Investing in People for Social & Economic Justice

Analysis of the 2019 National Budget

A social and Economic Justice Perspective

Introduction

The 2019 National Budget was presented against a very tight fiscal space and the launch of the Transitional Stabilisation Programme (October 2018-December 2020), and the broader Vision 2030 which is premised on promoting private sector growth and attainment of middle income status. The budget whose theme is "*Austerity for Prosperity*" is underpinned by expenditure cutting and revenue enhancing measures through taxation.

This budget analysis, therefore, makes an assessment of how the budget will impact the social and economic rights of citizens especially the most vulnerable groups. Both the revenue and expenditure patterns will be reviewed in accordance with the key social and economic sectors with a focus on social protection, health, education and agriculture

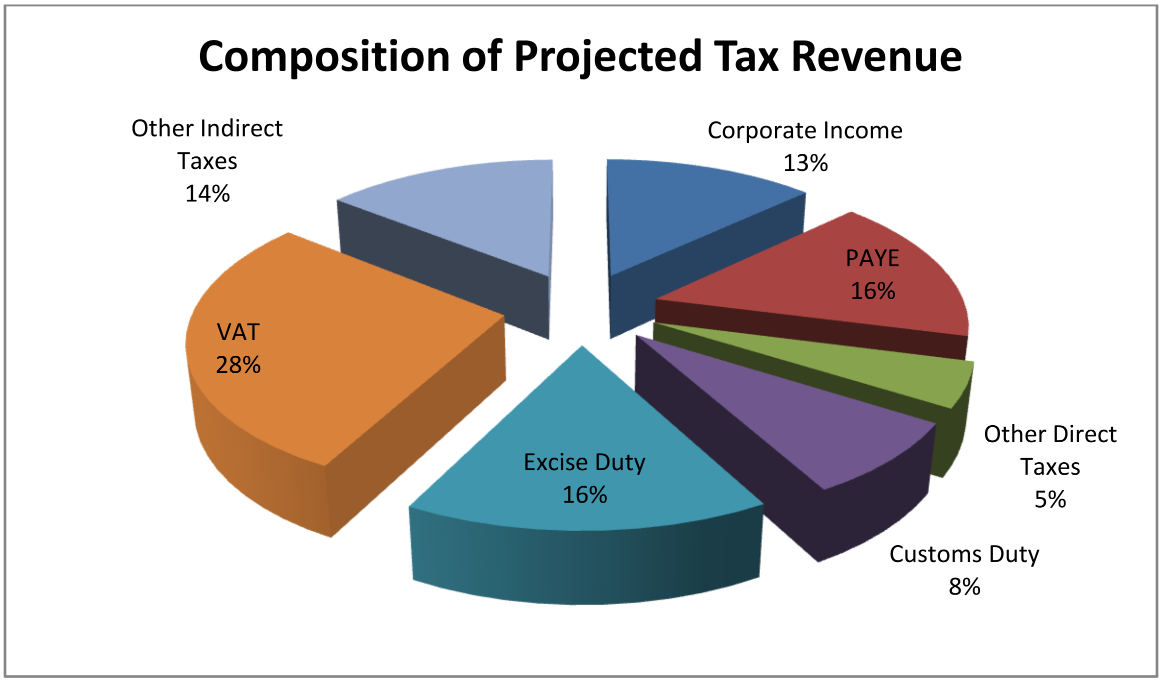
The paper presents the key highlights of the 2019 budget, particularly the projected revenues, expenditure and public debt. Deep analysis of the revenue and expenditure measures will be made to assess the implications on social and economic rights with a view to give specific recommendations on how best to enhance revenue collections and ensure transparency and accountability in public finance management.

Key highlights

Government Revenue

The government revenue is expected to grow by 30% to US$6.598 billion in 2019 from US$5.071 billion in 2018. Tax revenue is the main driver of government revenue, anticipated at US$6 037 billion, up from US$4 300 billion in 2018 (40% growth). This is attributed to revenue enhancing mechanisms including the increase in Excise Duty for fuel by 7 cents per litre on diesel & paraffin'6.5 cents on petrol, and the electronic transaction tax of 2c per $1 transacted among others. This would translate to an increase in fuel prices by the same margin which has far reaching consequences on the inflation rate which is currently at 20.8%. The fiscal policy should have instead dealtthe current fuel shortages and other macroeconomic imbalances fueling inflation.

