ZIMBABWE ECONOMIC POLICY ANALYSIS AND RESEARCH UNIT

ECONOMIC LITERACY

HANDBOOK FOR PARLIAMENTARIANS

BY

ZIMBABWE ECONOMIC POLICY ANALYSIS AND RESEARCH UNIT (ZEPARU) & THE PARLIAMENT OF ZIMBABWE

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CONTENTS

List of Tables
Foreword iii
Background and Rationale for the Toolkit iv
Objectives of the Toolkit iv
Target Group iv
Economic Policies and Phases iv
Policy Failure v

Module 1: Introduction 1
1.0 What is Economics? 1
1.1 Economic Systems 1
1.2 Macroeconomics 1
1.2.1 What is Macroeconomics? 2
1.2.2 Objectives of Macroeconomics 2
1.2.3 The Four key Markets 2
1.2.4 The Business Cycle 3
1.2.5 Macroeconomic Policy 3
1.2.6 National Income Accounting 3
1.2.7National Output 3
1.2.8Measuring GDP 3
1.2.9The Expenditure Approach 3
1.2.10TheIncome Approach 4
1.2.11 Real and Nominal GDP 5
1.3 Price Indices 5
1.3.1 Three Key Price Indices 5
1.4 Inflation 6
1.4.1 An Example: Calculation of Inflation using the GDP PI 7
1.4.2 Manifestation of Inflation 8
1.4.3Inflation in Zimbabwe 8
1.5 Interest Rates, Savings and Investment 8
1.6 Foreign Exchange Market (Forex) 8
1.7 The Structure of the Zimbabwean Financial System 10
1.8 Banking Sector 11
1.9 Non-Banking Sector 11
1.9.1 The Zimbabwe Stock Exchange (ZSE) 11
1.9.2 Insurance Companies and Pensions Funds 12

Module 2: The External Sector 12
2.1 Why do Nations Trade? 12
2.2 Protectionism 13
2.3 Balance of Payments (BOP) 13
2.3.1 Composition of the BOP Accounts 13
2.4 Economic Integration 14
2.5 Foreign Aid and Economic Development 15
2.5.1 Types of Foreign Aid 15
2.5.2 Forms of Foreign Aid 15

Module 3: Microeconomics 16
3.1 Introduction to Markets 16
3.2 Market Structures 16
3.3 Key Sectors of the Zimbabwean Economy 16
3.3.1 Agriculture 17
3.3.2 Mining 17
3.3.3 Manufacturing 18
3.3.4 Tourism 18
3.4 Role of the Private Sector 18
3.5 Microeconomic Policy and Structural Change 18

3.6 Competition Policy 20

Module 4: Public Sector 21
4.1 Role of Government 21
4.2 Size of Government 22
4.3Levels of Government 22
4.3.1 The National Government 22
4.4 Provincial and Metropolitan Councils 23
4.5 Local Government 23
4.6 Public Enterprises and their Role in the Economy. 23

Module 5: Financing Government Expenditure
5.1 Government Expenditure 24
5.2Government Revenues 24
5.3Revenue Collection in Zimbabwe 24
5.4Major Revenue Sources 24
5.4.1 Income Taxes 24
5.5 Government Domestic Debt 26
5.6National Debt Management 26
5.6.1 Introduction to Debt Crisis 26
5.6.2 Resolving the Debt Problem 27

Module 6: Government Planning and Policy Formulation 27
6.0 Government policy 28
6.1 The Zimbabwe Agenda for Sustainable socio-Economic Transformation (ZimASSET) 28
6.2 Government Work Programme (GWP) 28
6.3 Millennium Development Goals 29
6.4 Legal Framework 29
6.5 Public Finance and Management (PFM) Act 29
6.5.1 Role of Treasury 29
6.5.2 Duties of the Minister 30
6.6National Budget 30
6.6.1 What is the National Budget? 30
6.6.2 The Budget Cycle 31
6.6.3 The Consolidated Revenue Fund 31
6.6.4 Estimates of Expenditure 31
6.6.5 Government Services 31
6.7. Types of Budgeting 31
6.7.1 Cash Budgeting 31
6.7.2 Gender Budgeting 32
6.7.3 Pro-Poor Budgeting 32
6.8.The Audit Office 32

8.0 References **34**

List of Tables

Table 1: GDP Growth rates 5
Table 2: GDP and Price Indices 6
Table 3: Nominal, Price Indices and Real GDP 6
Table 4: GDP Price Index 7
Table5: Composition of the Banking Sector 9
Table 6: Current Account 14
Table 7: Sectoral Growth rates 18
Table 8: Tax Bands 24

Foreword

"The health of the society and economy of Zimbabwe depends, in part, upon the health state of its Parliament" [1] (Parliamentary Reform Committee Report, 1997).

Parliaments across the world are predominantly composed of legislators, styled Members of Parliament (MPs), elected or appointed, who bring diverse educational qualifications, training or experience. The ability of Parliament to execute its three core functions of legislating, executive oversight and representation depends largely on the MPs' background, qualifications and experience in the relevant topics brought for debate in Parliament. This fact, coupled with the high turn-over after elections every five years, presents a major challenge for Parliament to come up with strategies to try and narrow the knowledge and experience gap to enable MPs to be effective within the five years life of their term. Accordingly, there is need to develop appropriate toolkits with well designed and researched guidelines to assist legislators discharge their duties more effectively.

In the idiom of the Parliamentary Reform Committee in the late 1990s, a **healthy** Parliament should have well informed, equipped and capacitated legislators. The centrality of Parliament's constitutional mandate to control the public purse in the national governance matrix cannot be over-emphasized. Members of Parliament must, therefore, be able to analyse and interrogate all economic policies, scrutinize all budget-related bills and statutory instruments through robust financial probity and call the Executive to fully account for resources authorized by or under an Act of Parliament.

The timely development of this *Economic Literacy Handbook* for Parliamentarians is a culmination of the 2011 Baseline Survey on Economic Literacy for the Seventh Parliament of Zimbabwe. The survey observed that economic literacy was low among legislators and recommended tailor-made capacity building programmes for Members. This Handbook, therefore, seeks to equip both new and old legislators of the Eighth Parliament with basic appreciation of the terms, techniques and concepts used in major economic policy documents such as the fiscal and monetary policy statements.

Section 299 of the Constitution of Zimbabwe mandates Parliament to play a pivotal role in overseeing State Revenue and Expenditure. This is a clarion call for the Parliament of Zimbabwe to ensure transparency and accountability for all public funds. This financial oversight function can only be properly undertaken by legislators who are well equipped and capacitated with basic economic literacy tools that will enable them to engage the Executive constructively in all budgetary matters. The National Budget is a very important financial tool used by the Executive to prioritise and distribute national resources to various government departments for the general good of the populace. Parliament's role in this regard is to analyse the National Budget and ensure that the available resources are equitably and efficiently distributed for the purpose of meeting the needs and aspirations of the people they represent.

It is, therefore, our fervent hope that the *Economic Literacy Handbook* for Parliamentarians will go a long way in addressing the information gap that exists between the legislators and their core mandate of legislating, executive oversight and representing the people of Zimbabwe. Ideally, legislators should have a more than elementary understanding and appreciation of the basic principles of economics in order to engage and debate from an informed position in Parliament. This toolkit is meant to improve economic literacy of legislators which is an imperative in Parliament's contribution to economic policy and budget analysis.

I would, therefore, like to acknowledge the invaluable contributions by the Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU) in the collaborative development of this technical Handbook with the Administration of Parliament. I commend this handbook to all Members of the Parliament of Zimbabwe, confident that it will provide the requisite basic skills to enable them to carry out their constitutional mandate.

Hon. Advocate Jacob Francis Mudenda
SPEAKER OF THE NATIONAL ASSEMBLY

Harare, March 2014

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1 Strengthening Parliamentary Democracy in Zimbabwe: AFoundation Report by the Parlimentary reform Committe, Volume 1, 1998.

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I. Background and Rationale for the Handbook

Parliament plays a very significant role in the overall governance of the country in their oversight, legislative and representative roles. Members of Parliament (MPs) represent the generality of the people whose social, economic and political lives depend on the quality of economic policies that are adopted by the Government. MPs should have a deeper understanding of the economic forces and poverty levels that affect the people that they represent. The Budget is the most important economic policy tool of the Government and provides a comprehensive statement of the nation's economic priorities. As the representatives of the people, Parliament is the appropriate place to ensure that the National Budget best matches the nation's needs with available resources. This ability is especially critical considering the current fiscal squeeze. For a proper and well informed debate on the National Budget to take place there is need for Members of Parliament to have an appreciation of the economic language that is used. Members of Parliament are from a very diverse spectrum of the population and have different backgrounds. It is against this background that the Economic Literacy Handbook is developed to assist those members who do not have an economic background to appreciate the language. The toolkit on its own is not exhaustive but will inevitably enhance legislators' understanding of basic economic language.

Zimbabwe has come up with various economic policies since 1980 and in its oversight role Parliament should be able to constructively discuss such public policies. In most cases the economic policies the Executive came up with were reasonably good although they were not very successful and this can be attributed to the lack of robust debates on such policies.

ii. Objectives of the Handbook

The aim of the Economic Literacy Handbook is to equip newly elected Members of Parliament with basic economic language that is used in major economic policies like the National Budget and the Monetary Policy Statements. Specifically the toolkit's objectives are:

- To provide Legislators with the requisite economic literacy skills for them to understand the basic economic policies in Zimbabwe and how these policies impact on the economic development of the country.
- To provide the Legislators with economic analytic skills and for them to realize the importance of economics.
- To capacitate all Legislators with the skills to interrogate major macroeconomic policies such as the fiscal and monetary policies.
- To empower Legislators to effectively carry out their oversight role on the allocation and use of public finances
- To bring closer to reality with the economic challenges that the country is facing and the opportunities that may arise from such challenges to drive the growth of the economy.

iii. Target Group

The target group for this Toolkit are Members of Parliament who have not been exposed to economics. Parliament's role includes legislative, oversight of the Executive and Representational. For these roles be effectively performed, the toolkit provides a good forum for public debates on national and economic issues. Through its Portfolio Committees, Parliament has a duty to discuss economic issues besides debating on the budget itself. For the MPs to be effective in the execution of their duties, they need to have an improved level of economic literacy. It is therefore the major thrust of this toolkit to equip members with working knowledge of economics.

iv. Economic Policies and Phases

The economy of Zimbabwe has mainly been guided by a number of economic policy frameworks over the years and these include; the Growth with Equity (1980-1990), Economic Structural Adjustment Program (ESAP) (1991-1995), Zimbabwe Program for Economic and Social Transformation (ZIMPREST) (1996-2000), Zimbabwe Economic Millennium Recovery Program (MERP) (2000-2002), National Economic Recovery Program

NERP(2003), Macroeconomic Policy Framework (2005-2006), the National Economic Development Priority Program and Short Term Economic Recovery Program (STERP) 1 (February-December 2009), (STERP) 11 (2010-2012), Medium Term Plan (2011-2015) and the current Zimbabwe Agenda for Sustainable Socio-Economic Transformation (Zim-ASSET), among other policy documents. The country has also been guided by the fiscal and monetary policy statements and other sectoral policy pronouncements. Despite all these economic policy frameworks, little success in terms of economic growth has been achieved. In the post 2000 period the economy experienced macroeconomic instability as a result of high rates of inflation, unemployment rates, low investment and declining GDP growth rates that reached its peak of -14% in 2008.

