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**ZIMBABWE**

## **THE 2020 NATIONAL BUDGET STATEMENT**

*'Gearing for Higher Productivity, Growth and Job Creation'*

Presented to the Parliament of Zimbabwe

On November 14, 2019

By

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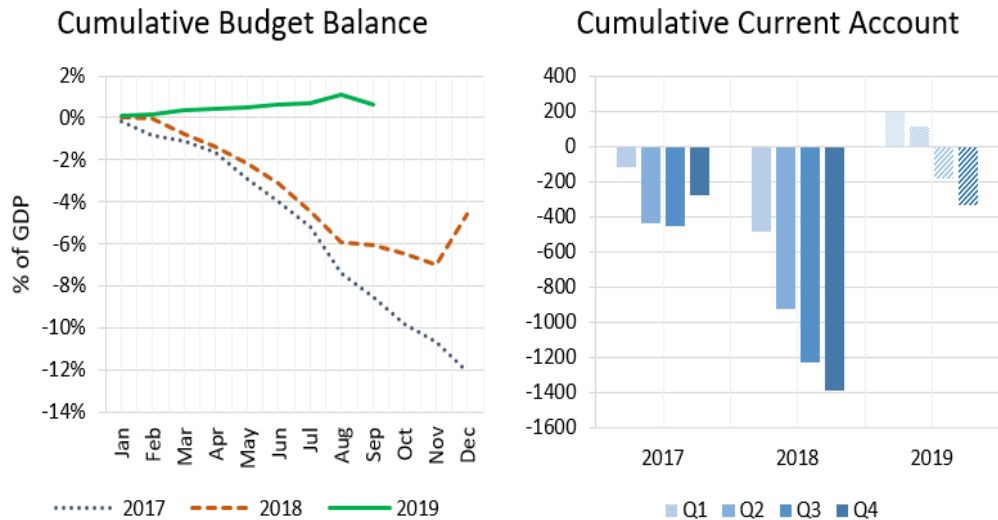
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## INTRODUCTION

1. The year 2019 started with good prospects following introduction of key macro-fiscal reforms aimed at stabilising and resuscitating the economy, in line with the Transitional Stabilisation Programme (TSP) objectives.
2. The reforms, centred on “Austerity for Prosperity”, were in no way a retribution, especially in view of the fact that our public finances were not balancing, following years of overspending. To correct that, the New Dispensation had to put aside the notion of *short cuts*, *magic solutions* and *free funds* by strengthening fiscal discipline and tightening monetary policy in order to rebuild the economy.
3. This primarily entailed switching priorities to sound and responsible fiscal spending, which placed the fiscus on the right path.
4. And indeed, during the course of the year, specific milestones were made, particularly in sanitising public finances, implementation of structural reforms, infrastructure rehabilitation, social services delivery, among other achievements.
5. With regards to the fiscus, implementation of fiscal consolidation reforms saw consistent monthly budget surpluses reaching ZWL\$1.4 billion between January and August 2019. Similarly, the current account managed to deliver a positive balance of US\$116.4 million during the first half of the year, which all pointed to positive signs for restoring the much needed macro-fiscal stability and elimination of the twin deficits.

## Fiscal and Current Account Balances



*Note: Current Account figures for Q1 and Q2 of 2019 are estimates, those for Q3 and Q4 of 2019 are projections.*

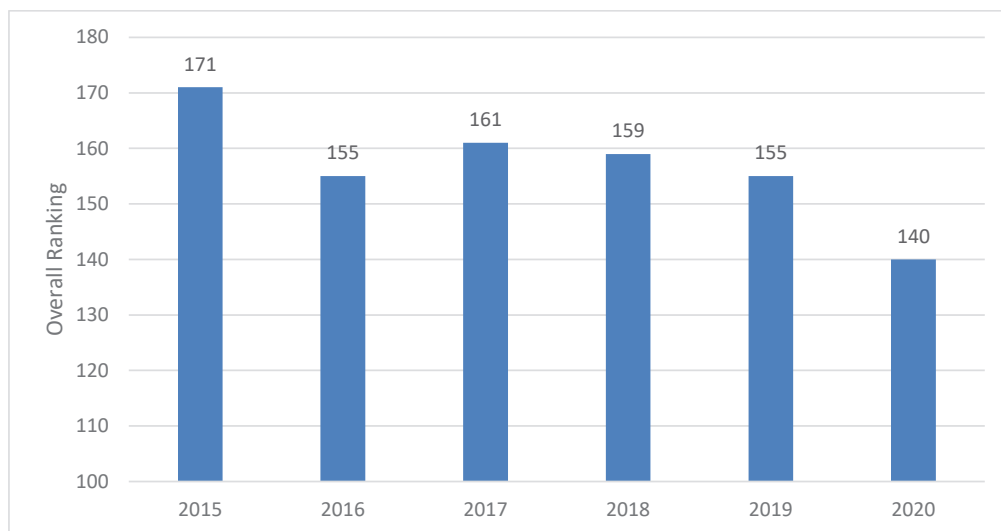
- In complementing the fiscal side, monetary policy was restored, following the re-introduction of the local currency, and subsequent re-establishment of a liberalised foreign exchange market, which is, however, in its infancy and require strengthening.





7. On the structural side, milestones were recorded in advancing the *ease of doing business* reforms, culminating in Zimbabwe’s ranking improving by 16 points from 155 to 140<sup>1</sup>.

Zimbabwe Ease of Doing Business Ranking



Source: World Bank

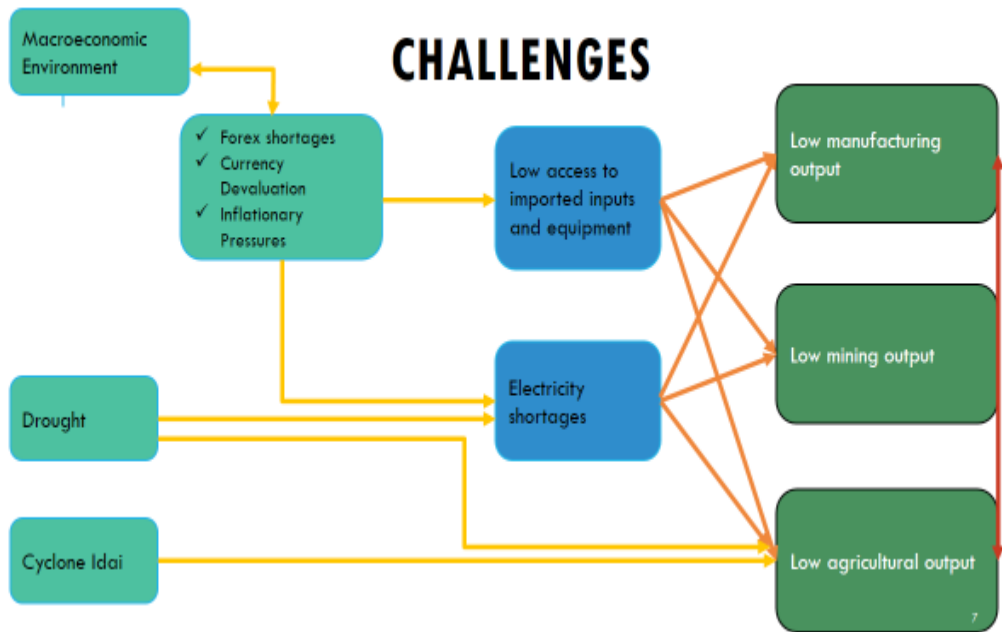
8. Furthermore, notwithstanding the difficult macroeconomic conditions characterised by escalating costs associated with exchange rate shocks, progress was also made in the area of infrastructure development.
9. Through ring-fencing resources, various infrastructure projects in the sectors of health, education, water and roads as well as rural electrification were either completed or are at advanced execution stages to allow delivery in the short-term.

<sup>1</sup> World Bank 2020 Report

10. Additionally, complementary loan financing enabled implementation of a number of bigger infrastructure projects such as Hwange 7 & 8 expansion project, New Parliament Building and the R.G Mugabe International Airport which are all on course.
11. In mitigation of hardships imposed by external shocks from drought and impact of Cyclone Idai, domestic resources were mobilised for various humanitarian needs and social protection requirements, which were also supported by development partners.
12. Other than the above, milestones were also recorded in social services delivery and social protection whose programmes were also supported by development partners. As at end of September 2019, Development and Humanitarian Partners had contributed over US\$152.1 million or 32.5% of the humanitarian needs prioritised under the Revised Flash Appeal (January to June 2019).

### *Challenges*

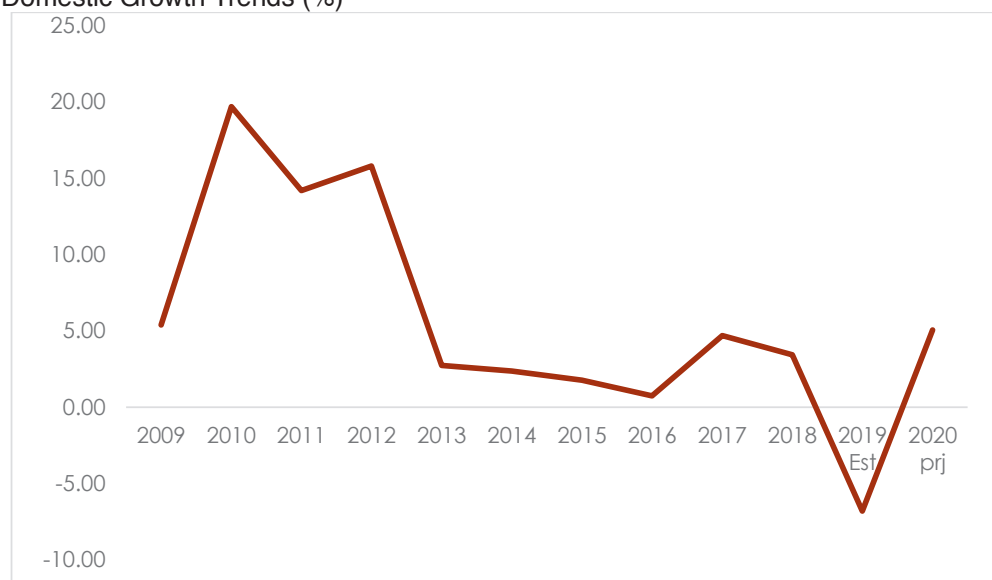
13. Unfortunately, the 2019 Budget faced a very difficult economic environment aggravated by a severe 2018/19 drought which caused food insecurity and depressed electricity generation, with negative spill-over effects to the rest of the other sectors.



14. A humanitarian crisis also descended on the country from Cyclone Idai, which caused significant loss of lives and left about 270,000 people in urgent need of humanitarian assistance, besides causing widespread property and infrastructure destruction.
15. The complex macro-economic environment marked by foreign currency shortages amid limited international financial support, market distortions and rising inflation, further imposed immense pressure on the economy.
16. Consequently, the economy was left in a weak position during the better part of the year, operating under high uncertainties, vulnerabilities, high costs, all complicating investment, planning and operations. Resultantly,

growth, which was originally projected at 3%, had to be revised downwards to -6.5% in 2019, reflecting gross capacity underutilisation and output losses in the rest of the sectors.

Domestic Growth Trends (%)



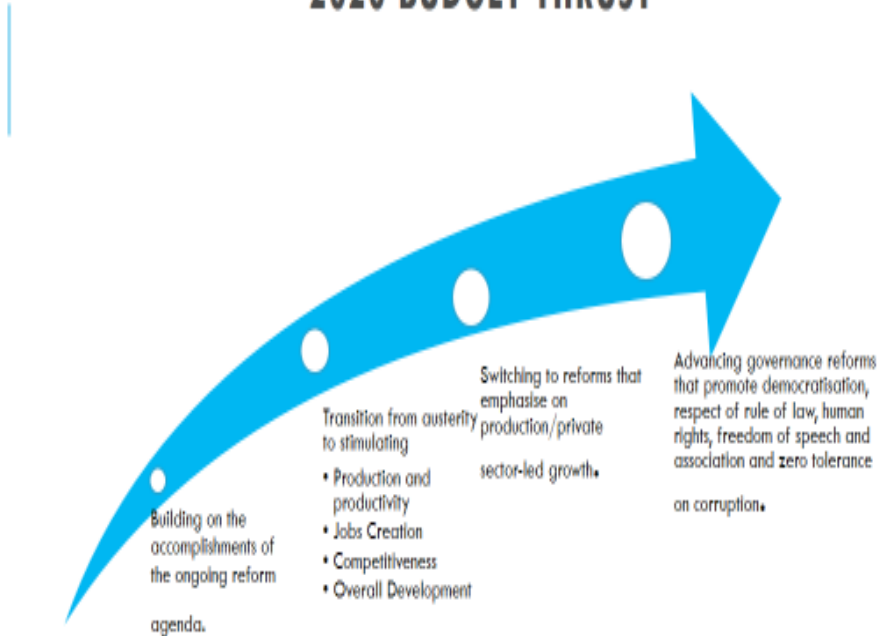
17. Admittedly, the reform process has been very painful, with deterioration of socio-economic conditions for ordinary Zimbabweans, who have had to bear the brunt of low growth, high inflation, rising unemployment and low wages.
18. At the same time, the relatively high debt burden, squeezed Government scope to save and invest to grow the economy, create good well-paying jobs, while building the infrastructure and skilled workforce needed to keep the economy strong and growing for the future.

19. Therefore, as we approach and look beyond 2020, timely implementation of bold measures with better policy coordination, alignment, transparency and accountability are critical for the restoration of confidence and rebuilding of trust.

### **The 2020 Budget Objectives and Thrust**

20. The 2020 National Budget marks the transition from austerity to a growth stimulation and employment generation era. Strong emphasis is now on reviving key sectors of the economy through promotion of production oriented investment and productivity, without losing focus on fiscal responsibility.
21. The growth thrust is being prompted by glaring supply side deficiencies which have undermined stabilisation efforts. Currently, average industry capacity utilisation stands at around 35%, while industrial output is below 60% of 1980 levels. This position reflects through high import dependence (40% of GDP), high unemployment and informalisation levels in the economy.
22. Therefore, the 2020 Budget prioritises the following areas:
- Growth and productivity;
  - Job creation;
  - Competitiveness; and
  - Strong, Sustainable and Shared Development.

## 2020 BUDGET THRUST



23. The proposed supply side interventions combined with continued and strengthened stabilisation reforms, coupled with progressing of the re-engagement process with the international community, will constitute integral pillars of the 2020 Budget.
24. To contextualise the 2020 National Budget, it will be helpful to highlight both global and domestic economic developments and outlook to 2020.

## ECONOMIC DEVELOPMENTS AND OUTLOOK

### Global Economy

25. Being a commodity exporter Zimbabwe, is affected by global economic developments particularly direction of trade, commodity prices, commodity demand and state of world financial markets.

## World Output

26. Global economic growth is expected to recover to 3.4% in 2020, from 3% in 2019. However, growth trends will differ across country groups. While advanced economies are projected to continue growing at a sluggish 1.7%, emerging markets and developing economies are projected to accelerate from 3.9% in 2019 to 4.6% in 2020.

Global Growth Projections (%)

	2018	2019 Proj	2020 Proj
<b>Global Output</b>	<b>3.6</b>	<b>3.0</b>	<b>3.4</b>
<b>Advanced Economies</b>	<b>2.3</b>	<b>1.7</b>	<b>1.7</b>
US	2.9	2.4	2.1
Euro Area	1.9	1.2	1.4
Japan	0.8	0.9	0.5
<b>Emerging Market &amp; Developing Economies</b>	<b>4.5</b>	<b>3.9</b>	<b>4.6</b>
China	6.6	6.1	5.8
India	6.8	6.1	7.0
<b>Sub-Saharan Africa</b>	<b>3.2</b>	<b>3.2</b>	<b>3.6</b>
SADC	3.2	2.6	3.6
South Africa	0.8	0.7	1.1
<b>Zimbabwe*</b>	<b>3.4</b>	<b>-6.5</b>	<b>3.0</b>

Source: IMF World Economic Outlook (October 2019), \*Ministry of Finance and Economic Development and RBZ projections

27. Much of the emerging economies' performance is driven by recoveries in economies that experienced crisis such as Turkey, Argentina, and Iran, as well as countries where growth had slowed down significantly in 2019 relative to their long-run average, such as Brazil, Mexico and Russia.
28. The recovery in global growth remains subject to substantial downside risks. Continued increased trade barriers, particularly between the big

economies of USA and China, and heightened geopolitical tensions such as Brexit could negatively affect the projected growth rates. At the same time climate change poses further risks in developing countries, with droughts, cyclones and other weather-related threats becoming more frequent.

### *Sub-Saharan Africa*

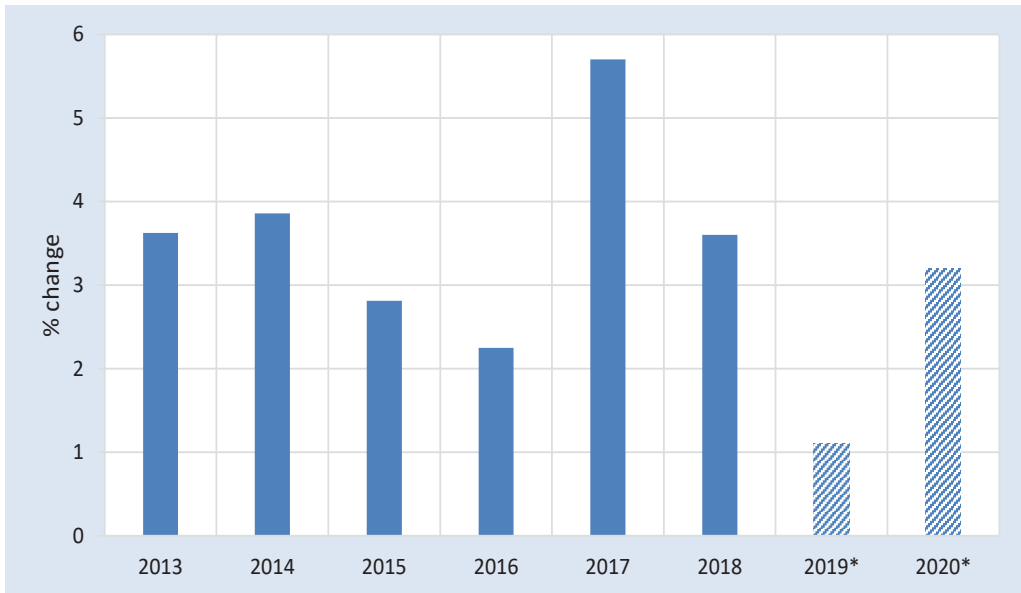
29. Across sub-Saharan Africa, growth is projected to improve from 3.2% in 2019 to 3.6% in 2020. A recovery in oil prices is expected to support growth in oil exporting countries such as Nigeria and Angola.
30. However, non-resource intensive economies are expected to grow faster at an average of 6% in 2019 against 2.5% average for resource intensive economies, while the more diversified economies are expected to perform best in the region.

### *Global Trade*

31. Global trade is projected to grow by 3.2% in 2020, a recovery from less than 1.5% growth in 2019. This is supported by some recovery in global economic activity, and a gradual pickup in investment demand in emerging market and developing economies.
32. However, projected trade growth faces risks related to trade tensions between the USA and China, as well as “no deal Brexit”.



Global Trade Volume Growth (%)

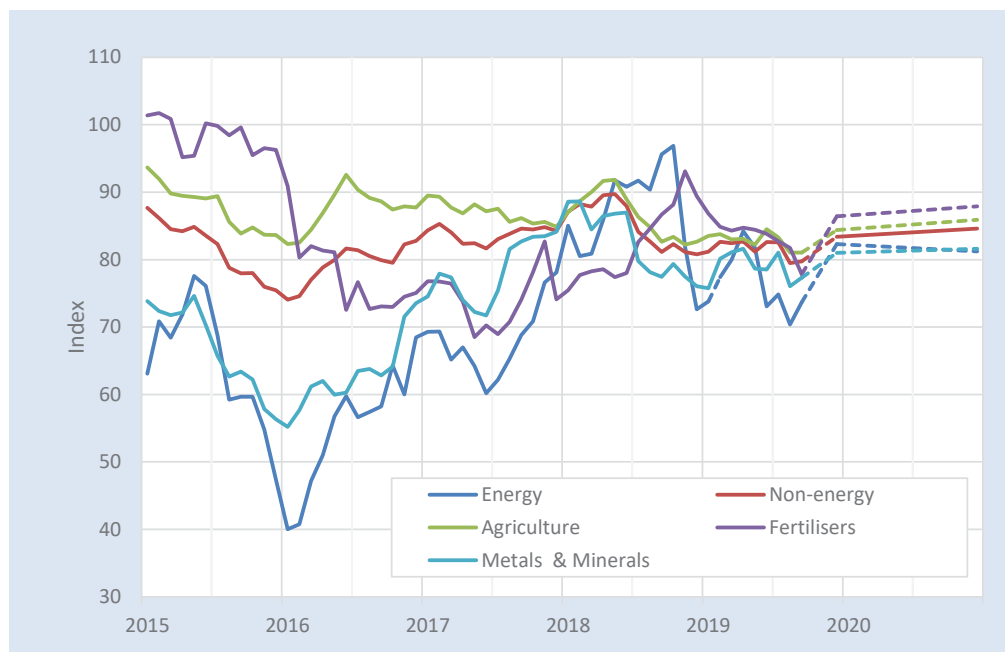


Source: IMF World Economic Outlook, October 2019 (\* Projections)

### *Commodity Prices*

33. Metal and mineral prices have initially been recovering in 2019 as a result of global supply suppression, potential progress in trade negotiations between the United States and China, and fiscal stimulus in China. However, escalating trade tensions and a generally depressed global economy have led to an overall decline towards the end of the year.

## Commodity Price Indexes



Sources: World Bank Commodity Markets Outlook 2019, World Bank Commodity Price Data October 2019

34. Upside risks to metal prices include the possibility of a further interest rate cut in the United States, which is typically associated with an increase in the price of gold and silver.
35. Agricultural prices are expected to increase in 2020 due to lower production and higher fertilizer prices. Downside risks are mainly associated with a possible escalation of trade tensions between the US and China. Higher-than-projected demand for bio-fuels could also induce higher prices for some commodities.