Tax revenue constitutes about 92% of total revenue for 2019. The increase in tax revenue is expected to ease the resource constrains, increase fiscal space and spending. Such efforts to increase domestic resource mobilisation are commendable as it creates autonomy and flexibility in government programming unlike debt financing and aid. However, taxation should be pro poor and not hurt the poor. The proposed tax structure which is largely funded through indirect taxes is rather regressive considering that 28% will come from Value Added Tax (VAT) followed by Pay as You Earn at 16%. Other indirect taxes will constitute 14% while corporate income tax will contribute only 13% which is two percent less than its contribution for January to June 2018. This is not withstanding the US$4.5 billion owed to ZIMRA by private sector companies which could have been used to finance more than half of the 2019 national budget. The conspicuous silence on the tax debt recovery measures points towards an attempt to forgive the companies of the tax debt. ZIMCODD however, expected the government to leverage on the tax debt to finance half of the 2019 budget.



Source: 2019 National Budget

The sad reality is that the government is only concentrating on revenue collection through overburdening the poor instead of addressing the fiscal indiscipline in government as flagged out in the 2017 Auditor general’s report starting with violation of basic principles of public finance management as enunciated under Section 298 of the Constitution of Zimbabwe and Section 300 together with Section 65 of the Public Finance Management Act and Section 11 of the RBZ Act on limits of state borrowing, public debt and state guarantees. The Minister of Finance has repeatedly admitted this in the Fiscal Measures delivered on 1 October 2018, the Transitional Stabilisation Policy and the National Budget without making concrete recommendations to contain the situation. Unfortunately, the budget does not show the benefits accruing to the citizens after shouldering the heavy tax burden.

Government Expenditure

The government proposed a budget expenditure of US$8.2 billion against bid proposals of US$15 billion from line Ministries. The US$15 billion is realistic considering the current economic crisis that the country is facing. However, against a budget of US$6.598 billion, Treasury Bill (TB) maturities of US$2.2 billion, projected overdraft position of US$2.5 Billion, foreign debt payment of US$2 hundred million and the $1.6 billion budget deficit will push the financing gap to US$6.5 billion for 2019 which is very unsustainable. The government is already contemplating the restructuring of treasury bill payments in order to ease the expenditure requirements for 2019. The restructuring process does not resolve the domestic debt but it a way of rescheduling its payments to a future date at a cost.

Meanwhile, US$822.3 million of the budget deficit will be financed through treasury bills issuance of which US$417.1 will be done through the bank while nonbank will constitute US$405.2. The remainder will be financed through external sources, hence posing a threat to the already ballooning public debt. Capital expenditure is estimated at US$2.1 billion which constitutes 26% of total expenditure. Of the total recurrent expenditure, 21% is earmarked for government operations and maintenance while 79% is dedicated to employment costs. Employment Costs are targeted at 50% of the total budget. This leaves few resources for poverty reduction.