Since 2009, and as a result of the multicurrency system that was adopted, the country has experienced a stable macro-economic environment with strong gross domestic product (GDP) growth rates of 5.4% in 2009, 8.1% in 2010, 9.3% in 2011 and 4.4% in 2012. In 2013, it is anticipated to grow by 5% revised downwards to 3.4% as a result of poor performance in agriculture. The inflation rate has remained below 5%. Nevertheless, this economic recovery has not been accompanied by commensurate rise in employment and job creation or by a decline in poverty. Despite these positive economic performances, the economy remains fragile. This is mainly due to political challenges, poor social and economic infrastructure, very low Official Development Assistance (ODA) and low Foreign Direct Investment (FDI) flows (approximately US$387 million in 2011). FDI levels are below thresholds consistent with rapid and sustainable rate of economic growth (30-40%).

v. Policy Failure

The policies did not achieve most of the intended objectives for various reasons and among these are:

- Lack of capital due to limited foreign direct investment, lines of credit, donor support and low national savings;
- Credibility problems
- Lack of institutional capacities
- Shortage of human resources in most sectors of the economy as a result of the brain drain;
- Lack of political will on the part of the Executive arm of Government.
- Some of the policies were supported by Multilateral Financial Institutions like the Economic Structural Adjustment Programme (ESAP). One of the major criticisms by the civil society organisations of ESAP was that the program was driven by technocrats in government with heavy influence from financing institutions such as the IMF and the World Bank.

Module 1: Introduction

1.0 What is Economics?

Human beings have basic needs such as food, clothing and shelter, among many others. To provide for these needs, resources such as land, labour, capital and the knowledge of how to combine and transform them into different goods and services are needed. However, these resources are limited/scarce whilst human needs are unlimited.

The existence of this imbalance brings about the need to come up with the best way to allocate these scarce resources among different competing uses to satisfy the unlimited human needs and wants. This is where economics comes in. Simply put, economics is the study of how individuals, organizations and governments engaged in the production, distribution, and consumption of goods and services allocate limited resources to satisfy unlimited human needs and wants.

The study of economics can be done at the grassroots level or at the economy-wide level, thus it is divided into two major areas – microeconomics and macroeconomics.

Microeconomics looks at how individual economic agents such as consumers, resources owners and business firms make decisions in the presence of scarcity. On the other hand, macroeconomics looks at the big picture, focusing on economic aggregates such as total output of goods and services, employment, general price level and issues of equity at the national level. It gives a bird's eye-view of the whole economy.

Given the scarcity of resources, economics helps us to answer three important questions, that is, what to produce, how to produce it, and for whom to produce.

1.1 Economic Systems

All nations in the world face the problem of scarcity hence they all need to come up with best possible allocation of resources to meet their national objectives. Three important questions are critical in this undertaking.

Given the different cultural-socio-political contexts under which nations exist, the answers to the three questions also differ. As such, the mechanisms through which nations answer the three basic questions of what to produce, how to produce it and for whom to produce, otherwise known as economic systems, also differ accordingly. An economic system comprises institutions, agencies, consumers and entities that make up the economic structure of a society. There are four basic types of economic systems namely traditional, command, free market and mixed.

Four Types of Economic Systems

Traditional
Shaped by tradition. Community interests take precedence over individual interests. Individuals combine effort and share proceeds of labour. Examples include hunter/gatherer communities in remote parts of some countries e.g. economic activities in some remote communities in Zimbabwe are organized along these lines.

Command
Economic activities are centrally planned. State owns resources and answers the what, how and for whom production questions. Central authority regulates prices and wages. Classic examples are the communist and socialist Soviet Union, Cuba and China in the earlier years of its development. This is the economic system that was adopted by Zimbabwe in the first decade of independence

Free Market
Private individuals own resources. Interaction of economic agents on markets answers the what, how and for whom questions. In its pure form, no government interference in markets. Most economies in the developed world are predominantly driven by market fundamentals or free market principles.

Mixed
Combines elements of the other three in different proportions. Decisions are made in the market but government intervenes occasionally to deal with market failures. Most present day economies, Zimbabwe included, are in this category. It is the degree to which government or the market prevails that differentiates the economies.

1.2 Macroeconomics

1.2.1 What is Macroeconomics?

"Why do output and employment fall and how can this be corrected?" "Why are prices increasing and how can they be stabilized?" "Why is there a big gap between the rich and the poor?" These are typical questions asked by people in any nation. Right now the nations are grappling with the world recession which has resulted in the credit crunch and massive employment. People look up to the government for answers as these issues have a direct effect on their wellbeing.

1.2.2 Objectives of Macroeconomics

Economic activity fluctuates over time about its potential levels resulting in swings in output, employment and the general price level, among other important aggregates. These fluctuations are not desirable as they bring with them shortages of goods and services, uncertainty, unemployment and inflation. In this light, government aims to minimise these fluctuations and achieve four major objectives:

1.2.3 The Four Key Markets

The Four Key Markets

Commodity Market

This market coordinates the demand and supply of goods and services. Households, investors, governments, and foreigners demand goods produced by corporations.

Resource (Workforce) Market

Households supply labour demanded by corporations in exchange for income in the form of salaries and wages.

Financial Market

It coordinates the actions of borrowers and lenders by bringing net savings and the net inflow of foreign capital into balance with the borrowing of the four players.

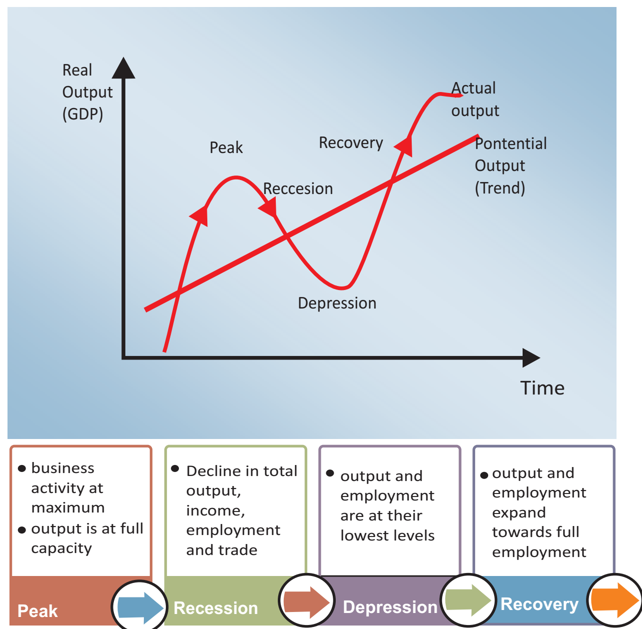
Foreign Exchange Market

This market harmonizes the actions of economic agents who demand foreign exchange in order to import and export goods and services thus facilitating international trade.

1.2.4 The Business Cycle

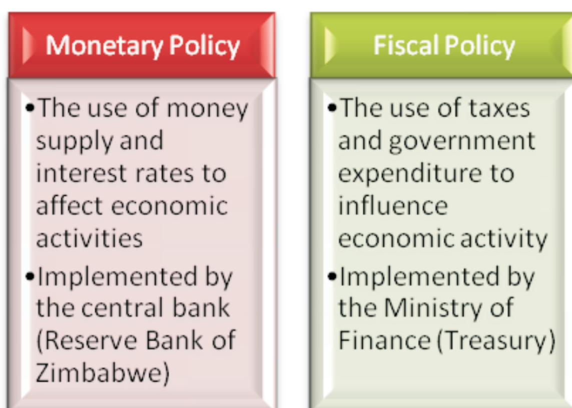
The state of economic activity and the general direction of the key aggregates can be conceptualized using the business cycle. In general, the business cycle shows the level of output in an economy over time. However, from it, the level of prices and employment can be deduced. An economy goes through four recurrent phases whose duration and intensity varies over time. These are shown below:

The Business Cycle



1.2.5 Macroeconomic Policy

In order to minimise fluctuations in economic activity and achieve its macroeconomic objectives, the government uses policy. A policy instrument is an economic variable under the control of government that affects one or more of the macroeconomic goals. Two main stablisation macroeconomic policies are monetary policy and fiscal policy.



1.2.6 National Income Accounting

National income accounting involves the measurement of the overall performance of the economy using a body of statistics that records economic activity. It enables economists and policymakers to:

- Assess the health of the economy by comparing production levels at regular intervals;
- Track the long run course of the economy;
- Formulate policies that will safeguard and improve the economy

1.2.7 National Output

Total output produced in an economy during a specified period is measured by the Gross Domestic Product (GDP). This is the total market value of goods and services produced within the borders of a country during a particular period, usually a year. Since output produced is sold and equivalent income earned by the producers, the words output and income can be used interchangeably.

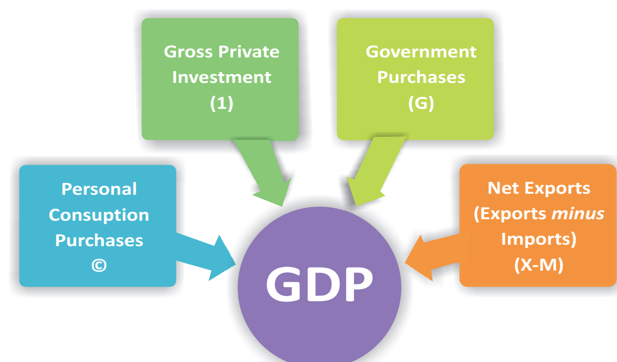
1.2.8 Measuring GDP

Thus GDP can be derived by:

- Totalling the expenditures on final-user goods and services produced during the year - ***expenditure approach or***
- Summing the income payments to the resource suppliers and the indirect cost of producing the goods and services - ***income approach.***

1.2.9 The Expenditure Approach

GDP is the sum of expenditures on final-user goods and services purchased by households, business, governments, and foreigners. When calculated by this method, there are four components of GDP:

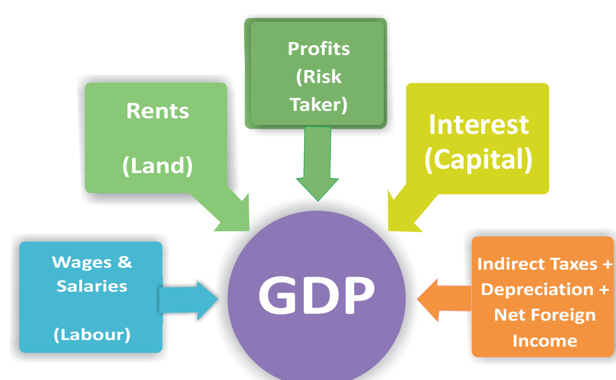


This approach is summarized by the equation:

$$GDP = C + I + G + (X - M)$$

1.2.10 The Income Approach

GDP is the sum of costs incurred or income generated by the production of goods and services during a given period. The income components of GDP are returns to the factors of production, that is, employee compensation or wages & salaries (labour), rents (land), interest (capital) and profits (entrepreneur/risk taker). Furthermore, indirect business taxes (e.g. VAT); depreciation and net income of foreigners are added.



Examples of Zimbabwean actual national income accounts GDP figures calculated using the two approaches are given below.