## **Domestic Economy**

### ***GDP Outlook***

36. As earlier indicated, the economy is expected to contract by about -6.5% in 2019, with prospects for marginal recovery by 3.0% in 2020. This turnaround is premised on the following assumptions:

- Expected better rainfall season supported by increased support towards rehabilitation and development of irrigation infrastructure to sustain agriculture activities;
- Improved macro-economic stability through continued fiscal and monetary discipline as well as a substantial improvement in the balance of payments following monetary reforms;
- Improved electricity supply through imports and other alternative sources of energy such as solar;
- Extension of supportive tax and non-tax incentives to stimulate domestic production;
- Advancing the implementation of the ongoing ease of doing business reforms to improve the investment environment; and
- Increased investment by both Government and private sector.

#### GDP Growth Projections (%)

	2018	2019	2020
Overall Growth	3.4	-6.5	3.0
Agriculture and forestry	8.1	-16.3	5.0
Mining and quarrying	15.3	-12.3	4.7
Manufacturing	-0.3	-4.3	0.1
Electricity and water	19.0	-19.8	2.1
Construction	10.7	-2.5	0.5
Distribution, Hotels and restaurants	3.0	-9.0	4.2
Transportation and communication	2.1	-3.4	2.1
Financial, banking and insurance activities	-1.6	-4.1	4.0
Households-related services	1.1	-0.4	2.8

Source: MoFED, RBZ, ZIMSTAT

37. Key growth restoration drivers will be agriculture (5%) and mining (4.7%). Manufacturing is expected to recover marginally by 0.1% and Government public administration, education and health are projected to grow by 2.7% in 2020.

### ***External Sector Developments***

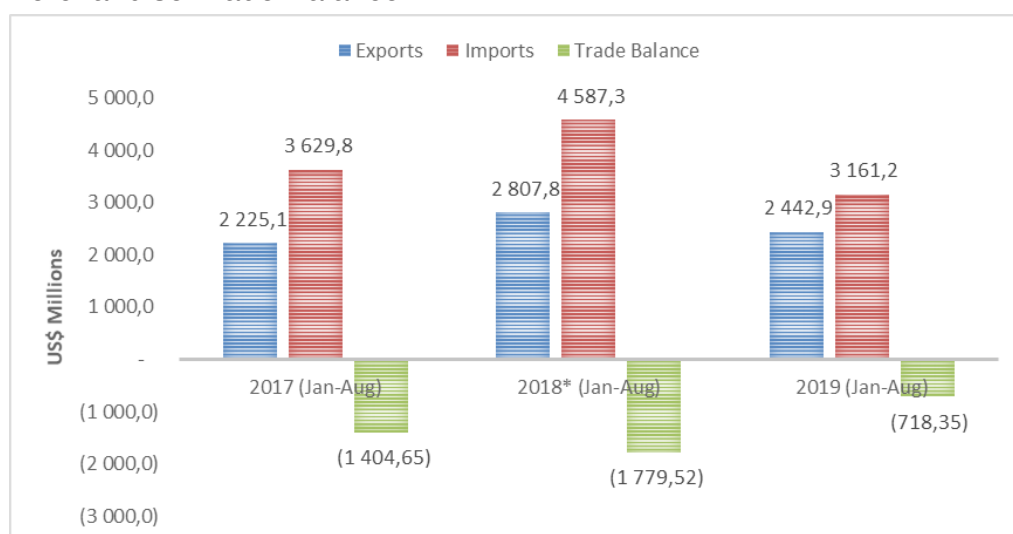
#### *Merchandise Exports*

38. Production was depressed by an uncondusive macro-economic environment and energy shortages in 2019, which weighed down merchandise export performance. As a result, cumulative merchandise exports for the first eight months of 2019 declined by 13% to US\$2.44 billion from US\$2.81 billion realised in the comparable period in 2018.
39. By December 2019, merchandise exports are projected at US\$4.6 billion, a 2.2% contraction from US\$4.7 billion recorded in 2018.

### Merchandise Imports

40. Similarly, forex supply constraints compressed importation of essential inputs and capital equipment and as a result merchandise imports declined by 31%, to US\$3.2 billion from US\$4.6 billion recorded in the comparable period in 2018.
41. Consequently, the trade balance for goods during the period under review registered a deficit of US\$718 million, compared to a deficit of US\$1.8 billion recorded in the comparable period in 2018, an improvement of US\$1.1 billion.

### Merchandise Trade Balance



Source: ZIMSTAT, RBZ & MOFED calculations

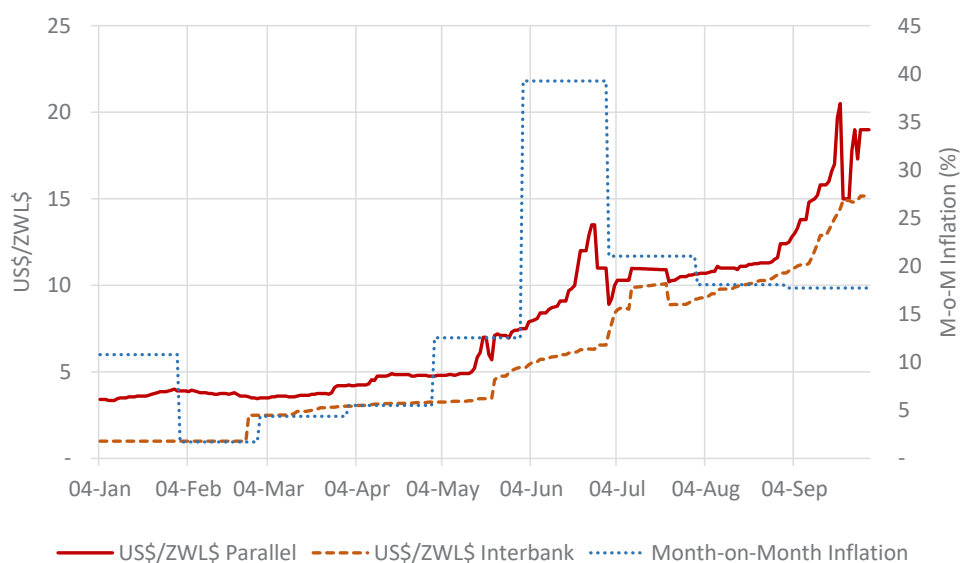
42. Merchandised imports are projected to close the year 2019 at US\$5.3 billion compared to US\$6.6 billion for 2018.

### *Current Account*

43. For the first half of 2019, a current account surplus of US\$116.4 million was recorded compared to a deficit of US\$928.4 million recorded during the comparable period in 2018.
44. During the remainder of 2019, the current account balance is projected to close at a deficit of US\$110.2 million reflecting forex constraints.
45. Going into 2020, recovering exports, stable secondary income flows and positive expenditure switching effects of the liberalised foreign exchange regime are envisaged to further narrow the current account deficit to US\$85.7 million.

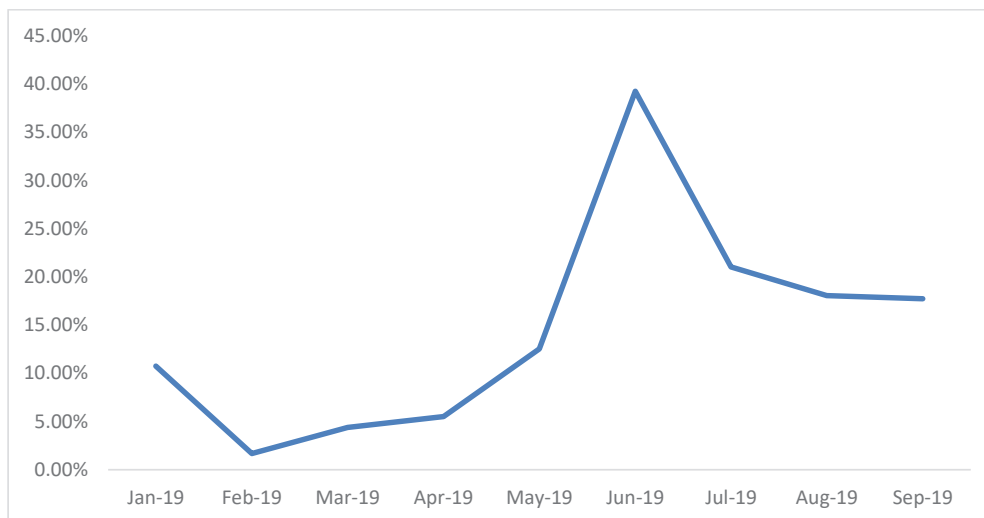
### ***Inflation***

46. The year 2019 was marked by sharp increases in consumer prices. Inflationary pressures mainly arose from the depreciating exchange rate of the local currency, further fuelled by adverse market expectations and increases in money supply.



47. Month on month inflation started the year at 10.8% in January 2019, slowed down to 1.7% in February, before moderately picking up in March and April. In June 2019, it hit a peak of 39.3%.
48. With the adoption of a mono currency regime in combination with corrective measures on the foreign exchange market, month-on-month inflation slowed down during the second half of the year and stands at 17.7% as of September 2019.
49. Due to high exposure of tradable goods to exchange rate movements, food and non-alcoholic beverages were the major drivers of inflation.

### Month-on-Month Inflation Profile



50. In the outlook, inflation will be determined by exchange rate movements, wage developments, fiscal and monetary policies, as well as exogenous factors such as climatic conditions.
51. Monthly inflation is expected to fall to single digit figures from the first quarter of 2020 to close the year around 2% on the back of commitment by the Central Bank to fight inflation through implementing an active reserve money targeting programme.

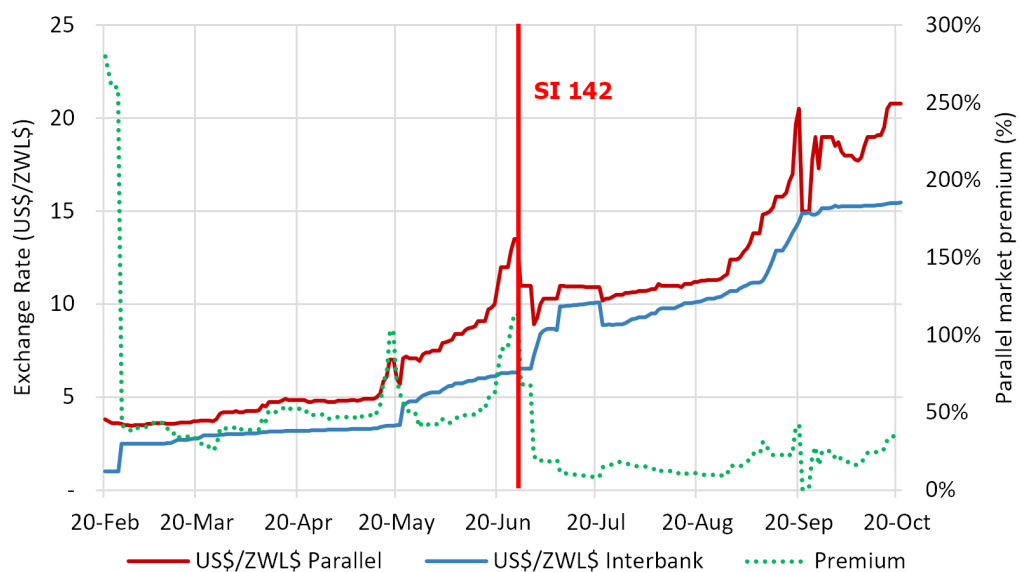
### ***Foreign Exchange Markets Developments***

52. Government, through the Reserve Bank, introduced an official exchange rate for the local currency with the Monetary Policy Statement of 20 February 2019. This resulted in a drastic fall in parallel market premiums, from almost 300% to less than 50%.



53. However, starting in May 2019, a process of rapid self-dollarisation started to take place, as businesses increasingly shifted to pricing in US Dollars, or indexing their local currency denominated prices to the parallel exchange rate with the US Dollar.

54. In response to the build-up in parallel market activities, Government, on 24 June 2018 introduced a mono currency regime. This resulted in an appreciation of the local currency to reach a peak of US\$/RTGS\$8.9 on the parallel market on 1 July, and parallel market premiums consequently fell drastically. Between 1 July and 22 October 2019, the parallel market premium averaged 17%, compared to an average of 59% in May and June 2019.



55. In September, coinciding with the agricultural planting season and the resulting demand for imported inputs, the Zimbabwe Dollar has again

seen a rapid devaluation. The interbank exchange rate has reached an average of US\$/ZWL\$15.32 in October, and about US\$1:ZWL\$19.00 on the parallel market.

### *Supporting Mono Currency and Exchange Rate Stabilisation*

56. Following the introduction of the Zimbabwe dollar, the exchange rate, notwithstanding swings from episodes of shocks, is on a stabilisation path. For the better part of October-November 2019, the exchange rate has stabilised at around US\$1:ZWL\$15 at the interbank market, bringing the Zimbabwe dollar and the South African rand at par.
57. This has restored local competitiveness given that prices are now aligned to countries in the region.
58. To support the mono-currency regime, the following measures were implemented and will be maintained:
  - Zero recourse to Central Bank overdraft;
  - Curbing speculative borrowing through appropriate interest rates adjustments;
  - Regulating unethical practices on the Stock Exchanges and Bureau De Changes;
  - Strengthening the new RBZ Board & the recently established Reserve Bank Monetary Policy Committee; and

- Use of the Anti-money Laundering Act and rules to monitor and regulate transactions, especially in speculative activities in the Foreign Exchange Market.

## ***Financial Sector***

### ***Monetary Developments***

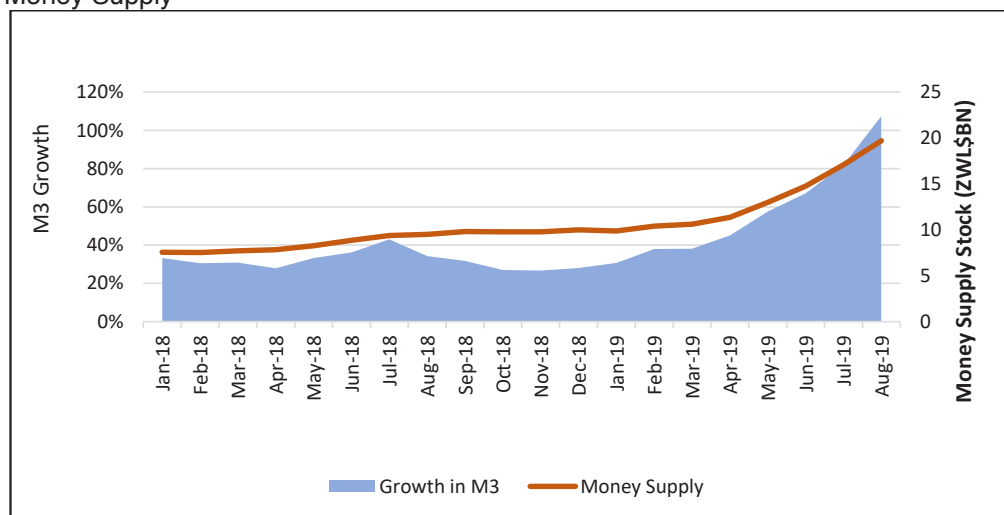
#### *Reserve Money*

59. The Reserve Bank initially targeted reserve money growth of between 8 and 10% in 2019 to anchor inflation expectations and support the mono currency. However, reserve money increased by 103.3% from a stock of ZWL\$3.2 billion in March 2019 to ZWL\$6.4 billion, as at 31 August 2019. The increase is largely attributable to growth of credit to Government.

#### *Broad Money Supply*

60. Similarly, money supply increased by 89.6% from ZWL\$10.4 billion in March 2019 to ZWL\$19.7 billion. The annual increase in money supply was largely attributable to growth in transitional deposits of 126%, time deposits of 99.5% and Negotiable Certificate of Deposits 205.2%.

## Money Supply

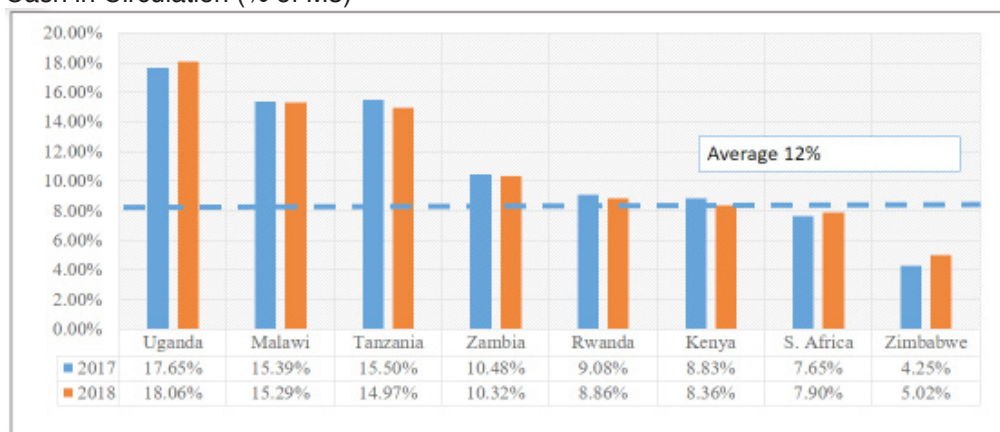


Source: RBZ

## Currency in Circulation

61. Currency in circulation denoted by bond notes and coins increased by 53.5% from ZWL\$484.8 million in August 2018 to ZWL\$744.9 million in August 2019. Therefore, the growth in cash is lower than the growth in money supply, exacerbating the cash shortages in the banking system.
62. This has resulted in long and unending queues at banks, high cash premiums against electronic money and multiple pricing. Therefore, Government, through the Reserve Bank is injecting adequate cash into the economy to meet transactional requirements of the public.

### Cash in Circulation (% of M3)



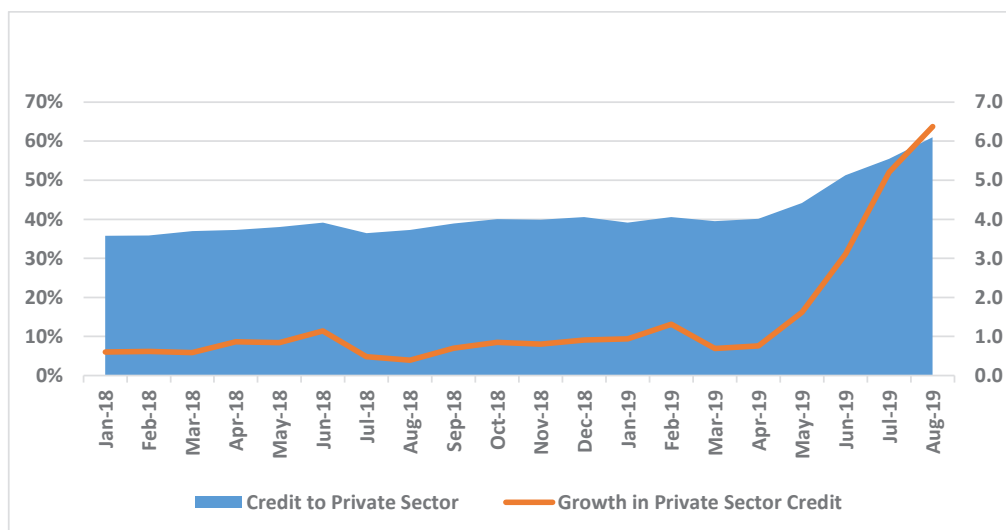
Source: RBZ

### Domestic Credit

63. Annual growth in domestic credit continued on an upward trend registering 42.8% in August 2019 compared to a growth of 25% recorded in August 2018.
64. Net credit to Government grew by 35.3% in August 2019 to ZWL\$12.51 billion compared to 74.5% in December 2018. The decline in net credit to Government was a reflection of fiscal consolidation measures pursued in the first half of 2019.
65. However, in the second half, credit to Government started to increase, comprised largely of agriculture financing.
66. Credit to the private sector recorded an annual growth of 63.75% to ZWL\$6.10 billion from 3.94% in August 2018. This increase was largely attributable to a shift in lending as bankers moved from lending

to Government to lending to the private sector, some of which was of speculative nature.

Credit to Private Sector



Source: RBZ

### *Engendering Confidence in the Financial Sector*

67. Public confidence is critical to the stability of the financial system. Over the past few years, confidence has been low in the financial sector due to low returns on deposits, cash shortages and inflationary pressures.
68. Government will continue to encourage the use of plastic money, the Central Bank will be supplying the market with adequate cash resources to enable the public conduct smooth transactions.
69. However, sectors such as private transporters are encouraged to embrace modern cashless systems and equipment and fiscal incentives maybe considered for such cases.

70. On the other hand, the banking sector is also being encouraged to institute policies that engender confidence by paying meaningful interest rates on deposits and reviewing their security systems due to increase in cyber-crime.

#### *Banking Sector Capitalisation*

71. The banking sector remained adequately capitalised, with aggregate core capital of ZWL\$3.59 billion as at 30 September 2019, representing a 54.08% increase from ZWL\$2.33 billion as at 30 September 2018. The growth in capital was mainly attributed to capitalisation of retained earnings.
72. Average capital adequacy and tier 1 ratios of 41.24% and 27.92% as at 30 June 2019, were above the regulatory minima of 12% and 8%, respectively. All banking institutions complied with the minimum regulatory capital adequacy and tier 1 ratios.
73. To ensure that banking institutions continue to underwrite meaningful business, the Reserve Bank has since increased the minimum capital requirement for the Tier 1 banking segment from ZWL\$100 million to ZWL\$200 million, effective December 2020.

#### *Banking Sector Deposits and Loans*

74. The upward trajectory in total banking sector deposits continued from ZWL\$16.92 billion as at 30 June 2019 to ZWL\$21.51 billion as at 30

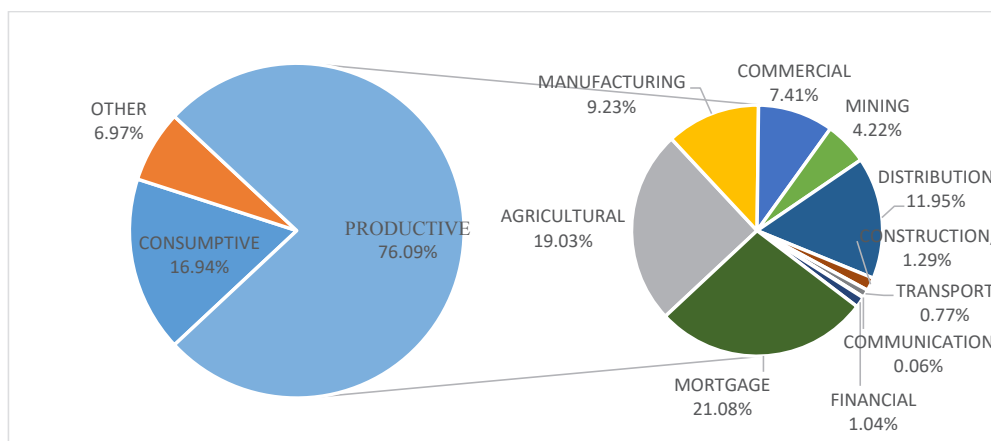
September 2019. The increase was mainly attributable to revaluation of foreign currency denominated balances.

