsibility of regulating the Financial Sector.

Financial Inclusion

342. The hyperinflationary period that culminated in the introduction of the multi currency system, led to severe financial disintermediation and financial exclusion of the greater proportion of the Zimbabwean population. It is, therefore, important to vigorously pursue the financial inclusion agenda through the development of a **National Financial Inclusion Policy**.

343. In order to guide policy formulation to raise the level of financial inclusion in Zimbabwe, Government is currently conducting a consumer survey called FinScope to assess the level of financial inclusion in Zimbabwe. The survey, to facilitate policy formulation, is being done by ZIMSTAT in collaboration with FINMARK Trust and will be completed in October 2011.

344. Meanwhile, Government wishes to commend banks such as FBC, Kingdom, Tetrad, Metropolitan, ZB and CBZ and the three mobile

networks for coming up with mobile banking products to reach the unbanked and under banked.

345. I am also aware of further work by the banking sector and mobile networks to come up with an interoperability system to include all other banks on the mobile banking platform. Government is ready to assist wherever possible to ensure that the mobile banking system takes off successfully for the benefit of the unbanked and under banked members of our economy.

Collaboration of Regulators in the Financial Sector

346. The crisis period up to 2008 brought about a "silo" culture among regulators in the financial sector who have not been sharing information with each other and who adopt narrow territorial perspectives at the expense of stability of the financial sector as a whole.

347. As mentioned earlier on, collaboration among regulators in the financial sector is critical to strengthen regulatory framework where we eliminate regulatory arbitrage. The signing of the Memorandum of Understanding by the Regulators is an important starting point for facilitating exchange of information.

348. A collaborative approach to financial sector supervision will also be promoted. The objective being to strengthen the financial sector

regulatory frameworks as well as providing for the broadening and deepening of the country's financial system.

349. A higher level platform is, therefore, being created to complement the above arrangement. I am, therefore, setting up a Financial Sector Development Council comprising the Minister of Finance, the Governor of the Reserve Bank and all Regulators.

Multiple Currencies

350. There is anxiety, particularly within the business sector on the future course of Government with regards to the foreign currency regime. This also follows Government pronouncements in previous Budget Statements for a review of the currency system at the end of STERP II in 2012.

351. It will be recalled that, the review was to be guided by attainment of certain macro-economic milestones which included the evidence of a sound track record of policy consistency and implementation, a fairly stable and strong economy characterised by a sustainable external position, a strong financial sector, and most important the overall confidence in the economy.

352. Empirical evidence shows that there is indeed economic stabilisation as a result of the adoption of the multiple currencies. Other benefits realised include immediate containment of inflation by arresting rapid price movements, creation of scope for medium

to long term planning for businesses and individuals, restoration of the banking sector’s financial intermediation role and a gradual building of confidence in the economy.

353. However, it is also apparent that the economy, although on a recovery path, remain fragile with a lot of challenges and serious weaknesses related to fiscal space, investment, indebtedness, balance of payments and reserves, among others.

354. In addition, submissions from various stakeholders agreed with the above position and recommended that it is prudent for the country to continue with multiple currency system in the medium term in order to allow consolidation of the prevailing fragile macro-economic environment and building of the necessary confidence for the ongoing economic recovery efforts.

355. These recommendations are also consistent with the agreed assumptions and objectives of the recently launched Medium Term Plan 2011-2015.

356. Accordingly, Government will continue with multiple currency system while addressing emerging challenges related to shortage of small denominations among others.

357. Furthermore, Government will continue to facilitate debate on the issue of currency reform being guided by regional integration

objectives, specifically those related to the formation of the SADC Common Monetary Area by 2018.

Cross Rates

358. It is disturbing to note that certain unscrupulous traders, particularly in the south-west of the country are exploiting the public by levying arbitrary cross rates between the rand and the US dollar. Whereas at the start of the era of multiple currencies, the cross rate between the US dollar and the rand was 1 to 10, the rate has remained around 1 to 6 in the last 18 months. The aforesaid traders, have continued to use the original rate of 1 to 10 to the prejudice of the trading public.

