

# **Zimbabwe Country Report**

**May – July 2009**

Open Society Initiative for Southern Africa (OSISA)

## **Acronyms**

|           |   |                                                   |
|-----------|---|---------------------------------------------------|
| ADB       | - | African Development Bank                          |
| STERP     | - | Short Term Emergency Recovery Programme           |
| POSA      | - | Public Order and Security Act                     |
| NIPC      | - | National Income and Pricing Commission            |
| GPA       | - | Global Political Agreement                        |
| ZANU – PF | - | Zimbabwe African National Union – Patriotic Front |
| AG        | - | Attorney General                                  |
| JOC       | - | Joint Operations Committee                        |
| MDC       | - | Movement for Democratic Change                    |
| MDC-T     | - | Movement for Democratic Change (Tsvangirai)       |
| RBZ       | - | Reserve Bank of Zimbabwe                          |
| GNU       | - | Government of National Unity                      |
| NEC       | - | National Economic Council                         |
| CFU       | - | Commercial Farmers Union                          |
| WB        | - | World Bank                                        |
| COMESA    | - | Common Market for Eastern and Southern Africa     |

## **SITUATIONAL ANALYSIS**

The period May to July 2009 saw the six-month-old inclusive government grappling with the implementation of the Global Political Agreement (GPA) signed by the three political formations in September last year. Violations of the agreement perpetrated largely by the Zimbabwe African National Union-Patriotic Front (ZANU PF) continued during the period under review, thereby frustrating efforts aimed at wooing foreign investors, resuscitating the economy and addressing deepening poverty and social dislocation. Key institutions in the governance system such as the Judiciary and Parliament remains under siege from a ZANU PF regime determined to hold on to power at all costs. This explains why arbitrary arrests and incarceration of human rights defenders and Members of Parliament (MPs) from the Movement for Democratic Change (MDC) on trumped-up charges showed no signs of abetting. The constitution-making process kicked off during the period, but immediately ran into serious difficulties after supporters of Robert Mugabe's ZANU PF disrupted the First All Stakeholders Conference aimed at obtaining buy-in from stakeholders and setting up thematic committees to spearhead the public outreach programme.

ZANU PF is trying to impose a draft negotiated in Kariba by representatives of the political parties long before the formation of the inclusive government. The imposition of the Kariba Draft, which retains wide-ranging executive powers within the Presidency, is in complete violation of the GPA which sets a time frame for coming up with a people-driven constitution for Zimbabwe.

The key benchmarks for the success of the inclusive government borrowed from the GPA are as follows:

- \* A credible, inclusive and people-driven constitution-making process;
- \* A legislative agenda that repeals all repressive and bad laws and restores civil liberties;
- \* Reforming state institutions such as security and electoral bodies;
- \* Revamping basic social services such as education and health;
- \* An acceptable programme of economic reform.

This country situational analysis provides a critical analysis of what has happened in Zimbabwe during the period May to July 2009. The analysis reviews progress with the above benchmarks and specifically focuses on the following broad areas:

- \* Parliament and the Courts - This looks at issues such as key legislation passed, key decisions passed by the courts, the state of the judiciary and its independence.
- \* The Executive - This section mainly reviews major policies made and problems encountered in the formulation and implementation of policy.
- \* The Opposition and Political Parties - This is about general developments around political parties, important policy pronouncements and availability of space for opposition participation in political processes.
- \* Civil Society - This section mainly deals with the operating environment for civic society and an update on the situation of women and girls' rights.
- \* The Economy - This looks at economic and social indicators and an analysis of economic developments from a pro-poor perspective.

## **THE EXECUTIVE AND POLITICAL PARTIES**

The inclusive government continues to be rocked by tension and mistrust caused largely by persistent violations of the GPA by ZANU PF and failure to resolve outstanding issues. The chaos that characterised the First All Stakeholders Conference on the Constitution on 13th July was clear evidence of mistrust between the political formations and how shaky the coalition arrangement is. In fact, many analysts believe the events of 13th July are signs of worse things to come. The declaration by President Robert Mugabe of three days (24th - 26th July) dedicated to national healing, reconciliation and integration will most likely yield nothing in the current environment of suspicion, mistrust and lack of respect for the rule of law.