75. The deposits mostly comprised of demand, foreign currency accounts and time deposits, which accounted for 61.48%, 27.02% and 6.57%, respectively.
76. Similarly, total banking sector loans and advances increased by 35.33%, from ZWL\$6.17 billion as at 30 June 2019 to ZWL\$8.35 billion as at 30 September 2019, largely attributable to revaluation of foreign currency denominated loans.

#### *Sectoral Distribution of Loans and Advances*

77. Loans to productive sectors of the economy constituted 76.09% of total sector loans as at 30 September 2019, as shown in the diagram below.

Sectoral Distribution of loans as at 30 September 2019

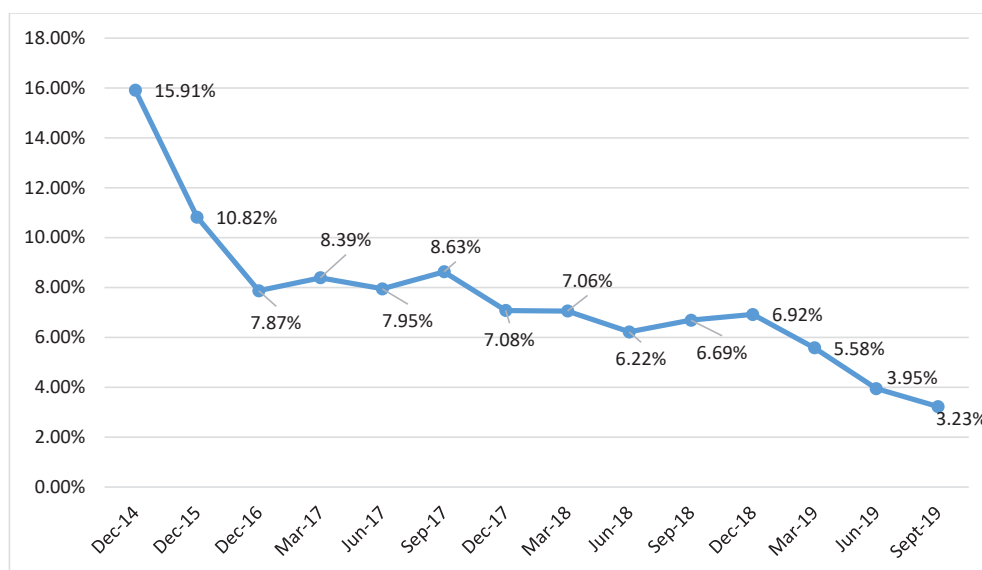




### *Loan Portfolio Quality*

78. Banking sector asset quality continued to improve, as reflected by the low ratio of non-performing loans (NPLs) to total loans of 3.23% as at 30 September 2019. The improvement was largely attributed to intensified loan repayments and collection efforts and enhanced loan underwriting standards.
79. The trend in the level of non-performing loans to total loans ratio (NPLs ratio) from December 2014 to September 2019 is shown in the table below.

Trend in NPL Ratio - Dec 2014 – Sept 2019



### *Earnings Performance*

80. Aggregate banking sector profits amounted to ZWL\$2.09 billion compared to ZWL\$238.98 million reported for the corresponding period

in 2018. The growth was attributed to organic growth and revaluation of foreign exchange and property.

81. Most banking institutions revised their lending rates upwards to levels ranging from 25% to 40%, to cushion against negative real interest rates.

#### *Non-Performing Loans*

82. The quality of the banking sector loan portfolio continued to improve, as shown by the decline in the non-performing loans (NPLs) to total loans, from 6.92% as at 31 December 2018 to 3.95% as at 30 June 2019. The improvement was mainly a result of some banking institutions enhancing their credit risk management practices.

#### *Financial Inclusion*

83. There is remarkable progress with regards to implementation of National Financial Inclusion Strategy (NFIS), particularly in areas of financial literacy, consumer protection, delivery channels, low cost bank accounts, loans to various segments, micro-insurance, financial services exchange for MSMEs and micro-pensions, among others.
84. Implementation of the National Financial Inclusion programmes and initiatives is ongoing in partnership with Government Ministries, development partners and other stakeholders. The trends in financial inclusion indicators are shown in the table below.

## Financial Inclusion Indicators: Dec 2016 - June 2019

Indicator	Dec 2016	Dec 2017	June 2018	Dec 2018	Mar 2019	June 2019
Value of loans to MSMEs (ZWL\$ million)	131.69	146.22	168.25	169.96	142.38	178.92
% of loans to MSMEs over total loans	3.57%	3.75%	3.57%	3.94%	3.29%	2.99%
Number of MSMEs with bank accounts	71,730	76,524	81,369	100,644	99,489	111,498
Number of Women with Bank Accounts	769,883	935,994	1,612,820	1,736,285	1,814,875	2,215,214
Value of Loans to Women (ZWL\$ million)	277.30	310.78	360.68	432.36	428.78	446.40
Number of Loans to Youth	38,400	61,529	68,756	69,421	176,487	154,091
Value of Loans to Youth (ZWL\$ million)	58.41	138.93	126.64	104.43	282.18	120.68
Total number of Bank Accounts (million)	1.49	3.07	5.58	5.94	6.25	7.34
Number of Low Cost Accounts (million)	1.20	3.02	3.56	3.88	4.33	4.16

85. As the strategy comes to an end in 2020, focus is now on monitoring and evaluation of the impact of the financial inclusion strategy.

### ***Credit & Collateral Registries***

#### *Credit Registry*

86. The credit referencing environment continued to improve in the period under review, against the background of increased coverage for the Credit Registry and Credit Bureaus, as well as depth of credit information.
87. As at 30 September 2019, the Credit Registry held 1.1 million records, of which 480,849 were active loan accounts. Individual records represented 98.3% of the active loan records.
88. The Reserve Bank is working on the process of uploading credit data from microfinance institutions before incorporating data from other credit providers such as utility service providers and retail credit stores, among others.

89. Total subscribers to the Credit Registry as at 30 September 2019 were 183, from 174 as at 30 June 2019, comprising 18 banks, 160 MFIs (including SMEDCO), Depositors Protection Corporation, Meikles and 3 non-banks.
90. Credit Registry usage levels by subscribing institutions increased steadily to a cumulative 631,038 reports as at 30 September 2019.

#### *Collateral Registry*

91. The Reserve Bank is in the process of operationalising the Movable Property Security Interests Act [*Chapter 14:35*]. To this end, the Reserve Bank has commenced the process of procuring a suitable system which is expected to be operationalised by 2020.

## **INSURANCE, PENSIONS AND SAVINGS MOBILISATION**

### **Compensation for Pension and Insurance Losses**

92. The Justice Smith-led inquiry made recommendations in 2018 on compensation of pension members and insurance contracts prejudiced during the conversion of insurance and pension values.
93. Government will be finalising amendments to the pensions and insurance legislation, which will guide and enable enforcement of the compensation process.

## **Consolidation of Insurance Regulations**

94. Pursuant to the reform envisaged under the TSP to strengthen and safeguard pensioner funds and pension benefits, it is essential that all pension funds follow under a robust regulation framework.
95. To this end, Government is reviewing the current regulatory framework with a view of consolidating all insurance, medical aid schemes, legal aid societies and pension funds including the National Social Security Authority under a single regulator – Insurance and Pensions Commission (IPEC).

## **Conversion of Pension and Insurance Assets and Liabilities Value**

96. The obtaining macro-economic environment, has resulted in revaluation gains on assets supporting liabilities to shareholders and not the policyholders and pension scheme members. This is undermining confidence in insurance, life insurance and pension business and impacting negatively on savings mobilisation.
97. In order to restore confidence in the pension and insurance business, Treasury has directed IPEC to provide guidelines on industry wide conversion process to retain some value in their policies and pension accumulations.

## Prescribed Assets

98. Following the review of the minimum prescribed asset thresholds for the insurance and pensions industry in the 2019 National Budget Statement, most industry players are not compliant with the revised minimum prescribed asset thresholds as at 30 September 2019 as summarised in the following table:

Compliance to Prescribed Assets by Class of Business (%)

Industry	Minimum Prescribed Asset Threshold	Compliance as at 31 March 2019	Compliance as at 30 June 2019	Compliance as at 30 Sept. 2019
Pension Funds	20	7.32	7.25	5.64
Life Assurance	15	13.70	13.62	5.74
Short – Term Insurance	10	3.50	4.60	3.10
Funeral Assurance	10	1.62	0.53	0.12
Short – Term Reinsurers	10	10.50	19.08	1.30
Composite Re-insurance	15	5.82	2.63	1.80

99. Industry players are urged to ensure adherence to their compliance plans.

## Review of Minimum Capital Requirements for Insurance Entities

100. The obtaining macro-economic environment have necessitated upward review of minimum capital requirements for different players in the insurance industry to ensure that entities are well capitalised for the protection of value for policy holders and pension members.

101. Consequently, minimum capital levels will, with immediate effect, be reviewed as shown on the table below:

**Minimum Capital Requirements**

Class of Business	Current MCR (ZWL\$m)	Compliant Entities as at 30 Sept. 2019	Non-Compliant Entities as at 30 Sept. 2019	Proposed MCR (ZWL\$ m)
Short-term	2.5	17	1	37.5
Life	5	11	1	75
Funeral	2.5	6	2	37.5
Re-insurance	5	4	0	75
Micro-insurance	0.3	1	0	4.5

102. Meanwhile, IPEC is developing a risk-based capital framework, the Zimbabwe Integrated Capital and Risk Project (ZICARP), which will be launched in 2020.

**Review of Preservation and Minimum Commutable Pension**

103. It is recommended that the pension preservation amount be reviewed from the current ZWL\$600 to ZWL\$6,000 in order to ensure that the amount preserved is decent enough to warrant payment of a deferred pension at retirement, after meeting preservation expenses.

104. It is further proposed that the minimum commutable pension be reviewed from ZWL\$50 to ZWL\$500 per month, in line with inflation developments in the economy.

### **Weather Index-Based Insurance**

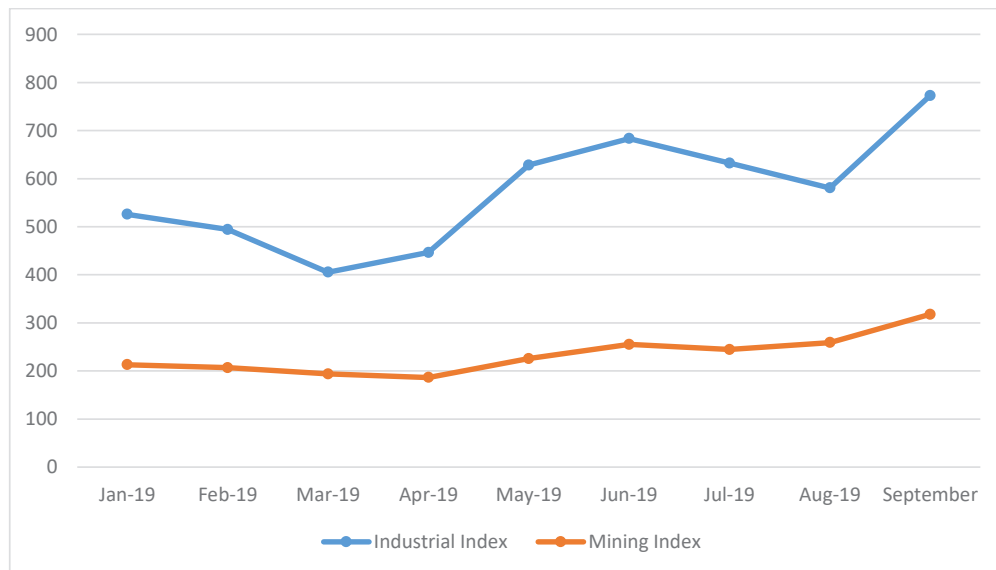
105. Pursuant to the Transitional Stabilisation Programme objective of enhancing agricultural insurance, and in line with the National Financial Inclusion Strategy, IPEC is developing a regulatory framework for weather indexed insurance products.
106. It is envisaged that the framework will enhance regulation of weather index-based insurance products in order to build resilience and ensure policy holder protection in the agricultural sector.

### **Zimbabwe Stock Exchange**

107. Foreign investors' participation at the Zimbabwe Stock Exchange has remained subdued at 34%, mainly due to challenges faced in repatriation of profits and capital in terms of acquiring for the requisite foreign currency.
108. The mining index at the start of the year was 213.1, dropped in April to 186.5, steadily rose to 255.3 in June and closed on a high note at 317.75 in September 2019. The increase in the mining index was largely attributed to mining houses performing very well coupled with the increase in gold and silver global metal prices.
109. The industrial index kicked off the year at 525.9 and ended at 772.94 in September 2019, a 56% increase. The demand for shares in this sector remained high as many people were buying shares to preserve their monetary value, as shown in the table below:-

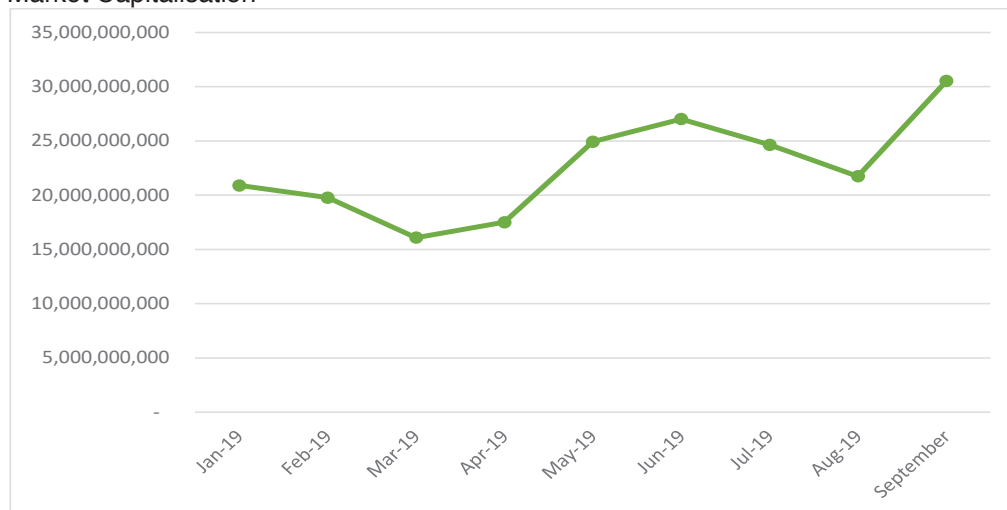


### ZSE Indices



110. It is projected that the remainder of the year will maintain a steady growth in both the mining and industrial indices as the economy begins to stabilise. The high trading in both the mining and industrial shares is reflected by the market capitalisation which has been on a sharp increase, from ZWL\$20.8 billion at the beginning of the year to ZWL\$30.5 billion in September 2019, as shown below:

### Market Capitalisation



111. In order to stimulate investment diversity and drive financial inclusion in small enterprises and retail customers, the amendment to Collective Investment Schemes will pave way for investments in real estate investments trust schemes, property fund, commodity fund, exchange traded funds, private equity fund and venture capital funds, among others.
112. The venture capital funds will utilise the existing Alternative Trading Platform (ATP) or exchange to list shares of companies financed by venture capital funds.

### **Review of the Financial Sector Legislation**

113. Amendments to various pieces of legislation pertaining to the financial sector are underway with the objective of strengthening the supervision and regulation of financial sector entities, curb speculative tendencies and also align to international best practice.
114. In this regard, amendments to the Securities and Exchange Act, IPEC Act, Insurance Act, Pension and Provident Funds Act, Money Laundering and Proceeds of Crime Act, Banking Act and Deposit Protection Corporation Act are at various stages of processing.

### **Anti-Money Laundering**

115. Since adoption of the Mutual Evaluation Report (MER) under the Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG) in September 2016, Zimbabwe has been going through assessments to ensure compliance with the Financial Action Taskforce (FATF) standards.

116. Whereas significant progress has been recorded in terms of aligning our laws to address short comings identified through the MER, with 33 out of 40 FATF recommendations having been rated compliant or largely compliant, some deficiencies emanating from effective implementation of the legislation have been noted.
117. Outstanding deficiencies relate to the need to ensure full understanding and comprehensive assessment of money laundering, terrorist and proliferation of financing risks across all sectors, and development of a national policy on AML/CFT based on the assessed risks.
118. Implementation of the risk-based approach across all financial institutions and designated non-financial businesses and professions (DNFBPs) particularly real estate, lawyers, casinos, and dealers in precious stones and minerals, among others, is also key.
119. Zimbabwe will address all its deficiencies by 2021 in order to fully comply with the FATF, and avoid facing financial sanctions.

*Financial Intelligence Independency*

120. As we continue to strengthen anti-money laundering and combating financing of terrorism, it has become urgent that we embrace a framework for an independent Financial Intelligence Centre outside the Central Bank and MDAs.
121. This enables better realisation of effectiveness in AML/CFT/PF.

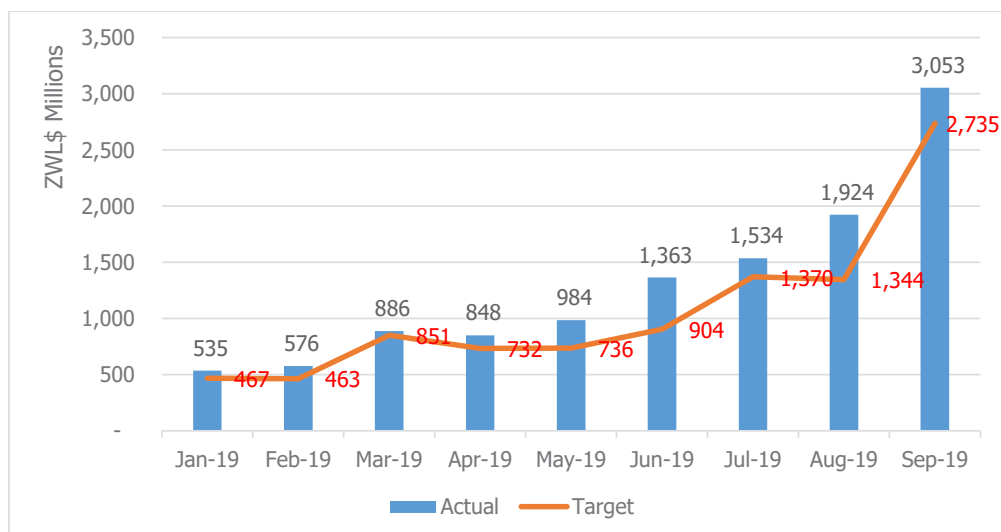
## BUDGET PERFORMANCE IN 2019 AND OUTLOOK

122. Consistent with the TSP and 2019 Budget thrust, Government observed the principle of fiscal consolidation beyond the first half of the year, enabling realisation of surpluses.
123. Through the 2019 Mid-Year Budget Review, Treasury sought Parliament’s approval for a Supplementary Budget to accommodate incremental expenditures on account of exchange rate and inflation movements, taking into account improved revenues inflows.

### Revenues

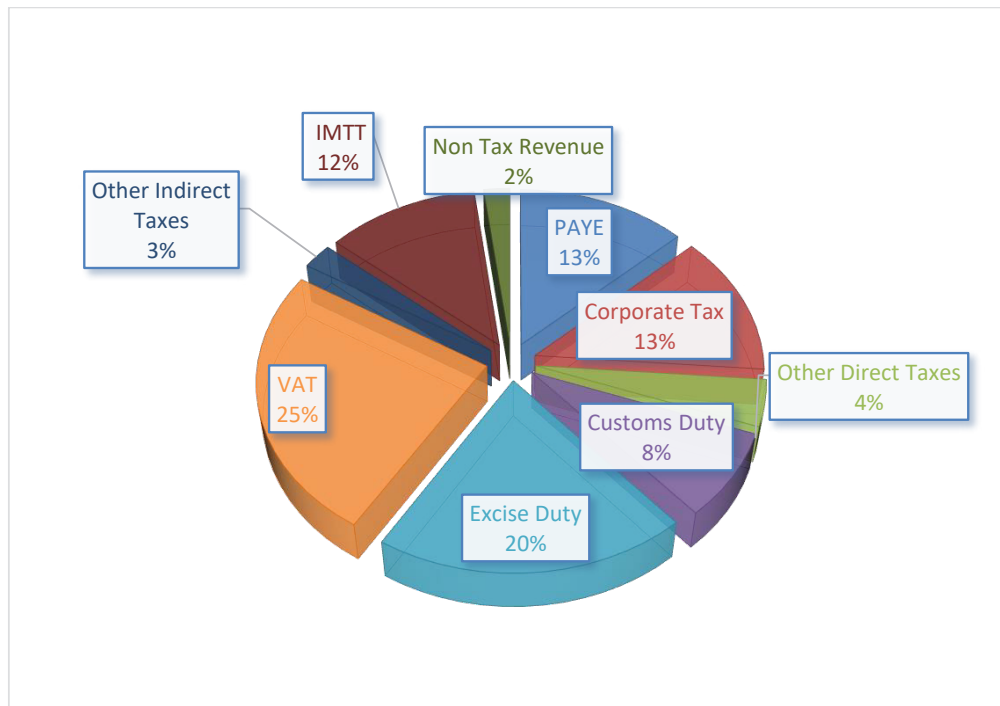
124. Implementation of reforms on modernising revenue collection systems and curbing of leakages coupled with inflation windfalls saw cumulative revenue collections for the first nine months of the year at ZWL\$11.3 billion.

Revenue Performance



125. In terms of contributions, VAT and excise duty constituted main sources with 25% and 20%, respectively.

Contributions of Revenue Heads



Source: MOFED

126. Revenue collections to year end are projected at ZWL\$21 billion, well above the Mid-Year projection of ZWL\$14.8 billion.