359. All traders are bound to display, in a visible space, the existing cross rates on a day to day basis. These rates will be published daily in national newspapers as well as on the websites of the Reserve Bank and the Ministry of Finance. It shall be unlawful for any trader to transact on any rate other than the official one.

Small Denominations

360. In the 2011 Budget, Government undertook to facilitate the acquisition of smaller denominated coins to alleviate difficulties being faced by the public.

361. Efforts to import small dollar coins to ease the small change problem are continuing, with the Bankers Association of Zimbabwe now spearheading the process in liaison with US financial authorities. It is envisaged that the coins will be availed before the end of the year.

Public Enterprises and Local Authorities Statutory Obligations

362. An analysis of the financial statements carried out on accounts for public entities shows that staff costs are still exceedingly high and generally account over 50% of operational expenditures and revenue generations.

363. The analysis also revealed that several PE's are not remitting statutory obligations to the Zimbabwe Revenue Authority (ZIMRA) and the National Social Security Authority (NSSA).

364. The statutory obligations in question relate to Pay As You Earn (PAYE), Value Added Tax (VAT), Pensions and Royalties.

365. Public Enterprises are giving Government statutory obligations a low priority, showing preference to the settlement of obligations to other creditors. The prioritisation of payment of other creditors and huge salaries creates a vicious cycle whereby the statutory obligations further accumulate attracting higher penalties of up to 100% of what is owed.

366. In order to ensure that state enterprises and local authorities prioritise use of their revenue, I am proposing that approval of SEPs and Local Authorities salary increments will be dependent on a clean bill of health from NSSA and ZIMRA. This is over and above the application of garnish orders on overdue and outstanding obligations.

Public Finance Management

367. The Public Finance Management System allows for automated receipting of fees and charges paid by the public for Government services, a functionality that allows for extraction of daily collection reports.

368. Transacting outside the PFMS occasioned by system and equipment availability challenges has resulted in loss of revenue due to leakages such as under-receipting. Treasury has, however, procured and is distributing printers to facilitate receipting through the PFMS.

National Statistics

369. National data deficiencies in the country continue to constrain better and efficient planning for most organisations. These shortcomings are related to capacity challenges in ZIMSTAT, financial support inflows and also the non cooperation by many stakeholders to enquiries by ZIMSTAT.

370. Government will, therefore, continue to prioritise financial allocations to ZIMSTAT while at the same time engaging cooperating partners for supportive assistance. Further, Government is calling upon stakeholders to cooperate with ZIMSTAT for the good of the country.

TAX POLICIES AND MEASURES

371. A moderate inflation rate of around 4-5% is targeted for 2011, anchored on continued use of multiple currencies and increasing production capacities of the industries.

372. Mr. Speaker Sir, I now turn to the review of progress made in the implementation of some of the tax policies announced in the 2011 Budget.

373. Drawing from some of the experiences during the first half of the year, I will also be proposing tax policy measures that focus on support to improve industrial capacity utilisation.

374. Some of the measures, however, are targeted towards plugging loopholes existing in the tax system.

Review of Progress on 2011 Tax Policy Measures

New Income Tax Act

375. Mr. Speaker Sir, I advised in the 2011 National Budget that, the Draft Income Tax Bill will be presented before Parliament during the second half of 2011. Principles of the proposed Income Tax legislation have already been approved by Cabinet, hence the Bill will be tabled before Parliament as envisaged.

376. Once the New Income Tax Act is enacted, a transitional period will be availed before implementation in order to allow stakeholders ample time to familiarise with the provisions of the legislation.

Tax Administration

Large Client Office

377. Mr. Speaker Sir, a segmented approach which enables the tax authority to better understand each category of taxpayers, thereby strengthening monitoring, was adopted through the setting up of a Large Client Office (LCO) in April 2010. The LCO currently administers 684 taxpayers.

378. The LCO, which currently focuses on client relationship services, returns and payments processes will be transformed into a fully-fledged field delivery office. The LCO will, thus, carry out taxpayer compliance management functions, which include risk-based

audits and debt management and collection enforcement activities.