To demonstrate their displeasure with the insincere and unilateral conduct of ZANU PF, MDC-T ministers in July boycotted a cabinet meeting, a development that sent shivers within the inclusive government. A statement issued by the party after the boycott summed it all with regard to the

problems rocking the inclusive government. The statement read: “Despite five months of endless meetings amongst the principals, the central issues of the RBZ Governor, the Attorney General, the Provincial Governors, the swearing in of Roy Bennett (MDC-T Deputy Minister of Agriculture Designate) and the appointment of ambassadors remain unresolved”. What is particularly worrying is that service chiefs came out publicly in their support of the RBZ Governor and the AG. In a true democracy, these are issues outside their manageable interests.

The MDC-T has also expressed serious concern at the “deliberate refusal” to convene the National Security Council (NSC), which has to meet every month according to the law. Although the NSC had its first meeting on 30th July, many believe the pre-inclusive government’s Joint Operations Command (JOC), credited with retaining Mugabe in power, is still in existence and directing security matters in the country. It is however a positive development that the NSC finally had its inaugural meeting. Other positive developments related to the implementation of the GPA during the period includes the granting of an operators’ licence to the banned Daily News and allowing a return of international broadcasters such as the BBC and CNN. Observers however see these developments as an attempt by ZANU PF to avoid a backlash at the forthcoming SADC summit next month.

A worrying development remains the persistent victimisation, arrest (on generally agreed trumped-charges), selective application of the law and violence directed at MDC-T members of Parliament (MPs) and civic society activists. Four MDC MPs were recently given lengthy prison sentences, while 17 others have been charged with a variety of crimes since the formation of the coalition government in February this year. No senior officials of ZANU PF have been prosecuted despite about 200 MDC supporters being murdered and thousands tortured and displaced during the presidential run-off last year. This selective prosecution of MDC MPs is widely viewed as a well-orchestrated move to reduce the MDC’s majority in the House of Assembly.

With all these persistent and worsening violations of the GPA, it is not surprising therefore that the MDC National Conference from 29th - 31st May called for the convening of an extra-ordinary Southern African Development Community (SADC) Summit to deal with the outstanding issues. The conference, attended by over 1000 party delegates, also bemoaned the absence of a legislative reform agenda, slow pace of media reform and the continued deployment of the military in rural areas. SADC has however remained mum on the MDC’s call for a full summit over the outstanding issues, dealing a severe blow to the credibility of the regional grouping as a guarantor of the GPA.

Morgan Tsvangirai and Arthur Mutambara have since written to the SADC Chair, South African President Jacob Zuma, asking for assistance in resolving outstanding issues. There has been no official response from Zuma, although some press reports speculated that a meeting in Johannesburg between Zuma and Tsvangirai was due to take place soon. With the Democratic Republic of Congo (a strong Mugabe ally) assuming chairpersonship of SADC in September, it is highly unlikely that the regional grouping will put any pressure on ZANU PF to abide by the GPA.

A major highlight of the inclusive government during the period under review was Prime Minister Morgan Tsvangirai’s 8-nation trip to Europe and the United States (US) aimed at drumming up support for the inclusive government and ending Zimbabwe’s isolation with the international community. As expected, the State media tried to paint the whole trip as a failure and went on to celebrate what they implied as a snub by western powers. Tsvangirai himself came to the defence of the trip by rightly explaining that he had not gone to Europe and the US with a “begging bowl” and that the flow of aid was not an overnight event but a long process. The inclusive government, he said, had to demonstrate that it was ready to receive international aid by adhering to its own benchmarks as spelt out in the GPA. The message was clear wherever Tsvangirai went - western powers wanted to see clear progress on human rights, security sector reform and reforming the central bank before resumption of economic aid. Pledges received for both humanitarian and transitional support during Tsvangirai’s visit amounted to almost US\$500 million, to be channelled mainly through non-governmental organisations.

Related to the issue of financial resources for humanitarian support, the United Nations on 1st June launched a US\$719 million urgent humanitarian appeal. The UN in its appeal said six million Zimbabweans had limited or no access to clean water, more than half might require food aid this year, while 44 000 children under five years needed treatment for acute malnutrition. The appeal came against the background of a protracted economic meltdown over the past decade, emanating mainly from a chaotic land reform programme and the collapse of critical social services. The Zimbabwe Red

Cross and its partners also weighed in by warning that the country was on the brink of having 10 000 cholera infections after a reported 4 200 died from the outbreak early this year.