GDP by Expenditure Approach 2012

EXPENDITURE ITEM	US$
Final Consumption Expenditure	14 089 572 717
Private Consumption	11 544 524 751
Consumption of Private Non- Profit Bodies	566 464 540
Government Consumption Expenditure	1 978 583 426
Gross Capital Formation	1 687 006 841
Gross Fixed Capital Formation	2 079 170 242
Changes in Stocks	(392 163 400)
Domestic Expenditure	15 776 579 558
Net Exports of Goods and Services	(3 600 349 869)
Exports of Goods and Services	3 883 643 863
less Imports of Goods and Services	7483 993 732
GDP AT MARKET PRICES	12 176 229 690

GDP by Income Approach 2012

EXPENDITURE ITEM	US$
Compensation of Employees	1 282 193 943
Gross Operating Surplus	8 078 622 299
Mixed Income	711 664 164
Net Taxes on Production	134 713 424
Taxes on Production	134 713 424
Subsidies on Production	134 713 424
	-
GDP AT BASIC PRICES	10 207 193 830
Net Taxes on Products	134 713 424
Taxes on Products	-
Subsidies on Products	1 834 322 435
GDP AT MARKET PRICES	12 176 229 690

1.2.11 Real and Nominal GDP

GDP is a monetary measure. This is because its value is obtained by multiplying the number of products produced by their prices then getting the value in money terms. This means that its value can change under three scenarios:

i. Production increases at constant market prices
ii. Market prices increases with constant production; and
iii. Both production and market prices increase.

An increase in GDP over time is called economic growth. However, we have seen that GDP can actually increase in value due to price increases without any change in the actual amount of goods and services. In essence, this will not be real economic growth.

An Example: Real vs. Nominal Changes

Suppose that Zimbabwe produced one loaf of bread in 2011 valued at US$1. Its GDP would be equal to US$1 (1 loaf x US$1). If the country produced one loaf again in 2012, with prices having risen to US$2, its GDP would US$2. Given that economic growth is the increase in GDP over time; could we say the economy has grown? The answer is yes and no. Considering market prices for each year, the value has increased from US$1 to US$2. However, considering the actual amount of output produced, nothing changed. Hence in essence the change in the value of GDP is arising only from a change in prices. However, what is of interest to policy makers is a change in actual physical output. Thus a direct comparison of 2011 and 2012 can be quite misleading if we do not remove the effect of price changes. Changes in GDP arising from price changes are called nominal changes whilst those emanating from changes in physical output are called real changes. Policy makers are concerned with real changes when it comes to calculating economic growth. Thus the need to distinguish between real and nominal GDP

1.3 Price Indices

To remove the inflation element and transform nominal GDP into real GDP, price indices (PI) are used. A price index is a measure of the price of a specified collection of goods and services (market basket/bundle) in a given year as compared to the price of an identical (or highly similar) market basket of goods in an earlier reference (or base) year. Price indices are also used in the calculation of inflation rates.

1.3.1 Three Key Price Indices

a. Consumer Price Index (CPI) - measures changes in the prices of a fixed market basket of goods and services purchased by a typical urban household. It focuses on the buyers' perspective.

b. Producer Price Index (PPI) - an index that measures the average change in selling prices received by domestic producers of goods and services over time from the sellers' perspective.

c. GDP Deflator or GDP Price Index - compares the price (market value) of all the goods and services included in the GDP in a given year to the price of the same market basket in a reference year. The GDP deflator is therefore a broader and more comprehensive price index than the CPI and PPI.

Formula for Price Index (PI)

$$P1_{year} = \frac{\text{price of market basket in year } T}{\text{price of market basket in base year}} \times 100$$

Formula for converting nominal GDP to Real GDP

$$\text{Real GDP}_{\text{year } T} = \frac{\text{Norminal GDP Year } T}{\text{Price Index Year } T}$$

As we have alluded to above, the ultimate objective of government is economic growth, that is, growth in real GDP. The real GDP figures can be used to calculate economic growth using the formula:

$$\text{Econ Growth}_{\text{year } T} = \frac{\text{Real GDP}_T - \text{Real GDP}_{T-1}}{\text{Real GDP}_{T-1}} \times 100$$

t = current year and t-1 = last year

An Example: Deriving a Price Index and Real GDP

The table below shows Zimbabwe's revised GDP figures at market prices (nominal) from 2009 to 2012.

Table 1: GDP Growth rates

Year	2009	2010	2011	2012
GDP (millions)	7 954	9 634	11 179	12 176

From these we can derive the GDP price index and convert the annual GDP figures to real figures. We take 2009 as the reference year or base year.

From these we can derive the GDP price index and convert the annual GDP figures to real figures. We take 2009 as the reference year or base year.

GDP Price Index Calculations

$$P1\,year = \frac{price\ of\ market\ basket\ in\ year\ T}{price\ of\ market\ basket\ in\ base\ year} \times 100$$

$$GDP_{2009} = \frac{price\ of\ market\ basket\ in\ 2009}{price\ of\ market\ basket\ in\ 2009} \times 100$$

$$= \frac{7954}{7954} \times 100 = 100$$

The price index for the base year is always 100.

$$GDP_{2010} = \frac{price\ of\ market\ basket\ in\ 2010}{price\ of\ market\ basket\ in\ 2009} \times 100$$

$$= \frac{9634}{7954} \times 100 = 121$$

Using the same formula, the price indices for 2011 and 2012 will be 141 and 153 respectively. The updated table is now:

Table 2: GDP, and Price Indices

Year	2009	2010	2011	2012
GDP (millions)	7 954	9 634	11 179	12 176
GDP PI	100	121	141	153

Converting Nominal GDP to Real GDP

$$Real\ GDP_{year\ T} = \frac{Normal\ GDP\ year\ T}{Price\ index\ Year\ T} \times 100$$

$$Real\ GDP_{2009} = \frac{National\ GDP\ 2009}{Price\ index\ 2009} \times 100$$

$$= \frac{7954}{100} \times 100 = 100$$

$$= 7\,954$$

The real GDP for the base year is always equal to nominal GDP since the price index will be equal to 100.

$$Real\ GDP_{2009} = \frac{National\ GDP\ 2010}{Price\ index\ 2010} \times 100$$

$$= \frac{9634}{121} \times 100 = 100$$

$$= 7\,961$$

Using the same formula, the real GDP figures for 2011 and 2012 are 7 928 and 7 958, respectively. The updated table now looks like this:

Table 3:GDP Price Indices and Real GDP

Year	2009	2010	2011	2012
GDP (millions)	7 954	9 634	11 179	12 176
GDP PI	100	121	141	153
Real GDP	7 954	7 961	7 928	7958

1.4 Inflation

The term inflation became one of the most popular words in Zimbabwe in the last decade. The mere mention of this phenomenon brings memories of the economic crisis. In the period 2006 to 2008, the economy experienced unprecedented levels of inflation which resulted in it being declared “The Number One Enemy” by the central bank governor. This alone shows the importance of this economic aggregate to policy makers. Remember, one of the key macroeconomic objectives is price stability. But what really is inflation and how does it manifest itself and what are its causes?

Inflation is the general increase in the level of prices. The rate at which the prices increase is called the inflation rate and is typically calculated annually but can also be calculated on a month-on-month basis using price indices. The CPI is

the most widely used, though the PPI and GDP PI can also be used. This rate is taken as a percentage and the formula is as follows:

$$\text{Inflation Rate}_{\text{this year}} = \frac{{}^{PI}\text{this year} - {}^{PI}\text{last year}}{{}^{PI}\text{last year}} \times 100$$

1.4.1 An Example: Calculation of Inflation using the GDP PI

The inflation rate for 2010 to 2012 can be calculated using the GDP price indices from the previous example which are given below:

Table 4: GDP Price Index

Year	2009	2010	2011	2012
GDP PI	100	121	141	153

$$\text{Inflation Rate}_{2010} = \frac{{}^{GDP\ PI}2010 - {}^{GDP\ PI}2009}{{}^{GDP\ Pi}2009} \times 100$$

$$\frac{121 - 100}{100} \times 100$$

21%

$$\text{Inflation Rate}_{2011} = \frac{{}^{GDP\ PI}2011 - {}^{GDP\ PI}2010}{{}^{GDP\ PI}2010} \times 100$$

$$\frac{141 - 121}{121} \times 100$$

16.5%

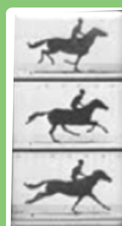
Using the same formula, the inflation rate for 2012 is 8.5%

1.4.2 Manifestation of Inflation

Inflation can be classified into three categories.

Low inflation

Single digit inflation. Prices rise slowly and are predictable. Money trusted as a store of value. Zimbabwean post dollarisation inflation falls under this category.



Galloping Inflation

Double or triple digit inflation. Serious economic distortions and value of money eroded. People hoard goods. No lending at nominal interest rates and contracts may be indexed to foreign currency.

Hyperinflation

Most deadly strain. Month-on-month inflation above 50%. Prices may rise beyond a million % per year resulting in economic collapse. Zimbabwe hyperinflation was at a record 231 . million % by Aug 2008

Sources of Inflation

i. **Demand Pull Inflation**
Occurs when demand for goods and services rises more rapidly than the productive capacity of the country thus forcing the prices of the few available goods to go up. It can also be caused by rapid money supply growth (money printing) which results in too much money chasing too few goods.

ii. **Cost-Push Inflation**
Prices may rise due to an increase in per-unit production costs caused by increases in wages or raw material costs.

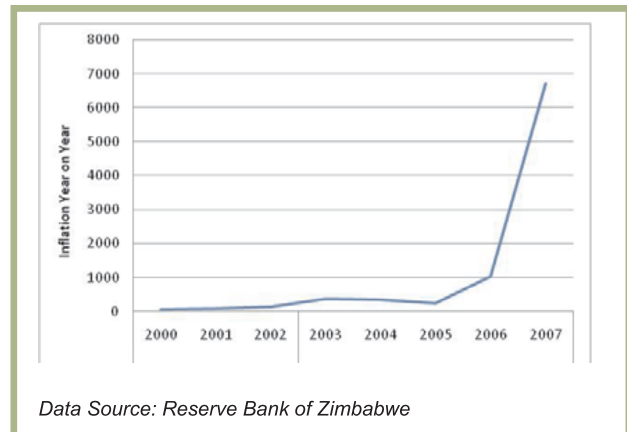
Economic Effects of Inflation

- Transfers wealth from lenders to borrowers as borrowers pay back loans when the value of the money has been eroded
- Those who earn fixed wages and pensioners suffer as their incomes are eroded.
- Frequent price changes cause confusion and
- uncertainty which in turn makes long term planning and investment difficult.
- People lose valuable time going to banks
- more often where they queue for the available money.
- Investment and savings decisions are affected by negative real interest rates.

1.4.3 Inflation in Zimbabwe

At the turn of the millennium, Zimbabwe's annual inflation was 55.9%. Given the economic crisis that occurred as the decade progressed, this figure rose to 365% in 2003, then jumped to 1 016.7% in 2006. Thereafter, it reached hyperinflationary levels such that in 2007 annual figures stood at 6 723% which then astronomically rose to 231 million percent by August 2008. These figures were only comparable to the historic German and Hungarian hyperinflations. These are shown in the graph below:

Zimbabwean Inflation (2000 – 2007)



Data Source: Reserve Bank of Zimbabwe

Source: www.tradingeconomics.com

1.5 Interest Rates, Savings and Investment

To attain economic growth, money to finance production and increase productive capacity is needed. These financial resources are scarce. Banks mobilise financial resources for the economy then channel them from those in excess to those in deficit and this attracts interest rates. Those with excess funds deposit their money in banks and receive interest commensurate with the amount and time over which deposits are held. On the other hand, those in need of funds borrow from banks and are charged interest in line with the amount and duration of the loan. The difference between interest on deposits and interest on loans is known as the interest rate spread.