379. Best practice demands that the LCO be physically de-linked from Head Office. In this respect, the Zimbabwe Revenue Authority has already acquired property for exclusive use of the LCO and is in the process of finalising administrative procedures with respect to change of use of the property.

380. The Ministry of Local Government, Urban and Rural Development and the Harare City Council provided support in expediting approval of change of use, hence, the LCO will be relocating to the new premises with effect from 1 August 2011.

Automation of the Zimbabwe Revenue Authority

381. Reform of tax administration is incomplete without automation, which enhances efficiency of policy and administration of taxes. A key benefit derived from automation is the provision of data to improve decision making, thereby strengthening service delivery.

382. Automation minimises face-to-face interaction between tax officials and taxpayers, hence reducing rent-seeking opportunities or unethical conduct and also improving on communication. Furthermore, automation enhances security, which is necessary to ensure confidentiality of the tax system, since taxpayers have a legitimate expectation to privacy in the handling of their

businesses and personal information they provide to the tax administration authorities.

383. The Zimbabwe Revenue Authority will upgrade the current system in order to accommodate the demand for e-services. The resource envelop required for automation, which amounts to about US$32 million, is however high, hence automation will be implemented in phases.

Customs Administration

384. The demand for locally produced goods has declined due to the influx of cheap imported goods, some of which are smuggled. As a result, local production has been adversely affected to the extent that, manufacturers no longer have an incentive to produce. This has given rise to mushrooming of informal traders whose contribution to the fiscus is minimal.

385. The Zimbabwe Revenue Authority has, thus, been called upon to build capacity in the key areas of Post Clearance Audit (PCA), risk management, anti-smuggling and intelligence in order to support the compliance management framework.

VAT Fiscalised Recording of Taxable Transactions

Suppliers of Fiscalised Devices

386. Honourable Members will recall that Government extended the implementation date of VAT Fiscalised Recording of Taxable Transactions to 1 January 2011, and also proposed to invite the participation of additional players in the supply of fiscalised devices, in order to hasten the implementation of the fiscalisation programme.

387. Government, through the State Procurement Board, has re-tendered for the supply of VAT fiscalised devices. Consequently, eight (8) additional suppliers of fiscal devices have been licenced to complement the existing suppliers. It is envisaged that the licencing of additional suppliers will result in competitive pricing of fiscalised devices.

388. Furthermore, tremendous progress has been registered in the development of interfaces, necessary to link the fiscalised printer to the point of sale machine.

389. Registered operators in Category C have, thus, been availed ample time, since 1 January 2011, to fiscalise their operations, hence should have made significant progress in this respect. The Zimbabwe Revenue Authority will, thus, conduct inspection and audits with a view to enforce compliance with effect from 1 October 2011.

Extension Period for Compliance

390. The current VAT Fiscalised Recording of Taxable Transactions Regulations provide that registered operators who are not able to comply by the fixed date must apply for an extension to the Commissioner General who shall, on good cause shown, grant an extension for compliance not exceeding 30 days.

391. I propose to extend the compliance period within which the Commissioner General may authorise from 30 to 90 days.

Customs Duty

Basic Commodities

392. Mr. Speaker Sir, the suspension of duty on rice, maize meal, flour, cooking oil and salt which expired on 31 December 2010 was extended to 31 July 2011, in order to guarantee consistent supply of basic food items.

393. The supply of most basic commodities by the local industry has significantly improved, hence I propose that the suspended duty on the remaining basic commodities be re-instated. The proposed duty and tax rates that will apply with effect from 1 August 2011 are as follows:

Product	MFN Duty Rate (%)	SADC Duty Rate (%)	VAT Rate (%)	Proposed MFN Rate of Duty (%)
Rice	10-15	0	0	0

Maize	0	0	0	0
Maize-meal	15	10	0	10
Flour	10-25	5-10	0	0
Cooking Oil	40	15	0	15
Salt	5-15	0	0	0

394. The re-instatement of duties on maize meal and cooking oil will improve the value chain from the farmer to the industry through contract farming, increase capacity utilisation, stimulate local production of stock-feed and also enhance employment levels.