### Expenditures

127. Expenditures up September 2019 were ZWL\$10.5 billion.

### Expenditures (ZWL\$M): Jan – Sept 2019

	Budget Estimate	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Total
Employment Costs	4,050.1	327.4	356.8	330.8	371.3	393.8	377.4	561.2	402.0	1,057.8	4,178.6
Operations & Maintenance	1,016.3	27.7	71.3	102.8	154.9	142.2	401.0	440.9	346.4	642.2	2,329.3
Interest	351.1	29.8	16.7	46.8	31.1	36.4	28.5	30.0	12.5	27.9	259.9
Transf. to Local Authorities	310.0	0.0	0.0	0.0	0.0	39.7	1.5	78.8	0.0	37.4	157.4
Capital Expenditures	2,037.9	0.1	76.5	96.6	138.3	245.9	342.6	229.1	626.5	1,772.9	3,528.6
<b>Total</b>	<b>7,765.4</b>	<b>385.</b>	<b>521.</b>	<b>577.</b>	<b>695.</b>	<b>857.</b>	<b>1,151.</b>	<b>1,340</b>	<b>1,387.5</b>	<b>3,538.2</b>	<b>10,453.8</b>

Source: MoFED

128. While the Mid Term Review projected cumulative expenditures of ZWL\$18 billion, revised estimates are now at ZWL\$26.2 billion.
129. This figure incorporates all outside the budget expenditures related to various subsidies and agricultural and drought related expenditures, as well as unanticipated cost escalations on capital projects and other Government operations, including employment costs estimated at 35.1% of total expenditure.

### *Budget Deficit: 2019*

130. Based on year end projections for revenues and expenditures, a budget deficit of ZWL\$5.2 billion is anticipated. This translates to 4% of GDP in line with the Supplementary Budget and BSP targets.

### **Financing**

131. Over the period January to August 2019, the Budget has been running surpluses on a cash basis. Consequently, the 2019 Budget restricted TB issuances for cash flow smoothing and restructuring of maturities.
132. In terms of dealing with maturing debt, long term TBs (5-15 years) were issued with regards to the following:

- Overdraft of ZWL\$2.9 billion;
  - Maturing TBs of ZWL\$711 million; and
  - Cash advances to Government by RBZ of ZWL\$318 million.
133. With regards to the 2020, a near Budget balance is envisaged, that way restricting financing requirements to cash flow smoothening.

### **Public Debt**

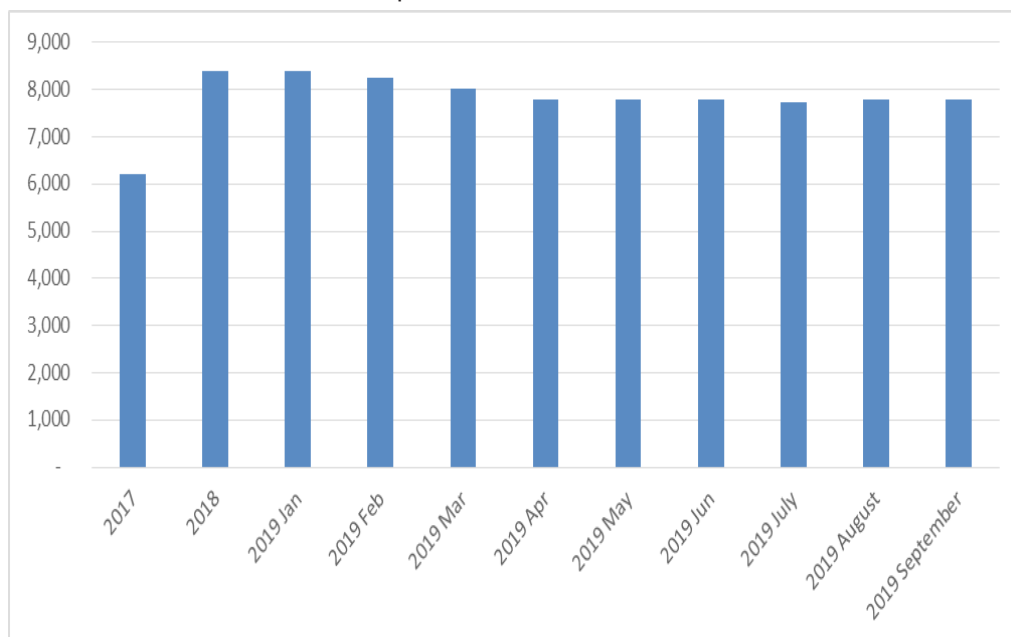
134. Total Public and Publicly Guaranteed (PPG) debt remains unsustainably high, due to the continuous accumulation of arrears, as well as expansion in domestic debt.

### *Domestic Debt*

135. Government has in recent years been relying on the domestic financial markets to meet its budget financing needs. This resulted in the rise of the public domestic debt.
136. Since 2017 there has been a huge increase in domestic debt. However, since end of 2018, domestic debt has been stabilising reflecting improved management of the fiscus together with some increased debt service repayments.
137. This was realised through implementation of the following measures:
- Zero recourse to RBZ financing, including the overdraft facility;

- Restructuring into long term marketable instrument of the RBZ overdraft facility, cash advances and Treasury bills held by RBZ into long-term marketable instruments;
- No additional issuances of TBs for ZAMCO from 2019; and
- Limited issuances of Treasury bills through private placement and introduction of the auction system.

Domestic Debt Trend 2018 to September 2019 ZWL\$ millions



### *External Debt*

138. External debt stood at US\$8 billion as at end 30 September 2019. The external arrears prevent the country from accessing new financing from the International Financial Institutions (IFIs), traditional bilateral and commercial creditors.



139. As a signal to its commitment to the re-engagement process, Government resumed token payments to IFIs in April, 2019, which will be continued in 2020.

### **Staff Monitored Programme**

140. As part of the roadmap to arrears clearance, Government signed a Staff Monitored Programme (SMP) with the International Monetary Fund (IMF) covering the period May 15, 2019 to March 15, 2020 with quarterly performance reviews.

141. The SMP seeks to assist the country to implement key reforms as outlined in the Transitional Stabilisation Programme (TSP) and build a track record of implementing sound economic policies as it seeks to normalise relations with the international community.

142. As at end June 2019, Government met the following quantitative targets:

- Floor on primary budget balance of central government, with Government realising a surplus, against a targeted deficit of ZWL\$1.22 billion;
- Floor on social protection spending, Government spent ZW\$268 million against a target of ZW\$225 million; and
- Ceiling on changes in Net Domestic Assets of the RBZ.

143. However, a difficult macro-economic environment and other shocks, caused setbacks on some quantitative targets related to floor on the

stock of official international reserves, ceiling on new non-concessional external debt contracted or guaranteed by the central Government and ceiling on credit to the non-financial public sector from the RBZ.

144. It is critical that the SMP be executed to its completion.

### **Development Partner Support**

145. Implementation of Government development programmes continues to benefit from support provided by Development Partners.
146. This has gone a long way in improving livelihoods, as well as ensuring that no one is left behind, especially in the aftermath of the devastating effects of Cyclone Idai and the drought experienced during the 2018/19 cropping season.
147. Cumulative disbursements by Development Partners to end September 2019 amounted to US\$331.2 million, of which US\$194.1 million was from Bilateral Partners and US\$137.1 million was from Multilateral Partners.
148. Cumulative support from Development Partners to end December 2019 is projected at US\$610.4 million, with Bilateral Partners contributing US\$449.1 million and Multilateral Partners US\$161.3 million.
149. In 2020, Development Partners support is projected at US\$677.6 million, with Bilateral Partners contributing US\$506.7 million and Multilateral Partners US\$170.9 million.

150. Actual Development Partner Support disbursements for 2019 and projected disbursements for 2020 are broken down as follows:

Development Partner Support (2019 & 2020)

Development Partner	Jan to Sept 2019 (Actual)	Projected 31 December 2019	Projected 31 December 2020
Bilateral			
USA	50,064,531	252,722,653	252,722,653
UK	50,000,375	83,460,375	112,992,500
European Union	41,086,881	59,731,595	72,947,916
Sweden	28,050,000	28,050,000	10,590,000
China	3,631,500	3,881,500	46,211,500
Japan	14,293,496	14,293,496	11,245,953
India	500,000	500,000	-
Switzerland	6,425,180	6,425,180	-
Sub – total	194,051,963	449,064,798	506,710,522
Multilateral			
Global Fund	88,684,303	88,684,303	116,728,288
World Bank	400,000	24,650,000	26,600,000
AfDB	21,401,088	21,401,088	3,412,133
UNICEF	8,810,587	8,810,587	7,809,000
UNDP	3,788,439	3,788,439	3,054,000
WHO	9,400,461	9,400,461	-
UNFPA	2,733,164	2,733,164	3,780,249
IFAD	712,639	712,639	6,436,751
FAO	732,782	732,782	644,000
ILO	329,760	329,760	1,050,000
IOM	-	-	373,457
ITU	62,000	62,000	-
UNESCO	58,670	58,670	-
IAEA	-	-	537,766
UNCTAD	-	-	500,000
Sub – total	137,113,893	161,363,893	170,925,643
GRAND TOTAL	331,165,856	610,428,692	677,636,164

Source: Ministry of Finance & Development Partners

151. The development assistance sectoral breakdown for the period under review is as follows:

Sectoral Disbursements

Sector	Projected 31 December 2019 (US\$)	2020 Projections (US\$)
Agriculture	148,228,906	134,703,869
Transport	8,235,453	11,181,820
Power and Energy	7,831,785	2,031,400
Water and Sanitation	15,659,081	15,825,000
Health	316,224,754	360,745,139
Education	15,613,382	35,294,250
Governance	35,932,499	41,827,425
Multi-sector	23,831,475	21,838,887
Humanitarian	4,709,214	30,000,000
Capacity Building	10,607,142	6,628,439
Basic Social Services	23,555,000	17,559,936
TOTAL	610,428,692	677,636,164

Source: Ministry of Finance & Development Partners

152. Government reiterates that *free funds* from international organisation, non-governmental organisation, Missions and Embassies may be used through Nostro FCA transfers for their operations, including settlement of local contracts.
153. In the spirit of partnership, Government is taking a pro-active role to address concerns our partners and many other stakeholders continue to raise over cost of corruption, transparency and accountability, security of tenure and investment climate/framework in mining.

### *Cyclone Idai*

154. The Cyclone Idai weather phenomenon negatively impacted on the livelihoods of the people in the affected areas of Manicaland (Chimanimani and Chipinge), Masvingo and Mashonaland East, giving rise to devastating impact on human security and destruction of infrastructure.
155. In this regard, His Excellency, Cde E. D. Mnangagwa declared a National Disaster appealing for assistance from the international community on 16 March 2019, in respect of areas affected by Cyclone Idai in line with subsection (1) of section 27 of the Civil Protection Act (Chap 10:06) of 1989. Government acknowledges the contributions and pledges from Development Partners, which are now in excess of US\$163.1 million for medium-term resilience disaster recovery.
156. The above resources complemented Government's efforts to restore livelihoods and rehabilitate damaged infrastructure in the affected areas covering the following:
- Reconstruction of roads, bridges, and power supply infrastructure;
  - Construction of water and sanitation facilities for affected communities in Chimanimani and Chipinge; and
  - Institutional strengthening and capacity building on emergency preparedness, including early warning systems, as well as recovery process management.

### *Drought*

157. The 2018/19 induced drought adversely affected the country's agricultural production and food security in the 2018-2019 agricultural season with an estimated 3.7 million people requiring humanitarian assistance between the period July 2019 and April 2020 at an estimated cost of US\$467.9 million.
158. With the declaration of a State of National Disaster in August 2019, a Revised Zimbabwe Humanitarian Appeal on 3 August 2019 by the Government and the United Nations (UN) facilitated the mobilisation of US\$152.1 million or 32.5% of the humanitarian needs prioritised under the Revised Flash Appeal (January to June 2019).

## **THE 2020 MACRO-FISCAL FRAMEWORK**

159. Informed by the above economic developments and outlook, growth of 3% is envisaged in 2020. Accordingly, revenue collections for the year are estimated at ZWL\$58.6 billion.
160. In order to avoid undesirable impact of deficits on money supply and macroeconomic stability, the 2020 Macro Fiscal Framework espouses a low Budget deficit of around 1.5% of GDP to give expenditures of ZWL\$63.6 billion.

## Macro-Fiscal Framework 2020

	2018	2019	2020	2021	2022
National Accounts (Real Sector)					
Real GDP (ZWL\$m)	19 845.7	18 555.2	19 114.1	19 738.3	20 998.0
Nominal GDP (ZWL\$m)	44 331.9	130 768.5	340 094.5	42 9626.9	46 9442.3
Real GDP Growth (%)	3.4	-6.5	3.0	3.3	6.4
Government Accounts					
Revenues (ZWL\$m)	5 491.4	21 000.1	58 641.0	78 685.0	82 395.0
% of GDP	12.4	16.1	17.2	18.3	17.6
Expenditures (ZWL\$m)	7 857.9	26 188.7	63 641.0	78 685.0	82 395.0
% of GDP	17.7	20.0	18.7	18.3	17.6
Recurrent Expenditures (ZWL\$m)	5 182.9	17 720.7	38 851.0	55 013.9	56 664.0
% of GDP	11.7	13.6	11.4	12.8	12.1
Employment Costs (ZWL\$m)	3 934.7	7 700.0	17 751.4	34 889.1	36 909.7
% of GDP	8.9	5.9	5.2	8.1	7.9
Capital Expenditure (ZWL\$m)	2 675.0	8 468.0	24 790.0	23 671.2	25 731.0
% of GDP	6.0	6.5	7.3	5.5	5.5
Overall Balance (ZWL\$m)	-2 366.5	-5 188.6	-5 000.0	0.0	0.0
% of GDP	-5.3	-4.0	-1.5	0.0	0.0

### *Retention Funds*

161. In 2020, retention funds are projected at ZWL\$2.1 billion.
162. Members will recall that with effect from 2018 retentions were subjected to Parliamentary appropriation process to enhance transparency and accountability.
163. The thrust was to ensure that, while the income remained earmarked to address specific objectives specified in each Fund's constitution, the expenditure estimates were subjected to scrutiny by both the Treasury and Parliament with respect to prioritisation.

164. To enhance retention funds accountability and transparency and to comply with best practices, Retention Funds will be expected to wind up in 2020, and be part of Consolidated Revenue Fund to Treasury beginning Fiscal Year 2021.
165. Ministries and departments are therefore being directed to proceed to ensure that procedures to wind up Retention Funds are implemented by 31 December 2020 with the income streams being directed to the Consolidated Revenue Fund with effect from January 2021.

#### *Statutory Funds*

166. Statutory Funds are projected at ZWL\$2.6 billion during the 2020 budget year. These funds are constituted pursuant to the provisions of specific Acts of Parliament that stipulate their respective mandates in line with its obligation to exercise a general direction and control over public resources.

#### **Coherent Fiscal and Monetary Policies**

167. The parameters of the 2020 Budget face downside risks which require mitigation to sustain the much needed macro-economic stability and sustained growth.

#### **Fiscal Policy**

168. The attainment of the 2020 Budget targets and projections depends on appropriate fiscal and monetary policies that reinforce each other to bring stability.



169. The fiscal policy objective in 2020 is, therefore, directed at managing spending (a) within the Budget (b) through non-inflationary financing and (c) complemented by a tight monetary policy.

Specific Principles for a sound Budget

- Deliver a sustainable overall Budget balance consistent with SADC thresholds. Under tight circumstances, an annual deficit of up to -5% of GDP may be temporarily recorded, while resolving the crisis. However, in our quest for immediate macro stability, a near balanced budget from 2020 is an urgent objective.
- Zero tolerance on expenditures outside the Budget and without Parliamentary approvals. Observance and enforcement of *'hard'* Budget constraints is integral.
- Prioritise infrastructure including social sectors investments;
- Take a strict prudent approach to ensure expenditures are phased, controlled and directed to maximise benefits.
- Ensure a progressive taxation system that is fair, balanced and promotes the long-term sustainability and productivity of the economy.

170. In addition, it is paramount that both fiscal and monetary authorities observe public finance management laws and regulations, as well as principles of transparency and accountability in order to regain lost confidence.

171. For that purpose, the PFMS Act will be further strengthened with relevant fiscal responsibility provisions, while ensuring that all expenditure

commitments go through the Financial Management Information System (IFMIS).

172. Strict adherence to the procedures laid out in the Public Finance Management Act [Chapter 22:19], including the issuance of warrants by the Accountant General prior to any spending commitment made by an Accounting Officer will also be enforced.
173. Furthermore, fiscal policy pays increased attention to the following specific risks for the success of the 2020 Budget:

#### ***Spending Outside Budget***

174. In 2019, spending outside the Budget and macro-economic shocks disrupted attainment of the TSP targets. Refraining from unbudgeted activities and borrowing from the Central Bank will, therefore, constitute a key obligation for both Treasury and the Central Bank Authorities from 2020.

#### ***Wage Pressures***

175. The prevailing inflationary environment has eroded incomes for most workers. Government is committed to ensuring a decent standard of living to public servants, and will take inflationary developments (COLA) into account in the ongoing wage negotiations.

176. Meanwhile, Treasury has made arrangements to pay all civil servants their bonuses in November 2019.

### ***Subsidies and other Market Distortions***

177. Market distortions associated with subsidies present an additional risk to macroeconomic and fiscal stability. In particular, subsidies on fuel, electricity and agriculture have, in the past, led to large and often unpredictable expenses.
178. Where subsidies are deemed essential and can be financed, these will need to be clearly targeted and reflected in the Budget with adequate budgetary provisions.
179. To ensure effective implementation of the proposed subsidy policy, additional measures will be taken to tighten eligibility to subsidised goods and services so that only those who are eligible can benefit.

### ***Fuel and Electricity Pricing***

180. Government has already instituted new pricing frameworks for fuel and electricity that adequately reflect costs, including those resulting from changes in import prices and exchange rate fluctuations.
181. The pricing framework for fuel also ensures that pump prices remain comparable to those charged in neighbouring countries, so as to remove arbitrage opportunities arising from illicit fuel exports.

*New Grain Subsidy Model*

182. The current subsidy policy whereby Government funds the procurement of grain at market price and sell this to registered grain millers at subsidised price, has been open to abuse and placed a huge burden on the fiscus. At times the intended beneficiaries do not enjoy the benefits of the subsidy from Government.
183. To address these distortions, Government, will, with effect from January 2020 remove the existing grain marketing subsidies for maize and wheat, that were being provided to Grain Millers through the Grain Marketing Board. The intervention will see GMB selling wheat and maize at market prices, with Grain Millers having an option to either import or purchase grain from GMB. This means the prices of basic commodities such as bread and mealie meal may adjust.
184. In order, to protect vulnerable groups of our society, Government will extend targeted subsidies on the production of roller meal, cooking oil and the standard loaf of bread.
185. A reimbursement system will be implemented in order to extend the subsidy to the producers of roller meal, cooking oil and standard bread through tax set off arrangements where possible, and voucher schemes.

### *Public Transport*

186. To cushion the commuting public against the rising cost of transport, Government will continue to subsidise a Mass Transport System, as well as capacitate ZUPCO to provide an efficient public transport system.
187. In this regard, ZUPCO will be capacitated to purchase more reliable conventional buses.

### *Single Exchange Rate*

188. In order to further remove unbudgeted subsidies, as well as avoid their resurgence, Government will apply a single exchange rate regime throughout all sectors of the economy to avoid implicit subsidies arising from preferential allocation of foreign exchange at below-market exchange rates, as it was previously the case for fuel imports and other prioritised goods.

### ***Financing Modalities of Agriculture***

189. The current financing model for agriculture places an unfair share of the burden to Government, notwithstanding the commercial nature of agriculture warranting enhanced financing support from private players. The model has created opportunities for arbitrage, leakages and corruption, presenting a risk to macro-stability and the Budget.
190. In line with smart agriculture thrust which seeks to promote productivity and sustainable financing, Government reiterates the policy position

of financing commercial agriculture, including Command from being Government-led to bank-led, with Government providing guarantees to banks.

191. In the same vein, resolution of the bankable 99 Year Leases will gradually remove the necessity of the Government guarantees.
192. Ultimately, direct financing support by Government will be targeted at vulnerable households as a social protection activity. Similarly, the 2020 Budget provision for this subsidy takes cognisance of rising prices for inputs.

### ***Cost Escalations***

193. An unstable macro environment with high inflation poses risks to implementation of various planned projects and programmes through unforeseen costs and price escalations.
194. To safeguard the targets of the 2020 Budget, appropriate non-inflationary financing plans which spreads-out payments and imports particularly related to capital projects, maize importation, inputs under Presidential Inputs Scheme among others will be developed.

## THE 2020 BUDGET PRIORITIES AND ALLOCATIONS

### *Budget Bids*

195. For 2020, Ministries have presented huge resource requirements amounting to more than ZWL\$136 billion, against projected revenues of ZWL\$58.6 billion. With a targeted deficit of ZWL\$5 billion, a 2020 Budget expenditure ceiling is proposed at ZWL\$63.6 billion.

### **Priority Areas**

196. Over a long period of time, the economy has endured under-investment, virtually in almost all sectors. The bigger portion of National Budget resources were primarily directed to current budget expenditures, that way undermining all infrastructure and other developmental programmes which ironically supports both stabilisation and growth objectives.
197. Therefore, as already alluded above, the 2020 Budget prioritises the following areas:
- Enhancing productivity for growth;
  - Target job creation;
  - Equitable development; and
  - Strengthen competitiveness.

## ENHANCING PRODUCTIVITY FOR GROWTH

198. The stabilisation reforms started from the last quarter of 2018 lay a firm foundation for enhancing productivity for sustainable economic growth. The thrust for the 2020 Budget is centred on ramping up productivity in the agriculture, manufacturing, mining and services sectors to create jobs and reduce imports.
199. This will be complemented by policies around formalisation of the informal sector concurrent with entrepreneurship and sustainable SMEs development.

### *Domestic Savings*

200. Mobilisation of domestic savings will be key for supporting growth initiatives during 2020. Treasury and the Reserve Bank will continue implementation of the necessary reforms to restore confidence in the financial sector and hence encourage savings.
201. Engagements are also ongoing with the financial sector for them to offer positive returns on deposits. Furthermore, Treasury will consider issuance of inflation indexed instruments to guarantee return on savers in view of the prevailing inflationary environment.
202. However, increased domestic savings will also depend on our efforts in growing the economy under a low inflation environment.



## **Agriculture**

203. Agriculture remains a major driver of growth, and is projected to expand by 5% in 2020, on the back of better expected rainfall and forward planning.
204. Government is also embracing Climate Smart Agriculture (CSA) which harmonises agriculture development with environment protection and reduction in vulnerabilities to climate change.
205. In line with this thrust, emphasis will be on better planning, shared financing burden between government and private players, productivity which also relies on irrigation and marketing systems which guarantee farmer viability.

