



ZIMBABWE

STATEMENT ON THE 2009 BUDGET

**Presented to the Parliament of Zimbabwe by
the Minister of Finance**

Hon. T. Biti, MP

on

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INTRODUCTION

1.1.1. Mr Speaker Sir, Honourable Members will recall that on 29 January 2009, the Honourable Acting Minister of Finance presented the 2009 Budget in this August House.

1.1.2. Debate on the Budget forms part of this Session and I have the honour to open this debate.

1.1.3. In order to facilitate this debate, I have synchronised the 2009 Budget to recent political and economic developments, which culminated in the formation of the Inclusive Government which in turn initiated the formulation of the Short Term Emergency Recovery Programme (STERP).

1.1.4. Mr Speaker Sir, at the epicentre of these socio-economic challenges, have been unprecedented levels of hyper-inflation and declining productive capacity and hence massive de-industrialisation, food shortages, loss in value of the local currency, corruption, deteriorating public service delivery particularly education, health, sanitation as well as public utilities and infrastructure.

1.1.5. The impact of all the above have been sustained negative effects on Gross Domestic Product (GDP), resulting in cumulative fall of GDP by over 40% for the past 8 years,

giving rise to unprecedented increase in poverty levels and general despondency.

1.1.6. Given the aforementioned, the task of turning around the economy, therefore, becomes the toughest job of the Inclusive Government.

1.1.7. Notwithstanding this challenging obligation, the new Inclusive Government is committing itself to putting Zimbabwe people and the country first by addressing the above challenges, geared towards turning around the economy and, hence, afford the people of Zimbabwe better living standards.

1.1.8. Mr Speaker Sir, as I move this debate in this August House, I propose to revise the 2009 Budget taking account of the above and inclusive of the following:-

- Alignment of tax and other economic measures to the Short Term Emergency Recovery Programme (STERP), including any new initiatives and revisions where appropriate.
- Downward revision of the overall 2009 Budget Framework in line with actual developments in January, February and early March 2009.

- Reconfiguration of the Estimates of Expenditure (Blue Book) to incorporate additional Ministries in line with the formation of the Inclusive Government.

REALITY CHECK

2.1.1. In the four weeks that I have been in the Ministry of Finance, there are three key lessons that I have learnt very quickly.

2.1.2. The first being high levels of demand on the fiscus, the second being huge expectations, and the third being limited capacity to deliver on the part of the fiscus.

2.1.3. The demands on the Treasury are high and appear limitless. These range from short term requests by Ministries for such simple items as furniture for new offices, transport and subsistence allowances, fuel, vehicle hire and maintenance, conferencing and air fares, to more pressing demands such as water purification chemicals for local authorities, as well as longer term demands for infrastructural rehabilitation and reconstruction.

2.1.4. Furthermore, our embassies in foreign countries require over US\$3 million per month. This obligation is before account is

taken of the over US\$30 million we have incurred in arrears as at December 2008.

2.1.5. There are also unbudgeted requests from sports associations such as ZIFA, as well as some individual sports clubs.

2.1.6. In this context, you have perennial vehicles of fiscal drainage, for instance, the more than US\$1 million weekly requests by Air Zimbabwe and other unbudgeted parastatal bailouts.

2.1.7. Thus, if one is not careful, one is reduced to focusing on fire fighting issues in the allocation of very meagre resources. Very easily, one can lose focus on the bigger developmental role of Fiscal Policy.

2.1.8. Having a reality check, having a plan and having priorities simply becomes imperative.

Modest Revenue Receipts

2.2.1. The original Budget of 29 January 2009 was predicated on a Budget assumption of revenues of US\$1.7 billion, which averages US\$140 million a month.

2.2.2. Our revenue realisations, however, have been modest. In February 2009, we collected US\$25 million, and as of now,

we have just managed to collect US\$30 million which will be hardly enough for civil service allowances.

2.2.3. The reality, therefore, is that the only thing that we so far have been able to do on our own has been to just pay the modest civil service allowance of US\$100 a month, and other modest requirements for Government operations.

Skewed Nature of the Tax Structure

2.3.1. Historically, the single biggest source of revenue in Zimbabwe has been Pay As You Earn (PAYE) which in general terms has contributed close to 40% of our tax revenue.

2.3.2. The sad scenario in our current situation is that PAYE in the two months to date has been very insignificant, and indirect taxes, in particular Value Added Tax (VAT) have also not fully recovered.

2.3.3. This is a reflection of the high levels of unemployment, and the fact that many businesses had gone informal. Furthermore, most employers are not yet able to pay significant foreign currency salaries.

2.3.4. The Table below contrasts historical developments against the revenue outturn in the first two months of the 2009 Budget, that is January and February.

