

Budget Estimates for 2012 Fulfilment Prospects Considered

Revenue

Hoped-for diamond revenues have allowed the Minister of Finance to plan for a 45,7% increase in expenditure, even though government expects a Gross Domestic Product growth rate of only 9,4%. In the table below, the proposed increase in Interest and Dividend receipts, plus the increase expected in Royalties, are expected to offer an additional \$600 million. These are expected to provide the main increase that will allow the Revenue, and therefore total expenditure to reach \$4 billion, compared to \$2,74 billion this year.

Other significant expected increases shown in the table are also out of line with the GDP growth forecast. The Minister make reference to the need to overcome many of the constraints and says that the discipline of deficit-free budgeting and the creation of a liberalised business environment will be kept at the centre of the country's economic re-building and growth agenda.

Maintaining these key pillars, he says, will also help consolidate macro-economic stability, build savings and attain sustainable and inclusive growth that will promote employment generation and poverty alleviation.

| REVENUE ESTIMATES US\$ | 2010 | 2011 | 2012 | % Change 2012 / 2011 |
|---|----------------------|----------------------|----------------------|---------------------------------|
| Taxes on incomes & profits | | | | |
| Individuals | 413 806 000 | 480 000 000 | 670 000 000 | 39,6 |
| Companies | 215 770 000 | 270 000 000 | 362 000 000 | 34,1 |
| Non-Residents' Shareholders Tax | 27 774 000 | 35 000 000 | 28 000 000 | -20,0 |
| Resident Shareholders' Tax | 10 417 000 | 17 000 000 | 52 000 000 | 205,9 |
| Tobacco levy | 3 981 000 | 6 215 000 | 5 400 000 | -13,1 |
| Capital Gains Tax | 11 585 000 | 14 900 000 | 1 400 000 | -90,6 |
| Res tax on interest | 3 471 000 | 3 000 000 | 16 000 000 | 433,3 |
| Capital Gains withholding tax | 8 450 000 | 10 050 000 | 16 100 000 | 60,2 |
| Informal Traders' taxes | 5 219 000 | 6 337 000 | 13 300 000 | 109,9 |
| Withholding tax on tenders | 1 540 000 | 1 858 000 | 17 000 000 | 815,0 |
| Vehicle Carbon Tax | 30 105 000 | 40 000 000 | 34 100 000 | -14,8 |
| Taxes on goods & services | | | | |
| VAT | 811 560 000 | 990 000 000 | 1 108 000 000 | 11,9 |
| Customs Duties | 335 645 000 | 325 000 000 | 399 900 000 | 23,0 |
| Excise Duties | 163 645 000 | 236 500 000 | 329 900 000 | 39,5 |
| Miscellaneous Taxes | | | | |
| Stamp Duties & fees | 18 029 000 | 25 200 000 | 19 700 000 | -21,8 |
| Business Licences | 6 853 440 | 6 000 000 | 6 450 000 | 7,5 |
| Royalties | 42 935 000 | 88 255 000 | 190 000 000 | 115,3 |
| Revenue: Investments & Prop. | | | | |
| Interest & Dividends | 48 250 000 | 130 100 000 | 530 000 000 | 307,4 |
| Rent | 240 000 | 500 000 | 2 000 000 | 300,0 |
| Total of Revenues shown | 2 159 275 440 | 2 685 915 000 | 3 801 250 000 | 41,5 |
| Other Revenues not shown | 40 724 560 | 60 085 000 | 198 750 000 | 230,8 |
| Total Revenue, local sources | 2 200 000 000 | 2 746 000 000 | 4 000 000 000 | 45,7 |
| International Aid | 500 000 000 | 0 | 0 | |
| Consolidated Revenue US\$ | 2 700 000 000 | 2 746 000 000 | 4 000 000 000 | 45,7 |

In Paragraph 329, he claims that the 2012 Budget recognises the importance of providing an “enabling environment rooted in consistent and predictable policies, necessary for instilling investor confidence”.

Unfortunately, the actual provisions in the Budget do no such thing. The claimed attempts to create a liberalised economy have not been noticed, macro-economic stability has yet to be achieved, the growth evident has been mainly in the trading of imported consumer goods, so it is neither sustainable nor inclusive, and it had promoted very little employment growth. As a result, no progress has been made towards genuine poverty alleviation.