In Zimbabwe, post dollarization, the interest rate spread has been very big with interest on loans being in the 15-20% per annum range whilst interest on deposits has generally been below 5% and bank charges are quite high. Such a scenario has tended to discourage depositors such that those with excess funds (potential savers) have no incentive to deposit their funds and this has led to shortage of funding (liquidity crisis). On the other hand, borrowers are also crying foul as the interest rates on loans are considered punitively high. In 2012, lending rates in Zimbabwe averaged 22% per annum compared to 5% per annum for South Africa.

The scenario mentioned above shows us that interest rates on deposits are very critical in an economy because they can either incentivise or disincentive people to save. When the level of savings increases, loanable funds for investment increase. This is good for the economy because those who want to invest have a huge pool of resources to borrow from.

Usually where financial resources are in abundance, interest rates on loans will be low and this increases investment spending. Given the high interest rates in Zimbabwe, investment has generally been low. This has been translated to low productive capacity which leads to low output and ultimately, low economic growth.

The impact of interest rates on economic growth is what makes them a variable of interest to policy makers, particularly monetary authorities. The monetary authorities try to ensure that there is a reasonable interest rate spread that incentivises both saving and borrowing to ensure availability of financial resources for investment purposes.

Determinants of Saving and Investment

Apart from interest rates, there are other determinants of both savings and investment. Expectations of future economic growth or confidence in the economy are very critical in determining the saving and investment decisions of economic agents. Where they are bleak, both will be very low. This was the case during the period on the economic crisis where expectations about the future were very bleak and many firms closed down or drastically reduced capacity.

Furthermore, the level of disposable incomes is very critical. If people are earning very little such that they spend all their income, nothing will be left for savings. In Zimbabwe, the greater population is earning way below the poverty datum line implying that they actually need to borrow to meet their needs. This has an adverse effect on the level of savings and thus investment.

1.6 Foreign Exchange Market (Forex)

From time immemorial people have exchanged goods and services, especially through barter trade. Over time, advances in transport and information and communication technologies (ICTs) have turned the world into a global village with exchange now taking place between countries at the international level.

The exchange of goods and services between countries is called international trade and it has two major components – imports and exports. When Zimbabwe sells domestically produced goods to another country, we say it is exporting. When domestic citizens buy goods from another country, they are importing. However, each country has its own local currency used for transactions. Therefore, for a Zimbabwean to

buy, say, South African goods, South African Rands are needed. On the other hand, if a foreigner wants to buy Zimbabwean products, they need Zimbabwean currency. Traders need to convert their local currency into the currency of the country whose goods they intend to buy. Where do they get this currency?

This is where the foreign exchange (forex) market comes in. The forex market is a platform where currencies of different countries are traded in order to facilitate international trade. Participants of this market include banks, commercial companies, central banks, investment management firms, hedge funds, and retail forex brokers and investors. There can also be parallel or black markets for forex, especially in a controlled environment. The foreign exchange market is not a single exchange, but is made up of a global network of computers that connects participants from all parts of the world.

Different currencies have different purchasing powers therefore to convert one currency into another; the value of that currency in terms of the desired currency has to be established. This is called the exchange rate, that is, the rate at which one currency is exchanged for another. The exchange rate acts as the price in the forex market. It can also be defined as the external value of a local currency. For example if the US$/ZAR exchange rate is 1:10, it means that to buy US$1, a South African needs to pay R10. The more the units of a foreign currency we can buy per unit of the local currency, the stronger is the local currency, vice versa.

Just like the interest rate, the exchange rate is very critical for the economic development as it determines the level of imports and exports in the economy. For example, if we need critical raw materials from South Africa and our exchange rate is US$1:ZAR10, we would be able to buy more as compared to if the exchange rate is US$1:ZAR8. This is because in the first scenario, our local currency will buy us more forex units (it is stronger) than in the second (it is weaker). However, for South Africans who want to buy Zimbabwean products, they will buy more if the exchange rate is US$1:ZAR8 (our currency weaker) than when it is US$1:ZAR10 (our currency stronger). Therefore a low external value of our country promotes exports while a strong external value of our currency promotes imports.

Currently in Zimbabwe we are using the US dollar as our main currency after dollarization hence our exchange rate is quoted in US dollars. If we were using the Zimbabwean dollar, then our exchange rate would be quoted accordingly.

Flexible vs Managed Exchange rate

Given the impact of the exchange rate on economic growth, it is in the interest of policy makers to ensure that the level of the exchange rate is in line with policy objectives.

Government can leave the exchange rate to be determined by the forces of supply and demand on the foreign exchange market. In such a case, the exchange rate is said to be free floating (flexible). Under such a regime, if the external value of the local currency falls, this is called depreciation (weaker). If it increases it is called appreciation (stronger).

If policy makers perceive that fluctuations in the free floating exchange rate are not good for its objectives, maybe because they are causing uncertainty, they may opt to manage it. In this case, it is referred to as a fixed exchange rate regime. When the policy makers decide to increase the external value of the currency, it is referred to as revaluation (stronger). Conversely, if they decide to decrease, it is called devaluation (weaker). All this will be done in line with the government policy objectives. Thus, an appreciation /revaluation favours imports while depreciation/devaluation favours exports.

1.7 The Structure of the Zimbabwean Financial System

Corporations involved in production require financing and an efficient payment system for the smooth running of operations. Firms depend

on financial markets for investment finance. As such, a sound financial system is needed as empirical studies have shown strong relationships between financial development and economic growth. The Zimbabwean financial system is made up of banking and non-banking financial institutions.

1.8 Banking Sector

In the Zimbabwean set-up, this sector is made up of banking institutions, asset management companies, and microfinance institutions (MFIs). The architecture of the banking sector as at 31 December 2012 is shown in the table below:

Table 5: Composition of the Financial Sector in Zimbabwe

Type of Institution	Number
Commercial Banks	16
Building Societies	3
Merchant Banks	2
Savings Banks	1
Total Banking Institutions	22
Asset Management Companies	16
Microfinance Institutions	150

Source: RBZ Monetary Policy Statement January 2013

In some cases, asset management companies and microfinance institutions are not regulated by the central bank as is the case in Zimbabwe. They would thus fall under non-banking financial institutions (NBFIs).

At the apex of the banking sector is the central bank, that is, the Reserve Bank of Zimbabwe which is responsible for the overall regulation of the banking sector.

Functions of the Central Bank

- financial system regulation – registration, supervision and surveillance of financial institutions;
- the regulation of the monetary system;
- the formulation and execution of monetary policy;
- issuing of notes and coins
- providing banking services to the government
- setting reserve requirements and holding reserves
- clearing of cheques (national payments system)
- custodian of the nation's gold reserves

1.9 Non-Banking Sector

These organisations do not have full banking licenses but facilitate bank-related financial services, such as investment, risk pooling, contractual savings, and market brokering. They provide "multiple alternatives to transform an economy's savings into capital investment". The major non-banking financial institutions (NBFIs) include the Zimbabwe Stock Exchange, stock brokers, and insurance companies and pensions funds.

1.9.1 The Zimbabwe Stock Exchange (ZSE)

This is a very important platform where firms which need to raise capital sell their shares to the public. Shareholders can then proceed to trade shares of different companies on the market making profit from the share price fluctuations. This is called speculation. The prices of shares are determined by the forces of supply and demand. Stock brokers participate on the stock exchange on behalf of economic agents who want to buy and sell shares.

The ZSE was established in 1896 and to date, 69 companies are listed on the local bourse. It supervises and monitors the trading process to ensure transparency in the market and to prevent manipulation of the market. The ZSE is in turn supervised by the Securities Exchange Commission of Zimbabwe (SECZ). The SECZ is a statutory body established in terms of the Securities Act. Members of the ZSE are licensed by the SECZ, which also determines the level of capitalisation required for practising members of the ZSE.

1.9.2 Insurance Companies and Pensions Funds

Insurance companies provide coverage, in the form of compensation resulting from loss, damages, injury, treatment or hardship in exchange for premium payments. They are also called 'risk pooling' institutions as they underwrite economic risks. Examples are Zimnat Lion, Nicoz Diamond, Royal Mutual, AON and Altfin. On the other hand, a pension fund is an institution which facilitates and organizes the investment of employees' retirement funds contributed by the employer and employees. Examples of pension funds companies in Zimbabwe include Old Mutual, Mining Industry Pension Fund, AON, Zimnat and Fidelity Life. In Zimbabwe, both institutions are regulated by the Insurance and Pensions Commission (IPEC). These institutions mobilise deposits from public and then invest them in different markets including the stock exchange, money and property markets on behalf of their members. This makes them a very important source of investment funds in the economy. A key player in the sector is the National Social Security Authority (NSSA), a public institution which collects from all formerly employed citizens direct from their salaries under the Pension and Other Benefits Scheme.

Module 2: The External Sector

2.1 Why do Nations Trade?

Countries are endowed with different resources as such; the goods and services produced differ from country to country. This scenario brings with it interdependency since the goods produced may not satisfy their own needs and wants. Ultimately, nations will need to engage in trade what they have in order to get what they do not produce.

International trade is based on the notion of specialization whereby individual nations produce specific goods and services in an efficient manner thus allowing them to produce more than they need. The resultant surplus is then traded with other nations and everyone benefits through imports and exports.

Reasons for International Trade

Different factor endowments– natural resource endowments differ. Trade enables economies to specialize and export then earn revenue to pay for imports of the goods they need

Increased welfare– specialization and trade allow countries higher consumption levels through access to more goods leading to increased welfare and higher living standards.

To gain economies of scale– specialization results in economies of scale (lower average costs) due to mass production. This benefits consumers through lower prices.

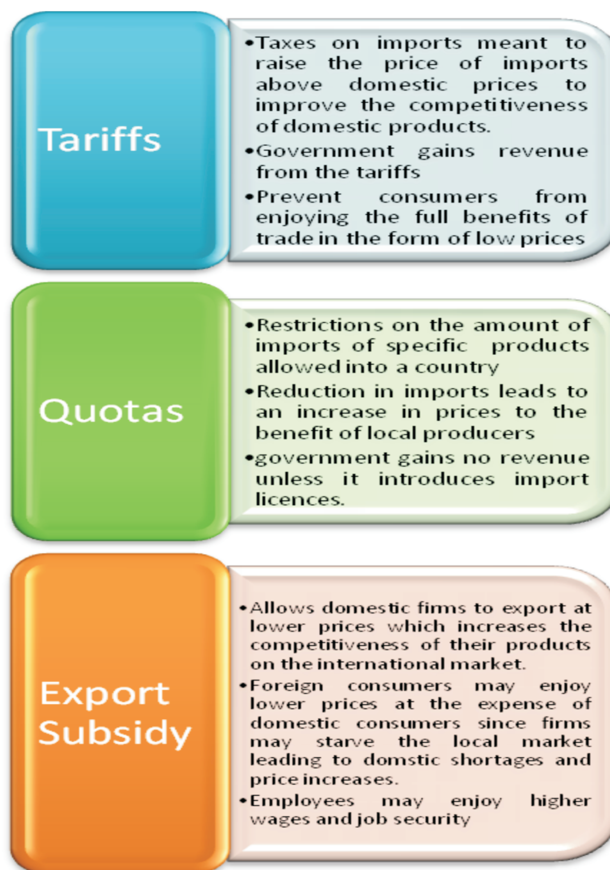
Diversity of choice – trade enables us to access goods and services that we may not be able to produce ourselves thus increasing choice and satisfaction.

Increased competition– forces domestic firms to innovate and improve their products thus benefiting customers.

Trade may be an 'engine for growth' – increased trade may help to spur greater domestic economic growth and drive further improvements in living standards e.g. Export-led growth in the Asian Tigers - Taiwan, Singapore, Japan and South Korea.