395. Duty on salt and rice, however, remains suspended until 31 December 2011, since these products are not produced locally.

396. Mr. Speaker Sir, local flour milling companies have potential to meet local demand. However, they require financial support and ample time to refurbish their plants, in order to produce efficiently. Duty on flour, therefore, remains suspended until 31 December 2011. The suspension of duty on flour will be removed once local production levels satisfy demand.

397. Government will continue to monitor the supply of cooking oil and maize meal in order to ensure availability at competitive prices.

Rebate of Duty on Capital Equipment Imported by Tourism Operators

398. Mr. Speaker Sir, Government introduced duty free importation of capital equipment to support the expansion and modernisation of hotels and restaurants.

399. The rebate of duty, which was introduced in March 2009, expired in February 2011. However, operators in the tourism industry did not realise much benefit in terms of maintaining and upgrading facilities, due to limited access to long term financing.

400. The tourism industry has been able to access loans, in particular from the PTA and Afrexim banks. The funding is, however, being availed at a time when the rebate of duty is no longer in place, hence the cost of recapitalisation has increased.

401. In order to facilitate the recapitalisation programme, I propose that the rebate of duty on capital goods be re-introduced, with effect from 1 September 2011.

402. The rebate of duty will only be extended to operators registered with the Zimbabwe Tourism Authority and the Zimbabwe Council of Tourism.

403. Furthermore, the Minister for Tourism and Hospitality Industry will be responsible for recommending to Treasury the list of beneficiaries to ensure accountability and effective monitoring.

404. Companies that intend to benefit from this facility will be required to provide a valid Tax Clearance Certificate and proof of registration with ZIMRA.

Suspension of Customs Duty on Motor Vehicles imported by Safari Operators

405. Honourable Members will recall that the suspension of customs duty on motor vehicles imported by tourism operators was introduced in 2009 in order to assist operators to replace ageing fleet. However, the suspension of duty was subsequently removed following abuse of the rebate by some operators who imported vehicles for purposes other than tourism.

406. Safari operators require customised vehicles which are suitable for the rugged terrain in which they operate. Such motor vehicles are not available locally. They, however, were not able to benefit from the duty suspension due to limited access to financing.

407. I, therefore, propose to re-introduce suspension of duty on motor vehicles used by safari operators, for a period of six months with effect from 1 September 2011.

408. The rebate of duty will only be extended to operators registered with the Zimbabwe Tourism Authority and the Safari Operators Association of Zimbabwe.

409. Furthermore, the Minister for Tourism and Hospitality Industry will be responsible for recommending the list of beneficiaries to Treasury to ensure accountability and effective monitoring.

410. Furthermore, companies that intend to benefit from this facility will be required to provide a valid Tax Clearance Certificate and proof of registration with ZIMRA.

Taxation of Raw Materials and Capital Goods

411. Mr Speaker Sir, the review of developments during the first half of the year has also to deal with concerns raised by industry with regards to taxation of raw materials and capital goods.

412. In this regard, some stakeholders have already submitted their input, hence, appropriate measures to reduce duty will be implemented through the relevant legislation. The reduced rates of duty will apply with effect from 1 September 2011.

413. Stakeholders who have not submitted specific inputs will be invited to do so through the Budget Strategy Paper, to be unveiled early August, as part of the consultative process for consideration during the 2012 Budget.

414. This will be in line with Government's stance to do away with taxation of inputs for production. Government has, thus, over the years supported domestic industrial value addition through duty

reduction on raw materials and capital goods that lowers the cost of production.

415. Consequently, the tariff review process has resulted in reduced rates of duty of 0 - 5% on raw material and capital goods.

416. Government is also in the process of migrating to the new Harmonised System 2012 Tariff Handbook. Industry is, thus, called upon to submit their final proposal for removal of duty on raw materials and capital goods for consideration in the 2012 Budget and inclusion in the new Tariff Handbook.

Excise Duty on Spirits

417. Mr. Speaker Sir, an excise duty structure based on specific rates was introduced in the 2010 Mid-Term Fiscal Policy Review in order to address an anomaly which favoured imported over locally manufactured spirits.