### *Better Planning*

206. The 2020 Budget makes a turning shift from ad-hoc planning to forward planning, particularly in terms of availability of inputs on the market. Therefore, the Budget will, starting in January 2020, establish an appropriate financing plan which causes early build up and ring-fencing of both local currency resources and forex in support of domestic inputs producers and critical imported inputs.



207. This resolves the challenge of agriculture demands competing with other programmes for both domestic and forex resources during the last quarter of the year, which apparently coincides with the start of summer cropping season.

*Dealing with Climatic Shocks*

208. Over the years, Zimbabwe has been experiencing severe droughts at a rate of 1 in ten years and mild droughts of 1 in 3 years. It is evident that the economy is agro driven resulting in booms in a good agriculture years and lows in bad rainfall periods, especially drought years as indicated below.

GDP Growth (%)



209. There are chances that 2020 would experience another unpredictable season. These developments, if they materialize, may escalate Government expenditures on grain, infrastructure rehabilitation and disease control.



210. Government is, therefore creating a fiscal buffer to the tune of ZWL\$165 million to cater for drought shocks, as well as strengthening the early warning systems. Other, drought proofing measures such as investment in irrigation infrastructure, dam construction and desalination as well as research and extension services, adoption of drought resistant varieties (traditional grains) will be put in place during the 2020 agricultural season.

*Irrigation and Food Security*

211. Under the 2020 Budget, irrigation development is receiving top priority in order to guarantee food security in the country. Government will, therefore, target enough irrigable hectrage for support to guarantee grain production of around 1.8 million tonnes. For this purpose, capable farmers with irrigation facilities will be identified with a view of contracting and supporting them to produce required grains specifically for food security.



212. Similarly, the 200 ha per district irrigation programme will be supported, taking advantage of Smart Agriculture, which also promotes solar irrigation systems.
213. For the total irrigation programme, the Budget provides ZWL\$422.8 million.
214. The private sector is also invited to contribute in irrigation and other related infrastructure development for agriculture. This includes investments in de-siltation of rivers and dams to restore the water ecosystem.

#### *Weather Early Warning System*

215. To strengthen the country's early warning weather reporting system, the 2020 Budget proposes to allocate resources amounting to ZWL\$165 million for the procurement of a weather radar system equipment.

#### *Animal welfare & disease control*

216. Over and above the challenges related to drought conditions, animal diseases are a major threat to productivity and competitiveness in the livestock sector. In 2019 and 2019, over 100 000 cattle deaths have been recorded in various parts of the country.

217. The 2020 Budget, therefore, proposes resources amounting to ZW\$521.9 million, be availed towards the control of animal and zoonotic diseases, as well as animal welfare with the view to minimise the risk of diseases within farming regions.
218. The thrust is to ensure that there is no recurrence of Foot and Mouth Disease (FMD) in the non-traditional areas of Mashonaland and Manicaland provinces and carry out regular vaccinations in the traditional red zones.
219. Furthermore, the Budget will also provide for the construction and rehabilitation of dip tanks, as well as completing the erection of the remaining 167km fence at Gonarezhou National Park to stop buffalo-cattle contact for the control of FMD.

### *Marketing Systems*

220. Commodities exchange markets for agricultural produce, help to develop the agricultural markets and improve food security in the country, as farmers will be able to get real time pricing information. Lessons from Ethiopian agriculture commodity exchange model which brought benefits within five years can assist the country in designing its own unique marketing scheme.



221. Hence, initiatives to build the commodity exchange market framework will be supported by the Budget.

*Utilisation of Land*

222. Prevailing land under-utilisation especially by beneficiaries of the Land Reform Programme undermine efforts on food security.



223. In this regard, the 2020 National Budget will avail resources to complete the Land Audit process to enable rectification of the anomalies under this issue. Speculative “farmers” will ultimately be weeded out of farms, paving way for genuine farmers.

#### *Compensation of Former Commercial Farmers*

224. Government is concluding the evaluation exercise to facilitate the compensation of former commercial farmers. To date, approximately 769 former farm owners consented to the interim payment scheme, with over 500 farmers having been paid.
225. In 2019, a total of ZWL\$68 million was availed towards former farm owners and the 2020 Budget is also setting aside ZWL\$380 million for interim land compensation in line with the Constitution and BIPPAs, targeting vulnerable groups and the elderly.



226. In addition, consultations with the International Financial Institutions and other stakeholders on sustainable options for mobilizing the requisite compensation resources are being expeditiously explored.

#### *Extension Services*

227. The 2020 Budget allocates ZWL\$340.1 million towards agricultural extension and advisory services to facilitate dissemination of agricultural information, new technologies and improved agricultural practises.

#### **Mining**

228. Realisation of the US\$12 billion mining industry by 2023 will be advanced through the 2020 Budget. The sector is projected to rebound to 4.7% on account of the expected improvement in the electricity situation.

229. Government is aware of challenges related to ring-fencing arrangements, retentions, gold deliveries to Fidelity Printers, among others, and these are receiving attention.

230. Going forward, investment agreements in platinum, gold and chrome, which have been concluded, are expected to boost output in the sector.

231. Furthermore, capacitation programme being managed by Fidelity Printers and Refiners, Ministry of Mines and Mining Development and other

development partners will support small scale miners with appropriate skills, equipment and modern technologies in mineral recoveries from ores.

232. Minerals Marketing Corporation of Zimbabwe will be supported through a credit guarantee scheme to provide funding and support to non-gold sector.

233. Other interventions on improving production and transparency in the mining sector include the following:

- Enforcement of the “*use it or lose it*” principle to prevent speculative hoarding of claims across all minerals;
- Finalising the amendments to Mines and Minerals Act;
- Operationalising the automated mining cadastre information system;
- Rolling out of gold service centres in all major production centres; and
- Full capacitation of HCCL to increase throughput from underground mine.

234. Accordingly, the Budget is allocating ZWL\$293.2 million to the Ministry of Mines and Mining Development for its capacitation in the areas of planning, exploration, data capture and automation, among others.

### *Extractive Industry Transparency Initiative*

235. In addition, with the increased call for transparency and accountability in the sector, discussions are underway with various stakeholders on joining the Extractive Industry Transparency Initiative (EITI), which will be pursued during 2020.

### *Curbing Mineral Leakages*

236. Mineral exports remain the major sources of foreign currency, especially gold. However, leakages have been on the rise, depriving the country of foreign currency earnings.
237. Government is therefore reviewing and tightening the Gold Trade Act, and capacitating the Gold Mobilisation Unit.

### **Industry**

238. The manufacturing sector has immense scope for promoting our value addition thrust and hence facilitate higher value added output, value chains, diversification, export earnings and import substitution, which all underpin the growth and job creation thrust of 2020 Budget.
239. The traditional constraints such as shortages of foreign currency, power shortages, utilities, high production costs, as well as low aggregate demand which hinder industrial productivity are receiving attention. Therefore, the 2020 Budget is accordingly implementing the Zimbabwe National Industrial Development Policy.

*Zimbabwe National Industrial Development Policy*

240. The Zimbabwe National Industrial Development Policy seeks to support innovation-led and investment-led industrialisation to increase capacity utilisation to above 70% by 2023, through targeting the following pillars and strategies:

- Import Substitution
- Export-led Industrialisation
- Strengthening Value Chains
- Mineral Beneficiation and Value Addition
- Industrial Parks and Innovation Hubs

241. Treasury will capitalise the Industrial Development Corporation (IDC) by ZWL\$240 million to enable it undertake its mandate effectively. IDC will focus on promotion of research and development to increase productivity, diversification and broadening product range and creating opportunities for job creation.

242. Treasury will also, provide a guarantee scheme for companies to access capital from financial institutions for retooling purposes.

243. Overall, the Ministry of Industry and Commerce is allocated ZWL\$368 million.

244. This thrust will also be supported by advancing the Ease of Doing Business Reforms, as well as addressing the key issues of energy and foreign currency shortage.

#### *Diversification*

245. The economy remain highly prone to external shocks owing to heavy reliance on raw exports, among other challenges. The 2020 Budget will therefore pursue promotion of value addition and beneficiation strategy.

246. From the fiscal point of view, incentives will be extended to exporters while the rest of Government improves the removal of administrative impediments such as export permits for exporters.

247. In addition, initiatives on value chains will receive fiscal support, thus diversifying exports and supporting linkages between various sectors of the economy.

#### **Import Substitution and Export Stimulation**

248. The country imports a lot of goods and services that can be locally produced, causing de-industrialisation and sustaining higher trade deficits and exporting jobs in the process.

249. The 2020 National Budget will, therefore, actualise value chains through the Local Content Strategy by supporting domestic production of products which the country has a comparative advantage.

## Cotton to textile



250. In line with available capacity, initially the support is targeted at the following areas:

- Pharmaceuticals;
- Tyre production;
- Hides/leather processing; and
- Steel production.

251. Treasury is, therefore, packaging respective fiscal incentives for this purpose.

### *Zimbabwe Steel Industry*

252. The revival of the Zimbabwe Steel industry remains key for the local industry. In this regard, Government, will continue to seek local and international investors in order to revive the industry.
253. Additionally, the Budget will promote venture capital to support ailing industries and start-ups which are an important vehicle for the resuscitation of the local industry.

### **Development of Rural Growth Poles**

254. The devolution programme should embrace the rural growth poles development model anchored by cascading Special Economic Zones to the respective growth poles. Growth poles will, therefore, be considered on the basis of comparative advantage of the area.
255. Local authorities have, therefore, a greater role in promoting this development concept through developing the necessary infrastructure and investment mobilisation initiatives. Emphasis is on ensuring that targeted growth poles have the necessary basic infrastructure of portable water and sanitation.
256. The Central Government on its part will provide relevant fiscal incentives.

## **Tourism**

257. Tourism is recognised as one of the pillars anchoring Zimbabwe's economic growth and job creation strategies alongside agriculture, mining and manufacturing.
258. The sector has continued on a positive trajectory path as evidenced by tourist arrivals that grew from 1.8 million in 2013 to 2.5 million in 2018. It is expected that tourist arrivals will rise marginally in 2019 regardless of the prevailing macroeconomic environment.
259. In order for the sector to achieve its set priorities, the 2020 Budget will support the following areas:

### *Renewal of Fiscal Incentives*

260. Government provided some duty dispensations for tourist sector equipment such as luxury buses, which have assisted the sector by providing an investment window to aid the recovery of the sector.
261. The respective facilitative Statutory Instruments have a one to two year lifespan and hence most will expire at the end of the year. This issue is receiving due consideration under revenue measures.

### *Connectivity*

262. The growth of the tourism sector also hinges on improved domestic connectivity to ensure internal distribution of tourists. Efforts are being



made to continuously attract direct linkages with tourism source markets and attract more new airlines to the country. The operationalisation of the Routes Development Committee is critical in this regard.

263. The revival of the National Airline, Air Zimbabwe, will therefore be critical under this strategy, while, where necessary, Government is considering opening up more domestic routes to other players in the aviation sector in order to improve internal destination connectivity in the country.

#### *Tourism Satellite Account*

264. In line with the roadmap guidelines adopted by then United Nations World Tourism Organisation (UNWTO) Zimbabwe has put in motion programs meant to steer the country towards the adoption of a Tourism Satellite Account (TSA).

265. The TSA is important as it will help the country to accurately account for the economic benefits of tourism to guide policy makers on the real economic value of tourism to the national economy. The country has completed the critical surveys required to complete the Tourism Satellite Account and a roadmap has been produced in consultation with Zimstat, and funding in the 2020 Budget will be availed.

#### *Payment Systems*

266. Government, through Statutory Instrument 142 of 2019, removed the multi-currency system in Zimbabwe replacing it with a local unit of account (ZWL\$) for transacting purposes.

267. In order to support the currency reforms, Treasury urges the private sector to invest in Point of Sale Machines, which are compatible with international credit cards such as Visa and Master Card, which, are not readily available in most tourism facilities including retail shops to enable use of credit cards by tourists.
268. Now that the challenge of cash is being resolved, Tourists can readily access local cash when they visit banks to convert foreign currency to local currency and this removes inconveniences.

*Support for Deployment of Provincial Offices*

269. The Ministry has initiated a processes to decentralise its operations in line with the devolution thrust enunciated by Government. To date the Ministry has opened up offices in Midlands, Masvingo and Mashonaland West Provinces with the remainder targeted for the 2020 fiscal year.
270. Decentralisation will ensure maximum support to the thrust to develop provincial economies based on latent environment and tourism potential in the provinces. It will also help improve domestic tourism as consented efforts will be directed to working with communities to aid in the involvement of communities in tourism related projects which will in turn help in improving their livelihoods.
271. In addition the deployment captures the aspirations of the Tourism sector to also contribute to the achievement of Sustainable Development Goals,

in particular Goal number 8 which focuses on decent work spaces and inclusivity.

272. Deployed Officers will be key in ensuring that tourism through initiated community based projects alleviates poverty and ensures marginalised communities and disadvantaged groups to play a meaningful role in the economy through tourism.

#### *Continued Review of Visa Regime*

273. Globally, tourism industry experts acknowledge that travel facilitation is closely linked with the development of Tourism and is a key contributor to the overall appeal of a destination. Visa facilitation can lead to increased demand and sustained tourism performance.
274. In addition the 'Airport/Border experience' is often the first impression that tourists gain of a country, and their subsequent perceptions can be adversely affected if they encounter difficulties, delays, high costs of visa or unfriendliness when going through the immigration and customs process.
275. Government will therefore keep reviewing its visa regime requirements in line with its policy and international norms.

#### **Construction**

276. The construction industry will remain a key contributor to the country's GDP, as well as employment creation, both in the medium and long

term. The huge infrastructure deficit in the form of modern roads, public infrastructure, residential houses, dams, schools and hospitals, among others, undeniably requires a thriving construction industry.

277. The country's growing population, and hence rapid urbanisation, also require development of huge and sustainable infrastructure.

278. Notwithstanding a challenging macroeconomic environment, a growth of 0.5% is projected for the sector, which is conditional to Government meeting the following requirements:

- Improving the process of obtaining building permits;
- Promoting contract arrangements/regulations that encourage foreign contractors to work with local partners to promote skills and technology transfer and sharing;
- Provision of affordable land;
- Mobilisation of affordable lines of credit to the construction industry for re-tooling purposes; and
- Sanitisation of management of state lands by regularizing confusion caused by land barons.

### **Housing and Amenities**

279. The National Housing Delivery Programme seeks to address the country's housing backlog, estimated to be around 1.3 million within the

context of urban renewal/regeneration. This involves the modernisation of old or dilapidated superstructures and the attendant infrastructural services such as sewer and water.

280. The National Human Settlements Policy being developed shall guide the operations in the housing sector including urban regeneration for projects such as Mbare in Harare, Sakubva in Mutare and Makokoba in Bulawayo, funded through the market.
281. On its part, Government will avail land and support local authorities invest in servicing of the land by putting up required infrastructure such as roads, water and sewer lines and water reservoirs. This allows the middle class to invest in housing construction.
282. For the less privileged, Government, through vehicles such as UDCORP and IDBZ, will support implementation of various housing projects countrywide. Furthermore, and given the fact that land is a finite resource, flats will be constructed in identified sites with existing off and on site infrastructure such as Budiro, Dombotombo in Marondera and Senondo in Gwanda.
283. Civil service accommodation and or/institutional accommodation will be given priority on a cost recovery mechanism.

#### *Stalled Projects*

284. The economic difficulties the country experienced during the hyperinflationary environment resulted in the suspension of most ongoing capital projects as the limited resources could not match programmed

works. Most of the stalled projects relate to institutional housing projects by line Ministries.

285. Within the limited Budget capacity, Government has progressively prioritised implementation of the projects through the Targeted Approach Programme where resources are ring-fenced towards implementation of a few targeted projects.

#### *New City*

286. Government has approved the concept of the New City being constructed on 18 000 hectares of land in Mt Hampden with the New Parliament Building as the catalyst.
287. The concept of Smart City will be adopted that uses Information and Communication Technologies (ICT) to increase operational efficiency and improve the quality of government services and citizen welfare.
288. Government will fund preparation of the Master Plan and feasibility studies during 2020 as well as make the necessary investments in offsite infrastructure such as roads, water and sewer reticulation and lighting, that way paving way for both public and private developers.
289. The private sector will be invited to invest in new technologies such as fibre networks, solar, biogas, as well as building infrastructure through Public Private Partnerships (PPPs).

290. A modern Conference Centre will be budgeted under the 2020 National Budget.

## **JOB CREATION AND ENTREPRENEURSHIP**

291. Jobs are the foundation of any economy and high levels of unemployment depict the economy's structural weakness which invariably promote poverty, inequality and social problems. In recognition of this, the 2020 Budget prioritises jobs creation which relies on formal employment opportunities and entrepreneurship.

292. In particular the youth are targeted in as much they make an important contribution as productive workers, entrepreneurs, consumers, and agents of change. Taking advantage of this demographic dividend can also speed up the pace for economic development.

### **Youth Employment Tax Incentive (YETI)**

293. Under the 2020 Budget, a fiscal incentive is being introduced to support employers who generate jobs for our young job seekers. Any additional job created will attract a percentage tax credit to the employer.

294. This measure will reduce the employers cost of hiring young people through a cost-sharing mechanism with Government.

295. To operationalise YETI, the Ministry of Finance and Economic Development will work closely with ZIMRA, Ministry of Justice, Ministry of Labour, EMCOZ and other relevant organisations to work out the respective legal and administrative framework.

### **National Venture Capital Fund**

296. In order to increase economic opportunities and participation by Zimbabwean Youth in national development, the National Venture Capital Fund will be capitalised in both local and foreign currency, to incorporate financing start-up projects of our youth with preference being given to targeted areas in the context of the Local Content Strategy.

297. On its part, Government, through the 2020 Budget is committing aside ZWL\$500 million for this Fund.

298. The Fund will provide affordable loans to young entrepreneurs including those engaged in production, that way encouraging them to be job creators and not job seekers.

299. This marks the launch of the ‘Presidential Youth Entrepreneurship Programme’ to drive entrepreneurship among the Youth.

### **Labour-intensive Infrastructure Development**

300. Infrastructure development has an important element of job creation. Job opportunities will be created through investments in roads, water, energy,



construction, ICT and social sectors infrastructure. And it is with this view I have allocated ZWL\$2.6 billion for labour intensive infrastructure development under this Budget.

301. This allocation is being complemented by loan financing, development partners and private sector investment initiatives.

### **Women, Youth, Empowerment and SMEs**

302. Government will continue to play its role in capitalizing various institutions which support women, youth and medium & small scale enterprises (MSMEs) besides facilitating access to markets, workspace, trade promotion and capacity building, among other functions.

303. Therefore, in 2020, the Budget provides for capitalisation of the following institutions, which support various MSMEs projects:

- Women Development Fund, ZWL\$20 million;
- Community Development Fund, ZWL\$15 million;
- Zimbabwe Women Microfinance Bank, ZWL\$100 million;
- SMEDCO, ZWL\$90 million; and
- Empowerbank, ZWL\$50 million.

304. Specific allocation in support of projects and programmes aimed at empowering women, including the completion of refurbishment of training

centers-Jamaica Inn and Rodger Howman, construction of safe houses in all provinces in 2020 will be made.



305. Furthermore, forward and backward linkages between MSMEs and large enterprises play a critical role in the development of industry and creation of employment, and these will be promoted.

### **Protecting Intellectual Property Rights**

306. Innovation, which is integral for growth and better job creation is lacking protection and hence suppressed in its infancy. A number of SMEs, artists and other entrepreneurship initiatives collapse owing to unfair practices where other organisations take advantage of inventors work and make duplications. This is despite the inventors having invested a considerable amount of money and time in developing innovative products.

307. Therefore, Government through this Budget is strengthening intellectual property rights through capacitating the respective institutions mandated to protect patent innovative products including trademarks and copyrights. This gives exclusive rights, commercialize the invention enabling SME to obtain higher returns on their investments.

## **EQUITABLE AND SHARED DEVELOPMENT**

308. *“The only true and sustainable prosperity is shared prosperity”, so said Joseph E. Stiglitz, - Nobel Prize Winner in Economics.*

309. The 2020 National Budget is people centred and therefore, first and foremost prioritises promoting equitable development through appropriate investments particularly in infrastructure development, and social services delivery. The devolution model of development is also embraced through appropriate allocations in line with the Constitution.

### **Infrastructure**

310. Infrastructure investments, play a key role in enhancing competitiveness including growth. Underfunded and neglected infrastructure services results in the economy performing in a highly inefficient manner, and the widespread disruptions to electricity and other services only adds costs to business operations and increases the burden to the public.

*The 2020 Infrastructure Priority Plan*

311. In this regard, the 2020 Infrastructure Investment Plan provides a roadmap towards infrastructure recovery, ensuring public assets are restored to full working condition, including addressing the apparent high costs of service provision which currently present binding constraints to sustained inclusive economic growth.
312. The 2020 priority list is a culmination of engagements and consultation stakeholders with various stakeholders, including Ministry Departments and Agencies and Parliamentary Portfolio Committees. The priority list projects included in the 2020 Infrastructure Investment Plan.
313. Funding of the infrastructure projects will include resources from the Budget and private sources under PPPs, as well as long term concessional loans.

Infrastructure Sources of Funding

SourcFunding	Amount (ZWL\$Billion)
Budget	12.1
Loans	8.8
Development Partners	2.0
Public Entities Own Resources	1.0
Statutory Funds	0.7
<b>Total</b>	<b>24.6</b>

314. Consistent with the prioritisation framework of the 2020 Infrastructure Investment Plan, the following allocations are proposed:

### ***Electricity Supply***

315. The 2020 Budget seeks to alleviate power supply constraints through the following strategies:
- Rehabilitation and expansion of Hwange Thermal Power Station; ZWL\$8.4 billion
  - Rehabilitation of small thermal power stations;
  - Supporting alternative sources of energy such as solar power projects through various fiscal incentives relating to importation of equipment and respective accessories. 20 IPP solar projects are already lined up for implementation.
316. While ZESA will raise the local resource component through cost recovery tariff model, Government through the RBZ will assist to mobilise the requisite foreign currency from the market.