Tax	1996 – 2004 average (%)	2009 Jan – Feb (%)
PAYE	38.65	7.47
Corporate	11.04	4.01
Other Direct Taxes	6.19	5.78
Direct Taxes	55.88	17.26
Sales Tax/VAT	24.03	21.96
Customs Duty	13.15	38.06
Excise Duty	5.09	20.88
Other Indirect Taxes	1.84	1.85
Indirect Taxes	44.12	82.74
Total	100.00	100.00

2.3.5. Quite clearly, the above situation where direct taxes account for only 17% of total revenue if not reversed during the remainder of 2009 is undesirable. That is why it makes sense that any economic recovery and rehabilitation programme in Zimbabwe has to be capacity based.

Engagement of the International Community

3.1.1. Mr Speaker Sir, given that over and above the initial proposed 2009 Budget provisions of US\$1.7 billion we face

other emergency financial requirements to end of the year amounting to over US\$2 billion, it is imperative that we engage the international community for financial support.

3.1.2. Such support is required to augment items in the Budget related to the delivery of urgent public services in health, education, water, sanitation, food security, infrastructure rehabilitation, among others.

3.1.3. The international community will also play a critical role in supporting self liquidating lines of credit required by our industries to restore production levels.

3.1.4. This way, Mr Speaker Sir, we will take advantage of the peace and stability we are beginning to experience following the formation of the Inclusive Government, that way also mitigating scope and opportunity for social discord which no one wants.

Death of the Zimbabwe Dollar

4.1.1. Since February this year, the Zimbabwe dollar is no longer a currency that the public and any trader will accept. Our national currency has, thus, become moribund. Financial assets denominated in Zimbabwe dollars have become valueless, thereby wiping out a large portion of national savings.

4.1.2. The immediate implications of this are devastating:

- The level of economic transactions in our economy will be determined by the amount of foreign money supply. We start out with a small stock of inflows of South African rands and United States dollar notes in circulation and minimal foreign currency accounts (FCAs) deposits. Increasing our access to the required higher foreign currency supply, critical for GDP growth, requires us to export more than we import and to maximise whatever remittances from our fellow Zimbabweans abroad, attract foreign loans and grants through what cooperating partners are able to provide.
- All economic enterprises, from the informal sector, street vendor, to the largest national corporates listed on the stock exchange, must henceforth trade and meet their tax obligations in foreign currency.
- In respect of the National Budget, we are immediately operating on a cash basis. We are only able to spend what we receive in tax revenues, fees for services and subventions from development partners.

4.1.3. The net effect of the above, including lack of Budgetary support, reduced income levels and the death of the Zimbabwe dollar, must result in us doing the following:

- a. Embarking on cash budgeting;
- b. Creative ways of raising additional financial resources, including disposal of 'family silverware';
- c. Dealing with hygiene issues and proper implementation of the letter and spirit of the Global Political Agreement (GPA).

4.1.4. Out of an abundance of caution, I will now expand on the concept of cash budgeting and creative fundraising.

Cash Budgeting: What We Gather is What We Eat

4.2.1. The natural law of cash budgeting is "what we gather is what we eat" or "We eat what we kill."

4.2.2. This is the basic economic law of all hunting communities. No Ministry or public agency should expect to eat beyond what we have gathered through collection of taxes, fees and any other legitimate sources of revenue.

4.2.3. “What we gather is what we eat” unambiguously defines the priority not just in the Ministry of Finance but throughout all arms of Government. If we want to continue eating, we must all focus our minds and energies on maximising the revenues that are needed first to get those of us in the public sector back to work and then to implement all of the pressing issues.

4.2.4. As a matter of fundamental economic policy, all sources of public revenue must be directed and remitted to the Treasury.

4.2.5. Government agencies providing fee-earning services will be allowed to retain part or all of their earnings. This will be on a case-by-case arrangement with Treasury, as provided for in Treasury regulations.

4.2.6. Retention of part of the fee revenue collections, rather than 100% remissions to the Treasury, is intended to provide an additional incentive for diligent collection of due revenues from fees and charges.

Confidence Building Measures

4.3.1. As I have already alluded to, without significant external financial resources it will be difficult to support STERP and

other Government programmes critical for us to overcome cycles of economic decline, and alleviate poverty.

4.3.2. In this regard, the key Political and Governance reforms that are emphasised in the Global Political Agreement and STERP, particularly the issue of a “new people driven Constitution” and the process of national healing are as important as the measures to lay the economic foundations for the resumption of growth and social development in Zimbabwe.

4.3.3. In short, what is required is to create confidence and sculpt a construction that Zimbabwe is on an irreversible paradigm shift.

4.3.4. Over and above the SADC initiatives underpinned by South Africa, there should be serious engagement with all cooperating partners, including the World Bank, International Monetary Fund, as well as the African Development Bank, with the objective of restoring the country’s status as a credible recipient of external financial assistance.

4.3.5. As confidence is restored, private sources of external finance will also become available to Zimbabwean companies and banks.

