ZIMBABWE

PRE-BUDGET STRATEGY PAPER FOR 2017

“Building Consensus on our Priorities”

TREASURY

Harare

6 October 2016

Contents

INTRODUCTION

1. The 2017 Pre-Budget Strategy Paper (BSP) sets the tone for the formulation of the 2017 National Budget.

2. The objective is to facilitate focus on priority issues with a view to ensuring that all sector priorities are aligned to the objectives of the 2017 National Budget.

3. The Budget Strategy Paper draws priority policy areas from the Zim Asset, the Interim Poverty Reduction Strategy Paper (IPRSP 2016–2018), as well as other sectoral policies and programmes.

4. Hence, line Ministries, in developing their bids, are being urged to make use of this BSP together with the above policy documents, which provide details on policies, projects, programmes and other activities, earmarked for implementation from 2017.

5. Similarly, due cognisance should be given to resource limitations against huge demands.

6. Accordingly, for guidance purposes, this BSP provides revenue projections and some key indicative expenditure ceilings, drawing from projections for the 2017 Macro-economic framework.

MACRO-ECONOMIC AND BUDGET FRAMEWORK

Overall Performance

7. During 2016, the economy displayed resilience under a difficult economic environment, characterised by severe drought and liquidity challenges, among others.

8. Hence, economic growth for 2016 is projected at 1.2%, down from the original projection of 2.7%.

9. In order to further stimulate growth, a number of measures to rekindle production across all sectors will be required.

10. Preliminary growth projections for 2017 are at 4.8% as shown in the Table below.

	2013	2014	2015	2016	2017
Real GDP at market prices (million US$)	11,745	12,197	12325.9	12469.6	13073.5
Nominal GDP at market prices (million US$)	13,490	14,197	14159	14333	15633
Real GDP Growth (%)	**4.5**	**3.8**	**1.1**	**1.2**	**4.8**
Inflation (Annual Average) %	1.6	-0.2	*-2.4*	*-0.4*	*1.1*
Government Accounts					
Revenues & Grants (millions US$)	3,741	3,770	*3,737*	*3,727*	*4,010*
% of GDP	***27.7***	***26.6***	**26.4**	26.0	25.7
Expenditures & Net Lending (million US$)	3987	3912	3,901.0	4,002	4,275
% of GDP	*29.6*	*27.6*	27.6	27.9	27.3
Recurrent Expenditures	3,520	3,565	3,578	3,849	3,459
% of GDP	26.1	25.1	25	27	22
Current Operations	439.4	325.3	314.4	205.0	328.5
% of GDP	3.3	2.3	2.2	1.4	2.1

	2013	2014	2015	2016	2017
Employment Costs	2,344	2,583	2579.4	2842.4	2609
% of GDP	*17.4*	*18.2*	18	20	17
Capital Expenditure & Net lending	468	310	*284.8*	*153.0*	*694.1*
% of GDP	*3.5*	*2.2*	2	1	4
Primary Balance	-223.2	-98.2	-49.9	-36.0	-16.0
% of GDP	-1.7	-0.7	-0.4	-0.3	-0.1
Balance of Payments Accounts					
Exports (million US$)	3,507	3,842	4001	3903	3846
Imports (million US$)	7,704	7,453	*7,553*	*6,893*	*7,085*
Current Account Balance (million US$)	-1810	-2435	-2,142	-1,494	-1,557

11. The 2017 growth projection is anchored on the following assumptions:

- Normal to above normal rainfall pattern, supporting a favorable agricultural season;
- Improved agricultural financing;
- Incentives for exporters;
- Moderate improvement in international commodity prices;
- Improved investment environment, benefiting from the on-going Ease of Doing Business Reforms;
- Successful re-engagement with International Financial Institutions (IFIs); and
- Positive gains from the various facilities for the productive sectors, supported by implementation of SI 64 of 2016, which seeks to provide for an even playing field for our industries from unfair competition posed by some imports.

Prices

12. In terms of prices, persistence of deflationary conditions is expected to year-end, with annual average inflation projected at around -0.4% in 2016, sustained by a strong US dollar and limited aggregate demand.

13. However, in 2017, inflation is projected to slightly increase to 1.1%, owing to anticipated increase in energy prices, as well as projected gradual rebound in aggregate demand.

Exports

14. Exports are projected at US$3.8 billion, against imports of US$5.4 billion, resulting in a high unsustainable trade gap of over US$1.5 billion.