In terms of US\$8.3 billion needed for the Short Term Emergency Recovery Programme (STERP), the inclusive government is still way below target. The World Bank in May announced a US\$22 million grant, the first grant since 2001. Zimbabwe owes US\$1.4 billion to the World Bank (WB) and African Development Bank (ADB) while US\$133 million is owed to the International Monetary Fund (IMF). Finance Minister Tendai Biti recently announced that government had surpassed US\$1.2 billion in credit lines for the private sector from African banks. The credit lines were secured from the ADB, Cairo-based African Export-Import Bank, Botswana and South Africa. Biti also announced that Zimbabwe owed US\$3 billion to the Paris Club while external debt stood at US\$5 billion. It is therefore a mammoth task to mobilise financing under such a very poor credit rating scenario.

Failure to unlock substantial financial support for STERP dampened prospects of quickly improving salaries and wages for civil servants. Under pressure from a restive civil service not happy with a monthly allowance of \$100 per month, Finance Minister Tendai Biti adjusted the civil service wage bill by 40 %, meaning public servants should get an average 40 % increase in their allowances, which the Minister says have been converted into salaries. The adjustment has however been rejected by unions, with teachers threatening not to come back to classes come the Third Term which begins in September.

As far as the other two signatories to the power-sharing agreement are concerned, their camps have also been hit by internal squabbles. The Arthur Mutambara-led MDC on 20th July announced the expulsion from the party of three of its MPs for alleged indiscipline and working against the interests of the formation. If the party notifies Parliament, this will immediately create three vacancies in the House of Assembly and the need for by-elections. The three MPs have since approached the courts to challenge their expulsion.

ZANU PF itself has had to content with its own succession struggles. Mugabe continues to stifle any significant attempts to openly debate the succession issue. Only at one politburo meeting in June did some of the members introduce the topic for debate, causing daggers to be drawn and clearly demonstrating the extent of disunity within the party over the issue. The succession struggle also played out openly at Parliament's Women's Caucus whereby legislators elected a candidate that the ZANU PF main caucus felt did not belong to the "right" faction. Attempts by ZANU PF to reverse the outcome have however hit a brick wall as the polls were conducted in a free and fair manner.

## **PARLIAMENT**

The Parliament of Zimbabwe continued to grapple with acute budget constraints that saw the House of Assembly only meeting for a total of 13 days during the period under review. It has met for 41 days since the inauguration of the 7th Parliament. The Senate met for a total of 10 days during the period under review and 28 days since the inauguration of the 7th Parliament.

The absence of a clear legislative agenda for Parliament is a matter of grave concern. The three political formations agreed under Article 17 of the GPA that "the legislative agenda will be prioritized in order to reflect the letter and spirit of this agreement" and that "the Government will discuss and agree on further legislative measures which may become necessary to implement the Government's agreed policies and in particular, with a view to entrenching democratic values and practices". This statement should have seen bad laws such as Access to Information and Protection of Privacy Act and Public Order and Security Act already repealed in order to entrench democratic values and practices in Zimbabwe. However, there has been virtually no progress in that regard.

The Legislature is a key pillar in the national governance system, and should play a leading role in driving the legislative agenda of the country. This is because the constitutional mandate of Parliament is "to make laws for the peace order and good government of Zimbabwe". Making laws is not the same as rubber-stamping bills brought by the Executive such as what happened with the Constitutional Amendment No. 19, the National Security Council Bill and the 2009 National Budget. Parliament must thoroughly scrutinise these bills, conduct hearings for public input, and allow extensive debate in both houses before passing the bills with amendments, if any. In addition to law-making, the other two core functions of Parliament are representation and Executive oversight. Representation means Parliament must be constituted in such a way as to be representative of all sectors of society in its diversity.

Diverse views of MPs, the public and civic society must be fully heard if Parliament is to be effective in carrying out its representative role. Executive oversight means Parliament must closely monitor implementation of government programmes and projects in order to strengthen delivery of public services to the people.

The business of portfolio committees, the engine of Parliament, has also been seriously hampered, with the result that not a single portfolio committee has managed to table a report in plenary. The rules of Parliament require that portfolio committees have to table at least one report to the House during a session. With the First Session of the 7th Parliament about to come to an end in August, committees might find themselves unable to meet these requirements, thereby reducing Parliament to an irrelevant institution in this transitional period.