No reference is made to the major constraint holding back investment inflows, which is the government’s declared determination to force foreign investors to relinquish 51% of the shares in their companies. New investors are not being offered 51% of the capital needed to launch a new company; they are expected to supply the full 100% needed and to cede the 51% – and control – when the company has become fully established and successful.

As other major constraints are the country’s severe shortages of capital and bank liquidity, local companies in need of modernisation and refurbishment have no prospect of borrowing the longer-term amounts needed at affordable rates from local sources. However, the indigenisation laws being applied are preventing the involvement of external partners in these companies and have also discouraged external banks from assisting with the recapitalisation of local banks.

While these policies remain in force, the prospects of employment growth and of company profits improving are therefore likely to remain poor. The projected growth rates of 39,6% for individual PAYE taxes and 34,1% for company profits taxes seem unlikely to be achieved in 2012. For similar reasons, most of the other large percentage increases shown in the Revenue Estimates table might prove to be too optimistic.

One of the large increases, the 115,3% rise in expected inflows from royalties, follows upon the Budget proposal to increase royalties on gold from 4,5% to 7% and on platinum from 5% to 10%. In support of these increases, the Minister says that agreements have to be re-negotiated “in an effort to address the huge gap between gross income produced and net contributions to the State”.

A more logical and acceptable comparison would be between the net incomes produced by the companies and their net contributions to the State. A very high proportion of the value of the minerals produced is paid out to mineworkers and service providers as they go through the processes of reaching and extracting the ore, processing it to concentrate the minerals and converting these into saleable products.

By the time an ounce of gold or platinum has been produced, most of the market price of that ounce has been paid out already, mostly to local people. The difference between the market price and the total of production costs is certainly taxable, but the minister is suggesting that the taxation should be based on the total value of the output, the implication being that nothing was spent producing it.

Royalties are a tax on the total value produced. They also have to be allowed for in computing taxable profits, so the higher the royalty, the lower will be the profits taxes payable. For this reason, royalty payments have traditionally been held to low percentages of gross revenues because they convert into very high percentages of net profits. If Zimbabwe decides to increase royalties by 55,5% for gold and 100% for platinum, this move could impact seriously enough on mine profitability to discourage, maybe even prevent new investment in mining these metals.

Gold and platinum are selling at near record prices at present, but calculations on the prospects for new mining ventures have to provide for the possibilities of mineral prices falling as well as the strong probability that the costs involved in mining them will increase. Much higher royalties imposed now would be very likely to tip the scales against proposals to start developing new mines.

The State's gains from higher royalties could become a tiny fraction of the amounts the country ends up forfeiting by discouraging new investment. But the losses will extend to export revenues, employment, training and developments that might have been of benefit to much larger communities. All of these could be brought back within reach by a more agreeable tax environment, and this calls for the rejection of these Budget proposals.

The Minister revealed another misunderstanding in Paragraph 443, when he claimed, in an expression of concern, that "the bulk of export earnings for mining houses are being retained outside Zimbabwe". In fact, most of the value of every mineral is already accounted for in payments made during each of the extraction and processing stages involved in making the mineral marketable.

Payments were therefore being made even though the minerals being processed had not yet been sold. This calls for credit, which is typically not available from local banks. Loans must be repaid with interest, so on the sale of minerals, mining companies have to settle their external debts. Other than that, the funds that go abroad will be limited to external investors' dividends, if dividends are declared. In current circumstances, shareholders frequently forego dividends so that the net profits earned can be reinvested in the mine.