2.2 Protectionism

Despite the gains that may be derived from trade, threats to the domestic economy also exist in the form of dumping, stiff competition which threatens the survival of domestic firms. Such challenges are sometimes viewed by countries as the reason to employ protectionist policies which include tariffs, quotas and export subsidies.



2.3 Balance of Payments (BOP)

The international monetary transactions between a country and the rest of the world for a specific period are recorded in the balance of payments (BOP) accounts. These transactions include payments for the country's exports and imports of goods and services, financial capital, and financial transfers.

2.3.1 Composition of the BOP Accounts

The two principal components of BOP accounts are the current account and the capital account. The current account shows the net position of a country after summing up transactions that do not give rise to future claims which are:

- *Balance of trade - net earnings on exports minus payments for imports*
- *Factor income - earnings on foreign investments minus payments made to foreign investors*
- *Cash transfers*

Table 6: Zimbabwe Current Account (US$ m) 2008-2013

	2008 Actual	2009 Actual	2010 Actual	2011 Est.	2012 Proj.	2013 Proj.
Current Account	-775	-1600	-1844	-3066	-3125	-2928
Trade Balf.o.b	-969	-1600	-1844	-3066	-3125	-2928
Exports f.o.b	1660	1613	3317	4496	5090	5516
Imports f.o.b	2630	3213	5162	7562	8215	8445

Source: Reserve Bank of Zimbabwe

The table shows the current account balance position for Zimbabwe for the period 2008-2013. It can be seen that Zimbabwe has been running a persistent current account deficit.

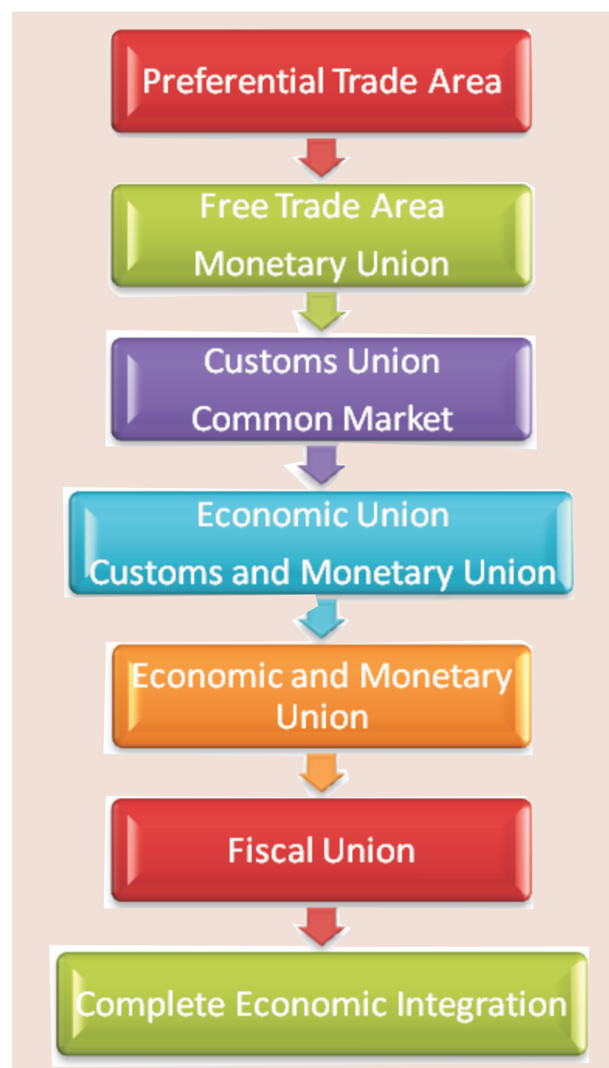
The capital account records the net change in ownership of foreign assets. It includes the reserve account (the foreign exchange market operations of a nation's central bank), along with loans and investments between the country and the rest of world.

2.4 Economic Integration

The increase in international trade has led to countries in the same geographical locations to call for economic integration. This is the unification of economic policies between different states through partial or full abolition of tariff and non-tariff restrictions on trade taking place among them prior to their integration. This is meant in turn to lead to lower prices with the goal of increasing the combined economic productivity of the member states.

Economic integration has led to the establishment of regional blocs such as the European Union (EU) in Europe, Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA) and the Economic Community of West African States (ECOWAS) in West Africa , to mention a few.

The degree of economic integration can be categorized into seven stages:



Types of Integration

Free trade area (FTA) - at least two states partially or fully abolish custom tariffs on their inner border

Customs union (CU) - introduces unified tariffs on the exterior borders of the union (common external tariffs).

Monetary union - introduces a shared currency.

Common market - adds to a FTA the free movement of services, capital and labor.

Economic union - combines a customs union with a common market.

Fiscal union - introduces a shared fiscal and budgetary policy.

In order to be successful the more advanced integration steps are typically accompanied by unification of economic policies (tax, social welfare benefits, etc.), reductions in the rest of the trade barriers, introduction of super-national bodies, and gradual moves towards the final stage, a "political union".

2.5 Foreign Aid and Economic Development

Foreign aid refers to foreign currency resources received by a country over and above the capacity to import generated by exports. It can be in the form of debt extended at concessional rates, the concessional elements being:

- Interest rates below prevailing international money market rates;
- Longer period for repayments; and
- Grants which do not entail the repayment of either the principal or interest, i.e., a free gift.

2.5.1 Types of Foreign Aid

Aid can be classified according to source:

2.5.1.1Bilateral Aid

Government to government aid depends on the political and economic relationships between the donor and recipient country.

2.5.1.2 Multilateral Aid

Extended by international financial institutions, agencies or organizations to a government aimed at raising the pace of development.

2.5.2 Forms of Foreign Aid

There are three major forms of aid namely financial, food and technical.

2.5.2.1 Financial Aid

This is the simplest form of capital inflow and is divided into various sub-forms as shown below:

Tied Aid
This is given to the recipient country on condition that the funds will be spent in the donor country. For example, the US gives Zimbabwe aid on condition that it will then import raw materials or machinery from the US. Can also be referred to as 'nation tied' or
Untied Aid
Funds are not tied to any project or nation such that recipient country has discretion in utilisation leading to efficiency in use.
Grants
Free gifts from foreign entities which do not entail repayment. It is usually given under emergency situation such as earthquakes, floods, wars, etc.
Loans
The borrowing of foreign exchange by the poor country from the rich country to finance short-term or long-term projects.

2.5.2.2 Food Aid

While world food production may be adequate to feed everyone, the distribution is uneven such that malnutrition and hunger can exist in the same country or region where food is abundant. As such, surplus nations extend food aid to deficit nations.

2.5.2.3 Technical Aid

Technical assistance and training facilities are provided by the donor country's government at its own expense. Selected people can be recruited by the donor country for work or students may be offered scholarships to study in the donor country.

2.5.2.4. Other Forms

Foreign direct investment can also be included in the category of foreign aid. There also is double tied aid or procurement tied aid which is tied both for projects as well as for resources

Module 3: Microeconomics

3.1 Introduction to Markets

The market can be defined as the totality of arrangements which facilitate the exchange of goods and services between buyers and sellers. These arrangements differ from industry to industry, product to product giving rise to different market structures.

3.2 Market Structures

A market structure refers to the interconnected characteristics of the market such as the number and relative strengths of buyers and sellers and the degree of collusion (cooperation) among them, the forms and levels of competition, extent of product differentiation, and ease of entry into and exit from the market. There are four basic market structures in most economies namely *perfect competition, monopoly, oligopoly and monopolistic competition.*

1. Perfect Competition

The market is made up of many individual buyers and sellers. None of them has enough market power to influence the market price or quantity. Everyone is a price taker, that is, you sell or buy as much as you can at the market price determined by forces of supply and demand. Firms in this market structure produce the socially optimal level of output at the minimum possible cost and charge a socially acceptable price. This kind of market structure is too removed from reality (an extreme case used for reference purposes) hence examples are difficult. General ones can be found in the agricultural industry where there are many farmers who usually have no influence on, say, the price of maize.

2. Monopoly

A monopoly is a firm which has no competitor in its industry – single firm industry. This causes it to have immense market power which it can abuse by producing below the social optimum level of output which then drives up prices because of shortages. The monopoly does not produce at least possible cost hence it is not efficient. Examples of monopolies include ZESA and NRZ.

3. Oligopoly

This is an industry made up of a few large firms. The firms can collude (cooperate secretly, often illegally) to reduce output and cause prices to go up or to fix prices to the disadvantage of consumers. However, because of strong incentives to cheat on collusive agreements, oligopoly firms often end up competing against each other through massive advertising, promotions and price wars. A good example is the mobile telecommunications industry in Zimbabwe made up of Net One, Telecel and Econet

4. Monopolistic Competition

In this market structure, there are many competing firms producing a similar but slightly different product (product differentiation). Each firm has a certain degree of market power and can use pricing and advertising to gain a bigger share. Though prices could be lower if firms produced an identical product, consumers benefit from variety. Examples in this category include restaurants, soap producers, retailers, etc.

3.3 Key Sectors of the Zimbabwean Economy

One of the key objectives of government is economic growth, that is, the increase in the total output produced in the economy.

The total output from different productive sectors was decreasing, resulting in shortages of goods and services in the country during the economic crisis period 2000 to 2008. However, with the introduction of the multi-currency regime, the country's fortunes turned and we started to register some positive growth since 2009. In fact, Zimbabwe became one of the fastest growing economies in Sub-Saharan Africa. The Zimbabwean economy is anchored on four key economic sectors namely agriculture, mining, manufacturing and tourism.

Table 7: Sectoral Growth Rates 2009-2012

Sector	2009 Actual	2010 Actual	2011 Actual	2012 Actual
Agriculture	21.0	34.8	5.1	4.6
Mining	33.3	60.1	25.1	10.1
Manufacturing	10.0	-4.0	15.0	2.3

3.3.1 Agriculture

Due to the strong forward and backward linkages that exist between the sector and manufacturing and commercial activities, agriculture is considered the backbone of the Zimbabwean economy. Prior to its demise agriculture supplied about 60% of the manufacturing sector's raw material and contributed about 40% of the country's export earnings, major contributions coming from tobacco, cotton and horticulture. Over 70% of the Zimbabwean population derives its livelihood from agriculture related activities. As such, the overall performance of the economy is strongly tied to the agricultural sector. Any negative or positive shocks in the agriculture sector have ripple effects throughout the economy.

The major crops grown include maize, wheat, small grains, oil seeds, tobacco, cotton, sugar, tea, coffee, fresh cut flowers and vegetables. Tobacco (mainly Virginia) accounts for the bulk of the country's exports, the other coming from cotton, sugar, tea, coffee and horticultural products. The country also rears and exports livestock products which include beef, poultry and game meat.

3.3.2 Mining

Zimbabwe is endowed with over 40 different minerals which include gold, diamonds, platinum and other Platinum Group Metals (PGM), silver, nickel, iron, chrome, coal, asbestos, lithium and graphite. Most of the minerals come from the Great Dyke. Asbestos, iron and limestone are some of the minerals which are locally value added and potential for beneficiation and exploitation of other minerals abounds. According to the Treasury Quaterly Bulletin, in the first quarter of 2013, the volume of output increased for most minerals except for gold. Platinum output for the first quarter of 2013 was 3,296.23 kgs compared to 2 725.7 kgs produced during the same period in 2012. The other major mineral exports are ferroalloys, nickel, and platinum group of metals, asbestos, coal, black granite and diamonds. This sector is key to employment creation and overall economic development of the nation. Since dollarization, this sector recorded some of the highest growth rates and is poised for further growth given firm international prices for some of the minerals. Furthermore, Zimbabwean diamonds are projected to dominate the world market in the coming years.