15. In line with the value addition and beneficiation thrust, import restraint will remain necessary, whilst at the same time instituting appropriate measures that promote production for both the domestic and export markets.

Public Finances

16. Slower growth, on the background of liquidity and investment constraints, continues to undermine public finances, with revenues performing well below targets.

17. This has meant shelving and postponing implementation of a number of projects and programmes.

18. With most of our supply and demand side measures being instituted to improve production requiring time, Budget revenues for the coming fiscal year are projected to remain around US$4 billion.

19. Hence, clearly fiscal space remains constrained, highlighting the urgency for implementation of the Cabinet thrust to contain and rationalise Budget recurrent expenditures, predominantly reduction of employment costs.

20. This allows for scope towards increased priority development public expenditures.

21. As we continue with the rationalisation measures already approved by Cabinet, submission of further interventions to rationalise staffing levels will be requested.

22. In this regard, line Ministries are urged to take cognisance of the reality that employment costs still claim a disproportionately high share of Budget revenues, as they submit their 2017 programmes financial requirements.

23. Focus should also be on submission of measures deemed by Accounting Officers as necessary to stimulate production across their respective sectors. In this regard, Treasury welcomes submission of the required fiscal incentives.

24. In view of the anticipated fragile public finances, resource allocations should, therefore, focus on programmes that maintain the coverage and quality of public services and on-going Zim Asset developmental projects, and of necessity, avoid expenditure demands relating to low priority discretionary expenditures.

25. Government remains ready to consider funding for programmes with high impact, especially those projects requiring relatively little resources.

SECTORAL OVERVIEW AND OUTLOOK

26. Prospects for 2017 look positive, supported by a normal rainfall season, successful developments on the re-engagement front, as well as moderate improvement in international commodity prices.

27. As a result, most sectors are anticipated to register stronger growth.

Agriculture

Land Utilisation

28. Loss of agriculture output through under-utilisation of arable land is a serious and unsustainable leakage which deprives the country of much needed higher growth, undermining the whole essence of the Land Reform Programme.

29. Accordingly, it is important that respective Accounting Officers and other stakeholders require that farmers adopt and implement agricultural practices that lead to high crop yields and cost effective livestock production.

30. This will also necessitate identification of all under-utilised land, including that held by quasi government institutions.

Thrust

31. Hence, in agriculture the objective is to strengthen the sector's role in guaranteeing food security, strategic sectoral inter-linkages with other sectors of the economy, as well as sustaining the livelihoods of the majority of our rural communities.

32. Given the need for the economy to also import, focus should also be on improving agricultural activities that generate foreign currency.

33. The Meteorological and Climate Change Experts for the SADC have already predicted normal to above normal rainfall pattern in the forthcoming season.

34. It is, therefore, paramount that we take advantage of this anticipated positive development by making adequate preparations for the 2016/17 agricultural season.

35. The following areas are key for a successful season and will, therefore, be prioritised.

Improving Agriculture Production and Productivity

36. Following two consecutive droughts, which left several people food insecure, Government has adopted the Special Maize Production Programme aimed at ensuring food security for the country, by targeting at least 400 000 hectares of land under maize production.

37. The intention is to capacitate farmers with requisite inputs and capacity to increase production of grains, and enhance productivity so that the country is food secure even in drought years.

38. Farmers will be equipped with improved and coordinated access to inputs, such as seed, fertilizer, chemicals, supported by enhanced appropriate extension services.

39. The programme will be implemented over the next three years and it is expected that farmers will have gained the necessary capacity thereafter.

40. To date, Government has identified participating farmers and mobilised the requisite resources of well above US$500 million for this programme.

41. In this regard, the 2017 Budget prioritises improving agriculture production and productivity as the backbone of the economy.

Irrigation Rehabilitation and Development

42. Through the IPRSP consultative process, undertaken during the first half of the year, a majority of citizens identified prioritisation of irrigation rehabilitation and development as central to addressing the food security situation in the country.

43. This is more so, given the increased risks posed by climatic change, and also taking advantage of existing water bodies.

44. In view of this, the 2017 National Budget also proposes creation of fiscal space to allow for Budget interventions to rehabilitate and develop irrigation infrastructure.

45. Rehabilitation of existing communal irrigation schemes will be complemented by investments in new schemes on water bodies

such as Tokwe Murkosi, Zhove, Manyuchi and Osborne dams, among others.

46. Under the Special Maize Production Programme, about US$168 million is proposed to be channeled annually towards rehabilitation and development of irrigation infrastructure, among other ongoing complementary programmes and initiatives by development partners and the private sector.