Expenditure

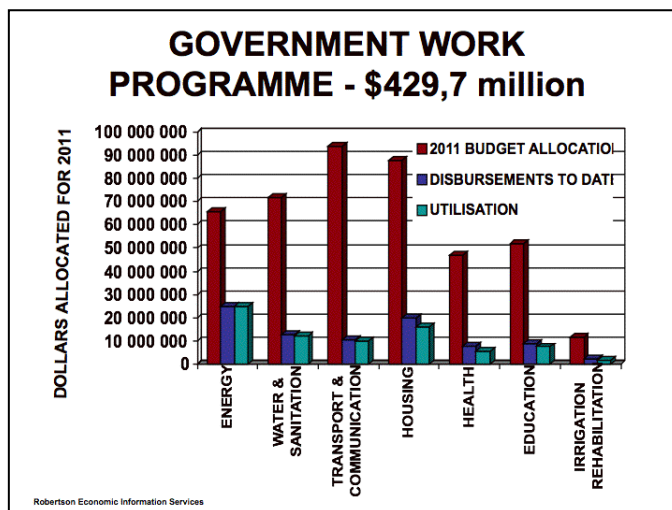
One of the more disturbing features of the Budget is the 37,6% increase in the costs of employing the personnel employed in government service in 2011 and the projected 62% increase in the coming year. According to the projections, employment costs will amount to 48,8% of both expenditure and revenue in 2012.

The establishment table shown in the Budget Estimates reveals that the civil service totals 243 000 people and on the basis of estimates, this plus the uniformed forces total appears to be about one third of the formally employed population of Zimbabwe. Also on the basis of estimates, their wage bill appears to be about 50% of all the incomes earned by the total formal sector.

| EXPENDITURE CLASSIFICATIONS | 2010 | 2011 | 2012 | % Change 2012 / 2011 |
|-----------------------------------|----------------------|----------------------|----------------------|-------------------------|
| Recurrent Expenditure | 1 483 704 301 | 2 173 026 795 | 3 200 000 000 | 47,3 |
| ...of which Employment costs | 874 440 300 | 1 203 616 586 | 1 950 006 000 | 62,0 |
| Operations | 66 893 480 | 196 286 000 | 268 156 000 | 36,6 |
| Pensions | 188 000 000 | 237 000 000 | 331 000 000 | 39,7 |
| Rentals, other goods & services | 82 648 000 | 115 570 977 | 157 215 908 | 36,0 |
| Programmes & Institutions | 108 132 921 | 133 938 303 | 154 365 000 | 15,3 |
| Costs of travel | 32 702 900 | 62 206 299 | 72 259 800 | 16,2 |
| Other Expenditures not shown | 130 886 700 | 224 408 630 | 266 997 292 | 19,0 |
| Long-term loans | 68 300 000 | 162 109 000 | 190 000 000 | 17,2 |
| Capital Expenditure | 197 995 699 | 410 864 205 | 610 000 000 | 48,5 |
| Capital Expenditure as % of total | 8,8 | 15,0 | 15,3 | 1,9 |
| Vote of Credit | 500 000 000 | 0 | 0 | |
| Total Expenditure US\$ | 2 250 000 000 | 2 746 000 000 | 4 000 000 000 | 45,7 |

This table shows the major expenditure classifications and illustrates the hoped-for increase in capital expenditure during the coming year. The graph below illustrates the original \$429,7 million capital expenditure position as at June 2011. By that date, only the amount allocated for energy had been drawn down by a reasonable amount.

The Minister complained at the time that the skilled staff capacity to process project funding formalities, draw up and award contracts and supervise technical development was no longer available in government, so little progress had been made on most of the projects.



For 2012, the amount allocated for such projects has been increased to \$611 million. The only information offered in the Budget speech on the work done in 2011 was that by September, 46% of the funding had been used, but only 27% had been disbursed “on real development projects”. The Minister now suggests the establishment of a dedicated Reserve Fund to smooth the cash flow requirements through the year.

Capital spending proposals for the coming year are shown in this table. As capacity constraints will almost certainly continue to slow the investment process, it is very likely that carefully prepared offers of assistance to the various ministries from private sector companies who still have the required capabilities will be well received. A table on Page 83 of the Budget speech shows that \$300 million of the capital projects are to be funded by diamond revenue.

| CAPITAL BUDGET | 2012 | |
|--------------------|----------------------|--------------|
| | Allocation | Percentage |
| Sector | | |
| ENERGY | 47 500 000 | 7,8 |
| WATER & SANITATION | 112 745 000 | 18,5 |
| TRANSPORT | 113 400 000 | 18,6 |
| HEALTH | 63 425 000 | 10,4 |
| EDUCATION | 88 900 000 | 14,5 |
| AGRICULTURE | 25 850 000 | 4,2 |
| OTHER | 159 210 000 | 26,1 |
| TOTAL | \$611 030 000 | 100,0 |