418. The anomaly emanated from the levying of an ad-valorem excise duty rate on imported products based on CIF value, whereas for locally produced products, it was based on the retail price.

419. The rate of excise duty was, thus, converted from 40% to US$2 per bulk litre, which translates to US$5 per litre of absolute alcohol (LAA).

420. In line with regional and international best practice, whereby excise duty is levied based on the absolute alcohol content, I propose that the rate of excise duty on spirits be converted from the current US$2 per bulk litre to US$5/LAA with effect from 1 September 2011.

Fuel Importation Transport Mode

421. Honourable Members will recall that Government introduced a levy of US$0.04 per litre of diesel or petrol transported by road from Beira to Msasa and Beitbridge to Bulawayo, in support of improved use of the pipeline and rail by oil companies.

422. The measure is, however, restricted to the gazetted entry and destination routes, hence the levy is not applicable to fuel imported through undesignated routes, thereby defeating the intended objective of maximising utilisation of the rail and pipeline.

423. Importation of fuel through the pipeline facilitates verification of the quality of fuel, reduces incidences of customs duty evasion, encourages use of the infrastructure that Government is obliged to maintain and also reduces road carnage which is exacerbated by use of fuel tankers.

424. I, therefore, propose that the levy be extended to cover fuel imported by road, regardless of the source or destination with effect from 1 September 2011.

Strategic Reserve Levy

425. The Noczim Debt Redemption and Strategic Reserve levies were combined under the Noczim Debt Redemption Levy for purposes of ease of administration.

426. The rates are currently pegged as follows:-

Type of Levy	Diesel (US Cents/litre)	Petrol (US Cents/litre)
Noczim Debt Redemption *o/w Strategic Reserve*	2.8 *1.5*	8.2 *1.5*

427. I, therefore, propose to separate the levies in order to enhance transparency in the apportionment of resources with effect from 1 September 2011.

Measures in Support of Industrial Capacity Utilisation

Customs Duty

Textiles, Shoes and Electrical Appliances

428. Honourable Members will recall that customs duty has been progressively reduced, in order to provide modest protection to the local industry and also discourage smuggling, thereby enhancing compliance. The duty reduction was effected as follows:

Product	Previous Duty Rate	Current Duty Rate
Blankets	40%+US$2.50/kg	40%+US$1.50/kg
Clothing	40%+US$2.50/kg	40%+US$1.50/kg
Used Clothing and footwear	US$20/kg	US$5/kg
Travel Bags	40%+US$5/kg	40%+US$2.50/kg
Footwear	40%+US$5 per pair	40%+US$1 per pair
Stoves	60%	40%

429. Despite the above measures, imported clothing, textiles, shoes and electrical appliances continue to flood the market. In some cases, clothing and shoes retail at prices lower than the duty levels.

430. The fact that some imported goods retail at prices below the duty level is a reflection that they are either smuggled or imported duty free using the travellers' rebate. This is notwithstanding the fact that they are commercial imports, hence should be dutiable.

431. The economy has been slowly recovering, hence there is need to provide space for the local industry to maximise production capacity, especially in the face of unfair competition from cheap

imports. This calls for supportive policies that enhance production in order to ease the import pressure which has significantly eroded liquidity in the local market.

432. I, therefore, propose that blankets, shoes, refrigerators and stoves be removed from the travellers' rebate with effect from 1 August 2011.

433. Despite the removal of the above-mentioned goods from the travellers' rebate, traders who wish to import goods for retail purposes will continue to benefit from the reduced rates of duty that were implemented with effect from 1 January 2011.

Food Processing Sub-Sector

434. Mr. Speaker Sir, the agro and food sub-sectors play a major role in value addition of agricultural produce as well as promote the growth of downstream industries such as printing, packaging and the retail sector. Agricultural growth based on small-scale producers is, thus, one of the most powerful catalysts for poverty alleviation.

435. The agro and food sub-sectors have direct linkages with small-scale farmers who primarily supply fruit and vegetables for canning purposes. At the peak, Small-scale farmers supplied about 80% of the fruit and vegetables harvested from 10,000 hectares, to the agro and food processors under out-grower arrangements.