### ***Rural Electrification***

317. The Rural Energy Master Plan (REMP) aims at broadening modern energy access through the development of Grid Connected Solar and mini hydropower plants, installation of Solar Photovoltaic (PV) microgrids, Solar Home Systems (SHS), Solar Water Pumping Systems and Biogas Digester Plants.
318. Furthermore, the Rural Electrification Fund will invest in extending the grid to sites identified in the Rural Energy Master Plan (REMP) in order

to increase the rural electrification rate which currently stands at 13%. This will also include Rural Growth Poles.

319. This Budget provides ZWL\$142 million for this important development programme, seeking to improve the livelihoods of our rural population.

### *Renewable Energy*

320. Focus will also be on promoting renewable energy projects such as solar including extension of incentives for solar powered vehicles, solar batteries and other related accessories.

### ***Devolution and Transfers to Local Authorities***

321. The path taken of devolving powers and resources from central Government to Provincial Councils and Local Authorities recognises the right of communities to manage their own affairs, drive development at the subnational level, and ensures other tiers of Government do not rely on the goodwill of the Central Government for resources.
322. With the additional resources at their disposal, Provincial Councils and Local Authorities now need to be more responsive to the needs of their constituents as well as provide services to all people in a sustainable and inclusive manner.
323. With regards to the 2020 financial year, an appropriate allocation equivalent to the 5% (ZWL\$2.9 billion) statutory requirement for Provincial

Councils and Local Authorities will be distributed to the lower tiers of government, in line with the agreed formula, targeting projects that have already been identified by Local Authorities.

### ***Water Supply and Sanitation***

324. The strategic focus for the WASH sector during 2020 is to restore basic water and sanitation services through maintenance, rehabilitation and upgrade of infrastructure, harnessing of water through construction of dams, weirs, borehole rehabilitation and drilling, and water & sanitation facilities in our urban areas.
325. Accordingly, the following projects have been prioritised in the 2020 Budget:
- Gwayi Shangani dam, ZWL\$400 million;
  - Causeway Dam, ZWL\$128 million;
  - Chivhu Dam, ZWL\$192 million;
  - Kunzwi dam, ZWL\$259 million;
  - Semwa Dam, ZWL\$216 million;
  - Other Dams, ZWL\$205 million;
  - Water Supply schemes, ZWL\$113 million; and
  - Local authorities' water and supply sanitation, ZWL\$311 million.

## ***Transport***

326. The Road Development Programme, which commenced in 2018, will be sustained during 2020 with resources being set aside for the Programme, targeting the following:—

- Dualisation and upgrading of the Harare-Beitbridge Road, ZWL\$1 billion;
- Ongoing upgrading works on trunk roads, ZWL\$1.2 billion;
- Rehabilitation and maintenance of rural feeder roads through DDF, ZWL\$120 million; and
- Local Authority roads, funded through ZINARA, ZWL\$510.8 million.

327. The above excludes resources being channelled to Local Authorities through the Inter-Governmental Fiscal Transfers, for roads infrastructure development.

## ***Information Communication Technology/Digital Economy***

328. The rapid development and adoption of ICTs has been transforming every sector of the Zimbabwean economy. The Second Quarter of 2019 show a high active Mobile Penetration Rate of 84.8%, a high Internet Penetration Rate of 57.2%, and a static Fixed Tele-density of 1.9%.

329. To systematically exploit the potential of ICTs for national development



and transformation, the Government of Zimbabwe is developing the Smart Zimbabwe 2030 Master Plan, which is an all-inclusive guideline that clearly articulates how the country will develop, deploy and manage ICTs across all sectors.

330. The Smart Zimbabwe 2030 Master Plan and Implementation Strategy, will be part of the National Infrastructure Master Plan.

#### *National E-Government Programme*

331. Government is rolling out the National E-Government Programme in order to simplify communication between citizens and Government, and the creation of an effective system for Government Departments to interact with each other. This also enables citizens to gain quicker access to Government services and hence greater user satisfaction, and substantial monetary savings.

#### *E-Government*

332. Government has leap-frogged in delivery of essential public services which were previously centralised in Harare. Currently, processes have turned online while extending infrastructure facilities to those areas that are still offline.
333. In order to kick start the E-Government programme, Treasury availed ZWL\$100 million under the 2019 National Budget.

334. The 2020 National Budget will, therefore, support the roll out of E-Government to cover various services and spatially remote areas, as part of public service efficiency enhancement under the New Dispensation.

#### *E-agriculture*

335. In implementing the Smart Zimbabwe 2030 Master Plan and Implementation Strategy, Government is championing the E-agriculture flagship in close collaboration with the Ministries of Agriculture, Higher and Tertiary Education and other Government Departments, the Private Sector, and other Stakeholders, with a view of developing into a centre of excellence in E-agriculture.

#### *E-Cabinet*

336. The long overdue requirement to make Cabinet business efficient and cost effective will now be addressed by implementation of an effective information management system in the form of E-Cabinet. This system allows Cabinet to make quick and relevant decisions from well informed information base.

337. It also enables reduction in costs by being paperless with digital and streamlined systems.

### *National Data Centre*

338. The establishment of a fully functional National Data Centre is almost complete, and the 2020 National Budget will make provision of the outstanding works.
339. The Data Centre consolidates services, applications and infrastructure to provide efficient electronic services among Government Departments, between Government and citizens as well as between businesses and Government.
340. In this regard, the 2020 Budget has made a provision of ZWL\$341.7 million for the above ICT programmes.

### ***Media, Information and Publicity***

341. Treasury appreciates the urgent need to complete the Digitalisation Migration Project given the lapse of the international deadline on digital migration. Additional resources both in local and foreign currency will be mobilised in 2020 to ensure completion of the project by year 2022.
342. Further, resources will also be provided in support of ZBC, and the operationalisation of a 24-hour channel service.

### *Public Private Partnership Arrangements*

343. Government has prioritised the use of Public Private Partnership arrangements to deliver infrastructure and public services, as an alternative of meeting the huge demand for infrastructure financing.

344. Key considerations by Government when developing public private partnership arrangements include increasing the quality and quantity of investment, exploiting full potential of existing public sector assets, value for money for the taxpayer, wider economy, customers and users of the service being provided.

### **Social Services**

345. Social services are integral for equitable development. Government will pay more attention to efficient and timely utilisation of resources allocated for social sector services including reducing any bottle necks being encountered.

### **Health**

346. Government has made positive gains on some of its healthcare indicators over the recent past. For example, under 5 mortality has fallen from 98 per 1000 live births in 2008 to 56 in 2016. Other areas relate to:

- Improvements in immunisation with both DPT (Diphtheria, Pertussis, and Tetanus) and measles reaching 90% and 95% respectively; and
- HIV incidence has fallen from 1 to 0.48 while Prevention of Mother To Child Transmission of HIV (PMTCT), rate has fallen from above 30 to 5.7, among other achievement.

347. However, the sector faces shortages of medicines, drugs, and sundries, among other essential hospital equipment and necessities. The disease burden has greatly increased as non-communicable diseases are on the

rise. The catchment areas of most health facilities in the country have grown as the population increases in size.

#### State of Affairs in our Hospitals



348. The Abuja target remains an elusive target for the country as government expenditure on health is still less than 15% (Abuja target) over the period 2012-2019.
349. In 2020, the Budget will prioritise building a healthy infrastructure including renovating both urban and rural health facilities leveraging on PPPs. Priority will also be on recruitment of additional health personnel and procurement of equipment and drugs.
350. Cognisant of its responsibility to procure immunisation kits, Government will ensure that the National Budget prioritises procurement of vaccines and kits for immunisation.

## Higher Education

351. The energy for change, innovation and creativity and ultimate economic growth resides in a highly developed human capital base. The results of the National Critical Skills Audit of 2018 underscored that Zimbabwe, notwithstanding a high literacy rate of 94%, has relatively low average skills availability rating at 38.3%. Our country's greatest asset is therefore, its skilled manpower who have become the envy of the region.

### National Critical Skills Audit Results

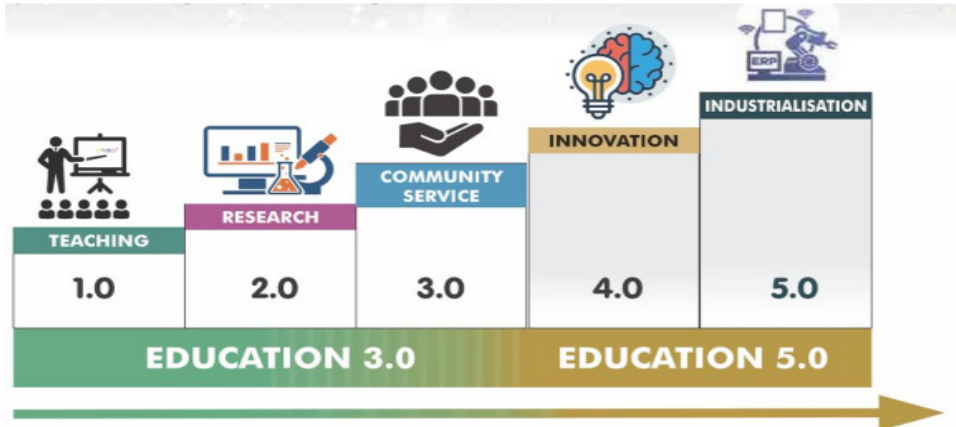
No	Sector	Availability	Surplus/ deficit
i.	Engineering and Technology	6.43%	-93.57%
ii.	Natural and Applied Sciences	3.09%	-96.91%
iii.	Business and Commerce	121%	21%
iv.	Agriculture	12%	-88%
v.	Medical and Health Sciences	5%	-95%
vi.	Applied Arts and Humanities	82%	-18%
<b>Average</b>		<b>38.25%</b>	<b>-61.75%</b>

352. The country's vision in terms of higher education is therefore to deliver a competitive, modernised and industrialised Zimbabwe through higher and tertiary education, science and technology development.

### *Education 5.0*

353. Accordingly, Government has adopted a philosophy of Education 5.0, an education with 5 missions: i.e., teaching, research and community service (consultancy), Innovation and Industrialisation. HTE 5.0 provides a pathway from knowledge production through research to innovation and industrialisation.

From Education 3.0 to Education 5.0



### *Innovation Hubs*

354. Under the 2020 Budget, the major focus will be on completing the setting and equipping up of the first six innovation hubs and operationalizing them to ensure existing innovations in the different universities are developed into prototypes that will be industrialized at the industrial parks. Resources will be allocated to stimulate and support innovation and industrialization.

### **University of Zimbabwe Innovation Hub**



## Midlands State University Innovation Hub



### *Graduate Internship Programme*

355. A graduate internship programme designed to equip graduates with entrepreneurial skills and business experience to enable them to become productive and play a key role in national development is necessary.
356. To the above end, Treasury will, in consultation with relevant ministries and the private sector, propose specific strategies for supporting the Programme.

### *Apprenticeship*

357. The apprenticeship programme, initiated last year with 1 000 new apprentices being recruited will see another cohort of 1 000 apprentice being recruited by the beginning of next year.



358. To support expansion of the Apprenticeship Programme, Government is augmenting ZIMDEF efforts.

*State Universities*

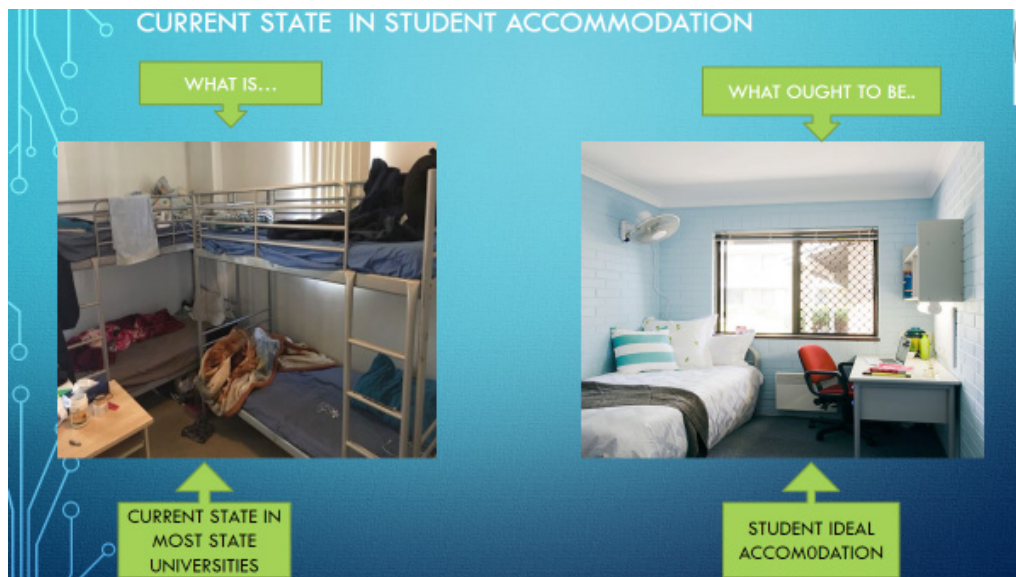
359. In line with its policy of having at least one State University and one State Teachers' College/Polytechnic per Province, Government has opened Hwange Campus of United College of Education (UCE) in Matabeleland North which will evolve into a full-fledged Teachers College and Polytechnic. A master plan, Civil Works and Construction of the new teachers' college will begin under the 2020 Budget.

*Capacity in Sciences*

360. To support the teaching of Sciences in Schools, the 2020 Budget will equip Science Education programmes in Universities and Teachers' colleges to ensure well qualified Science teachers are produced to meet the needs of our schools. Revamping science laboratory facilities in our Universities and Polytechnics will also be a priority.

*Student Accommodation and other Infrastructure*

361. Infrastructure development, particularly student accommodation and Teaching and Learning facilities will remain a major priority in this budget year particularly in the new Universities and Colleges.



### Primary and Secondary Education

362. Ensuring inclusive and equitable quality education for all and promote lifelong learning opportunities for all remains the country’s top priority in the education sector as Government endeavours to leave no child behind. Government will therefore continue to invest in schools, creating centres of excellence especially in the science areas.
363. Through the Ministry of Primary and Secondary Education, Government will implement the new Competence-based Curriculum which will equip our young learners with the necessary foundation skills, relevant knowledge, values and appropriate attitudes that should make a significant contribution to Zimbabwe’s efforts to become an Upper Middle Income Economy by 2030.
364. The objective from 2020 is to ensure improved access to education by at least 6% as well as delivery of quality education in schools, so as to

improve learner performance from the current 58% to 68% for Grade 7, and from 32% to 36% for 'O' level and 84% to 89% for 'A' level by December 2020.

365. Hence substantial Budget support will be directed towards recruitment and compensation of teaching personnel, implementation of capital projects and procurement of respective goods and services including teaching materials.

366. Specifically, the following areas will be supported:

- ICT in schools which currently stand at only 20% in primary and 40% of secondary schools with internet connectivity;
- Training of teachers in new learning areas as well as in indigenous languages through in-service training and in State Universities;
- Facilitate procurement of modern machinery and equipment for equipping provincial centres of excellence which will be established for all teachers and learners to facilitate implementation of the competence based curriculum;
- Constructing of additional classroom blocks as well as rehabilitating existing ones, especially in the most disadvantaged areas where some learners are currently using tobacco bans and other such infrastructure;
- Inspection, supervision, monitoring and evaluation of all the 9 159 schools in the country;

- Procurement of assistive devices to make learning possible for pupils with special needs; and
- School feeding, mainly targeting areas with vulnerability.

*Support for School Children Sanitary Wear*

367. This Budget responds comprehensively to the plight of the girl child in enhancing their dignity. In anticipation of the finalisation of the Education Act, the Budget is required to have a provision for the supply of sanitary wear for female learners.
368. Based on equity consideration, the proposal is to begin with rural primary and secondary learners from Grade 4 to Upper sixth form and a provision of ZWL\$200 million has been made under this Budget.

**Social Protection**

369. The 2020 Budget is being formulated at a time Government seeks to respond positively to the increasing poverty and food insecurity situation across the country, and as the Government implements structural reforms under the Transitional Stabilization Programme (TSP). Climate changes continue to impact negatively on food security and other interventions.
370. Government is cognisant of the need to scale up social protection interventions in the wake of increased vulnerabilities among citizens. It is encouraging that development partners remain committed to complement Government efforts.

### *Food Security*

371. More than 6 million people are seeking food assistance in rural areas and an additional 2.2 million in urban areas according to the ZIMVAC reports. Accordingly, the 2020 Budget targets scaling up all social protection programmes which will see over 7 million people being assisted with food aid up to March 2020.
372. Labour constrained households which consist of persons with disabilities, the chronically ill, elderly and child headed households shall receive free food handouts, among other interventions like assisted health care under the Assisted Medical Treatment Orders (AMTO) facility and cash transfers.
373. Other than the above requirements, the Budget will be resourcing the following social protection programmes:

### *Strategic Grain Reserve*

374. In order to avert starvation during the peak hunger period (Jan-Mar, 2020), the 2020 Budget proposes to allocate ZWL\$5.2 billion for purchase and importation of grain.

### *Food for Work and Income Generating Projects*

375. On the other hand, non-labour constrained households shall participate in public works programmes to be undertaken in the communities.

Resources are also being mobilised to allow communities to undertake small income generating projects under the Sustainable Livelihoods programme.

*Harmonised Social Cash Transfer*

376. The Harmonised Social Cash Transfer to vulnerable households is also being scaled up from the current 23 districts to 33 in an effort to cushion vulnerable communities. Districts not yet targeted for Harmonised Social Cash Transfer will continue to be assisted under the traditionally means tested Public Assistance programme.

*Basic Education Assistance Module*

377. Under the Basic Education Assistance Module (BEAM), Government has managed to clear arrears which dated back to 2016 and the payments are now current. Due to this milestone and improved confidence, the programme which currently is assisting 415 000 children is being scaled up to cater for 1 200 000 children.
378. Children living under difficult circumstances continue to be assisted under Children in Difficult Circumstances Fund with those living in children institutions getting more support. The ZIMRA donations continue to be channelled towards those living under institutional care.

### *Management Information System*

379. The Government has established an Inter-Ministerial Technical Taskforce to spearhead and expedite the implementation of a comprehensive Management Information System (MIS) for social protection programmes. This will allow for development of a single registry as was recommended in the Ministerial Social Protection Framework of 2017. This will avoid duplications by improving targeting and monitoring of the programmes.

### *Decent Work Country Programme*

380. Government will continue the implementation of the Zimbabwe Decent Work Country Programme (DWCP) wherein the fourth cycle will be finalised by the tripartite constituents and implemented from 2020-2023. Given the growing levels of poverty articulated in the foregoing, and the increasing dependence on Government support, the DWCP will prioritise employment promotion.

### **Environment**

381. Country is faced with poor waste management of both general and hazardous waste. There is proliferation of illegal dumps in all urban centres and growth points with only 2/92 Local Authorities that have properly lined and engineered landfills in Zimbabwe, which are Kadoma and Norton.

382. Also, most Local Authorities are discharging raw effluent into rivers resulting in contamination of major sources of water, especially for urban areas, increasing the cost of water purification. The situation is compounded by some private companies that are also discharging their waste into the same.
383. EMA will, therefore, be stepping up monitoring efforts, through enforcement of environmental management laws, to address the environment menaces.

#### *Green Economy*

384. Government welcomes ongoing work in mobilising resources towards climate proofing investments in the resilience under the Green Climate Fund. As Government, it is critical that we actively consider developing an emission strategy anchored on adoption of green energy and clean technology.

#### **COMPETITIVENESS**

385. Our endeavour to increase productivity and production as well as export generation for triple S –growth presupposes that we deepen measures to address competitiveness. This is also critical in terms of ensuring business viability and attracting investment. Therefore, the National Budget pays attention to the following competitiveness elements:—



- Ease of doing business;
- One Stop Shop Investment Services Centre;
- Public Enterprise Reforms;
- Human Resource Development;
- Fighting Corruption; and
- Addressing Infrastructure Deficiencies.

### **Ease of Doing Business Reforms**

386. Through the TSP, Government has been implementing the necessary reforms to improve the ease of doing business in Zimbabwe as a way of attracting investments into the country. Progress has been made in this regard with the World Bank acknowledging the country as one of the best performers in the world in 2020.
387. However, the reform pace has been slow requiring a paradigm shift in future. Hence, the 2020 National Budget seeks to expedite the reform initiative.
388. With the thrust of creating a conducive environment for attracting investment, Government has embarked on the second round of ease of doing business reforms, targeting 16 areas including improvements in paying taxes, obtaining construction permits, starting a business, ease of doing transport business, clearance of imports and exports among other areas.

## **Zimbabwe Investment and Development Agency**

389. Government has been working to operationalize the one stop shop investment centre to reduce the bureaucratic process of registering, licencing, and facilitating investments and operations of companies. This is culminating in the establishment of a consolidated Zimbabwe Investment and Development Agency (ZIDA).
390. The Bill is before Parliament for enactment.

## **Revolving Export Fund**

391. In support of exporters under this difficult environment, Government is setting up an Export Revolving Fund that will support respective companies with foreign currency requirements geared towards export production.
392. This Fund will initially target horticulture, among other low hanging ventures and a seed capital of US\$20 million is being set aside and will be effective from 1 January, 2020.

## *Horticulture*

393. Zimbabwe has been one of Africa's traditional major exporters of horticultural products, alongside Kenya and Ethiopia for most of the late 1980s up to the early 2000s. According to the Horticultural Development Council of Zimbabwe, the country's horticultural exports increased from

only US\$6 million in the 1987/88 season, to US\$103 million by 1997. The exports grew by an annual average rate of 25 per cent for the period 1998 to 2004 peaking at above US\$ 250 million by the early 2000s.

394. Therefore, Government is engaging key horticultural producers with a view to put in place appropriate financing facilities which will draw from the Export Revolving Fund.

### **Public Enterprises (PEs)**

395. Government is implementing a comprehensive programme to reform state enterprises and parastatals, to address weak governance and other operational and capitalisation related challenges.
396. Therefore, the 2020 Budget should fast track the implementation PE reforms whilst enforcing the provisions and regulations of the Public Entities Corporate Governance Act and making the necessary adjustments to all administered prices to ensure cost recovery.

### *Corporate Governance under PEs*

397. Corporate governance is an obligation for both Public Entities and the respective parent Ministries. However, cases have been noted where Ministries are imposing unwarranted burden upon PEs through unjustified requests with a bearing on the Entities' financial positions.

398. A case in point is a request for contributions towards the hosting of functions, which ordinarily should be financed from the Ministry's budget.
399. Parent Ministries are, therefore, urged to refrain from imposing avoidable financial burden on our already ailing Public Entities.
400. Provision of the necessary Ministerial leadership in such instances is greatly appreciated to assist the Public Entities to make their meaningful contribution to the economic growth of Zimbabwe.