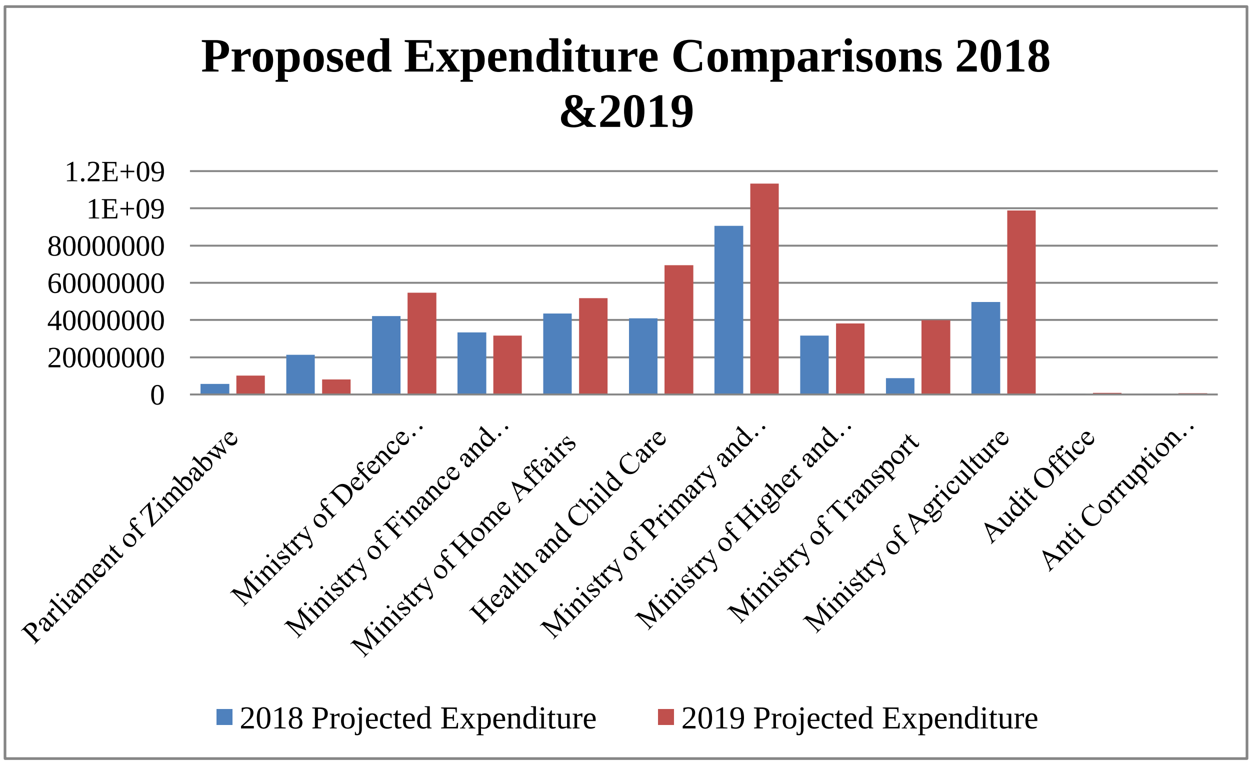
The Impoverishing Nature of Austerity Measures

The 2019 national budget has fallen short of interventions for redressing the current socio-economic crisis bedeviling the economy which has been exacerbating poverty, vulnerabilities and economic trauma amongst the citizens especially the price distortions emanating from the multi pricing regime. The government has however caused a lot of confusion by insisting that the US dollar is equivalent to both the RTGs and the bond note whilst on the other hand insisting on the superiority of the US dollar over the other forms of payment with regard to tax payments for selected products. This policy will further induce demand for the US dollar on the parallel market which is the only source of foreign currency in Zimbabwe at the moment. The Minister is mainly worried about the foreign currency position of the country at the expense of the majority poor who constitute 70% of the Zimbabwean population. With all these pricing dynamics and distortions, the 2019 budget could have been a source of hope for the poor and marginalised, but alas, it further marginalises them as the government endorses the multi pricing regime by requiring firms charging forex to remit taxes in foreign currency.

Instead of addressing the basic needs of the ordinary citizens most of whom are unemployed, the budget is prioritizing the senior government officials by not only allowing them to acquire vehicles of their choice under a loan scheme financed by the tax payers money but also to import the vehicles duty free. In contrast the majority of citizens are required to pay customs duty and all other taxes on imported motor vehicles and other selected products in foreign currency. The government is concealing all the benefits accruing to senior civil servants by proposing a 5% cut on their salary. Suspiciously, the Finance Minister did not quantify the monetary value derived from the salary cuts which are very insignificant.

Resource Allocation to Pro-Poor Sectors

It is worrying that the social services are not being prioritised with the Ministry of Public Service, Labour and Social Welfare being allocated only US$81.2 million which constitutes about 0.9% of the government expenditure for 2019. This is despite the fact that the Ministry is the one responsible for providing social safety nets including the protection of vulnerable groups. Paradoxically, the Ministry of Defense and War Veterans has been allocated US$546.9 million which shows a 30% increase from the 2018 budget of US$420.4 million in 2018 and being 7% of the total government revenue. Similarly, the Ministry of Home Affairs and Cultural Heritage's budget increase by 19% from the US$435.5 million in 2018 to US$517.8 million in 2019 constituting 6% of the national budget way above the budget for Transport and Infrastructure Development and Local government, Public Works and National Housing despite the emphasis on infrastructure development in the 2019 national budget. In the same vein, the Ministry of Youth, Sport and Recreation was only allocated US$53.5 million against the background of high unemployment in the country. Furthermore, the budget fails to show how it will enhance local community benefit in terms of building local industry, support for SMEs to create jobs and social service delivery though it will be heavily financed by the citizens.