4.3.6.Hence, as part of this strategy should be an aggressive programme of bilateral engagement with all the key strategic countries.

4.3.7.Meanwhile, before the above gestates, it is important to consider disposal or rationalisation of one or two of the country's 'silverware'.

4.3.8.In addition, we should also consider issues of Public Private Partnerships, particularly in the field of health and infrastructural development, issues of external bonds, an Investor Conference, as well as an aggressive Zimbabwe Road Show Marketing Programme.

KEY PILLARS OF STERP

5.1.1.Pursuant to the above Reality Check and the overall economic challenges we face, it became imperative that an emergency stabilisation programme had to be crafted. Thus, in a matter of days, we set down as a Ministry and, in consultation with our stakeholders, formulated STERP.

5.1.2.Mr Speaker Sir, under STERP, cognizance is taken of the fact that an agenda for economic stabilisation that does not address the issues of democracy and governance is not sufficient.

5.1.3. Therefore, the key pillars of STERP include:

Democratisation

5.2.1. The Global Political Agreement recognises that the foundation for a new Zimbabwe needs to address not only economic issues, but also related issues such as:

- the rule of law;
- crafting of a new people driven Constitution;
- restoration of property rights;
- restoration of political legitimacy;
- freedom and liberties;
- restoration of personal measures;
- opening up of the media; as well as
- the restoration and re-integration of Zimbabwe into the community of nations.

5.2.2. Furthermore, it is trite that without a well functioning economy, democracy and human rights are impossible and equally, without a well functioning democracy, economic development is impossible.

5.2.3. Mr Speaker Sir, STERP, therefore, recognises the irreversible commitment of the Inclusive Government to the making of the new Constitution as defined under Article 6 of the GPA. This should be commenced as a matter of urgency. The

Constitution reform process will open up debate, and usher in a new society able to tolerate different views without confrontation and, thus, promoting national healing.

5.2.4. Also critical to the democratisation matrix is the imperator of liberalisation of the air waves, freeing the media, and ensuring that plural voices are heard through both the electronic and print media.

5.2.5. Over and above this, the GPA recognises the importance of creating a vibrant and free media as an important democratic aspect. Therefore, legislation will be passed cementing the enjoyment of the right of freedom of expression and freedom of association. Hence, the review of such laws as the POSA, AIPPA and the Criminal Code will be speeded up.

5.2.6. Indeed, some of these rights have been recognised under the Constitutional Amendment Number 19. Therefore, the democratisation agenda should eventually ensure that there is a democratically elected Government of Zimbabwe based on the new Constitution.

Values and Aspirations

6.1.1. The Inclusive Government is founded on certain values that are at the core and epicentre of STERP. The preamble to the

GPA acknowledges that 'the values of justice, fairness, openness, tolerance, equality, non discrimination and respect of all persons without regard to race, class, gender, ethnicity, language, religion, political opinion, place of origin or birth are the bedrock of our democracy and good governance'.

6.1.2. In addition, the GPA itself has a vision of the new Zimbabwean society that is 'free of violence, fear, intimidation, hatred, patronage, corruption and founded on justice, fairness, openness, transparency, dignity and equality'.

6.1.3. STERP is loyal to the above aspirations and values, which are essential and critical to get Zimbabwe moving again. In this regard, the issue of corruption and combating corruption particularly in the public service is vital to the enforcement of the above values.

6.1.4. Combating corruption will involve strengthening the Judiciary, the Attorney General's Office, the Anti-Corruption Commission and, more importantly, ensuring that high standards of accountability and honesty are maintained in the public service.

6.1.5. Government and parastatals cannot be institutions of handouts and, therefore, all leakages must be plugged.

6.1.6. In addition, where possible, new Laws will be enacted, while present Laws such as the Prevention of Corruption Act will be strengthened.

Social Protection Programmes

7.1.1. The provision of adequate and quality basic social services is a key area of this Programme. The liberalisation of the foreign exchange market as well as the removal of price controls will also have implications on vulnerable groups in our society.

Education

7.2.1. Mr Speaker Sir, STERP will give priority to the resuscitation of the education sector, which had almost grounded to a halt after having seen most schools failing to open at the start of the school's calendar year in January.

7.2.2. Priority will centre on improving conditions of service for the teachers, including providing incentives to attract those in the diaspora, the marking of 2008 public examinations, as well as provision of learning material and equipment in schools and other tertiary institutions.

Health Delivery

7.3.1. The economic decline has resulted in a sharp decrease in funding for health in real terms. This has directly contributed towards an unprecedented deterioration of health infrastructure, loss of experienced health professionals, drug shortages and a drastic decline in the quality of public health services.

7.3.2. For example, highly experienced health professionals left the health sector as evidenced by the high vacancy levels. There are about 68% of vacant posts for Doctors.