3.3.3 Manufacturing

Zimbabwe boasts a diversified manufacturing sector which produces a wide range of commodities ranging from food and beverages to chemicals, clothing and metal products of all kinds. The Zimbabwean manufacturing sector was developed under import substitution industrialization which started in 1965 under the Unilateral Declaration of Independence (UDI) era and carried forward until adoption of the Economic Structural Adjustment Programme (ESAP) in 1991. In 2002, before the economic decline that lasted until 2008, the sector employed about 15% of the total formal sector labour force and contributed 20% of total exports.

Manufacturing is closely linked to agriculture; having at one time supplied an estimated 55% of agricultural inputs whilst at the same time absorbing 75% of the total gross output of agricultural cash crops, livestock and livestock products in 1995. However, in the past decade, capacity utilization in this sector declined to levels around 10% with many companies closing down. With the introduction of dollarization in 2009, growth returned and capacity utilization has since increased to about 40% in some sectors.

3.3.4 Tourism

Zimbabwe is considered “Africa's Paradise” being home to one of the Seven Wonders of the World, the majestic “Victoria Falls”. Other tourist attractions include various national parks which have the 'Big Five' (elephant, lion, leopard, buffalo and rhinoceros); the Great Zimbabwe, the Matopos Hills, the Eastern Highlands and the largest man-made dam – Lake Kariba. This sector contributes greatly to foreign currency generation having generated US$ 193.7 million in 2004 alone. Zimbabwean tourism suffered greatly from bad publicity associated with the Fast Track Land Reform Programme, but through various initiatives by the government, it is now on the rebound and tourist arrivals are on the increase. The successful hosting of the World Tourism Organisation Summit by Zimbabwe and Zambia in August 2012 has gone a long way in strengthening the revival of this sector.

3.4 Role of the Private Sector

The private sector has a great role to play in the development of virtually all sectors of the economy. According to the World Bank, 90% of jobs in developing countries are found in the private sector indicating its significance in economic growth and development efforts.

The private sector does not only consist of formal and large businesses but also informal enterprises, family-run farms and self-employed people. The rise of the Zimbabwean informal sector as a key contributor to societal welfare has been phenomenal in the past decade. The Fast Track Land Reform Programme has seen the number of farmers increasing bringing with it the need to teach the farmers; farming-as-a-business (FAAB) principles so that they realise that they are an integral part of the private sector.

Access to finance and efforts towards the formalisation of the informal sector are key to the growth of this sector which will lead to overall economic growth and poverty reduction.

Initiatives to Promote the Contribution of the Private Sector to Economic Development

investment promotion, identifying the investment needs of a sector or company, and the design and implementation of strategic investment promotion programmes;

designing and building financial support facilities for both micro and macro enterprises;

advising governments on and implementing restructuring and privatization programmes;

developing institutional and policy frameworks for private sector development.

developing linkages and dialogue between the public and private sectors; and

making markets work for the poor by analysis of value chains, enterprise and consumer surveys and assessment of the potential for business development services and programme design;

improving women's access to markets; assessment of the potential for and implementation of business development services;

identifying and developing opportunities for income generation amongst the poorest of the poor.

3.5 Microeconomic Policy and Structural Change

At the beginning focus was on economic aggregates, their importance in determining the level of economic activity, and how they can be influenced to achieve desired objectives - macroeconomics. However, government intervention at individual market/sector (grassroots) level allows the policy makers to fine tune the internal workings of the economy – microeconomic policy. Attention will be on consumers and producers in various sectors. This approach is also key to the promotion of private sector growth and contribution to overall economic growth.

Issues such as domestic and international competition faced by the private sector, performance of government businesses, among others can be looked at and appropriate policy responses that ensure efficient market outcomes are crafted. Such policies can come in the form of reforms such as reduction or removal of trade and competition restrictions in international and domestic markets and reallocation of resources to reflect market forces. These can change the structure of the economy in terms of long term patterns of production and output. Such reforms can result in reduced inflationary expectations, increased productivity and employment opportunities.

In essence, microeconomic policy is broadly based on supply-side economics, where the focus is on the allocation and efficient use of the factors of production, especially labour and capital to increase national output. Such efficiency can come from enterprise bargaining that reduces labour costs (productive efficiency), channelling resources to firms which uses them most efficiently (allocative efficiency) e.g. through reduction of tariffs; deregulation which allows firms to quickly adapt to changes in consumer tastes and technology to maintain competitiveness (dynamic efficiency) through reduced costs and access to new technologies.
Examples of microeconomic policy include protectionism, tax reforms, structural adjustment programmes, competition policy, and industry reform policies.

Protectionism (Tariff Reforms)

This is the policy of protecting domestic industries against foreign competition by means of tariffs, subsidies, import quotas, or other restrictions or handicaps placed on the imports. They raise the price of imported articles, making them more expensive (and therefore less attractive) than domestic products.

Although protectionism can be effective in the short run, in the long run it can be counterproductive as it can make the industries less efficient and therefore less competitive on the global market. In this regard, some tariff reforms aimed at reducing these restrictions and expose the industry to international competition in order to foster innovation may be necessary in the medium to long term.

Tax Reforms

These can be implemented with the aim of generating higher levels of productivity, saving and investment in an economy. Corporate taxes can be reduced, inefficient indirect taxes can be removed, low rates for imports of raw materials and capital equipment and exports can be exempt from taxes. In Zimbabwe, sales tax was removed and replaced by VAT as part of tax reforms.

Structural Adjustment

The term structural adjustment refers to the long-term changes in the nature and pattern of production in the economy. They can be market induced or government induced. For example, Zimbabwe introduced the Economic Structural Adjustment Programme (ESAP) in 1990 with the main objective of increasing incomes and reducing unemployment by restoring macro-economic stability through reduced government expenditure, trade liberalization and deregulation. It was generally targeted at reducing the role of government in production activities and opening the field to the private sector.

The financial sector was deregulated which saw the increase of the number of banks especially indigenous ones. Some state enterprises were commercialized (Cold Storage Commission to Cold Storage Company; Agricultural Finance Corporation to Agribank) and others were privatised (Cotton Marketing Board to Cotton Company of Zimbabwe; Dairy Marketing board to Dairibord Zimbabwe Limited) all in an effort to improve efficiency with various degrees of success.

Objectives of the Competition and Tariff Commission (CTC)

The promotion and maintenance of the competition and fair trade in the economy of Zimbabwe;

The prevention and control of monopoly situations;

The prohibition of restrictive and unfair business and trade practices;

The facilitation of the competitiveness of local industry through the provision of tariff relief;

The investigation of unfair trade practices hindering the growth of domestic industry.

The promotion of the growth of efficient export oriented and internationally competitive industries within framework of the economic policy of the country

Industry Reform Policies

To ensure long-run economic growth, investment capital and research & development in highly productive areas may be critical. Government may take the initiative through coming up with policies that serve as a blue print to show the private sector which way to go. Examples are agricultural policy framework, industrial and trade policy or mining policy.

These sector specific policies are critical for stimulating investment and expansion in high potential sectors. Government can also assist through agencies which may offer long term financing or other incentives to lure private investment in these targeted growth sectors.

Module 4: Public Sector

4.1 Role of Government

The preceding discussions seem to point to government as the stewards of the economy. Economic agents look up to the government as holding the key to desired economic outcomes that improve their wellbeing. But what is government?

Government is a small group of persons holding simultaneously the principal political executive offices of a nation or other political unit and being responsible for the direction and supervision of public affairs (Merriam-Webster Dictionary).

The government has three major functions: allocation of resources, redistribution of income and stabilization whenever the market fails and the economy is plagued by instability, unemployment and inflation (Musgrave, 1959). All this is done in a bid to increase or maximize the welfare of the society.

Some roles of government are synonymous with justifications for government intervention in the market and are as follows:

Information Provision and Dissemination
This can be done through education and extension; public supported media and information delivery; price assembly and distribution by government; product labeling requirement, etc
Combating Externalities
Externalities exist when the activities of some agents positively or negatively affect others. Negative externalities harm (e.g. pollution, noise) whilst positive externalities are beneficial (e.g. immunization, research, environmental clean-up).
Provision of Public Goods
Public goods are beneficial or essential goods and services .

which are normally provided by the government (public sector) because the market (private sector) has no incentive to provide them because people can consume them without paying (non-excludable) and one person's use of the good does not diminish another's use or does not reduce the availability of a good to everyone else (non-rival in consumption). Examples include national defence services (army), law enforcement (police and courts), airwaves, public broadcasting services (ZBC), fire services, public water supplies, street lighting, social and environmental amenities, etc.

Controlling Non-competitive Behaviour

There are many forms of non-competitive behaviour which result in the loss of social welfare. Examples include monopolies, actions of middlemen, price fixing etc. These can be controlled by policies such as anti-trust legislation and regulation of monopolies by the Competition and Tariffs Commission, Zimbabwe Energy Regulatory Authority and the Postal and Telecommunications Regulatory Authority of Zimbabwe, etc.

Distribution of Income

The market distribution of income may result in some income disparities which may lead to social unrest. Governments change the distribution of income through government transfer policies such as income taxes and inheritance taxes, social security, health care, subsidies etc.

4.2 Size of Government

In many economies, debates about the size of government always arise. This is mainly because this element is closely linked to the performance of the government. It is sometimes felt that the smaller the government, the better it delivers. But, how do you measure the size of government?

The total number of employees in various arms of government can be used as an indicator of size. Issues about the size of the civil service in Zimbabwe or the number of ministries (cabinet size) are in line with this way of viewing government size. However, since labour can be replaced by capital in the long term, using the number of employees can be misleading.

Alternatively, it can be measured by the amount of receipts (tax and other revenues) or expenditures (outlays) as a percentage of Gross Domestic Product (GDP).Since governments seek to maintain a fixed level of expenditures, this makes them more stable than revenues, and hence a better measure of size as they represent actual outlays. In the presence of deficits, revenues would understate the size of the government. However this approach may omit receipts and expenditures of local authorities and state run corporations. As a result, the government may appear to be smaller than it is in reality.

4.3 Levels of Government

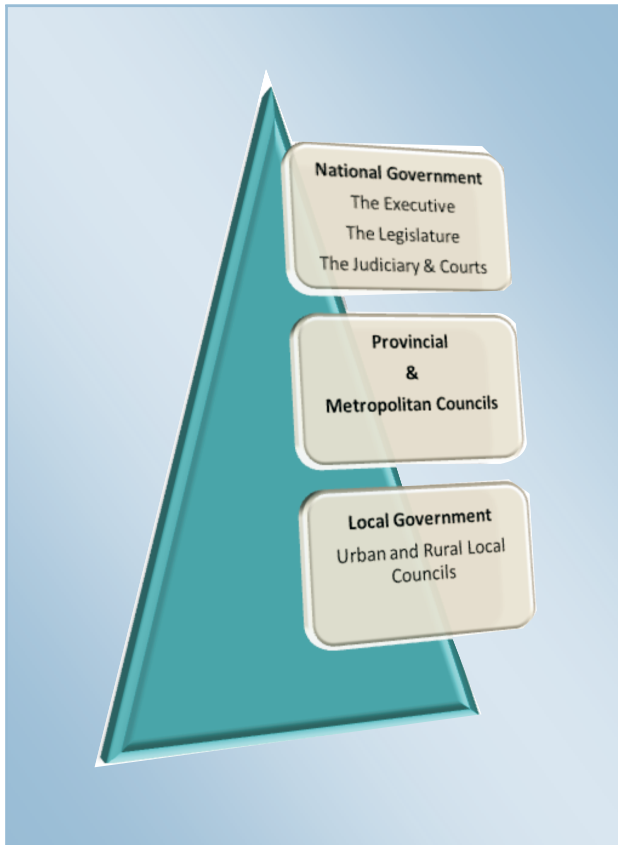
Government is expected to deliver on its mandate from the national level down to the local level. As such there are different levels of government meant to cater for the needs of the citizenry at all levels. This hierarchy also serves as a reporting channel. The levels of Government in Zimbabwe are shown below:

4.3.1 The National Government

The national government, otherwise referred to as the central government has three arms:

4.3.1.1 The Executive

Executive authority derives from the people and is vested in the President who exercises it through the cabinet. The cabinet consists of the president; vice presidents and ministers appointed by the president. The executive mainly deals with the formulation, implementation and evaluation of government policy.