Source: Author based on Budget figures for 2018 and 2019

Social Services

The Ministry of Public Service, Labour and Social Welfare responsible for social services was allocated US$81.2 million compared to US$213.4 million in 2018. This is 62% lower than the budget allocated to the same Ministry in 2018. This is the implication of the austerity measures being implemented by the government. The Ministry's vote is less than the US$81.7 million which is owed to the Ministry of Education in terms of school fees and levy arrears under the Basic Education Assistance Module (BEAM) programme. The meager allocation towards social service is designated as follows;

Social Service	**Appropriation**
Basic Education Assistance Module (BEAM)	US$25 million
Harmonised Cash Transfers	US$12 million
Sustainable Livelihood	US$10 million
Drought Mitigation	US$4 million
Health Assistance	US$4 million
Disabled Persons Support	US$2 million
Children in Difficulty Situations	US$1 million
Elderly Persons Support	US$1 million

Mindful of the fact that the Ministry is notorious for diverting resources meant for these vulnerable groups to other areas as presented by the successive reports of the Auditor General, the parliament should put strict control measures to ensure that the resources will be used for the intended purpose. The 2017 Auditor general's report confirms that the Ministry owes about US$1.5 million to different Fund Accounts apart from the US$7.2 million owed to several health institutions under the Health Assistance Programme and the US$81.7 million owed under the BEAM programme.

Agriculture

Agriculture financing has increased by 50% to US$989.3 million in 2019 from US$497.4 million allocated in 2018. This is about 12% percent of the total budget which is 2% above the 10% that was agreed under the Maputo declaration, and above the 9% for the 2018 financial year. However, the bulk of the resources have been allocated to command agriculture which is a state facilitated contract farming initiative with only US$130 million set aside to support 1 million vulnerable households. This translates to $130 per household which is meagre considering that a 10kg bag of maize seed now costs $110.

Health

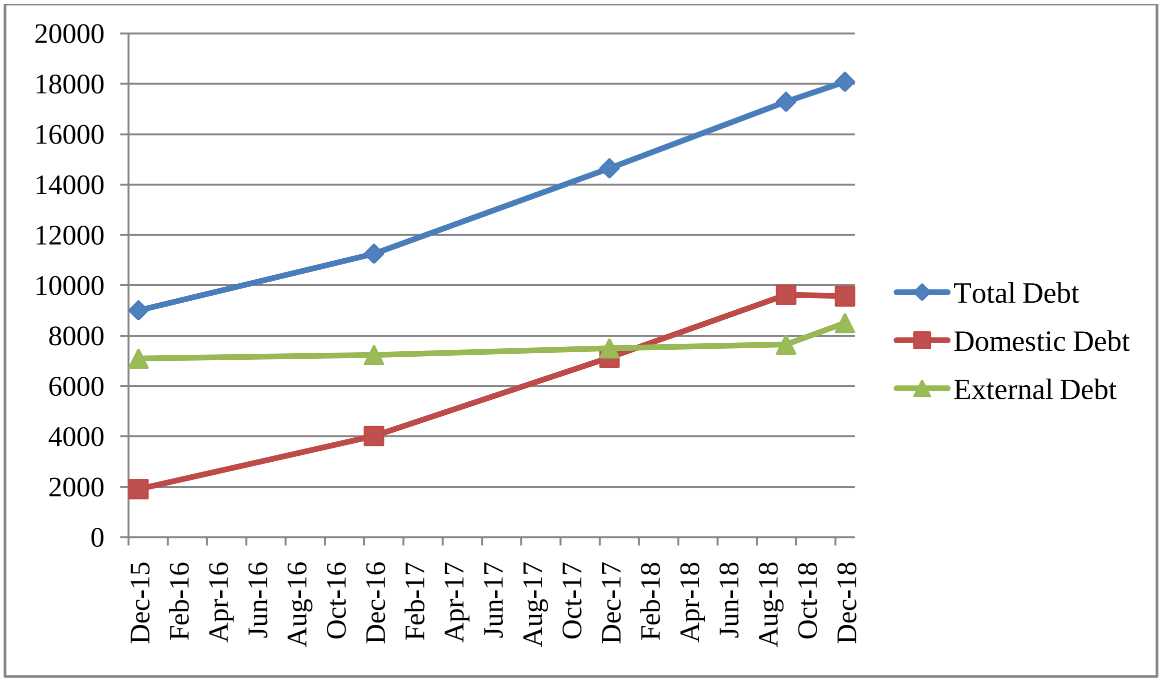
The Health sector was allocated US$694.5 million representing a 41% increase in sector resource allocation from the US$409.9 million allocated in 2018. The health budget for 2019 is at about 8.5% of the total budget, representing a 0.4% increase in health provisions to total budget compared to 8.1% in 2018. This is however still below the 15% that was agreed at the Abuja declaration of 2001. The government's policy thrust is to enhance the referral system in order to reduce the bottlenecks being experienced at central hospitals. With the outbreak of controllable diseases, the government should allocate more resources towards the health sector which is struggling with the majority of provincial and general hospitals operating without key equipment. The citizens are already complaining about the Public Private Partnerships which are increasingly making health services expensive for the vulnerable and marginalised citizens.