7.3.3. Other challenges include serious shortage of functioning essential medical equipment, high burden of preventable diseases such as malaria, HIV and AIDS, Tuberculosis, diarrhoeal diseases, maternal care.

7.3.4. Mr Speaker Sir, a major focus of STERP will, therefore, be on interventions to resolve the above challenges, consistent with the objectives of achieving the Millennium Development Goals.

7.3.5. This will require both internal and external resources.

Specially Targeted Vulnerable Groups

7.4.1. Mr Speaker Sir, with regards to vulnerable groups which include the elderly, orphans and child headed families as well

as the physically challenged, the Programme provides for enhancement of publicly funded social safety nets, with specific allocations made for vulnerable groups and those institutions catering for such people.

Humanitarian Assistance

7.5.1. Food relief would be required for the remaining period to harvest time. Over and above the food relief, urgent humanitarian assistance is also required in the area of water and sanitation.

7.5.2. Mr Speaker Sir, such support will empower local authorities under whose mandate water management has reverted back to.

Supply Side Reforms

8.1.1. Mr Speaker Sir, I have already alluded that the economy has been under severe stress, with annual real GDP growth suffering declines averaging -5.9% since 2000. Cumulatively, output declined by more than 40% during that period.

8.1.2. The deepening economic crisis is reflected in sectoral performances, which followed the same trend. Since 2006,

virtually all sectors recorded declines in output, with agriculture, manufacturing and mining estimated to have declined by 7.3%, 73.3% and 53.9%, respectively, in 2008.

Agriculture

8.2.1. Under STERP, the key issues which will be addressed in order to facilitate productivity in agriculture will also focus on the land issues.

Mining

8.3.1. Mr Speaker Sir, in the mining sector, measures are aimed at raising the capacity in mineral production. Continuous exploration, as well as beneficiation and value addition of minerals will benefit from joint venture strategic partners who have the necessary technology and foreign currency back-up.

8.3.2. A key component of STERP in reviving the mining sector will be to ensure that international commodity prices are levied and received by mining houses. In short, the pricing gap in respect of which domestic prices lagged behind international prices is a thing of the past.

8.3.3.Mr Speaker Sir, to enhance value, the framework for the marketing of all minerals. In the case of Gold, the same will remain a strategic reserve asset whose licensing and marketing will be in line with the Gold Trade Act.

8.3.4.Taxation and royalty levels will, however, be reviewed in line with international best practices.

Manufacturing

8.4.1.Mr Speaker Sir, the manufacturing sector will be at the epicentre of this stabilisation programme. The sector is already beginning to benefit from the decontrol of prices, and should further benefit from arrangement of external lines of credit for the importation of raw materials and retooling, thereby ensuring that the current industrial capacity utilisation is increased from the current low levels of around 10% to over 60% in the next six to nine months.

8.4.2.Mr Speaker Sir, total requirement for lines of credit facilities will be in excess of US\$1 billion, for the short term period to year end.

Tourism

8.5.1.Mr Speaker Sir, regarding revival of tourism, STERP is prioritising securing external lines of credit for working

capital, rehabilitation of infrastructure and importation of capital equipment, launching an aggressive marketing campaign covering regional and international markets as well as improving access to resorts by allowing more airlines into the country.

8.5.2. The Nation's Tourism Strategy will also be fast tracked to take advantage of the 2010 World Cup to be hosted by South Africa.

Construction

8.6.1. In order to resuscitate construction activity in the country, Mr Speaker Sir, construction companies will also benefit from access to external credit facilities being organised by Government. This will ensure financing for retooling and equipping of the industry.

Housing

8.7.1. The enhancement, evaluation and improvement of the current national housing policy will be carried out during STERP in order to take advantage of significant portions of land acquired under the land reform programme by local authorities for housing, as well as enhancing the servicing of such land.

Demand Side Reforms

9.1.1. Mr Speaker Sir, the precondition of any capacity based stabilisation programme is the implementation and execution of a sound macro-economic stabilisation programme. Certainty and credibility has to be established with regards to money supply, interest rates, inflation and a credible exchange rate management framework.

9.1.2. Also central to the macro-economic stabilisation is the obligation to ensure strict fiscal discipline of a carefully managed budget deficit and one that is not funded by the printing of money.

9.1.3. Mr Speaker Sir, the macro-economic stabilisation measures I propose below are, thus, predicated on certain key fundamental principles which are:

- Cash budgeting for fiscal discipline;
- A positive real interest rate regime;
- Raising savings to above 25% of GDP;
- A vibrant labour market policy;
- A Social Contract, based on respect of the contracting parties;
- A market based exchange rate regime;
- Use of multiple currencies as legal tender, and
- The removal of foreign exchange surrender requirements.

Inflation

9.2.1. To get Zimbabwe moving again, it is critical that the hyper-inflationary environment be a thing of the past. Three issues were at the epicentre of hyperinflation in Zimbabwe.