4.3.1.2 The Legislature

The legislature consists of the Parliament and the President. Parliament is made up of the Senate and National Assembly. The legislature has the power to amend the constitution, make laws, oversee the functions of the executive and confer subordinate legislative powers upon other bodies.

4.3.1.3 The Judiciary and the Courts

The judiciary consists of the justices and judges of the constitutional, supreme, high, labour, and administrative and magistrate courts and is headed by the Chief Justice.

4.4 Provincial and Metropolitan Councils

Zimbabwe is divided into 8 provinces and 2 metropolitan provinces (Harare and Bulawayo). The provinces are headed by provincial councils, while the metropolitan provinces are headed by metropolitan councils chaired by the mayors. These councils are responsible for the social and economic development of their provinces.

4.5 Local Government

Local government consists of urban and rural local authorities established to represent and manage the affairs of urban and rural people. They are run by councils composed of councillors elected by registered voters.

The provinces are divided into 59 administrative districts which are further divided into 1200 wards. These districts have both rural and urban wards. The district councils are run by district administrators.

4.6 Public Enterprises and their Role in the Economy.

As mentioned earlier, some of the roles of government pertain to information and public goods provision, regulation and distribution issues. These roles can be undertaken through the use of state enterprises and parastatals (SEPs). These are government owned companies that provide essential public goods and services to the general public which would otherwise not be provided by the private sector at affordable prices. While most of the goods may be offered on a cost recovery basis, it is a requirement that these SEPs be commercially viable so that they can also generate revenue for the government depending on their nature. The goods and services provided by these SEPs include energy and power, water, research, transport and telecommunication, education, health tourism and financial services.

Currently, Zimbabwe has more than 60 SEPs which operate under different ministries. According to the Ministry of State Enterprises and Parastatals, SEPs have the capacity to contribute about 40% of the country's GDP. However, most of them have been facing a lot of operational challenges that have led to underperformance and reliance on the fiscus. Some initiatives to restore viability such as looking for strategic partners (Zisco Steel, Air Zimbabwe), commercialization, unbundling (National Railways of Zimbabwe) and privatisation are still under consideration. Some privatization success stories include Dairibord Zimbabwe Limited (formerly Dairy Marketing Board) and Cotton Company of Zimbabwe (formerly Cotton Marketing Board).

Module 5: Financing Government Expenditure

5.1 Government Expenditure

The responsibilities of government require that it has resources to deliver. As such it should find ways of mobilizing resources and then come up with the best way of allocating the available resources in way that maximizes the welfare of society. So how does government do this?

5.2 Government Revenues

Government needs to mobilise resources to finance its different operations including payment of civil service salaries, procurement of various goods and services and provision of social services.

5.3 Revenue Collection in Zimbabwe

The Zimbabwe Revenue Authority (ZIMRA) is mandated with the duty of revenue collection for the government. It was established in 2001 as successor to the Department of Customs and Excise in terms of the Revenue Authority Act (Chapter 23:11).

The responsibilities of ZIMRA include:

a) Assessing, levying and collecting revenue from various taxes that include income tax, capital gains, duty tax, resident shareholders tax, Value Added Tax and stamp duty, among others;

b) Issuing and controlling tax revenue certificates;

c) Administration of regulations pertaining to import and export control; and

d) Licensing and controlling premises used for the manufacture of goods under rebate.

5.4 Major Revenue Sources

5.4.1 Income Taxes

Income tax is made up of two components - individual and corporate taxes. It is levied under the Income Tax Act.

5.4.1.1. Individual Tax

This is tax on employment income, popularly known as Pay As You Earn (PAYE). It is charged on an individual's net income after items such as pension contributions, medical aid, etc. PAYE is charged at a basic rate and is progressive, that is, higher income earners fall under higher tax brackets. Before the introduction of value added tax in 2001, individual income tax was the highest contributor to government revenue accounting for 27% between 1990 and 1995 and 32% from 1996 to 2000. The tax bands according to the 2012 National Budget Statement are as follows:

Table 8: Tax Bands (2012 National Budget Statement)

Tax Band (US$)	Tax Rate (%)
0 to 250	0 (Tax free threshold)
251-1 000	20
1 001-2 000	25
2 001-5 000	30
5 001-7 500	35
7 501-10 000	40
Above 10 000	45

5.4.1.2 Corporate Tax

This is tax levied on companies. The corporate tax rate averaged 50% between 1980 to 2000 minimum being 40% and maximum 65%. However, between 2001 and 2012 it averaged 38%, the maximum being 52% (2001) and minimum being 25% (2012), having shown a declining trend over the period. The contribution of corporate tax to total revenues has experienced a decline over the years due to the economic crises which have seen many companies closing shop and capacity utilisation falling drastically. For example, contribution levels fell from 16% (1990-5), to 13% (1996 – 2000) and 11% (2010 and 2011), but improved to 14% in 2012 in line with economic stability and improved capacity utilisation witnessed under dollarization.

5.4.1.3 Customs Duty

These are taxes levied on imported goods and are also known as import tariffs. They are governed by the Customs and Excise Act (Chapter 23:02), assessment being on the basis of aspects such as weight of goods, year of production, engine capacity and nature of goods, that is, whether they are basic or luxury goods; final products or raw materials; and for commercial or private use. Like in many developing countries, customs duty is a major source of government revenue and is very consistent even in the time of economic crises as imports usually remain high due to low domestic activity. Its contribution to total tax revenue in the last few years was 16% (2010), 12% (2011), 11% for 2012 and the first half of 2013 showed a declining trend.

The major leakages under customs duty include smuggling of goods, under-invoicing, under-declaration, under-valuation, under-manning of border posts and lack of appropriate technology, for instance detecting machines.

5.4.1.4 Value Added Tax

This is an indirect tax levied on the supply of taxable goods and services by registered operators. It was adopted in Zimbabwe in the year 2004 as successor to sales tax. It is solely enforced by ZIMRA in line with the VAT Act. The current rate is 15% and since its introduction, it has been the major contributor to total tax revenue, averaging 37% between 2010 and 2012. The performance of this revenue head is strongly linked to compliance levels and capacity utilisation in industry and the importation of goods that attract VAT.

5.4.1.5 Excise Duty

Excise duty is mainly levied on goods which have consistent demand due to being highly necessary (fuel) or highly addictive (beer and tobacco). Therefore a price rise due to a tax will not result in a very significant decline in demand. The responsiveness of demand to price changes is very low; hence they have price inelastic demand. In Zimbabwe, excise duty is levied on products such as fuel, beer, tobacco, wines, spirits and second hand vehicles. The contributors under this revenue head are fuel and beer; averaging 67% and 22% respectively between 2011 and the first half of 2013. Its contribution to total tax revenue averaged 11% between 2010 and the first half of 2013. The performance of this revenue head is tied to fuel demand, capacity utilisation of companies producing excisable products, incomes of demanders of the products and audits by ZIMRA.

5.4.1.6 Mining Royalties

This is another source of revenue which was previously bundled under Other Taxes but is now being considered as a separate revenue head since 2012. Mining royalties contributed an average of 5% to total tax revenues between 2012 and the first half of 2013. The performance of this category is linked to international mineral prices and compliance. Contribution to total tax revenue was 5% in 2012 and had increased to 7% by the first half of 2013.

5.4.1.7 Other Taxes

The composition of this revenue head includes tax on domestic dividends and interest, capital gains tax, tobacco levy, other indirect taxes, non-tax revenue and carbon tax. This is another source of revenue which was previously bundled under Other Taxes but is now available.

5.4.1.8 Toll Gate Fees

These were introduced in 2009. Toll fees are collected by the Zimbabwe National Roads Administration (ZINARA). Construction of toll gates is still underway, with most toll gates operating manually and under temporary structures, only a few have fully automated, hence giving rise to revenue leakages. Given tighter tolling systems, audits, and adoption of up to date technology, toll gate fees present a very important source of revenue for government.

5.4.1.9 Income from State Enterprises and Parastatals (SEPs)

Another source of revenue is state enterprises in the form of dividends to government and also proceeds from disposal of such. Dividends from SEPs have been almost non-existent due to poor performance. Instead, these parastatals have actually been depending on the fiscus to

sustain operations. SEPs such as Air Zimbabwe, National Railways Zisco Steel and Storage Company, have been struggling. However, there are some exceptions, for example the Mining Development Corporation which has declared some dividend over the years on the back of developments in the diamond subsector. Nevertheless, it is still felt that it could be better. In the past, the government got some revenues from the sale of its shares in privatised entities such as Dairy Marketing Board (Dairibord) and Cotton Marketing Board (Cotton Company of Zimbabwe) which are part of the success stories of privatisation.

5.5 Government Domestic Debt

When government expenditure, that is, purchases of goods and services are greater than government tax revenues, the government runs a budget deficit. This deficit can be financed from two sources; borrowing from the domestic financial market or from abroad (foreign governments and multi-lateral institutions – IMF, World Bank etc).

When government borrows from the local financial markets, it incurs domestic debt. It usually borrows using instruments such as government bonds and bills. These are interest bearing assets which are sold on the local financial market by the central bank on behalf of the government. In some cases, government owned pension funds and parastatals may be forced to buy these bonds. If they are no takers for the bonds, the central bank can print money and buy the bonds, a process which is called mon

5.6 National Debt Management

5.6.1 Introduction to Debt Crisis

Sometimes a country's expenditures may exceed its revenues leading it to finance the deficit through borrowing internally or from abroad. This is not much of a problem – all governments borrow. However, the challenge arises when a country borrows beyond its capacity to repay. This results in a debt crisis. Both parties are negatively affected as the borrower struggles to meet obligations while the lender (creditor) is highly uncertain whether the debt will ever be repaid. The sovereign debt problem in Europe has threatened the existence of the Eurozone, while in Zimbabwe, the national debt as at 2012 stood at about US$10 billion[1]. Comparing this figure with the GDP will indicate that the debt is now unsustainable. The debt has become huge because of the penalties that are imposed for non-payment.