436. Companies in the agro and food sub-sectors have been operating at low capacity utilisation levels, to the extent that some have since closed. Consequently, the market for agricultural produce, such as potatoes, tomatoes, groundnuts, coffee beans, among others, has dwindled. Small-scale farmers have, thus, lost their source of livelihood.

437. The major constraints to the viability of the agro and food-stuffs processing companies include limited access to finance for working capital and replacement of antiquated machinery as well as erratic power supplies. This has been exacerbated by the stiff and unfair competition from imported finished products which in most cases retail at low prices.

438. As a result, about 70% of the food retail shelf space is stocked with imports.

439. I, therefore, propose that modest protection be availed to the agro and food sub-sectors through levying of duty as follows:

Category of Goods	IFN Duty Rate (%)	SADC)uty Rate (%)	Proposed Duty Rate (%)
Potato Chips	40	0	25
Baked Beans	25	0	25
Corn Snacks	20-40	0	25
Canned Peas	25-40	0	25
Mixed Fruit Jam	40	0	25
Tomato Sauce	40	0	25

440. This measure takes effect from 1 September 2011.

School Uniforms

441. Government reduced customs duty on imported school uniforms from 40% plus US$5/kg to 25% in February 2009, in order to ensure affordability. The reduction was implemented at a time when locally made school uniforms were unaffordable to the majority of parents due to the unstable macro-economic environment.

442. The prevailing macro-economic environment has enabled the clothing industry to improve operations, taking advantage of the availability of fabrics at competitive prices. Production of uniforms by small-scale garment producers has gradually increased, resulting in stable prices of uniforms.

443. In order to support small-scale garment producers to maximise production, I propose to review the rates of customs duty levied on imported uniforms to the general rate applicable to clothing and textiles, from 25% to 40% plus US$1.50/kg with effect from 1 September 2011.

Agricultural Implements

444. Mr. Speaker Sir, customs duty on imported farm implements was removed in 2003, in order to ensure affordability of farm implements, in support of the land reform programme.

445. The duty free import regime resulted in the influx of imported agricultural implements during the past eight years. The local industry is, however, unable to compete on a level playing field, due to operational constraints arising from limited access to long term finance to replace antiquated equipment, hence requires modest protection.

446. I, therefore, propose to re-introduce customs duty on selected imported agricultural implements, in order to encourage local production of agricultural implements, as follows:

Product	Current Duty Rate (%)	Proposed Duty Rate (%)
Disc Ploughs & Harrows	0	10
Mould Board Plough	0	10
Scarifiers and Rippers	0	15
Cultivators and weeders	0	15
Mechanical Rotary Hoes	0	10
Dam Scoops	0	10
Seeders, planters & Transplanters	0	5

447. I further propose to suspend customs duty on inputs used in the manufacture of agricultural implements, as follows:

Product	MFN Duty Rates (0%)	Proposed MFN Duty Rates (0%)
Mild and Carbon Steel	15	5

Toolsteel	15	5
Wire	25	5
Fasteners	25	5
Helical Springs	15	5
Hydraulic Hollow Tube	15	5
Bolts	25	15

448. The measures are with effect from 1 September 2011.

Rebate of Duty on Pre-Paid Electricity Meters

449. Mr. Speaker Sir, Government has injected significant resources in the refurbishment and rehabilitation of power generating stations with a view to ensure improved supply of electricity for both commercial and domestic purposes. An efficient user-pay system is thus necessary to enhance prompt settlement of bills in order to generate adequate resources for investment into power generation. Government has already embarked on the installation of prepaid metering system to domestic consumers.

450. I, therefore, propose to grant a rebate of duty on prepaid meters imported by approved suppliers with effect from 1 September 2011, in order to reduce the cost of the project.

Information Communication Technology (ICT)

451. Honourable Members will recall that Government in 2009 removed duty on computer hardware, in order to encourage the

development of information communication technology in line with international trends.