In the following Expenditure Estimates table, the 114,8% increase in the amount allocated to agriculture might be the only large increase that can be defended. However, neither the money nor the need to defend it would be necessary if government had not destroyed the collateral value of agricultural land and broken the link between the farmers and the banks.

| EXPENDITURE ESTIMATES US\$ | 2010 | 2011 | 2012 | % Change 2012 / 2011 |
|--|----------------------|----------------------|----------------------|---------------------------------|
| Constitutional & Statutory Appropriations | 194 319 000 | 278 400 000 | 352 032 000 | 26,4 |
| % of Const & Stat App of total Expenditure | 8,6 | 10,1 | 8,8 | -13,2 |
| Principal Vote Appropriations | | | | |
| President & Cabinet | 57 646 657 | 121 253 272 | 172 471 000 | 42,2 |
| Public Service | 55 698 452 | 75 921 005 | 126 360 000 | 66,4 |
| Defense | 108 593 184 | 198 437 586 | 318 272 000 | 60,4 |
| Finance | 207 497 076 | 167 607 237 | 284 677 000 | 69,8 |
| Agriculture | 116 951 500 | 124 210 800 | 266 791 000 | 114,8 |
| Transport | 28 396 518 | 74 424 500 | 109 477 000 | 47,1 |
| Foreign Affairs | 54 822 307 | 77 060 000 | 73 672 000 | -4,4 |
| Local government | 19 329 618 | 100 474 000 | 90 281 000 | -10,1 |
| Health | 156 877 702 | 256 198 000 | 345 688 000 | 34,9 |
| Education | 292 160 000 | 469 420 000 | 707 325 000 | 50,7 |
| Higher & Tertiary Education | 116 023 282 | 158 695 400 | 296 171 000 | 86,6 |
| Home Affairs | 126 916 266 | 200 021 000 | 308 330 000 | 54,1 |
| Justice | 53 107 017 | 83 495 000 | 111 168 000 | 33,1 |
| Energy | 16 526 842 | 66 863 000 | 49 742 000 | -25,6 |
| Water | 3 104 000 | 36 982 000 | 71 125 000 | 92,3 |
| Labour | 27 776 500 | 36 333 000 | 45 556 000 | 25,4 |
| Public Works | 17 849 000 | 36 613 000 | 51 266 000 | 40,0 |
| Total of above Votes | 1 459 275 921 | 2 284 008 800 | 3 428 372 000 | 50,1 |
| Total of Votes not shown | 596 405 079 | 183 591 200 | 219 596 000 | 19,6 |
| Total of all Votes | 2 055 681 000 | 2 467 600 000 | 3 647 968 000 | 47,8 |
| Total of all Expenditures | 2 250 000 000 | 2 746 000 000 | 4 000 000 000 | 45,7 |
| Votes shown: % of total Expenditure | 64,9 | 83,2 | 85,7 | |

Constitutional and Statutory Appropriations will absorb \$352 million, or 8,8% of the total \$4 billion Budget and their largest component consists mainly of pensions. The War Veterans pension will take up \$80,8 million, War Victims pensions will amount to \$7,4 million and old-age pensions will use up only \$6 000 in the year. However, Judges, Ministers Parliamentary and State Service Pensions will draw \$178 million and a provision of \$50 million has been made for pension commutations.

Salary increases appear to account for a high proportion of the increased Vote Appropriations for the various ministries. Teachers make up the largest class of civil servants and their salaries, together with those of officials in the two separate ministries, will come to \$669,4 million next year. The total vote for these ministries comes to a little over \$1 billion.

In August this year, the Minister published a new 64-page document, which he called his Budget Strategy Paper. In that, as well as in the 227-page Budget speech, he demonstrated a clear ability to describe the problems, particularly with regard to infrastructural and institutional shortcomings.

However, in neither paper does the Minister show a clear understanding of how business works. Neither do the papers reveal any appreciation of how the development processes depend more on imaginative individuals than on administrators, and more on systems that reward initiative than on beliefs that people will respond productively to promises of wealth redistribution and entitlements. Despite Zimbabwe's urgent needs, this Budget will change nothing.