Despite a poor sitting calendar, some of the committees managed to transact very important business during the few times that they sat. The Women's Caucus received training on gender budgeting and women's social and economic rights. The legislators are now ready to table motions in plenary. The Budget, Finance, Economic and Investment Promotion Committee thoroughly scrutinised the Mid-term Fiscal Policy Statement and are working on a report for tabling in the House at the time of submitting this report. The Public Accounts Committee engaged the Ministry of Finance and the Comptroller and Auditor General and will present a report on the poor state of public finance management in Zimbabwe. The Agriculture and Land Reform Committee met with the respective Minister and grilled him on the new wave of land invasions and the granting of 99-year leases when there has been no land audit to deal with multiple farm ownership. The Media and Information Committee met media practitioners and civic society organisations in the sector to discuss media reform. The Committee is working on a report and recommendations for tabling in the House. With adequate resources, the committees certainly have huge potential to enforce executive accountability.

### **Parliament and the Constitutional Review Process**

Article 6 of the GPA mandates Parliament with spearheading the process of writing a new Constitution for Zimbabwe. Through its 25-member Select Committee, Parliament carried out provincial consultative meetings in June that were marred by logistical nightmares and total confusion with regard to the purpose and target audience. The provincial meetings then culminated into the chaotic First All Stakeholders Conference on 13th and 14th July that saw ZANU PF supporters disrupting proceedings and causing mayhem at the Harare International Conference Centre.

Observers agree that the deplorable actions by ZANU PF supporters were well-planned and orchestrated moves to derail the Constitution-making process. The disturbances came on the back of Mugabe's pronouncements that the Kariba Draft, negotiated by representatives of the three political formations way before the formation of the inclusive government, should be used as a basis for constitution-making. The MDC and civil society have legitimately rejected the Kariba Draft because there was no public input in its drafting. ZANU PF is in favour of the draft because it leaves Mugabe with wide-ranging executive powers. Although the three principals to the power-sharing agreement appeared on national television condemning the disruption of proceedings, many analysts are of the view that what happened on the 13th of July is a sure sign of what awaits the nation when the sub-committees of the Select Committee embark on outreach programmes to solicit public views on the new Constitution. There are already reports of ZANU PF militia setting up bases at schools in rural areas to intimidate people into accepting the Kariba Draft. There are also reports that teachers are leaving their posts in rural areas, fearing a repeat of the post-March 29, 2008 harmonised elections when some of their colleagues were brutalised and murdered for allegedly campaigning for the MDC.

A total of 16 thematic committees have been proposed as follows:

- Founding Constitution Principles
- Arms of the State (Principles of Separation of powers)
- Bill of Rights
- Systems of government
- Elections, Transitional Mechanisms and Independent Commissions
- Executive Organs of the State (PSC, Police Defence. Prisons etc)
- Land, Natural Resources and Empowerment
- Women and Gender

- Youth
- Disabled
- Freedom Fighters
- Labour
- Public Finance and Management
- Traditions, traditional Institutions and Customs
- Religion
- Languages

Membership to the thematic committees was proposed as 70% civic society and 30% MPs. Such proportional representation is welcome in order for the process to have some semblance of a people-driven constitution-making process. Budgetary constraints remain the biggest challenge for an effective public outreach programme.

Another key development during the period was the flighting of adverts by Parliament in June inviting applications from suitable candidates to be considered as commissioners on the Human Rights Commission, Zimbabwe Media Commission, Electoral Commission and Anti-Corruption Commission. The setting up of independent and effective commissions is one of the benchmarks to judge the seriousness of parties in implementing the GPA in letter and spirit.

## **THE COURTS**

The following are some of the key decisions that were passed by the courts on or relating to the Bill of Rights in the Constitution

### **The State v Alec Muchadehama**

The accused is a legal practitioner in private practice. He has handled numerous criminal matters involving opposition party members. He was arrested on 15th May 2009 on charges of defeating or obstructing the course of justice following his successful execution of legal processes necessary for the release of his clients that had been in custody. The clients were MDC-T officials incarcerated on allegations of security crimes. The State failed to appeal within the seven-day period provided by law against the granting of bail to Kisimusi Dhlamini and two others the State accused of bombing a number of sites in and around Harare. Muchadehama later successfully applied for bail.

Muchadehama through his lawyers challenged the propriety of the charges brought against him. It was argued that the facts placed before the court did not disclose an offence. The application was granted by the Harare Magistrates Court on the 28th May 2009.

### **Jenni Williams/WOZA v Minister of Home Affairs**

WOZA challenged the constitutionality of the provisions in terms of which the ZRP has over the years arrested and charged its members for holding peaceful demonstrations. The matter was argued before the Supreme Court on 4th June 2009 and judgement reserved.

### **Jestina Mukoko v AG and/or State**

Jestina Mukoko, who was abducted, detained for longer than is legally permissible and later charged with security offences, brought a constitutional case against government in the Supreme Court. The political detainees seek to have their prosecutions held in abeyance pending the determination of their claims against their abductors. They contend that the claims of abduction, illegal detention and torture must be determined first.