9.2.2. These are the absence of meaningful production, which would mean that at any given time, demand exceeded the supply of the few goods available.

9.2.3. Secondly, has been the budget deficit financed through printing of money.

9.2.4. Third, has been the engagement in illegal and excessive quasi-fiscal activities that have been done outside the provision of the Constitution of Zimbabwe.

9.2.5. Basing this Programme on capacity expansion clearly addresses the first inflation driver.

9.2.6. Furthermore, the use of multiple currencies will also eliminate the habit of printing money.

9.2.7. More importantly, consistent with the 2009 Budget Statement, quasi-fiscal activities by the Reserve Bank are to be ceased forthwith.

9.2.8. Treasury, as overseer of the Reserve Bank Act, the Audit and Exchequer Act, will ensure that these laws are strictly complied with and more decisively that the Constitution is complied with fully in so far as all outlays from the Consolidated Revenue Fund have to be approved by Parliament.

Utilities, Amenities and Infrastructure

9.3.1. Mr Speaker Sir, STERP also prioritises the enhancement of efficiency in delivery of public services, including water reticulation, by our public enterprises and local authorities.

9.3.2. Reforms for the public enterprises will focus on re-capitalisation, commercialisation, privatisation and part, or outright, disposal as well as allowing the charging of cost reflective tariffs.

9.3.3. Total requirements for the above are estimated at US\$740 million, as indicated earlier on.

Energy

9.4.1. 'Getting Zimbabwe Working Again', requires that the country has adequate and reliable energy supplies at all times.

9.4.2. In power, the following are critical imperators, whose requirement is estimated at over US\$1 billion:

- Completion of Stage 1 of the Hwange Power Station rehabilitation;
- The expansion and increase of capacity at Kariba South Bank;
- The rehabilitation of the transmission and distribution infrastructure in Zimbabwe;
- Securing long term import lines in respect of the country's power deficits.

Infrastructure

9.5.1. Mr Speaker Sir, the Programme also prioritises provision of public resources for the rehabilitation of infrastructure, such as railways and roads, among others.

9.5.2. This will be complemented by private sector participation.

Local Authorities

9.6.1. Service delivery in housing, health, road maintenance, waste collection, street lighting, among others, will receive

attention and funding, benefiting from the charging of economic tariffs.

ORIGINAL BUDGET PROPOSALS

10.1.1. Mr Speaker Sir, the 2009 Budget presented by the Acting Minister of Finance to Parliament on 29 January 2009, provided for revenues of US\$1.7 billion and expenditures of US\$1.9 billion.

10.1.2. The 2009 Budget was premised on a macro-economic framework targeted at reduction of inflation to double digit levels as well as attain a positive economic growth rate of about 2%.

10.1.3. Nominal GDP of US\$5.5 billion was projected. Informed by past trends where revenue collections are normally about 30% of nominal GDP, revenue for 2009 was therefore projected at US\$1.7 billion.

10.1.4. The estimate was premised on the implementation of proposed fundamental macro and micro economic reforms, as well as legal and institutional reforms targeted at stimulating positive supply response in the manufacturing, tourism, mining and agricultural sectors, thereby increasing economic activity.

Revenue

10.2.1. Mr Speaker Sir, implementation of some of the revenue measures such as road tolling fees, which were targeted to raise a substantial amount of revenue, have however been delayed, pending approval of the Finance Bill by Parliament.

10.2.2. Furthermore, most companies have paid subsistence allowances to their employees, and not actual salaries, resulting in low Pay As You Earn (PAYE) collections.

10.2.3. Although customs duty rates have been revised downwards, the volume of trade has nevertheless declined, hence customs revenue inflows to the fiscus have not performed as anticipated.

10.2.4. In spite of improvements in the supply of goods on the local market, VAT collections have, however, been low owing to low disposable incomes which resulted in most consumers spending on non-vatable basic commodities.

10.2.5. Mr Speaker Sir, cumulative revenue collections in January and February 2009 amounted to US\$36.8 million. This clearly fell short of expenditure demands given that employment costs alone would have amounted to about

US\$60 million had payment of allowances in foreign currency been effected from January 2009.

10.2.6. The low revenue collections have already forced us to pay public servants and pensioners only foreign currency denominated allowances from February and March, respectively.

PROPOSED REVISION OF THE 2009 BUDGET

11.1.1. Mr Speaker Sir, STERP and the 2009 Budget should consolidate our key macro-economic policy shifts, most of which are already beginning to bear fruit.

11.1.2. Therefore, as I move the 2009 Budget debate, I propose to revise the 2009 Budget taking account of the following:-

- *Downward revision of the overall 2009 Budget Framework in line with actual developments in January, February and early March 2009.*
- *Re-configuration of the Estimates of Expenditure to incorporate additional Ministries in line with the formation of the Inclusive Government.*

Revenues and Other Policy Measures

12.1.1. Mr Speaker Sir, as a result of developments to date which I outlined earlier, revenue anticipated for the 2009 fiscal year is accordingly being reviewed downwards from US\$1.7 billion to US\$1 billion.