Education Sector

The budget allocation towards primary and secondary education increased by 25% from US$905.6 million in 2018 to US$1.13 billion in 2019. Whilst celebrating a nominal increase in budget allocation towards education, the 14% education to annual budget expenditure for 2019 is way below both the 20% threshold under the Paris Declaration on Education and 18% ratio in 2018. In Zimbabwe, primary and secondary education is not for free as the pupils pay both school fees and levies except for those supported under the Basic Education Assistance Programme which is in arrears in excess of US$81.7 million. About 93% of the education budget is therefore, dedicated towards employment costs whilst the remainder is covering operations and maintenance ($US77.1 million), and capital expenditure (US$37.2 million).

Public Debt

Both domestic and external debt is on an upward trend. This is quite worrying as external debt continues to rise owing to accumulated interest and penalty arrears on debt accrued in the 1980s and 1990s. This debt has affected several generations and if not addressed will continue affecting even more future generations. Domestic debt has become the only available option for financing fiscal deficits due to the tarnished country's credit worthiness.



Domestic Debt

For the first time in the history of Zimbabwe, domestic debt accounts for 54% of public debt which is estimated at US$17.69 billion as of October 2018[1]. This is largely attributed to excessive use of Treasury Bills (TBs) and RBZ overdraft in the past two years and the assumption of the $1.3 billion RBZ debt and the US$495 million ZISCO Steel Debt which pushed the domestic debt to US$9.6 billion. The government overdraft at the RBZ alone rose from US$1.4 billion in December 2017 to US$2.5 billion by September 2018 in violation of Section 11(1) of the Reserve Bank Act [Chapter 22:15], which states that borrowing from the Reserve Bank shall not exceed 20% of the previous year's Government revenues at any given point. With about US$2.2 billion worth of treasury bills maturing in 2019, the government will negotiate for the restructuring of the TBs. This proposed policy will only ease fiscal pressure for 2019 with the TBs accruing interest during the agreed period.

The Finance Minister further proposed to review section 11 (1) of the RBZ Act [Chapter 22:15] to limit RBZ overdrafts to a maximum of 5% of the previous year's revenue. Whilst the policy pronouncements are progressive, the level of noncompliance is very worrying, having failed to comply with the 20% threshold. ZIMCODD is looking forward to the review of the policy and the actual implementation in accordance with the new provisions considering the fact that the anticipated deficit is already at 32% of the 2018 national budget .

External Debt

On the other hand, external debt constitute 46% of public debt stood at US$7.7 billion, of which 77% (US$5.9 billion) is in interest arrears and penalties. About 61.8% of external debt is owed to bilateral creditors.

[1] Ministry of Finance, The 2019 National Budget Statement, 22 November 2018

The government as part of the reengagement process, will pursue the Debt Strategy agreed in Bali, Indonesia on 10 October 2018. However, the strategy has not been shared with relevant stakeholders including civil society organisations and as such the conditions remain a secret. In pursuit of that strategy, the government is expected to clear arrears to the African Development Bank (AfDB) of US$680 million, over US$1.4 billion owed to the World Bank (WB) and US$308 million owed to the European Investment Bank (EIB). ZIMCODD however insists that a comprehensive debt audit should be the starting point towards debt resolution in order to ascertain the legibility of the government debt. This will be coupled by a sustainable and inclusive debt management strategy anchored on a transparent, accountable and inclusive loan contraction, constitutionalism with management from a strong functional and autonomous debt management office.

The debt figure is rather an under estimation considering that international airlines are owed about US$200 million for the repatriation of ticket sales proceeds which were issued in RTGS and bond notes. The foreign exchange distortions between the United States dollar and bond note has had negative implications on the economy resulting in some airlines suspending domestic market using RTGS and bond notes in preference for United States dollars.