### **The State v Eric Matinenga (Minister of Constitutional Affairs-MDC-T)**

He was charged with public violence relating to the violence that rocked Buhera area in 2008. He was however acquitted.

### **The State v Tichaona Mudzingwa (Deputy Minister-MDC-T)**

Acquitted at the end of the State's case in his trial for attempting to cause disaffection among army personnel after the March 2008 elections.

### **The State v Pearson Mungofa (MP-MDC-T)**

He was also charged with attempting to cause disaffection among army personnel after the March elections. The trial court acquitted him.

### **Buhera Public Violence Trial**

Eleven MDC-T members acquitted at the end of the State case of charges of public violence allegedly committed during the funeral of Prime Minister Morgan Tsvangirai's wife, Susan Tsvangirai.

The Zimbabwe Lawyers for Human Rights have pointed to the Matinenga and Buhera acquittals as enough proof that the police continue to effect arbitrary arrests without first carrying out investigations and establishing a reasonable suspicion that a crime has been committed. Other criminal proceedings against MDC-T politicians have also ended in the State case collapsing, after causing serious disruption to the lives of the individuals accused.

### **Stanley Gama, Valentine Maponga, Stanley Kwenda and Jealous Mawarire v Media and Information Commission, Minister of Media, Information & Publicity, Permanent Secretary for Media Ministry and the Prime Minister**

The four journalists challenged the directive by the Media and Information Commission (MIC) and the Ministry of Media, Information and Publicity that media practitioners seeking to cover the COMESA Summit at Victoria Falls needed to get accreditation from the MIC in terms of the Access to Information and Protection of Privacy Act. They brought an action before Justice Patel at the Harare High Court. Their argument was that since the MIC had been abolished by an amendment to AIPPA in 2008, it could not seek to enforce the accreditation of journalists. The MIC and the Ministry on the other hand argued that accreditation was still a requirement as the alternative position would "permit lawlessness and anarchy". The interesting point in the matter was that both the Attorney-General and the Prime Minister's Office did not oppose the application, indicating an acceptance of the fact that the MIC had ceased to exist in law. In the end, Justice Patel made the following order:

"The applicants be and are hereby allowed upon being registered with the Comesa summit secretariat to cover the Comesa Heads of State and Government Summit without producing accreditation cards from the Media and Information Commission"

The interlocutory order had the effect of a final order as the Judge ruled that an appeal by the respondents would not suspend the operation of the order.

The above order did not stop the Ministry, in its wisdom-or lack of it, from giving a list of accredited journalists to the COMESA secretariat, which caused the barring of the four media practitioners from the summit. They brought a contempt of court application before the High Court against the Minister and Permanent Secretary. This may have prompted the pair to launch an appeal at the Supreme Court against the High Court order cited above, which is still pending.

### **Concilia Chinanzvavana and Others v The State**

These party activists who are charged with security related offences made an application before the High Court for the referral of their matter to the Supreme Court on the basis that their rights had been violated by the police and other security apparatus who had not only abducted them, but had also subjected them to torture. Justice Tendai Muchena who heard the application referred the matter to the Supreme Court for the determination of the constitutional issue so raised. The Judge ruled that the police were not absolved from the activists' abduction on the facts placed before him. The judgment is important to the extent that it exposes the Zimbabwe Republic Police's (ZRP) complicity in the unlawful conduct of the country's intelligence apparatus. The role of the police force is to uphold the law, not to break it or facilitate its trampling. That they have been proved to have partaken in political

abductions is a sad indictment on the police force, and a reason why there should be a paradigm shift in Zimbabwe's policing model.

The following are some of the important controversies or problems that arose in the courts or in Parliament with respect to the practice of law:

- a) The arrest of Muchadehama led to a protest by members of the legal profession who delivered a petition to the offices of the Minister of Justice.
- b) The political and civic society activists and a journalist abducted by state agents and later tortured and held incommunicado, have filed a claim for damages totalling US\$19.2 million at the High Court in Harare. It is yet to be determined by the court. This is an important matter in the sense that the world will watch to see particularly how the two Home Affairs Ministers will react to the claim, as well as how the Judiciary under the prevailing climate will deal with issues of human rights.