12.1.2. Following post Budget consultations with some of our stakeholders, I am proposing to review some of the policy measures that were announced during the 2009 National Budget.

Multiple Currencies

12.2.1. Mr Speaker Sir, the 2009 first quarter Monetary Policy Statement compelled all traders to adopt a dual pricing framework where goods and services would be quoted in both local and foreign currency.

12.2.2. This requirement was enforced through Statutory Instrument 5 of 2009.

12.2.3. Dual pricing promotes unintended consequences whereby some traders and shop owners attempt to avoid meeting their foreign currency tax obligations by misrepresenting actual transactions as having been undertaken in

Zimbabwe dollars. In reality, at present, no business is still trading in the local currency.

12.2.4. With immediate effect, therefore, Statutory Instrument 5 of 2009 has been revoked to enable the use of multiple currencies in order to facilitate trade and tax collection in the economy.

12.2.5. The necessary amendments to the Exchange Control Act allowing for use of multiple currencies as legal tender will be effected.

Flat Rates of Duty

12.3.1. For convenience of travellers, a flat 65% rate of duty is charged on excess goods that are not accommodated in the travellers' rebate of US\$300 per calendar month.

12.3.2. The flat rate of duty was set at a time when duties were high, hence, I propose to review downwards this rate of duty in line with reduced customs duty rates as follows:

Product	Current rates of Customs Duty	Proposed rates of Customs Duty
Clothing	40 - 60% + US\$10 per kg	40% + US\$5 per kg
Foot wear	40%-60% + US\$5 per pair	40% + US\$5 per pair
Other goods	65%	40%

12.3.3. This measure will facilitate swift clearance of goods, thereby reducing long waiting hours endured by travellers at ports of entry, especially at Beitbridge border post.

Customs Duty Credit facility on Licensed Customs Clearing Agents

12.4.1. Mr. Speaker Sir, the current Customs and Excise legislation obliges importers to pay customs duty due upon registering a Bill of Entry. Since the introduction of payment of duty and VAT in foreign currency, importers face challenges to effect payments to clear their goods. This is mainly due to delays in the banking system, whereby transfers take as long as five days to reflect in the ZIMRA account.

12.4.2. As a result, cargo remains uncleared for longer periods, thereby causing congestion at ports of entry. Importers also incur demurrage charges, which increase the landed cost of goods.

12.4.3. In order to facilitate prompt movement of goods, I propose to introduce a customs credit facility, valid up to seven days. This facility will be granted to selected importers and clearing agencies.

Rummage Sales

12.5.1. Mr. Speaker Sir, ZIMRA last conducted rummage sales for motor vehicles and other durable goods in 2007. As a result, there is now congestion of unclaimed vehicles and other durable goods at border posts. Furthermore, these goods continue to deteriorate because of exposure to adverse weather conditions.

12.5.2. ZIMRA, working together with the State Procurement Board, has been directed to conduct rummage sales immediately. In addition to decongesting the border posts, rummage sales will also generate additional revenue for the fiscus.

Accelerated VAT Remittance Period

12.6.1. VAT payment dates have been brought forward to the third day of the following month in order to improve cash inflows to the Exchequer Account.

12.6.2. Mr Speaker Sir, in order to reduce administrative problems associated with reconciling sales from several depots, I propose to shift the VAT payment date from the third to the fifth of the following month.

Tax on Miscellaneous Income Deposits into Individual & Corporate Accounts

- 12.7.1. A special tax had been proposed on deemed unproductive income deposited into individual and corporate accounts for purposes of discouraging exchange rate related speculative activities.
- 12.7.2. Given policy and other market developments, such a tax is no longer relevant as transactions are now in foreign currencies.

PAYE in Foreign Currency

- 12.8.1. Mr Speaker Sir, the 2009 Budget proposed a separate PAYE Tax Table with a tax free threshold of US\$125 per month.
- 12.8.2. Given market developments, I am therefore proposing to increase the tax free threshold to US\$150 per month with effect from 1 April 2009.
- 12.8.3. Mr. Speaker Sir, during my discussions with representatives of Labour, they raised concern that marginal tax rates for PAYE remain disproportionate to other categories of tax, for example Corporate Tax.

12.8.4. I will give due attention to this matter in future reviews, taking account of economic and fiscal developments.

Presumptive Tax

12.9.1 Mr. Speaker Sir, presumptive tax was introduced in order to capture the hard to tax informal businesses that remain outside the tax net. There has however been minimal progress in terms of revenue generated due to non-compliance by most informal sector businesses.

12.10.1. In order to encourage tax compliance by informal businesses, I propose to empower the Revenue Authority to issue a provisional attachment order, after which failure to pay tax due would result in the auctioning of the attached asset.