Offshore Financial Services Centre

The government is making a deliberate decision to attract foreign direct investment and the promotion of private sector led growth. The establishment of an Offshore Financial Service Centre in Harare is a shocking revelation by the Minister of Finance at a time when African governments and civil society organisations are joining hands to dismantle international offshore financial centers as part of the campaign against Illicit Financial Flows from Africa. By their nature offshore financial services centers act as conduits for illicit financial flows as they guarantee secrecy of beneficial owners by enabling them to escape laws and regulations of other jurisdictions elsewhere. Currently, Switzerland is on record refusing automatic exchange of tax information and beneficial ownership information for tax purposes. This is against the principles of transparency and accountability.

Civil Society Efforts starting to bear Fruits

The 2019 Budget has attempted to address the issues raised by ZIMCODD in both the 2018 submissions and previous submissions emanating from our continuous engagement with government at Parliament and through the Ministry of Finance & Economic Development. This includes the attempt to deal away with the Zimbabwe Asset Management Corporation (ZAMCO). However, the budget is not clear on the implications of the freeze in TB issuances related to ZAMCO.

The government has taken positive steps to resolve the issue of ghost workers which was sanitized by the retirement of the remaining 2 917 youth officers out total 3 188 officers as of December 2017. Cumulatively, annual salaries for ghost workers amounting to US$13.8 million could have been used for public service provision. However; the retirement of ghost workers will attract additional costs related to early retirement.

The revitalization of the Zimbabwe Revenue Transparency Initiative (ZMRTI) is a welcome development in the promotion of transparency and accountability in the mining sector. However, the initiative should be very inclusive with representation from government, mining companies and the civil society organisations.

The alignment of the PFMA to the national constitution is long overdue especially on strengthening transparency and accountability. The Budget did not propose the measures to be taken to ensure that appropriate action will be taken to enforce penalties for financial misconduct by public officers in light of the recommendations of the Auditor General.

Going Forward

By pursuing the middle income status by 2030, the government should not be obscured from the day to day realities with regard to deficiencies in social service delivery, poverty reduction and supporting vulnerable groups. The 2019 budget should strike a balance between growing the economy whilst satisfying the needs of the people of Zimbabwe, especially financing towards health, education, agriculture and social safety nets. The private sector bias has a risk of further marginalizing the poor and vulnerable groups. In implementing the budget, the government should ensure that its private sector initiatives enhance human development in order to get out of the poverty cycle which the country finds itself in.

In view of the Auditor General's report for 2017, the fiscal imbalances are a result of poor governance and financial malpractices which in ZIMCODD's view should be given equal attention as ministries embark on wasteful expenditure amid the tight fiscal space. The government should not just celebrate domestic resource mobilisation through taxation which contributes about 92% of the government revenue, especially when the tax policies impact more on the welfare of the poor who pay more but derive little benefits from their tax contribution. The government should therefore consider the impacts of austerity measures in its quest to raise tax revenue. Cutting expenditure is very difficult for the country considering the social and economic needs of the country hence the US$6.5 billion financing requirements require a comprehensive framework which is futuristic in nature in order for government to militate against falling into a debt trap.

The Ministry of Finance & Economic Development should develop clear timelines on the implementation of the proposed policy actions particularly on the retirement of ghost workers which poses an unnecessarily burden on the national fiscus, rationalization of embassies and the cutting of executive perks for senior government officers up to the presidium and state owned enterprises. The government should; in winding up the operations of ZAMCO; ensure that the companies and individuals pay back their debts.

The Debt and Aid Management Office should produce monthly, quarterly and annual reports in terms of Section 70 of the Public Finance Management Office together with section 30 of the Public Debt Management Act. Accordingly Parliament through the Public Accounts Committee should ensure compliance to constitutional provisions regarding submission of quarterly reports and develop frameworks and mechanisms for ensuring that the public officers are held accountable for their actions particularly on all forms of financial misconduct by public officers as highlighted in the Auditor General's Report for 2017 and the follow up reports. Such reports should be made available to citizens to enforce participatory monitoring of the budget process.

Both the Ministry of Finance & Economic Development and Parliament should ensure timely budget consultations to ensure meaningful citizen participation from the citizens. This will ensure that the budget captures the voice of different stakeholders and allow for continuous interaction instead of rushing the consultations which will miss out on important input from the various stakeholders, important of which are the vulnerable groups. The crash consultation programme which comes 2 weeks before the budget pronouncement does not allow full and meaningful participation of the citizenry hence should not be condoned.

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