A recent out of court pronouncement by a senior member of the Bench deserves mention with respect to the state of the judiciary system and the rule of law in Zimbabwe. The Judge President, Justice Makarau on 9th July 2009 condemned the use of torture by the police on suspects, saying this was degrading treatment and was unacceptable and unconstitutional. The pronouncement was made at a training workshop organised by the Zimbabwe Lawyers for Human Rights, under the theme "Society Promoting the Rights of Prisoners in Zimbabwe". The judge also pointed out that from about 2003, the prison infrastructure and system had crumbled due to the economic melt down that it had become agonising for judges and magistrates to sentence accused persons to prison, as this was tantamount to sentencing them to death.

The significance of the pronouncement lies in the fact that it was made at a time when the High Court had dealt with applications by prisoners awaiting trial to have their alleged torture adjudicated upon before their trials could be held. They alleged serious torture by the police and other arms of the state's security apparatus. The pronouncement gives some level of reassurance that the courts will not turn a blind eye to claims of torture by suspects.

The Deputy Commissioner of Prisons, Washington Chimboza is reported in the Sunday Standard of 18th July 2009 as admitting that the Prisons Department had become an embarrassment to the criminal justice system. Prisoners were at risk of death due to severe under-funding which had made it impossible for the department to feed the prisoners and provide health services. A result of the funding problem is that the department is unable to meet its statutory mandate in feeding prisoners and providing their health services, as well as securing their attendance at court. This state of neglect pervades the entire public sector and infrastructure, and is a product of the past decade of poor governance.

## **THE ECONOMY**

The macroeconomic environment remains largely fragile and vulnerable given residual negative effects of a 10-year down-turn in economic performance owing to failure in the state machinery and collapse of political governance. During the period 2000 – 2008, the economy is projected to have cumulatively lost 48% of GDP on the back of mounting economic instability that manifested itself through hyperinflation.

Since the launch of STERP during the first quarter of 2009 and the adoption of liberalized economic management framework, government has continued to implement measures to stabilize the economy, with major challenges drawn from US\$ liquidity challenges. The major highlight during the period was the Mid Term Fiscal Policy Review Statement that was presented by the Minister of Finance on 16th July 2009.

The following are the key highlights of the Medium Term Fiscal Policy Review:

## Mid Term Fiscal Policy Review Highlights

- GDP growth revised upwards from by 0.9% from March 2009 projection of 2.8% to 3.7% by year end.
- Minister confirmed clipping of RBZ Governor's space by pushing for radical institutional reforms at the Central Bank to restore corporate governance, through a non Executive Board, Central Bank independence, align role of same to core responsibilities of Bank supervision and monetary policy.
- Savings to GDP ratios of 5% against globally acceptable levels of 18 – 25% ratio for sustainable capital accumulation,
- Inflation trend reversed since January 2009, from peaks of 231 million in July 2008, to Month on Month (M-O-M) ranges of 1 - 3.1% during the review period. Inflation outlook seen positive for 2009 and hence revised projections from 6.9% to 6.4% by year end,
- Demonetisation of the Zimbabwe dollar to complete transition to multicurrency regime, with scope to continue on this framework until economy can afford re – introduction of local unit. US\$6 million required to buy all stock of Z\$ in issue,
- Agriculture projected at 24.3% growth in 2009, against a cumulative decline of -79.4% over the period 2000 – 2008,
- Mining to decline by -11.2% in 2009,
- Manufacturing capacity utilisation at 25 – 50% for period January – June 2009, on the back of improved business confidence,
- Out of US\$8.4 billion STERP funding requirements only US\$500 million is total Grant pledges from donors, for humanitarian aid of which US\$391 million is already guaranteed,
- Non Residents shareholder's tax on Interest Reduced from 10% to zero to encourage capital accumulation,
- Cumulative revenue collections at 88.6% of target, i.e. US\$285.4 million against a target of US\$321.2 million for the review period. Revenue projections for 2009 cast downwards by 3% from US\$1 billion set in March 2009, to US\$970 million,
- No Budget deficit provisions given a Cash Budgeting framework,
- Under expenditure of 15.4% for the period that is US\$257.2 million against a budget target of US\$304 million due to a weak revenue base. Of this expenditure 60.8% (US\$156.5 million), was for civil service allowances, 18% (US\$46.3million) was for Ministries' operational expenses, whilst capital expenditure accounted for 4.2% (US\$10.9 million) against a target of US\$31.8 million,
- Budgetary rationalisation and reallocations (within the US\$1 billion envelope), amounting to US\$220 million (68.6% is for new Civil Service Salary structure), is provided for, to cater for wage bill, operational and maintenance for selected Ministries and embassies, of which US\$3.5 million is for RBZ operational expenses to year end.
- Expenditure projected to increase by 36.1% in 2009 from US\$1 billion, to US\$1 361 billion,
- External arrears stand at US\$3.1 billion, and remain a stumbling block towards unlocking Balance of Payments Support (BOP),
- Government Domestic Debt built up to 2008 liquidated by hyperinflation, and Cash Budgeting implies government no longer holds any domestic debt on its books,
- Total external debt including arrears of US\$4.7 billion as of 31 December, 2008, of which government owed US\$3.6 billion (76.6%), with the balance accounted for by the private sector and parastatals.