Foreign Currency Surrender Requirements

12.11.1. Mr Speaker Sir, the Monetary Policy Statement of 2 February 2009 contains the foreign currency surrender regimes.

12.11.2. Under this regime, all licensed traders were to sell 5% of their gross sales to the Reserve Bank at the going market exchange rate.

12.11.3. Similarly, under this surrender framework, all exporters, including gold producers, were required to sell upfront to the Reserve Bank 7.5% of their gross export proceeds in their Foreign Currency Accounts (FCAs).

12.11.4. Mr Speaker Sir, given that all businesses now transact in foreign currency, any requirement on their part to surrender a portion of their proceeds is tantamount to imposition of a tax on business proceeds. Such tax of a presumptive nature on gross proceeds erodes markup of exporters to an extent whereby some businesses are rendered unprofitable, thereby, threatening their viability.

12.11.5. To the extent that surrender requirements are a tax, it means that the matter becomes a tax issue which is the domain of Parliamentary Budget approval. In this regard, I have issued a directive in terms of Section 62 of the Reserve Bank Act advising the Board to take note of this.

12.11.6. I therefore announce the removal of all foreign currency surrender requirements with immediate effect.

12.11.7. As a quid pro quo to the above, it is only fair that I review upwardly business taxes, to our limping business community, once I am sure that most of them have recovered.

12.11.8. I will, therefore, be announcing new tax measures in due course.

Stock Exchange

12.12.1. Whilst it is appreciated that fungibility in share trading would be ideal. This, however, in our case has tended to be used as a conduit for externalisation and is, therefore, not recommended for the time being.

12.12.2. I however wish to assure that we will consider this once bulls return to our bowels.

Revised Expenditure Proposals

13.1.1. Mr Speaker Sir, I have proposed revision of revenue projections for 2009 from US\$1.7 billion to US\$1 billion. Accordingly, pursuant to the balanced Budget thrust whereby expenditures are to be linked to actual revenues, I am proposing that the 2009 Expenditure Proposals be revised downwards from US\$1.7 billion to US\$1 billion.

13.1.2. The revised Budget will, to the extent possible, focus on the key areas identified under STERP, which I have alluded to earlier.

13.1.3. Mr Speaker Sir, I highlight below some of the Revised Budget provisions.

Remuneration of Public Servants including Pensions

13.2.1. Under the STERP, the payment of civil servants is recognised as the most pressing issue and, therefore, becomes the first charge on our revenues.

13.2.2. As I have already indicated, payments to our public servants in foreign currency could only be made as from February 2009 on the basis of an allowance fixed at US\$100 per member while pensioners' allowances are only being paid as from March 2009.

13.2.3. Existing pension regulations provide for payment of pensions proportionate to payments to serving members. Current revenues dictate that we maintain payment of pensions in line with these regulations.

13.2.4. The current US\$100 foreign currency monthly allowance paid irrespective of rank or grade to all civil servants is

clearly undesirable. However, given that we now project lower foreign currency revenues in the revised Budget, I have been unable to either increase or differentiate the quantum of the allowance.

13.2.5.I have therefore set aside US\$299.4 million covering payment of the foreign currency allowance for staff in the civil service, pensioners, and staff and grant aided institutions.

Health

13.3.1. The economic decline has contributed to the deterioration of health delivery, including the shortage of health professionals, inadequate supply of essential drugs, equipment and other medical supplies, inadequate provision and maintenance of equipment, infrastructure, ambulances and service vehicles. The provision of health facilities is critical in order to meet increased demand for services

13.3.2. The above have contributed to an increase in the incidence of preventable diseases.

13.3.3. In line with STERP, the revised Budget targets redressing the challenges in this sector. However for maximum impact from the limited budget provision, it is proposed

that to avoid spreading resources thinly to all the health institutions, a new targeted approach be adopted.

- 13.3.4. Under this approach, funding available in any given period will be directed and concentrated towards critical requirements for one institution, starting with Harare Central Hospital, before moving on to the next institution.
- 13.3.5. Government funding of US\$118 million, which excludes employment costs, will be augmented by the current interventions and expected contributions into the sector by our cooperating partners as well as revenue generated from fees and charges.

Water and Sanitation

- 13.4.1. The frequent occurrence of communicable disease outbreaks, such as cholera, is directly linked to inadequate provision of safe water and poor sanitation facilities country wide.
- 13.4.2. Therefore, responsible authorities for both rural growth points and urban centres have to be assisted to purchase chemicals, repair sewer and water conveyancing systems, construct and rehabilitate boreholes and provide suitable sanitation facilities.

- 13.4.3. Recognising the huge level of funding required on an emergency basis, the Revised Budget provision of US\$10.5 million for selected urban local authorities will need to be complemented by external funding being sourced to support STERP.
- 13.4.4. To augment the Budget allocation, part of the revenue collected through rates, fees and other charges should be set aside for re-investment in equipment and restoration of the conveyance system.