### **Human Resource Development**

401. Meeting current and future challenges requires higher degree of workforce competencies. This is more so, in the present competitive situation where competent and motivated employees are essential for productivity and economic competitiveness.
402. For competitiveness, a personnel base should be diverse and highly productive at least cost.
403. It is, therefore, critical that public human capital development institutions intensify collaboration with the private sector to implement programmes geared towards contemporary skills and competencies essential for increased production and efficient services.

## **Research and Development**

404. Research and development is critical for Zimbabwe's social economic transformation and competitiveness, as the country strives to attain Vision 2030.
405. Research and Development Programmes will be supported by both Government and private sectors as the country seeks to innovate in developing new services or products, and also advance the value addition strategy.
406. The Budget has set aside resources for the Research and Development programme, including the launch of the space satellite.

## **Fighting Corruption**

407. Corruption causes economic malaise, wastage of public resources, jeopardises the environment for domestic and foreign investment and general morale in the public service, reinforces political instability and propagates social and economic disparities, even in the presence of economic and social policies.
408. Based on the Auditor General's Report, Government is losing resources through corrupt activities. In addition, corruption in some parastatals and local authorities has compromised some desired development outcomes. There is a risk that some development partners may withhold funding

for critical programmes and/or projects. Delays in taking remedial action against violations identified in audit reports has the unintended effects of propagating corrupt tendencies in the public service.

409. To avert this risk, Government from 2020 will focus on:

- Strengthening internal control systems;
- Developing and implementing a national anti-corruption strategy aligned with good practice principles with periodic monitoring and evaluation results;
- Enacting whistle blower legislation and protection, in line with leading practice;
- Capacitating institutions established to fight corruption; and
- Addressing conflict of interest issues where Government is both regulator and player.

### **Internal Systems Control and Compliance**

410. The 2019 Mid-Year Budget Review Statement proposed the establishment within Treasury of a central coordinating unit for the internal audit and compliance function as a measure for enhancing internal systems control.

411. The Public Service Commission has approved the establishment of the unit and appropriate modalities for its operationalisation are being worked out.

412. Meanwhile, the central coordinating unit's mandate is being undertaken by the Audit Assurance and Advisory Services Unit within the Accountant General Department.

### ***Accountability and Transparency***

413. To restore sanity and accountability, as well as enhance transparency in administration of public funds, Treasury will focus on:

- Compliance with the PFM law and regulations by Ministries, Departments and Agencies, including rolling out of the PFMS;
- Expansion of PFMS Kiosks;
- Adherence to procurement guidelines including payments for goods and awarding contracts;
- Spending within the Budget; and
- Submission of Annual Financial Statements for Audit, arrears varying between 1 to 4yrs.

414. Furthermore, observations by the Auditor General will be pursued with a view of taking corrective measures.

### ***Road Fund (ZINARA)***

415. Section 13 of the Roads Act establishes the Road Fund, whose main objective is to provide a stable, adequate, secure and sustainable source of funding for maintenance works in the country and ensure the equitable allocation of its monies to road authorities.

416. However, the Fund in its operations went beyond its mandate, thereby in some instances making decisions which compromised the Fund objectives.
417. The recently appointed Board for ZINARA, therefore, has an obligation to turn around the institution to its core mandate.

### ***Tripartite Negotiating Forum***

418. Notwithstanding the challenges in the labour market, Government intends to reinvigorate social dialogue in 2020 under the auspices of the Tripartite Negotiating Forum (TNF) in order to fully harness cooperation between Labour, Government and Business on social-economic issues.
419. Given the milestone in enactment of the TNF Act on 4 June 2019, and its high level launch by the President, His Excellency Comrade E.D. Mnangagwa, there is need for the tripartite constituents to negotiate protocols for the conclusion of a social contract which will foster confidence in the country and address causes of the country risk factors identified in the “Kadoma Declaration Towards a Shared National Economic and Social Vision”.
420. Through sustained social dialogue, the tripartite partners will be able to develop measures to address the socio-economic challenges that the country is faced with. Government remains committed to social dialogue and will also put in motion the establishment of an independent secretariat to oversee the work of the TNF as provided for in the TNF Act.



421. Furthermore, Government will work towards harmonisation of the country's labour legislation and ensure inclusion of constitutional provisions for a robust legislative framework that promotes productivity and upholds fair labour standards.

## **FACILITATIVE PUBLIC SERVICES**

### ***Security***

422. Government recognises the need to ensure that our security services are fully funded to enable them to discharge their constitutional mandate.

423. Notwithstanding the current resource constraints, Treasury has been prioritising allocations and disbursements to the security sector. However, more needs to be done given the state of affairs.

424. The 2020 National Budget will, therefore, strive to provide for medical provisions, school fees and pension for our war veterans given the immense sacrifice to the nation.

425. This will also include funds for income generating projects with ZWL\$1.5 million having been already availed for a cattle rearing project.

426. The 2020 Budget will also ensure that we address issues of accommodation, equipment, mobility, and institutional provisions as well as medical facilities. Already, Treasury is supporting the extension of Manyame Hospital, construction of housing units at Dzivarasekwa, Tomlinson flats among other interventions.

427. In the same vein, Government will leverage on the expertise of the security sector in implementation of projects and the need to capacitate the Zimbabwe Defence Industries.

428. I propose allocations to the security cluster as follows:

- Defence and War Veterans, ZWL\$3.1 billion;
- Home Affairs and Cultural Heritage, ZWL\$2.8 billion;

### ***Judiciary and Correctional Services***

429. The decentralisation programmes and projects will be supported including the decentralisation of justice delivery through construction of courts, provision of the requisite equipment and furniture.

430. Priority is also being given to support towards expediting the work on alignment of the laws to the Constitution.

431. Resources will be availed towards Prisons and Correctional Services farm production enhancement programme, construction of institutional accommodation, institutional provisions for prisoners and security vehicles.

### ***Independent Commissions***

432. Government is supporting Independent Commissions and the 2020 Budget will, therefore, prioritise support towards their operations, infrastructure development as well as equipping them with the requisite tools of trade, such as vehicles among others.

433. Treasury will also endeavour to make quarterly disbursements to the commissions as a way of recognising their independence.

### ***The Public Service Commissions***

434. In order to enhance the critical work and operations of Public Service Commission, the 2020 Budget prioritises funding their operations in line with the Commission's Strategic Plan.

435. In addition, the Public Service Commission will continuously review structures and roles of the public service with a view of enhancing their efficiency for the attainment of Vision 2030. In this light, Government will reflect on potential duplications and overlaps among various Ministries, Departments and Agencies (MDAs).

436. Meanwhile, this Budget allocates ZWL\$1.5 billion to the Public Service Commission.

### ***Parliament and Audit Office***

437. Within the limitations of the Budget, Treasury will strive to allocate adequate resources to Parliament, including quarterly disbursements, for smooth operations and as a way of fostering independence.

438. The Budget will also address requirements of the Audit Office covering personnel, condition of service and tools of trade to enable them to undertake value for money audits, among other oversight functions.

### ***International Relations***

439. Our embassies play a pivotal role in advancing our developmental agenda under the TSP.
440. In order to address the challenges our Missions face, in 2020, Treasury will provide resources towards rehabilitation and upgrading of infrastructure at foreign missions in addition to phased procurement of properties in strategic missions, including pursuing PPPs where possible.
441. The Budget will also capacitate in various forms Mission Personnel to enable them to execute their functions, particularly investment promotion, re-engagement, marketing the country's image and potential, as well as Consular services.

### ***Public Service Facilities***

442. Over the years, there has been minimal maintenance of most Government buildings such as offices, staff houses and elevators, resulting in deterioration of their state and working and living environment. The state of these facilities also compromises safety of users, occupants and others in the vicinity.
443. The 2020 National Budget will, therefore, commit to avail more resources towards infrastructure general maintenance and face-lifting of Government buildings through the responsible Ministry.

444. In addition, due to additional responsibility to the Ministry of Local Government and Public Works arising from devolution exercise, Treasury will capacitate the Ministry, together with other local authorities, through various programmes.

445. In the same vein, the enactment of the appropriate legislation and setting up of Provincial Council structures will be expedited to fully operationalise the devolution agenda.

### ***Sport and Recreation***

446. Sports activities play an important role in communities not just through improving the health and well-being of individuals but also contributing to the empowerment of individuals and promoting the development of inclusive communities.

447. The Budget is, therefore, supporting recreation, leisure and sports programmes including investment in recreation and sporting infrastructure, with primary focus on the youth.

## **REVENUE MEASURES TO SUPPORT PRODUCTIVITY, GROWTH AND JOBS**

448. Mr Speaker Sir, unemployment and underemployment mainly among the youth population remains a challenge. This scenario undermines initiatives to improve demand induced economic growth.

449. The thrust of the tax measures I am proposing, thus, focuses on enhancing job creation, productivity and economic growth, through targeted support to industry.
450. Furthermore, the measures seek to enhance revenue collection through advancing the ongoing tax administrative reforms aimed at plugging revenue leakages.

### **Support to Industry**

#### ***Motor Vehicle Industry***

451. The *Motor Industry Development Policy* seeks to promote local assembly and exports of motor vehicles into the region. Attainment of the vision will facilitate technology transfer and re-establishment of value chains through utilisation of local raw materials and components, thereby increasing employment opportunities.
452. It is, therefore, necessary to continue incentivising the production of vehicles through the following measures:

#### ***Suspension of Duty on Semi-Knocked Down (SKD) Kits***

453. Government, in 2016, granted a lower rate of duty of 10% on imported SKD kits for the assembly of single and double cabs motor vehicles, over a period of three years.

454. However, customs duty is payable in foreign currency, thereby constraining importation of the necessary components.
455. I, therefore, propose to remove SKD kits from the specified list of goods liable for duty in foreign currency.
456. I, further, propose to extend the *Facility* for a further 3 years, beginning 1 December 2019.

### ***Paint Manufacturing Industry***

457. Paint manufacturers have potential to meet national demand, as well as export to the region.
458. The industry, however, faces challenges in supplying competitively priced products due to the high cost of key inputs such as *alkyd resins* and *soya bean oil* used in the manufacturing process.
459. Illuminating power kerosene, which is a key ingredient in the manufacture of alkyd resins, however, attracts excise duty of 40%, thereby increasing the cost of production.
460. In order to promote price competitiveness of paint manufacturers, I propose to ring-fence under suspension of excise duty, 150 000 litres of illuminating power kerosene per month imported by *Approved Paint Manufacturers*, with effect from 1 January 2020, for a period of 12 months.

## ***Furniture Manufacturers***

### *Small Scale Manufacturers*

461. The *Manufacturers' Rebate* was introduced in 2015, in order to enhance capacity utilisation and competitiveness of the furniture industry.
462. In order to qualify for the *Rebate Facility*, targeted beneficiaries should meet minimum requirements that include a bonded store and bond surety.
463. Small scale manufacturers have, however, not been able to meet the minimum requirements, hence cannot access the *Facility*.
464. In order to promote growth and formalisation of small scale manufacturers, I propose a *Duty Refund Facility*, whereby Small Scale Furniture Manufacturers pay duty on imported raw materials, which is claimable on a quarterly basis.
465. This measure is with effect from 1 January 2020.

## ***Pharmaceutical Manufacturers Rebate***

466. The *Rebate Facility*, whereby essential raw materials used by the pharmaceutical manufacturing industry are imported duty free, has enhanced local production.



467. The industry has finalised plans to increase the product range of manufactured goods, hence, I propose to provide for additional raw materials to be imported under *Rebate of Duty*, with effect from 1 January 2020:

Additional Raw Materials under the Pharmaceutical Manufacturers Rebate

Tariff Code	HS Description
2817.00.00	Zinc Oxide/Zinc Peroxide
2839.90.00	Other Silicates
2909.49.00	Other ether, alcohols
2933.39.90	Other
2935.90.00	Sulphonamides
3204.17.00	Pigments and preparations
3206.49.00	Colourants and Dyes
3912.39.90	Other Cellulose Acetates
3912.90.00	Other Cellulose Ethers

### ***Dairy Industry***

#### *Suspension of Duty on Milk Powder*

468. The *Dairy Industry* has benefited from support measures implemented by Government to augment domestic production of raw milk. The measures include levelling the playing field between imported and locally produced products, as well as suspension of duty on importation of milk powder.
469. The above measures complement the *Dairy Revitalisation Project* which the industry has embarked on, in order to grow the national dairy herd.
470. Consequently, milk production increased from 36 million litres in 2009 to 75 million in 2018, against a national demand of 130 million litres.

471. Local production of raw milk, thus, remains insufficient to meet the requirements of the dairy milk processors, hence I propose to extend duty suspension on milk powder for the year 2020, as shown below:

Ring-fenced Allocation under Suspension of Duty on Milk Powder

Name of Dairy Processor	Proposed Allocation for 2020	
	FCMP (Kg)	SMP (Kg)
Dairibord Zimbabwe (Pvt) Ltd	500,000	1,000,000
Dendairy (Pvt) Ltd	1,000,000	100,000
Machiareer Inv (Pvt) Ltd	75,000	-
Carnethy Estate (Pvt) Ltd	50,000	-
Kershelmar Dairies (Pvt) Ltd	100,000	100,000
Gouda Gold T/A Yomilk	100,000	100,000
Prodairy (Pvt) Ltd	1,500,000	-
Kefalos Cheese Products	100,000	175,000
Milkzim (Pvt) Ltd	10,000	-
Alpha Omega Dairy	90,000	30,000
Competitive Brand Shapers T/A CBS	100,000	-
Humara Foods	40,000	-
Sedgemoor Dairies	50,000	-
Nestle Zimbabwe (Pvt) Ltd	-	300,000

472. The measure takes effect from 1 January 2020.

*Suspension of Duty on Raw Cheese*

473. The insufficient supply of raw milk, a key ingredient in the processing of cheese, which cannot, however, be substituted with milk powder, has negatively impacted on production.
474. I, therefore, propose to suspend duty on ring-fenced quantities of raw cheese, amounting to 25 000 kgs per month, for a period of 12 months beginning 1 January 2020.

### ***Clothing Manufacturers' Rebate***

475. The sustainability of the clothing industry has been anchored by the *Clothing Manufacturers Rebate*, availed since 2013.
476. The *Rebate Facility*, however, is due to expire on 31 December 2019, hence I propose to extend the *Facility* for a further 2 years, beginning 1 January 2020, in order to lower the cost of production.

### ***Luggage Ware Manufacturers' Rebate***

477. Honourable Members will recall that Government availed a *Rebate of Duty* facility on importation of materials used by luggage ware manufacturers, which is due to expire in December 2019.
478. In order to consolidate the gains realised by the industry, which include increased output, employment and exports, I propose to extend the *Rebate of Duty* facility for a period of 2 years, beginning 1 January 2020.

### ***Handbags***

479. The *Luggage Ware Manufactures* have extended production lines to include handbags.
480. I, therefore, propose to extend the *Rebate* to inputs used in the production of handbags.

### ***Suspension of Excise Duty on Raw Wine***

481. Government, in 2017, introduced a ring fenced facility for importation of raw wine by manufacturers under suspension of duty.
482. The *Facility* has enabled distillers to complement locally produced raw wine, in order to meet national demand as well as enhance quality.
483. I, therefore, propose to extend and increase the excise duty free ring-fenced import quota from 175 000 litres to 200 000 litres per annum for a period of 2 years beginning 1 January 2020.
484. In order to improve quality and quantity of raw wine, local distillers are expected to partner with farmers in the growing of grapevines.

### ***Tourism Industry***

485. The *Tourism Industry* has benefited from support measures availed by Government since 2010.
486. The support measures enabled some operators to offer competitive prices as well as match facility standards obtaining in the region and beyond.
487. Notwithstanding the progress realised, there is need to further support the industry to reach its full potential.

488. I, therefore, propose the following incentives:

*Rebate of Duty on Capital Equipment*

489. Extend *Rebate of Duty* on capital equipment imported by operators of hotels and lodges for a further 3 years, beginning 1 January 2020.

490. The extension will assist operators to mobilise funding for rehabilitation and acquisition of capital equipment.

*Suspension of Duty: Safari Operators*

491. Extend *Suspension of Duty* on motor vehicles used by *Safari Operators* for game views and drives for 24 months, beginning 1 January 2020.

*Suspension of Customs Duty on Vehicles: Car Hire Companies*

492. The mobility of tourists from the time of arrival and during their holiday escapades is a key component of a tour package.

493. Car rental companies, thus, need to keep abreast with tourist demands for modern, efficient and safe means of transport.

494. In order to reduce the replacement cost and also facilitate expansion of car rental fleet, I propose to introduce a *Suspension of Duty* facility to car hire companies for a period of 12 months beginning 1 January 2020.

495. Beneficiaries of this facility should have been registered with the *Zimbabwe Vehicle Rentals Association* and the *Zimbabwe Tourism Business Council* for a minimum of three years.

496. The *Suspension of Duty* facility will also be restricted to new vehicles and the ring-fenced allocation is as follows:

- 50 light passenger motor vehicles of CIF values not exceeding US\$50 000; and,
- 30 shuttle buses of a carrying capacity of been 8–60 passengers.

497. The ring-fenced allocation will be determined by the size of business based on previous tax returns, and also limited to a maximum of 5 vehicles per operator.

498. This measure is with effect from 1 January 2020.

#### *Suspension of Customs Duty on Specified Vehicles: Tour Operators*

499. Government recently availed a ring-fenced *Suspension of Duty* facility for importation of vehicles for shuttle services provided by hotels and lodges.

500. However, due to financial constraints, only 19 of the ring-fenced 75 vehicles have been imported.

501. I, therefore, propose to extend the *Suspension of Duty* on the remaining vehicles for a further 1 year.

*Cross-Border Luxury Coaches*

502. In support of initiatives to improve the quality of cross border luxury buses, Government, in 2018, extended ring-fenced importation of 25 luxury buses at a reduced rate of 5% for a period of twelve months beginning 1 January 2019.

503. However, luxury bus operators have not been able to fully utilise the facility, due to foreign currency challenges.

504. I, therefore, propose to extend the suspension of duty on the outstanding quota of luxury buses for a period of 12 months, taking into account developments in the motor industry.

*Public Services Buses*

505. Furthermore, Government ring-fenced importation of 100 public service buses of a sitting capacity of at least 60 passengers, at a reduced customs duty rate of 5%, in order to ease transport challenges.

506. However, due to financial constraints affecting some operators, only 51 buses have been imported to date.

507. I, therefore, propose to extend the facility for the importation of 100 buses for 12 months beginning 1 January 2020, in order to afford an opportunity to other bus operators to replenish their fleet.

508. The allocation of the ring-fenced quota will be determined by the size of businesses based on previous tax returns, but limited to a maximum of 5 buses per operator.

***Tax Incentives in Support of the Productive Sectors***

509. Government, over the past decade, availed tax incentives aimed at resuscitating the productive sectors, which include, agriculture, mining manufacturing and tourism, among others.

510. The incentives have contributed to the restoration of production capacity and enhanced competitiveness of some industries.

511. During the period 2011 to May 2019, revenue foregone as a result of tax incentives amounted to US\$1.45 billion, as detailed in the table below:

Summary of Duty Concessions by Sector (Jan. 2011 – May 2019)

Sector	Value for Duty Purposes (US\$)	Revenue Foregone (US\$)
Mining	704,035,921.88	103,837,015.19
Agriculture	5,599,010,161.92	779,321,821.13
Manufacturing	530,996,118.55	157,199,847.22
Tourism	72,146,885.16	25,160,645.13
Transport	184,444,188.94	60,965,183.34
Cross-Cutting	1,311,813,943.04	270,478,639.56
Other Concessions	868,962,953.22	52,404,536.56
Total	9,271,410,172.71	1,449,367,688.13

512. Government, going forward, will streamline incentives with a view to prioritise the development of local value chains and exports.



### ***Transparency and Accountability in the Utilisation of Rebate Facilities***

513. As already enunciated in the 2019 Budget, renewal of the *Rebate Facilities* is subject to submission of an annual report to Treasury, in accordance to specified parameters.

### **Revenue Enhancing Measures**

#### ***Deemed Motoring Benefits***

514. Whereas *Deemed Motoring Benefits* were reviewed with effect from 1 August 2019, the values are, however, no longer in line with current economic developments.

515. I, therefore, propose to review *Deemed Motoring Benefits* as follows:

Proposed Annual Deemed Motoring Benefits

Engine Capacity	Current Deemed Benefit (ZWL\$)	Proposed Deemed Benefit (ZWL\$)
0 - 1500cc	28,800	54,000
1500 - 2000cc	34,400	72,000
2000 - 3000cc	57,600	108,000
Above 3000cc	76,400	144,000

516. In order to cater for the wage compression within the public sector, an exemption from tax on motoring benefits will be granted to executives of grant aided institutions entitled to condition of service vehicles, on condition that their remuneration is pegged to equivalent civil service grades.

517. The proposed measure is effective from 1 January 2020.

***Limitation of Interest on Foreign Denominated Loans***

518. Interest on foreign loans contracted by the productive sector is allowed as a deduction in the determination of taxable income.

519. In order to minimise the loss on corporate income tax revenue, I propose that interest expenses on foreign loans be allowable as a deductible expenses to the extent that the foreign currency exchange rate on such loans is determined through the inter-bank market.

520. This measure is with effect from 1 January 2020.

***Excise Duty on Tobacco***

521. Government introduced a combination specific and ad valorem rates of excise duty at a rate of ZWL\$50 per 1 000 cigarettes plus 20% of the ex-factory price with effect from 2 August 2019.

522. However, due to recent macroeconomic developments, the specific rate of ZWL\$50 per 1 000 cigarettes no longer reflects the policy thrust.

523. I, therefore, propose review of the specific rate from ZWL\$50 to ZWL\$100 per 1 000 cigarettes, with effect from 1 December 2019, in line with global trends.

### ***Immigrants Rebate***

524. The customs legislation provides for a *Rebate of Duty* on pre-owned personal and household effects, including motor vehicles, imported by a returning resident who emigrated for a period of 2 years.
525. It, has, however, been observed that a number of students import luxury motor vehicles which end up in the hands of unintended beneficiaries.
526. I, therefore, propose to limit the value of motor vehicles that may be imported by returning students to a maximum of US\$ 5 000, with effect from 1 January 2020.