47. The restoration of irrigation infrastructure will be central to ensuring that the agriculture sector remains vibrant and a mainstay of the economy.

Vulnerable Households

48. As in previous National Budgets, Government will also support vulnerable households access agricultural inputs programmes, also in collaboration with development partners.

49. However, in view of fiscal capacity limitations, the Budget will confine itself to allocations for schemes which support maize, small grains and cotton production, as well as small holder livestock.

Contract farming

50. In addition, contract farming has proven to be an effective and sustainable way of agriculture financing and marketing, if properly

managed as evidenced by successful tobacco contract farming arrangements.

51. Hence, respective Accounting Officers should also consider submissions to strengthen the Farmers' Stop Orders and mechanisms in consultation with relevant stakeholders.

52. This is necessary to ensure that provisions of contract arrangements are adhered to for the benefit of all parties.

53. In the case of grains, timeous payment by the GMB for grain delivered also offers scope for this, including capacitating farmers own financing.

Mining

54. Projected growth of 13.2% in 2016 in the mining sector is being driven by gold, nickel and platinum production.

55. However, diamond, coal and chrome under-performed in view of challenges related to legal litigations on consolidation of the Marange diamond companies, mismanagement and under-capitalisation at Hwange Colliery and unviable low international prices for chrome.

56. Therefore, measures are being instituted to ensure that all major minerals make their equitable contribution to mining growth.

57. The proposed strategies in mining include, among others:

- Capacitation of Fidelity Printers and Refiners to buy more gold, through increasing gold buying and support centres across the country;

- Continued support to both small scale and primary gold producers through review of the mining tax regime;

- Capitalisation and restructuring of Hwange Colliery and ensuring that it confines itself to the core business of coal production;

- Implementation of the value addition model;

- Concluding the diamond consolidation framework;

- Re-allocation of chrome claims acquired from ZIMASCO in order to increase production. Negotiations are ongoing to acquire more claims from ZimAlloys;

- Business re-engineering to reduce the cost of beneficiating chrome into ferrochrome by setting up of small chrome smelting facilities; and

- Operationalisation of idle nickel mining projects, including resuscitation of those under ZMDC.

Manufacturing

58. Capacity utilisation in the manufacturing sector continues to be constrained by a number of factors.

59. These include under-performance of agriculture, a source of inputs for agro-processing. This is also against the background of liquidity and cash challenges, among others.

60. Accounting Officers should also propose necessary measures for the 2017 National Budget to promote industrialisation.

61. Support for investment through lowering the cost of doing business, and initiatives supportive of improving the overall business environment will also be necessary.

62. Measures to be implemented include the Ease of Doing Business Reforms, operationalisation of the ZIA One Stop Centre, advancing the re-engagement process, all for purposes of creating a conducive investment environment.

63. In addition, the strategy for value addition and value chain systems linking sectors and entities in mining, agriculture, manufacturing and construction should be a priority.

64. Furthermore, implementation of Special Economic Zones also stands to benefit the country in terms of investment inflows and technology transfer.

65. Unfair competition posed by some imports also limited capacity utilisation in most of our industries and the recently gazzeted SI 64 has begun to bring benefits in terms of production improvements and safe-guarding of jobs.

66. In terms of affordable industrial financing to our infant and distressed industries, DiMAF and ZETREF facilities should complement other private sector financing windows.

67. Strong performance is envisaged in sub-sectors such as foodstuffs, beverages, metal and metal products, clothing and footwear, textiles and ginning among others.

Small & Medium Enterprises

68. Given the increasing contribution of SMEs, support should be extended to these entities, including enterprises empowering the youth and women in business.

69. Such support relates to capacity building in production, business management, financing and marketing, among others.

70. Furthermore, the 2017 Budget should also seek to capitalise the Small and Medium Enterprises Development Corporation (SMEDCO), Women's Bank, as well as Youth and Women Development Funds.

Tourism

71. Government has developed a Tourism Master Plan, which provides a framework for coordinated tourism development throughout the country.

72. Accordingly, Government through Statutory Instrument 5 of 2015 and Statutory Instrument 146 of 2016, extended duty exemptions on all imported capital goods and equipment, respectively, for the sector.

73. In addition, priority is on rehabilitating tourism infrastructure, such as small aerodromes throughout the country in order to facilitate accessibility of tourist destinations.

74. Promotional activities, including participation at world tourism events will be part of strategies for marketing our tourist facilities.