As usual, the fiscal statement did not address the needs of the poor. There was nothing in the statement to suggest that government was committed to a resource allocation and spending pattern that addresses the differential impact of budgetary and economic decisions on men, women, boys and girls. Emphasis on dollarisation has hit hard on marginalised groups and there were no measures in the revised budget to cushion these groups from the negative impacts of dollarisation.

## Economic Growth Forecasts

The Fiscal Policy Review revised upwards the first quarter GDP target of 2.8% upwards to 3.7%, on the back of recovery in agriculture, a boost in domestic business confidence and recovery in commodity prices (mainly minerals) during the review period. These optimistic projections are however difficult to comprehend given the economic challenges on our recovery radar, particularly that the following still manifest in the Zimbabwean economy:-

- A largely fragile economy that has cumulatively shed 48% of its weight over the last decade,
- A glaring US\$ liquidity crunch compounded by thin or rather limited foreign currency inflows to the banking sector,
- Global credit crunch has not yet dissipated,
- Very low base from which industry and commerce are taking off,

It is notable to highlight that there is a possibility that the positive recovery is confined to economic uplift within the negative trough of the recovery trajectory.

Figure 1 below provides a trend for Zimbabwe's GDP growth since 2005 to 2011 based on conservative estimates/projections. The IMF Sub Saharan Economic Outlook Review for the year to April 2009 pits Zimbabwe as a fragile economy, given the gravity of economic dislocation inherited upon signature of the GPA in September 2008.

### **Inflationary Developments**

The Minister revised downwards the inflation projections for 2009 from 6.9% to 6.4% by year end on the back of anticipated fiscal tightening, given a square budget supported by cash budgeting as a deflation from increased industry production supported by the multi currency regime. He highlighted that manufacturing, mining and agriculture are on a rebound, with manufacturing capacity expected to increase from a low base of 4 -10% upwards to a band of 25 – 50%.

The recovery of industry and commerce is however still held back by the liquidity crunch; hence it is still early to confirm a major shift in the supply response of the economy to deflate inflationary pressures.

### **Budgetary performance to June 2009**

Expenditures for the period January to June 2009 initially projected at US\$304 million, recorded an under expenditure to stand at US\$257.2 million owing to limited fiscal resources. Of this budgetary performance for the half year, salary and wages accounted for 60.8% or US\$156.5 million. This clearly points to the dominance of recurrent expenses in the budget, at the expense of productive capital expenditures which accounted for 4.2% (or US\$10.4 million) of total expenditure.

Budgetary expenses were revised upwards by 31.9% from US\$1 billion to US\$1.39 billion. Of this substantial expenditure adjustment, recurrent expenses were revised upwards by 15.4% to US\$931.1 million, the bulk of which is for goods and services at US\$568.7 million.

Wages and salaries take up US\$336.2 million, expanding by 20.6% from the March 2009 budgetary estimates. The Minister said he was working on a civil service salary regarding regime, which will provide for a new pay regime that will bring civil servants back onto the tax net with effect from 1 July, 2009.

The capital budget remains largely subdued being revised downwards by 63.7% from the March 2009 Budget estimate of US\$181.6 million to US\$65.8 million. The Mid Term Fiscal Policy review has no provisions for a budget deficit given the cash budget regime currently in place where fiscal space is limited, and government only spends what's available. A vote of credit of US\$391 million has been provided for, as resources committed by donors in the budget, to carry the additional expenses.

It is quite apparent that the Budget is more consumptive in nature, with limited scope for developmental expenses. Such a scenario is unsustainable in the medium to long term, as it erodes the country's capacity to grow, as there are no investment provisions. The Minister is basically carrying the welfare costs of the public sector, to keep government institutions operational at the expense of creating the necessary critical muscle to support economic recovery initiatives.