### **Tax Relief Measures**

#### ***Youth Employment Tax Credit***

527. Mr Speaker Sir, I have already alluded to the need for tax incentives in support of job creation, which is key to sustainable economic development.
528. I, therefore, propose to introduce a tax credit of ZWL\$500 per month per employee for corporates that employ additional employees in a year of assessment. The credit will, however, be limited to a maximum of ZWL\$60 000 per year of assessment.
529. The support *Framework* to be published through regulations, will target employers who meet the following conditions, among others:

- The company should be registered for *Personal Income Tax* and compliant for the preceding tax period;
  - Tax credit will only be claimed after the additional employee has served a period of 12 consecutive months;
  - Employees should be aged 30 years and below at the time of employment;
  - For the purposes of the incentive, “employee” excludes a trainee, intern and apprentice;
  - The minimum wage payable to new employees should be at least ZWL\$2 000 per month;
  - The tax credit will not apply to supervisory grades; and,
  - The tax credit will not apply to corporates with a turnover exceeding an equivalent of US\$1 million.
530. This measure, which takes effect from 1 January 2020, will reduce employers’ cost of hiring young people through a cost sharing mechanism.

### ***Personal Income Tax***

#### *Tax-Free Threshold*

531. The *Tax-Free Threshold*, which is pegged at ZWL\$ 700 per month, was last reviewed in August 2019.
532. Wages and salaries have since been reviewed in line with economic developments, resulting in *bracket creep*.

533. I, therefore, propose to review the tax free threshold from ZWL\$ 700 to ZWL\$ 2 000 per month and adjust the tax bands to begin at ZWL\$2 001 and end at ZWL\$50 000, above which the highest marginal tax rate of 40% will apply, with effect from 1 January 2020.

534. This will provide relief to taxpayers and boost aggregate demand for goods and services.

535. Table below shows the tax bands and applicable rates:

Proposed Tax Bands and Rates

Tax Bands (ZWL\$)	Tax Rate (%)
0 to 2 000	0
2 001 to 7 500	20
7 501 to 15 000	25
15 001 to 30 000	30
30 001 to 50 000	35
Above 50 000	40

#### *Bonus Tax-Free Threshold*

536. I, further, propose to review the tax free bonus from ZWL\$ 1 000 to ZWL\$ 5 000, with effect from 1 November 2019.

#### *Taxation of Retrenchment Packages*

537. Mr Speaker Sir, most retrenchees are unable to secure employment, hence engage in self-help projects to support their livelihood using retrenchment packages as seed capital.

538. Some of these self-help projects have transformed from micro to small and medium enterprises, hence have become the mainstay of the economy.

539. In order to safeguard the value of retrenchment packages, I propose to review the non-taxable portion of the retrenchment package to from ZWL\$10 000 to ZWL\$50 000 or one-third of the package, maximum of ZWL\$80 000, with effect from 1 January 2020.

### ***Intermediated Money Transfer Tax***

540. Mr Speaker Sir, *Intermediated Money Transfer Tax (IMTT)* is a potential source of revenue that spreads the burden across the generality of the transacting public. It also captures the informal sector, whose contribution to the fiscus remains minimal.

541. However, in view of the current macroeconomic conditions and consultations with stakeholders, there is need to further review the transaction tax as follows:

### ***Value of Non-Taxable Transactions***

542. In order to cushion low income earners and high volume businesses, I propose to review the *Tax-Free Threshold* from the current ZWL\$20 to ZWL\$100 and the maximum tax payable per transaction by corporates from the current ZWL\$15 000 to ZWL\$25 000 on transactions with values exceeding ZWL\$1 250 000, with effect from 1 January 2020.

### *IMTT Incidence*

543. Under the Income Tax Act, financial institutions are obligated to pay and recover *IMTT* on the transfer of funds.
544. For purposes of clarity, the obligation to pay *IMTT* rests on the person undertaking the transaction, not the mediator, hence financial institutions will withhold and remit the tax to ZIMRA.

### *Bulk Payments through Mobile Banking Platforms*

545. Mobile Banking platforms have, to a greater extent, enhanced the payment system, especially instant payments and receipt of money by corporates and individuals.
546. The ease and relatively lower cost of transacting through such platforms has enabled mobile network operators to undertake bulk payment of salaries, as well as social transfers to vulnerable members of the society, on behalf of development partners.
547. Payments related to remuneration are already exempt from *IMTT*. I, therefore, propose to exempt from *IMTT*, social transfers by *Development Partners* accredited in terms of the Privileges and Immunities Act [*Chapter 3:03*].

548. This measure is with effect from 1 January 2020.

549. Furthermore, for the avoidance of doubt, all other bulk payments through mobile *Money Banking Platforms* attract intermediated money transfer tax.

### ***Corporate Income Tax***

#### *Corporate Income Tax Rate*

550. Mr Speaker Sir, job creation, enhanced productivity and economic growth requires substantial investment in capital equipment, improved production techniques and modern technology.

551. The decision to invest is, however, largely dependent on the return on equity and other factors that include access to finance, skilled human capital and availability of key enablers such as water & energy.

552. Notwithstanding that the general corporate income tax rate of 25% is comparable to regional levels, there is scope for reduction, in order to improve return on equity.

553. I, therefore, propose to review the corporate income tax rate from the current rate of 25% to 24%, with effect from 1 January 2020.



### *Estimation of Corporate Income Tax*

554. The current macroeconomic environment has made it difficult for corporates to estimate taxable income within the statutory 10% margin of error, beyond which a penalty is applied.
555. In recognition of these challenges, the Commissioner General will continue to exercise discretion to waive interest on taxpayers with a good track record of compliance, among other considerations.

### *Capital Gains Tax*

556. Mr Speaker Sir, capital gains tax is levied on the gain accruing from the sale of specified assets which include immovable property and marketable securities.
557. It has, however, been observed that some taxpayers are disposing specified assets in foreign currency contrary to statutory requirements.
558. Where specified assets are disposed in foreign currency, or the seller fails to provide documentary evidence of local currency transaction, tax on the gross capital amount shall be paid in foreign currency.

## **VALUE ADDED TAX**

### *Value Added Tax Rate*

559. Notwithstanding that Value Added Tax legislation provides for exempt and zero rated products to ensure affordability of basic goods and

services, aggregate demand on standard rated goods has, however, shrunk, mainly due to low disposable incomes.

560. In order to stimulate aggregate demand, I propose to reduce the VAT standard rate from 15% to 14.5%, with effect from 1 January 2020.

#### *Value Added Tax on Foreign Services*

561. The *Value Added Tax* system allows for offsetting input against output tax. However, current legislation excludes input tax claims on imported services, hence increases operating costs for business.

562. I, therefore, propose to include imported services in the definition of input tax, thereby allowing registered operators to claim input tax.

#### *Export Tax on Raw Hides*

563. Government has, over the years, reviewed the suspension of export tax on export of excess raw hides, taking into account the absorptive capacity of the industry, which has remained depressed, hence raw hides continue to stock pile.

564. I, therefore, propose to extend the *Relief Facility* for 2 years, subject to review of the ring-fenced export quantities on an annual basis, as detailed below, with effect from 1 January 2020.

### Ring-fenced Quota: Export Tax on Export of Excess Raw Hides

Name of Company	No. of Hides	Weight in Kgs
Meggertop Enterprises	30 000	690 000
Global Tanners (Pvt) Ltd	30 000	690 000
Bellevue Abattoirs (Pvt) Ltd	15 000	345 000
Bulawayo Abattoirs	35 000	805 000
Surrey Abattoirs (Pvt) Ltd	10 000	230 000
MC Meats	38 000	874 000
Koala Park Abattoirs (Pvt) Ltd	40 000	920 000
E. R. York (Pvt) Ltd	20 000	460 000
Outback Safaris	10 000	230 000
Afro Hides and Skins (Z) (Pvt) Ltd	15 000	345 000

### ***Royalty on Diamond***

565. The royalty rate of 15% on diamonds was set during the period when mining was predominantly alluvial and extraction cost was relatively low.
566. However, diamond miners are exploiting conglomerate deposits, hence the cost of extraction has significantly increased.
567. In order to promote investment in exploration and extraction, I propose to review the royalty on diamond from 15% to 10% of gross revenue, with effect from 1 January 2020.

### **Customs and Excise**

#### ***Excise Duty on Fuel***

568. Notwithstanding that Treasury has channelled substantial resources collected from *IMTT* towards road rehabilitation, the *Department of Roads* remains incapacitated to undertake major road construction and rehabilitation projects.

569. This has undermined rehabilitation and dualisation of the *Beitbridge-Harare-Chirundu* highway which Government has undertaken to fund from internally generated resources.
570. It is, therefore, critical to secure additional resources for the *Beitbridge-Harare-Chirundu* highway, which facilitates the movement of goods along the *North-South Corridor*.
571. The shift towards *Ad Valorem* rates has substantially increased revenue generating capacity of fuel excise taxes. There is, thus, scope to earmark part of the taxes on fuel for road infrastructure development.
572. I, therefore, propose to ring-fence 5% of excise duty revenue collected on fuel towards the construction and rehabilitation of *Beitbridge-Harare-Chirundu* highway.
573. This measure is effective from 1 January 2020.

### ***Alternative Energy Sources***

574. In support of use of alternative energy, Government, has over the years, availed duty free importation of solar panels, inverters, regulators, geysers and energy saving bulbs, as well as, inputs used in the production of some solar related products.
575. However, recently developed products that use more advanced technology are dutiable.

576. Whereas some individual Solar Lighting components are exempt from customs duty, the kit comprising of solar panel, LED Lamps, in-built battery and charge controller, is liable to customs duty at a rate of 40%.
577. I, therefore, propose to remove customs duty on Solar Home Lighting Kits (Solar Home Systems) and also expand the list of energy saving products that are exempt from duty to include, Light-Emitting Diode (LED) Lamps and Solar Street Lights.
578. This measure take effect from 1 January 2020.

### ***Customs Duty on Sanitary Wear***

579. Mr Speaker Sir, due to unaffordable sanitary wear, a majority of vulnerable women and girls had resorted to use of unhygienic materials that expose them to health related problems.
580. In order to lower costs, Government exempted imports of sanitary wear from customs duty and VAT, for a period of twelve months, taking into account the need for local industry to recuperate, thereby improving supply of sanitary wear at competitive prices.
581. However, the local industry continues to face production constraints, hence I propose to extend duty exemption on sanitary wear by a further twelve months, with effect from 1 January 2020.

582. Furthermore, in response to new innovations, I propose to include sanitary cups and pants on the list of duty free products.

### ***Review of Specific Rates of Customs & Excise Duty***

583. Following the promulgation of Statutory Instrument 33 of 2019, the specific rates of customs and excise duty were converted from USD to ZWL\$ at an exchange rate of 1:1.

584. However, due to developments in the macroeconomic environment, the rates no longer reflect policy priorities.

585. I, therefore, propose that the prevailing Customs Exchange rate apply on specific rates of customs and excise duty that were denominated in USD, with effect from 1 December 2019.

## **Tax Administration**

### ***Value Added Tax***

#### *Registration Threshold*

586. Traders are liable to register for *Value Added Tax* if the value of taxable supplies exceed ZWL\$60 000 within a period of 12 months.

587. However, the threshold has become lower than the turnover of most small businesses that previously did not qualify for VAT registration.

Compulsory registration of small enterprises increases the administrative burden.

588. I, therefore, propose to review the VAT registration threshold from ZWL\$60 000 to ZWL\$1 000 000, with effect from 1 January 2020.

*Withholding Tax on Non-Executive Directors Fees*

589. Current legislation provides for a provisional withholding tax on payment of fees to non-executive directors at a rate of 20% of fees paid. Non-executive directors are, thus, required to submit an income tax return at the end of the year of assessment.

590. In order to ease the administrative burden of preparing tax returns, I propose that withholding tax on fees be a final tax with effect from 1 January 2020.

*Reward for Information*

591. The current legislation provides for a monetary reward for information that results in recovery of revenue which would otherwise have been lost.

592. Revenue includes penalties and interest, which are, however, imposed at the discretion of the Commissioner.

593. I, therefore, propose to exclude penalties and interest from the definition of revenue for purposes of reward for information.

*Rebate of Duty Facility on Motor Vehicles Imported by Serving Public Servants*

594. Mr Speaker Sir, in order to assist serving *Senior Public Servants* who no longer benefit from *Condition of Service Motor Vehicle Facility*, Government, through the 2019 National Budget, provided for duty free importation of motor vehicles by such Senior Public Servants.

595. The *Facility* was also extended to other Civil Servants who have been in the service for a period of at least 10 years, provided the motor vehicles imported do not exceed an import value of US\$10 000.

596. Furthermore, in line with the *Collective Bargaining Agreement*, Government also provided for duty free importation of motor vehicles by serving Health Service Workers.

597. In order to improve transparency and accountability in the utilisation of the schemes, thereby ensuring that *bona fide* serving *Civil Servants* benefit, I propose to add the following conditions:

- Only motor vehicles purchased from traceable and registered Car Dealers shall be eligible for rebate of duty;



- Provide for the requirement for proof of source of funds where *Treasury* has reservations;
- In cases of suspected undervaluation, ZIMRA will revalue the motor vehicle in line with the existing *Customs Valuation* regulations; and,
- Variations in the maximum import values, depending on Grade as follows:

Grade of Senior Public Servant	Maximum Amount (US\$)
B1 – B5 or equivalent	3 500
C1 – C5 or equivalent	5 000
D1 – D5 or equivalent	7 500
E1 – E3 or equivalent	10 000

598. Failure to meet the above additional conditions will result in disqualification of applications.

599. The above measures takes effect from 1 January 2020.

*Rebate of Duty on Goods Imported for Use in Approved Projects*

600. In support of private and public sector infrastructure investments that contribute significantly to employment and economic growth, Government implemented a *Rebate of Duty Facility* for importation of goods for temporary or permanent use in *Approved Projects*.

601. The measure has assisted to reduce project costs, thereby facilitating investment in new and expansion projects.

602. Government, however, notes with concern that some project developers seek approval for the *Rebate of Duty Facility* on projects that are still at the *conceptual stage* of development for speculative purposes and as a guarantee for leveraging financing.
603. This practice makes it difficult for Government to evaluate sustainability of such projects, as well as economic and social contribution to the country.
604. In order to ensure transparency and accountability in the utilization of the *Facility*, rebate of duty will be granted subject to fulfilling the following additional conditions:
- Completed Feasibility Studies endorsed by the responsible Ministry;
  - Proof of funding for the project;
  - Evidence of the physical place of business where the project will be undertaken; and
  - Compliance to regulatory requirements such as Environmental Impact Assessments (EIA) and Local Authority by-laws.
605. Furthermore, rebate of duty shall not be extended to beneficiaries who fail to demonstrate utilization of previous concessions.

#### *Regulation of Clearing Agents*

606. In order to enhance professionalism, directors, managers, partners and employees of *Clearing Agents* are required to possess at least a Diploma from a *Recognised Academic Institution* or professional body.

607. A moratorium to acquire minimum qualifications was granted to *Agents* already in practice, and is due to expire on 31 December 2019.
608. Government, however, notes that some practitioners have made progress towards attaining the minimum qualifications.
609. In order to allow practitioners to finalise studies, I propose to extend the period by 12 months, with effect from 1 January 2020.

## **Legislative Amendments**

### ***Tax Exemption on Venture Capital Financing***

610. In order to incentivise provision of *Venture Capital* financing to start-up companies, Government exempted from tax, income accruing to any company whose principal object is the provision of venture capital for development.
611. However, legislation does not specify conditions for granting tax exemption, which include the maximum level of debt financing, shareholding in the *Recipient Firms* as well as the level of development of business to which venture capital funds can be provided, among others.
612. In order to minimize opportunities for abuse of the tax exemption, I propose to apply the following conditions on venture capital companies:

- The *Venture Capital Fund* or company as well as the *Recipient Company* should be residents and also be tax compliant;
  - The *Recipient Company* should not be listed on the stock exchange;
  - *Recipient Companies* should be in critical sectors of the economy, in particular, agriculture, mining, manufacturing and tourism;
  - The *Venture Capital Fund* or company should not control (directly or indirectly through a related entity) a *Recipient Company* in which it holds shares; and
  - *Recipient Companies* should primarily be financed through equity as opposed to debt.
613. For the avoidance of doubt, the *Venture Capital Fund* shall not benefit from tax exemption if they invest in the following:
- Trade carried on in respect of immovable property;
  - Trade carried on by financial institutions;
  - Trade carried on in respect of financial or advisory services, including trade in respect of legal services, tax advisory services, stock broking services, management consulting services, auditing or accounting services; and
  - Trade carried on in respect of gambling.

### ***Taxation of E-Commerce Transactions***

#### *Non-Taxable Transactions*

614. Honourable Members would be aware that Government introduced a 5% flat tax on gross revenue generated by a non-resident person that

provides satellite broadcasting services or facilitates trade of goods and services through electronic commerce platforms, if the revenue earned during any year of assessment exceeds *Five Hundred Thousand United States Dollars*.

615. Notwithstanding that *Statutory Instrument 33* of 2019 provides for conversion of all monetary amounts contained in various statutes to local currency, I propose that the minimum threshold beyond which the tax shall apply remains denominated in foreign currency, since the services are payable in foreign currency.

#### *Assessed Losses*

616. Current legislation allows non-resident providers of satellite broadcasting service to offset assessed losses against taxable income.
617. The tax is, however, collected on gross revenues, hence I propose to remove legislative reference to assessed losses in the computation of taxable income.

#### *Appointment of Representative Taxpayer*

618. In order to enhance compliance in the administration of tax by non-resident persons that provide satellite broadcasting services or facilitate trade of goods and services through electronic commerce platforms, I propose that such businesses appoint a *Representative Taxpayer*, within 30 days of becoming liable to tax.

### *Capital Gains Tax on Donated Houses*

619. In recognition of *Corporate Social Responsibility Programmes* targeted at providing decent shelter to employees and local communities, particularly by the mining sector, Government approved exemption of donations of housing units to any *Local Authority, Employee Share Ownership Scheme or community Development Trust* from capital gains tax, effective from January 2017.
620. However, donations of housing units to community development trusts were not covered under the exemption.
621. I, therefore, propose to exempt donations of houses to *Community Development Trusts* from capital gains tax.

### **Efficiency in Tax Administration**

#### ***Designation of Port of Entry and Customs House***

##### *Mlambapele Port of Entry*

622. In recognition of increased flow of commercial goods imported through Botswana, Government, in 2016, commissioned Mlambapele for use as an official entry and exit point.
623. In order to regularise the commissioned border post, thereby enforcing compliance of customs formalities, as well as enhancing convenience

to travellers, I propose to designate *Mlambapele* as a *Port of Entry*, with effect from 1 December 2019.

624. The *Port of Entry* shall operate from 7.30 am to 4.30 pm daily, thus, aligning to the operating times of the adjacent Border Post.

#### *Gwanda Customs House*

625. Due to the increase in commercial traffic from Beitbridge Border Post into Gwanda District, the town is benefiting from high volume of business.
626. Furthermore imports and exports of companies that include Blanket Mine, Vambachikwe and Portland Cement are currently processed in Bulawayo, thereby increasing the cost of compliance.
627. In order to facilitate *Ease of Doing Business*, I propose to appoint a *Customs House* in Gwanda, with effect from 1 December 2019.

#### *Customs Dry Ports*

628. Congestion, particularly at Beitbridge and Forbes *Ports of Entry*, remains one of the major constraints to trade facilitation. This is due to infrastructure bottlenecks, hence the *Ports* can no longer cope with increased flow of commercial traffic.

629. In order to address this challenge, Government has adopted the *Dry Port Concept*, whereby commercial cargo is consigned to specified inland facilities pending final clearance.
630. I, therefore, propose to designate *Customs Dry Ports* in Masvingo, Bulawayo, Makuti and Mutare, in order to relieve pressure on *Ports of Entry*.

### **Programme Based Budgeting and Integrated Development Planning**

631. The year 2019 has been a watershed year in terms of implementation of Programme Based Budgeting (PBB). Programme Based Budgeting is one of the core components of the Integrated Results Based Management (IRBM) system which was adopted by Government in 2005.
632. RBM is a management approach which requires Ministries, Departments and Agencies (MDAs) to focus on achieving specific objectives through strategic planning, systematic resource use, routine performance monitoring, and stringent reporting requirements.
633. RBM system includes Integrated Development Planning (IDP), Results-Based Personnel Performance, Results-Based Monitoring and Evaluation and Results Based Budgeting also referred to as Programme Based Budgeting (PBB). PBB directly links planned expenditures to clearly defined results and improved service delivery within the mandate of an organisation. The approach shifts emphasis from inputs and activities to results, and improves prioritisation of expenditure by allocating limited Government resources to programmes with the highest impact. The



approach encourages spending ministries to improve efficiency and effectiveness of service delivery.

634. It is, therefore, imperative that Ministries, Departments and Agencies rigorously develop their performance information, as they will be expected to account for performance of their programmes, in terms of planned outputs and outcomes.
635. The Office of the President and Cabinet, the Public Service Commission and the Ministry of Finance and Economic Development will put in place robust measures to foster a stronger performance culture in the public service and have undertaken to implement periodic joint reviews to assess progress.

*Successor Plan to the TSP*

636. While commendable progress was achieved in the implementation of reforms, preliminary evaluation of the TSP show challenges in implementation under some of the pillars of the Programme.
637. A mid-term review of the TSP is in progress under the auspices of the Office of the President and Cabinet, in collaboration with Treasury. The outcome will inform our first Five-Year National Development Plan (NDP1) which should be out by October 2020, in time to guide the 2021 National Budget.
638. Government will ensure that the our NDP1 Plan is crafted on the principles of Integrated Development Planning which emphasises integration

between Planning, Budgeting and Human Resource Management in line with the Integrated Results Based Management System.

## CONCLUSION

639. The current economic challenges are surmountable provided we put our efforts together as a nation and continue taking bold and decisive steps to open up and grow the economy. This includes seriously pursuing policies that enhance production.
640. The monetary and fiscal reforms undertaken, if supported by increased domestic production, will clearly lay a firm foundation for sustainable and inclusive economic growth.
641. In this regard, our thrust and priority is centred on domestic production, productivity, and job creation, all leading to growth.
642. While we are focussing on productivity growth, we are not lost to broader understanding of human and overall development, which to quote Amartya Sen (Philosopher, Nobel Laureate in Economics and Indian Economist), who argues that *“human development is about expansion of citizens capabilities to fend for themselves”*

Hon. Prof. M. Ncube  
**Minister of Finance and Economic Development**

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