75. Other than promoting international tourism, the thrust will also be on stimulating domestic tourism, with endeavors to ensure increased participation of local people in tourism.

76. Further to that, Community Based Tourism Enterprises, where communities identify and offer tourism products peculiar to their communities should be promoted. These should be done in a socially sustainable way, to the benefit of the livelihoods of communities.

77. In the same vein, local authorities should also pay attention to cleanliness and orderliness as these are major obstacles to tourism.

Infrastructure

78. Noting the limitations of the Budget in addressing the infrastructure gaps in the country, Zim-Asset and the Interim Poverty Reduction Strategy Paper propose leveraging private funding towards development of critical enablers such as energy, ICT, water and sanitation and transport, among others.

79. However, this requires that Accounting Officers identify respective capacity gaps within implementing institutions in developing bankable projects and their implementation.

80. Such capacity should be complemented by cost recovery interventions, that way creating a pool of resources for maintenance of infrastructure, as well as investments in additional capacity.

81. In view of the above, the 2017 National Budget, should focus on on-going projects to enable citizens benefit from investments already made thus far.

Energy

82. Reliable power supply remains a key priority area for the 2017 National Budget as it allows us to unlock the potential of the productive sectors and welfare of citizens.

83. Accordingly, on-going projects aimed at increasing power generation capacity and the transmission and distribution network will continue to be supported.

84. Demand side management and revenue collection efforts, such as installation of prepaid meters among others, will be pursued.

Transport

85. An efficient and reliable transport system facilitates production, trade and access to markets.

86. The 2017 National Budget should prioritise implementation of transport infrastructure projects, embracing the road network, rail and air, focusing on the completion of on-going projects.

Roads

87. Our focus in 2017 in the roads sub-sector should be on upgrading and maintaining the trunk and feeder road networks as well as local authority roads.

88. Hence, the Budget, in conjunction with Road Authorities and ZINARA, should prioritise the following:

- Recapitalisation of Road Authorities, through procurement of road maintenance equipment;
- Decongestion of targeted road sections, through a road dualisation programme especially the Beitbridge-Harare-Chirundu road in view of its importance in the movement of goods and people within the country and Southern African region;
- Rehabilitation, repair and maintenance of the country's 88 133km road network;
- Upgrading of targeted trunk roads, including re-gravelling, regrading and narrow mat widening; and
- Construction of new bridges, including rehabilitation of flood damaged bridges.

89. Given the limited Budget resource capacity, consideration of development of similar programmes to rehabilitate other major arteries within our urban areas on the back of the user pay principle will be necessary.

Rail

90. The National Railways of Zimbabwe (NRZ) should play the central role of connecting major economic centres within and outside

our borders in the transportation of bulk raw materials, finished goods and passengers.

91. The capacity of the NRZ is severely undermined by the obsolete and broken down infrastructure, resulting in service levels declining from handling 18 million tons per annum in 1998 to current levels of 2 million tons.

92. The thrust will, therefore, be on the rehabilitation of track and rolling stock infrastructure as well as the installation of signaling and communication equipment, with requirements estimated at US$2 billion.

93. Measures to attract private sector capital will, therefore, be critical to complement the limited resources from the Budget.

Air Transport

94. Public expenditures in the aviation sector will target promotion of improved domestic, regional and international connectivity, also supportive of tourism, among others.

95. In this regard, focus will be completion of airport rehabilitation and upgrading projects, including provision of such airport services including flight information display systems, cargo and baggage handling facilities.

Information & Communication Technology

96. Investment expenditures in ICT continue to present opportunities for economic growth by unlocking efficiencies and capabilities across sectors.

97. The fast growth in ICT, against the background of rapid technological developments, has positioned the country second largest in the region, after South Africa, in terms of both data and internet coverage.

98. Healthcare, education, automation of ZIMRA, finance and e-government are some of the sectors which continue to benefit from ICT innovation.

99. The adoption of mobile money services has emerged as a fundamental tool for financial inclusion, with previously disadvantaged communities now accessing banking services.

100. ICT growth is underpinned by investments in data and internet, as well as network expansion. Data and internet services are anticipated to be the major revenue drivers going forward, as voice reaches saturation levels.

101. This is reflected by the major investment shift towards more expansion of the broadband fibre network.

102. Government will, therefore, take advantage of the growth in ICT to modernise its operations through implementation of E-Government.

Social Sectors

Health

103. Despite strides made in health delivery since 2009, the country continues to face high incidence of Non-Communicable Diseases (NCDs), HIV and AIDS, Tuberculosis (TB) and malaria, as well as maternal and infant mortality.