Ideally for an economy that has lost 48% of its weight over a decade, focus should be increasingly tilted towards huge infrastructure investments to support the private sector's recovery, and hence build the necessary economic rebound inertia in the short to medium term. This is therefore not a sustainable growth model in the long term, as it tends to be inflationary.

Vote appropriations were revised upwards by 61% from the original estimate of \$922.9 million to \$1,489.8 million. The most significant adjustment was that of National Housing and Social Amenities taking up 99.8% at US\$566.1 million to US\$1,417.9 million followed by Treasury at US\$89 million to US\$143.9 million, Education and Culture at US\$19.8 million to US\$197 million, Office of the President and Cabinet at US\$18.1 million to US\$36 million. The huge increase took into account the expanded administrative structure of the Office of the Presidency and the Prime Minister on the back of the GPA.

### **Financing the Budget**

The Budget is balancing - hence there are no provisions for borrowing. This is premised on the cash budgeting financial planning framework currently in place. Government is however, aggressively mobilizing budgetary support from the donor community, with US\$391 million already provided for under the Vote of Credit.

Total revenue collection for the period January to June 2009 amounted to US\$277.8 million which was 13.51% less than the target of US\$321.2 million. Of this global revenue collection, VAT accounted for 38.7%, customs duty 31.9%, PAYE 16.8%, corporate tax 2.4%, excise duty 1.9%, whilst non tax revenue accounted for 5.7%.

The contribution of taxes on goods and services has significantly decreased from 74.4% for the six months ended 30 June 2009 given a proposed revised contribution margin of 43.9% for the balance of the financial year. At the same time the contribution of taxes on incomes and profits is expected to increase from 19.7% for the six months ended 30 June 2009 to 23.6% of total budgeted revenue. This is in line with continued improvement in the economic environment and the positive impact of fiscal measures implemented by the government to boost capacity utilization.

Going forward the taxes on income and profits are expected to dominate revenue contribution to the Treasury as industrial production increases in response to the fiscal incentives announced by the minister in the mid-term fiscal policy statement.

### **External Debt**

Zimbabwe's total external debt including arrears amounted to US\$4.7 billion as at 31 December 2008. Of this total debt, government owes US\$3.6 billion, with the rest owed by Public Enterprises and the Private Sector. The budget only mentions \$1 billion being owed by the Central Bank, but no clear methods of repayment have been outlined. US\$11.1 million has been provided to cover interest on debt repayments.

The budget also states that the country has engaged the World Bank for assistance in clearing multilateral arrears and benefiting from debt relief under the framework of the Highly Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI).

### **Global Economic Crisis**

The Global economy remains fragile owing to a deep seated financial crisis that has curtailed aggregate demand in the first world. This has no doubt also pulled down demand for commodity exports from developing countries, Zimbabwe being no exception. In any case Zimbabwe was already in economic distress, making it even more vulnerable.

### **Social Sector Outlook**

The social sector remains largely vulnerable owing to a largely subdued earnings picture. On average, civil servants will now be earning between US\$140.00 and maximum US\$200.00 after the budget review, yet the poverty datum line stands at US\$500.00. This therefore means that a large chunk of the populace remains extremely poor.

Foreign currency liquidity challenges are still bottlenecking recovery of all sectors of production, making it difficult for companies to pay a decent wage. Economic analysts project this scenario to

persist until substantial resources begin to flow into the country. Donors continue to provide humanitarian cover, and no commitments have been made yet on development finance.

### **STERP Financial Constraints**

The Minister's commitment to implementing STERP is notable, though the greatest credibility glitch for the programme is financing. It would be a more plausible resolve for the Minister to consider or rather exhaust internal funding options first, prior to looking outside. The country still carries huge risks both political and sovereign, to anticipate access to external funding for now, and hence the need to consider privatization, and other innovative funding sources such as forward sale of some natural resources and extractive industry aligned resources (coal, platinum, gold, emeralds, diamonds etc.) The external sources can cover residual expenses for now, for they are also dealing with the global financial crisis.

### **REFERENCES**

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3. Government of Zimbabwe (July, 2009). Mid Term Fiscal Policy Review Statement
4. Reserve Bank of Zimbabwe (July 2009). The 2009 Mid-year Monetary Policy Statement
5. Civil Society Monitoring Mechanism Report (June 2009)

### **NOTES**

[1] Page 77 the 2009 Mid Term Fiscal Policy Review Statement, by Honourable T. Biti, Minister of Finance

[2] Of this US\$117 million has since been received since January 2009, with the balance expected to flow in before December, 2009.