452. The policy measure resulted in a massive increase of usage of ICT. For instance, bandwidth usage increased by 400% from 200 megabytes per second in 2009 to 1 085 megabytes per second in 2011.

453. Furthermore, broadband data usage increased from 1% to 19%, which is above the regional average of 11%. Mobile penetration increased from 12% in 2009 to the current levels of 66%. Zimbabwe is now placed fourth in the region after Botswana, Namibia and South Africa.

454. In order to complement the gains realised in ICT development and to further promote this champion sector, I, propose to remove duty on computer software with effect from 1 September 2011.

455. I also need to state out of an abundance of caution, that hardware computer parts such as microchips and hard drives are already duty free.

Measures to Tighten the Tax System

Income Tax

Transfer Pricing

456. Mr. Speaker Sir, transfer pricing provides an opportunity for multinational companies to manipulate prices that related subsidiaries charge on cross-border transactions, in order to reduce tax in a higher tax jurisdiction, hence is one of the most significant areas of tax risk. Transfer pricing often occurs in transactions such as transfer of goods, property, services and loans, among others.

457. The current legislation does not contain specific transfer pricing provisions. It merely gives the Commissioner General power to disregard any transaction that, in his opinion, is fictitious but does not compel multi-national enterprises to report all controlled transactions in any prescribed form.

458. Furthermore, any additional tax arising from the Commissioner General's adjustment of the manipulated transfer prices is not subject to penalties.

459. I, therefore, propose to amend the current transfer pricing provisions with effect from 1 January 2012, in order to minimise potential revenue leakages by:

- compelling full disclosure of cross-border transactions; and,
- providing for penalty provisions for non-compliance with reporting requirements for related party transactions.

460. Additional transfer pricing rules will be provided through the New Income Tax Act.

PAYE Registration

461. The Income Tax Act requires any person responsible for the payment of remuneration to an employee, whether registered as an employer or not, to deduct PAYE from such remuneration, unless the Commissioner has granted authority to the contrary.

462. Branches or subsidiary companies are, thus, required to register as employers for purposes of withholding PAYE.

463. The registration requirement has resulted in the issuance of multiple Business Partner Numbers to branches under the same control, thereby distorting the registration database.

464. Furthermore, some branches of holding companies use the holding company's tax clearance certificate to conduct their business, irrespective of failure to remit employees tax on time.

465. I, therefore, propose that branches register for PAYE through the holding company with effect from 1 January 2012, in order to enhance compliance as well as clean up the registration database.

Taxation of Benefits Arising from Employment

466. Mr. Speaker Sir, the Income Tax Act defines gross income to include an amount equal to the value of an advantage or benefit in respect of employment.

467. However, the definition of advantage or benefit is restrictive to such an extent that it has become difficult to tax benefits not specifically mentioned.

468. Another challenge is that employment income is not clearly defined to include all amounts received or accrued by virtue of employment, whether or not paid by the employer.

469. I, therefore, propose to broaden the definition of advantage or benefit to incorporate other benefits not explicitly mentioned in the existing provisions with effect from 1 January 2012.

470. A comprehensive definition of income will be dealt with in the context of the new Income Tax Act.

Record Keeping Requirements

471. The Income Tax, Value Added Tax and Customs and Excise Acts provide for a fine not exceeding level seven (US$400) or imprisonment for a period not exceeding three months or both such fine and imprisonment, as penalty for failure to keep records. The penalty is however a "paper tiger", which is not deterrent enough to encourage proper record keeping.

472. In order to enhance compliance with regards to record keeping, it is necessary to impose stiff financial penalties. The Revenue Authority relies on audit for revenue protection, hence the critical need for strong record keeping provisions.

473. I, therefore, propose to levy a penalty not exceeding 10% of the taxpayer's taxable income for failure to maintain proper books and accounts of all transactions with effect from 1 January 2012.

Customs Duty

Suspension of Duty on Motor Vehicles Imported by the Physically Challenged Persons

474. Customs duty is currently wholly suspended on light passenger motor vehicles that are imported by the physically challenged, provided that such motor vehicles are not more than ten years old from the date of manufacture at the time of importation. The legislation does not, however, specify the number of vehicles that can be imported during a prescribed period.