104. Therefore, Government, with the support of development partners, will further enhance efforts on both prevention and treatment.

105. This entails increasing resource allocations and strengthening capacity of health workers, supported by improved drug and equipment availability, as well as establishing and upgrading of infrastructure.

Primary Health Care

106. Promoting primary health care, coupled with an effective and efficient referral system up to specialist care, should ensure a functional and strong health delivery system.

107. Strides in this regard will steer the country towards attainment of some of the following Sustainable Development Goals, principally

Goal 3. This relates to *Ensuring healthy lives and promotion of well-being for all at all ages*.

Medicines and Medical Supplies

108. Improving the availability of medicines and medical supplies to levels that enable institutions to provide at least basic care is a priority under the IPRSP.

109. The initial targets are to attain the desired drug status of Vital, 100%, Essential, 80 % and Necessary, 75%.

Maternal and Child Health

110. The current maternal mortality ratio stands at 614 per 100 000 live births, according to the Multiple Indicator Cluster Survey.

111. The objective is to provide a comprehensive and effective health care to mothers and children, throughout the entire pregnancy, growth and development stages.

Education

112. Our growing population and rural resettlements require that we increase investment in the education sector.

113. The pressure also emanates from the Early Childhood Development education, which was introduced as part of the overall education system.

114. Cognisant of this challenge, the 2017 Budget should prioritise resources for the following areas:

- Improving the welfare of education personnel;
- Phasing in the new curriculum, which will require printing of the syllabuses and the relevant teaching and learning materials;
- In-service training for the teachers, so that they build skills in competency based and learner centred learning;
- Schools monitoring and supervision, to ensure quality education;
- Increasing access to learning, through early identification of children with specific learning needs and more well equipped classrooms for Science Technology Engineering and Mathematics (STEM) and ICT; and
- Quality infrastructure, particularly in rural areas.

115. Increasing auxiliary infrastructure, such as laboratories, housing and other amenities for teachers, also stands to improve the quality of education and will be undertaken by Government, in partnership with development partners and local communities.

116. Government will also ensure continued support for the STEM Programme.

117. This seeks to create a dynamic future for Zimbabwe, by creating a critical mass of scientific mindsets that are also empowered to create industries and markets of the future.

Social Protection

118. The difficult economic environment requires that Government continues to focus on practices that protect and promote the livelihoods and welfare of the vulnerable groups of society through enhancing social safety nets.

119. This targets vulnerable groups who include the elderly, people living with disabilities, orphans and vulnerable children, among others.

120. The various interventions by Government, in collaboration with development partners are intended to raise the income and consumption levels of the poor and vulnerable groups, and providing access to education, health and other social services, thereby alleviating poverty and promoting equity.

121. Support will, therefore, be increased to widen the coverage and effectiveness of the following programmes:

- Basic Education Assistance Module (BEAM);
- Harmonised Social Cash Transfer (HSCT);
- Drought mitigation;
- Health Assistance;
- Public Works Programme;
- People Living With Disabilities (PLWD); and
- Care for Elderly, Children in Difficult Circumstances (CDC).

122. In addition, there is also need to improve on targeting of the beneficiaries, as well as strengthening monitoring of these programmes.

Development Partner Support

123. The country continues to receive valuable support from development partners for critical development projects.

124. In view of the on-going re-engagement process to normalise relations with the international community, a number of development partners have either finalised or are in the process of developing country cooperation frameworks, for periods ranging from three to five years.

125. In light of this, Government will seize all arising opportunities to mobilise more resources, while ensuring that these cooperation frameworks are in line with national development priorities.

126. In this regard, strengthening the national aid coordination and management framework to facilitate an improved and more coordinated engagement with development partners becomes crucial.

127. Government will, therefore, urgently finalise the review of the Aid Coordination Mechanism.

128. This will boost the delivery of development assistance and enhance transparency, harmonisation and mutual accountability.

129. With regards to the above, Accounting Officers are urged to draw up sectoral programmes for the coming year taking advantage of the country cooperation frameworks.

CONCLUSION

130. Macro-economic and Budget Framework projections are indicative and will continue to be updated based on latest data and other inputs from on-going consultations.

131. Stakeholders are encouraged to actively participate in the on-going 2017 National Budget Consultations under various arrangements.

132. Inputs may also be submitted directly to Treasury by hand delivery or through email.

THE TREASURY

HARARE

6 October 2016