Education

- 13.5.1. It remains critical that we address the challenges affecting the education sector, in particular, improving the conditions of service for teachers in order to ensure that they go back to work.
- 13.5.2. In addition, the lack of effective learning and teaching in our schools and institutions of higher learning is undermining public confidence in our education system and threatens to reverse the gains made, thus, far.
- 13.5.3. The integrity of our public examinations has also recently come under spotlight following the delays in their setting, conduct and marking.

13.5.4. To address some of these challenges, Government has allowed schools and institutions to charge fees which will allow for the procurement of adequate teaching and learning materials and other requirements.

13.5.5. Mr Speaker Sir, the Ministers of Education have already announced to the Nation the new fee structures in this respect.

13.5.6. To afford equal opportunity to education by all, especially the vulnerable, programmes are in place for them to access resources through the Basic Education Assistance Module (US\$9.2 million) and the National Education Training Fund (US\$5 million), including Cadetship.

Specially Targeted Vulnerable Groups

13.6.1. Under STERP, Government recognises that there will be some adverse effects on the vulnerable and disadvantaged groups within our society from the impact of measures that are being put in place, especially following economic liberalisation.

13.6.2. Therefore, the 2009 Revised Budget includes provision of US\$32 million in support of the specially targeted vulnerable groups under the existing social protection

programmes such as Public Health Assistance, Children in Difficult Circumstances, Public Assistance etc.

- 13.6.3. This is also an area where our cooperating partners may want to contribute by taking part in availing the much needed support.

Agriculture

- 13.7.1. The country stands to benefit from increased agricultural output as it will reduce on grain importation and also provide stimulus for the local industry. In addition, it is critical that programmes focusing on rebuilding the national herd start bearing fruit.
- 13.7.2. Given that Government has deregulated the marketing and distribution of agricultural products, this provides a window for farmers to access resources from the market.
- 13.7.3. On its part, the Revised Budget will focus on strengthening extension services under the departments of AGRITEX, Tsetse Control, Veterinary Field and Veterinary Technical Services.
- 13.7.4. Agricultural production also stands to improve, if irrigation capacity is increased through rehabilitation and development of irrigation schemes on underutilised existing water bodies as well as construction of additional

dams. In this regard, an allocation of US\$5.4 million has been set aside for the completion of Bubi-Lupane and construction of Mutange dams.

- 13.7.5. With regard to irrigation development, an allocation of US\$18.1 million has been set aside for targeted schemes already espoused in the 29 January 2009 Budget Statement.

Infrastructure Development

- 13.8.1. Infrastructure in various sectors of the economy, especially water, roads, railways, airports and electricity now pose serious bottlenecks to the country's economic recovery and growth prospects.

- 13.8.2. The challenge we face in our efforts to rectify the situation arises from our inability to mobilise sufficient financial, human and material resources. The Revised Budget proposes to only make provision for the restoration of priority infrastructure.

Other Operations of Government & Grant Aided Institutions

- 13.9.1. As recognised under STERP, the basic economic philosophy of our Budget is that 'what we gather is what

we eat'. Therefore, the operational budgets of Government institutions can only be financed subject to availability of our foreign currency revenue receipts.

13.9.2. It is, therefore, critical that Ministries reduce non productive expenditure.

13.9.3. However, Budget provisions have to enable Ministries to undertake monitoring and evaluation of projects and programmes under their portfolio so as to realise value for money and ensure that resources reach intended beneficiaries.

13.9.4. Consistent with STERP, some Government agencies will augment their budgetary allocations through fee earnings from their services as they will be allowed to retain part or all of these earnings as an incentive for diligent collection of revenue.

CONCLUSION

14.1.1. The presentation herewith seeks to observe actual fiscal developments to date as well as operationalise relevant elements of STERP.

14.1.2. Mr Speaker Sir, given the downward revision in the Budget Framework I have proposed above, it has become

necessary that the Budget Estimates (Blue Book) be amended to reflect revised provisions as well as incorporate the proposed Votes of new Ministries.

14.1.3. Mr Speaker, I seek the support of Honourable Members in considering and approving the 2009 Budget.

14.1.4. Government is ready to launch STERP, and I advise that all Members of Parliament are invited to participate in the launch on Thursday, 19 March 2009 at the Harare International Conference Centre, starting at 10:30 am.

14.1.5. Mr Speaker Sir, I have made arrangements for this Statement to be printed in Booklet form, which all Honourable Members will receive at the end of delivery of this Statement.

14.1.6. Mr Speaker Sir, I accordingly lay the 2009 Budget Expenditure Estimates on the Table of this August House, taking account of the new Ministries, as well as the rationalised envelope of US\$1 billion.

14.1.7. I thank you.