475. I propose that importation of light passenger motor vehicles by the physically handicapped be limited to one vehicle every five years, in order to remove ambiguity in the legislation and also safeguard revenue loss to the fiscus.

476. A significant number of physically challenged persons earn a livelihood through the informal sector, particularly the selling of goods, which requires use of motor vehicles suitable for the transport of merchandise.

477. I, therefore, propose to extend the suspension of duty on motor vehicles imported by the physically challenged persons to light commercial vehicles in order to support the economic participation of the vulnerable members of society.

478. The measures take effect from 1 September 2011.

Residual Duty on Motor Vehicles Imported by a Foreign Organisation under an Aid or Technical Cooperation Agreement

479. A rebate of duty on motor vehicles imported by a Foreign Organisation under an aid or Technical Cooperation Agreement may be granted by the Commissioner. The Commissioner may remit the duty on such motor vehicles provided they are disposed of after ten years from the date on which the duty was rebated.

480. Foreign organisations to whom a rebate of duty in respect of motor vehicles has been granted shall not dispose of such vehicles without the prior permission of the Commissioner. For the purpose of determining the amount of duty, the Commissioner may take into consideration the depreciation of such vehicle from the date on which duty rebate was granted.

481. The calculation of residual duty results in an amount that prohibits disposal of motor vehicles since in some instances, the market price will be lower than the duty payable.

482. The nature of humanitarian work whereby motor vehicles are utilised under extreme rugged conditions obtaining in rural areas render such vehicles uneconomic to operate after a period of four years.

483. I, therefore, propose that the time period for disposal of motor vehicles by humanitarian organisations be reviewed from the current ten to four years, where a rebate of duty has been granted with effect from 1 September 2011.

Special Excise Duty on Transfer of Second Hand Motor Vehicles

484. Mr. Speaker Sir, a special excise duty of 5% is levied on the value of second-hand motor vehicles sold, transferred or otherwise disposed of to persons other than companies under the same control, spouses with registered marriages, private voluntary organisations, or individuals inheriting the asset.

485. In order to register the motor vehicle with the Central Vehicle Registry and effect change of ownership, the seller is required to

produce a certificate confirming payment of the special excise duty.

486. It has however, been observed that change of ownership is not being effected by the transacting parties in order to avoid paying the special excise duty, which is deemed to be high.

487. The change of ownership also entails the issuance of new number plates for the motor vehicle, thereby further increasing the cost of transfer.

488. Following concerns raised by stakeholders regarding the high cost of transfer, I, will be inviting stakeholders to submit concrete proposals for debate on the taxation of domestic sales of second hand motor vehicles, through the Budget Strategy Paper.

CONCLUSION

489. Honourable Speaker Sir, Mai Ezra in Chendambuya, MaSibanda in Nkayi, Peter Mugodhi in Dotito and opharned Gugulethu in Dubuladzimu Beitbridge, are all looking to the Executive and this August House for salvation. Mai Ezra's husband was killed during the war of liberation. Gugulethu's parents died of HIV related complications. Peter Mugodhi is a paraplegic and MaSibanda is a single mother working as a teacher at Dimpamiwa Primary School.

490. Honourable Speaker all these people cannot be sacrificed on the altar of our own subjective political differences, selfishness and lack of national consensus. We cannot continue blanketing them under a lamentable fog of error and blame.

491. With vigour, determination and unity of purpose, the second half of 2011 will be different. We will **ride this storm, eat what we kill** and find each other through the medium of a unifying common vision. The policy proposals contained in this document are a small step towards this marathon.

492. With God's love, policy consistency, a salubrious political environment, increased flows of revenue and the working heroes of this country, **we will do better**. Our people, our partners and our friends expect us to.

493. Put simply, Mr Speaker Sir, we have to remain at the crease and bat the entire innings.

494. Mr Speaker Sir, I therefore commend this Fiscal Policy Review to the August House.

495. May God bless you.

I thank you!

Hon. T. Biti, M.P.

Minister of Finance