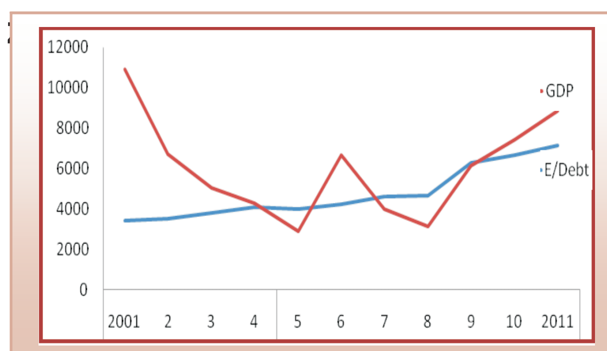
Debt sustainability does not only depend on its size but on some of the following:

- Determining whether a country's debt is sustainable or not is a function of how the current debt levels relates to a number of
- economic variables including:
- The size of the economy in terms of GDP;
- The annual budget revenues of a country; and
- Level of exports

- The table below summarises the key external debt sustainability indicators and thresholds used to determine the extent of debt sustainability of individual countries

External Debt Sustainability Indicators and Thresholds

	Debt /GDP	Debt/ Exports	Debt Service/ Exports	Debt/ Budget Revenue	Debt Service/ Budget Revenues
High	50		25	300	35
Medium	40	150	20	250	30
Low	30	100	15	200	25



1. Government is in the process of reconciling of validating the country's debt data with auditors

5.6.2 Resolving the Debt Problem

Debt can be detrimental to poor countries' capacity to achieve growth, leading to a rapid decline on the living standards of the already impoverished populations. The following are some of the possible ways out of this 'circle of despair' or rather the 'debt cycle'.

i. Applying for the Highly Indebted Poor Country (HIPC) Initiative, which will lead to debt relief.

i. Debt restructuring which involves converting short term debt into long-term debt by rescheduling the terms of payment.

ii. Exploiting local resources such as minerals to service the debt.

Module 6: Government Planning and Policy Formulation

6.0 Government policy

Government policy is critical for giving direction to both domestic and foreign investors. As such, central government should have economic blue prints which outline its priority areas and the deliberate actions and the role that various players will play in order to achieve set objectives within a specified time frame.

6.1 The Zimbabwe Agenda for Sustainable socio-Economic Transformation (Zim-ASSET)

The Zimbabwe Agenda for Sustainable socio-Economic Transformation (Zim-ASSET) (October 2013 – December 2018), is the main economic policy framework for the next 5 years. Zim-ASSET was crafted to achieve sustainable development and social equity anchored on indigenization, empowerment and employment creation which will be largely propelled by the judicious exploitation of the country's abundant human and natural resources. The Zim-ASSET, whose central theme is “Towards an Empowered Society and a Growing Economy is a results based agenda, built around four strategic clusters:

- Food Security and Nutrition;
- Social Services and Poverty Eradication;
- Infrastructure and Utilities; and
- Value Addition and Beneficiation

During the plan period, the economy is projected to grow by an average of 7.3%. It is expected to grow by 3.4% in 2013 and 6.2% in 2014 and continue on an upward growth trajectory to 9.9% by 2018

Key Assumptions of Zim-ASSET

- Improved liquidity and access to credit by key sectors of the economy such as agriculture;
- Establishment of a Sovereign Wealth Fund;
- Improved revenue collection from key sectors of the economy such as mining;
- Increased investment in key infrastructure, through acceleration in the implementation of PPPs and other private sector driven initiatives;
- Increased Foreign Direct Investment (FDI);
- Establishment of Special Economic Zones;
- Continued use of the multi-currency system;
- Effective implementation of Value Addition
- policies and strategies; and
- Improved electricity and water supply.

Key Drivers of Growth under Zim-ASSET.

The key drivers for growth and employment creation will be accelerated development through value addition processes in the:

- Mining sector;
- Agriculture sector;
- Infrastructural sectors primarily focusing on power generation;
- Transport Sector
- ICT & Tourism sector;
- Enhanced support for the SMEs and Co-operatives sector; and
- Peace, Security and Defence

Zim-ASSET forms a compendium of sound economic policies and national projects that can be implemented to ensure sustainable growth and development of the economy, and lists programmes and projects to be undertaken during the planning period 2011 - 2015. It is worth noting that the introduction of STERP, STERP II, the MTP and now Zim-ASSET, have played a critical role in the return of macro-economic stability and has placed the economy on a recovery path.

6.2 Government Work Programme (GWP)

This programme was launched in February 2012. The objectives of the GWP were derived from the five key government priorities of:

- Promoting economic growth and ensuring food security;
- Guaranteeing basic services;
- Strengthening and ensuring the rule of law and respect for property rights,
- Advancing and safeguarding basic freedoms through legislative reform; and
- The constitutional process and re-establishing international relations.

6.3 Millennium Development Goals

In addition to these, efforts have been and continue to be made to achieve the Millennium Development Goals (MDGs) by the year 2015. Progress is continually assessed to see the milestones achieved since their establishment following the United Nations Millennium Summit in 2000.

Millennium Development Goals (MDGs)
The eight MDGs are as follows:

1. Eradicate Extreme Poverty and Hunger
2. Achieve Universal Primary Education
3. Promote Gender Equality
4. Reduce Child Mortality
5. Improve Maternal Health
6. Combat HIV/AIDS, Malaria, and Other Diseases
7. Ensure Environmental Sustainability and
8. Develop a Global Partnership for Development

6.4 Legal Framework

As outlined in the country's Constitution, Chapter 17, Government has the responsibility of mobilizing revenues (resources) and then allocating them as efficiently as possible to achieve set objectives. All this needs to be done within the confines of the Chapter 17, sections 298 – 317 of the new Constitution and other related Acts of Parliament, which clearly spells out the roles and responsibilities of different arms of government since we are dealing with public funds. One such legal framework is the Public Finance and Management Act where the legislature has a critical role.

6.5 Public Finance and Management (PFM) Act, Chapter 22:19

The objective of the PFM Act is to secure transparency, accountability and sound management of the revenues, expenditure, assets and liabilities by:

- Ministries
- Designated corporate bodies and public enterprises
- Constitutional bodies and
- Statutory fund

6.5.1 Role of Treasury

Treasury to manage and control public resources by:

- Managing the Consolidated Revenue Fund
- Determining the manner in which public resources shall be accounted for and
- Exercising a general direction and control over public revenues

6.5.2 Duties of the Minister

It shall be the duty of the Minister to:

i. Develop and implement a macroeconomic and fiscal policy for Zimbabwe
ii. Advise the Government on the allocation of public resources as between Ministries, reporting units, public entities, constitutional entities and any other programs of Government.

For the purpose of the full discharge of his duties the Minister shall ensure that:

- Full and transparent accounts are from time to time and not less than annually made to Parliament indicating the current and projected state of the economy the public resources of Zimbabwe and the fiscal policy of the Government;

- Systems are established throughout Government for planning, allocating and budgeting for the use of public resources and approving all requests for the issue of public moneys prior to their inclusion in any estimates of expenditure for submission to Parliament in accordance with the Act; and

- Control of the National Assembly over such public resources is maintained and the transparent systems are established and maintained which;

  - Provide full account to the National Assembly for the use of public resources
  - Ensure the exercise of regularity and property in the handling and expenditure of public resources;

- Every Minister shall lay before the National Assembly:

  - The annual report and financial statement and the audited report on those statements, within one month after the accounting officer for the public entity or constitutional body for which the Minister is responsible, receives the report

  - The finding of a disciplinary authority and any sanctions imposed by such authority which presided over a case of financial

indiscipline/misconduct against an accounting officer or accounting authority

- If a Minister fails to lay before the National Assembly the report and financial statements of the public entity or constitutional body and the audit report on those statements within six months after the end of the financial year to which those statements relate:

  - The Speaker of the National Assembly shall require the Minister concerned to give a written explanation to the National Assembly setting out the reasons why they were not laid before and
  - The Comptroller and Auditor General may issue a special report on the delay.

6.6 National Budget

The Constitution of Zimbabwe, Chapter 17, section 305, stipulates that the Minister responsible for Finance, shall lay before the National Assembly the annual budget for the forthcoming financial year, not earlier than thirty days before or not later than thirty days after the start of the forthcoming financial year, stating:

i. Estimates of the revenues, expenditure and financing requirements for the Government of Zimbabwe for that year;

ii. For each vote of expenditure, a statement of the classes of outputs expected to be provided from that vote during the year and the performance criteria to be met in providing those outputs.

6.6.1 What is the National Budget?

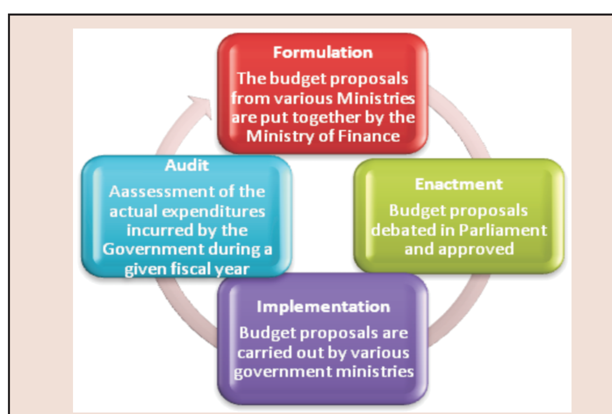
The national budget is a government plan for acquiring financial resources and deploying them for purposes of achieving policy objectives. It details how the government intends to mobilize financial resources (revenue) and how they shall be utilized (expenditure). The national budget is presented to Parliament for adoption by the legislature.

It is an important instrument in national development which spells out Government's policy priorities, planning and implementation processes for the delivery of goods and services in the following fiscal year. The Zimbabwean fiscal/financial year runs from the 1st of January to the 31st of December. In the event that the budgeted expenditures in the fiscal year are not met due to unforeseen circumstances, the Government then presents a supplementary budget to Parliament. In Zimbabwe this is provided for in terms of Section 105(5) of the Constitution of Zimbabwe.

The national budget is critical to the promotion of macroeconomic stabilization, sustainable economic growth and development as it sets the tone for economic activity.

6.6.2 The Budget Cycle

The budget cycle traces all the events and stages in formulating the National Budget, together with the execution, monitoring and auditing of the same. Though the cycle may differ across economies, in general the predominant activities are formulation, legislative, enactment, implementation and audit.



1. Formulation
Process begins in March when Treasury issues a Call Circular inviting all Ministries to submit bids (draft budgets) for the forthcoming fiscal/financial year. Ministry budget committees consult relevant stakeholders from April to May, then prepare and submit the bids. Proposals from all ministries are combined to form the National Budget.
2. Enactment
The National Budget is then tabled before Parliament by the Minister of Finance towards the end of the year. At this stage the Legislature asks the Executive to justify the policies and spending thresholds accommodated in the Budget to see whether they contribute to societal wellbeing. After debating the budget, the MPs then vote and pass the Appropriation and Finance Bill (Act).

3. Implementation

After the passage of the Finance and Appropriation Bills, Government can then proceed to collect revenue and spend it on approved programmes for the fiscal year. In the Zimbabwean case, revenue is collected by the Zimbabwe Revenue Authority (ZIMRA).

4. Auditing

This stage deals with accountability issues; determining how appropriated funds were utilized by government departments. The Comptroller and Auditor General is the responsible authority and discharge its surveillance role through the Public Accounts Committee. Since they deal with incurred expenditure, the process has no influence on current programmes but rather guides future programmes in subsequent fiscal years. Nevertheless, it allows the Legislature to hold the Executive to account.

6.6.3 The Consolidated Revenue Fund

This is the account for total receipts of Government. Inflows are tapped from all revenues collected in a given financial year, both tax revenues and non-tax revenues. The CRF is therefore responsible for Government financing.

6.6.4 Estimates of Expenditure

Estimates of Expenditure are tabled by the Minister of Finance in the National Assembly on the day he presents the National Budget. It contains all budgeted expenditures by government ministries that are targeted for a given fiscal year. These are contained in the Blue Book. It is these estimates that form the basis for the Appropriations Bill.

6.6.5 Government Services

i. General Services

These cover the administrative expenses of the Government. They are incurred to sustain the day to day functioning of the public sector including the Public Service Commission, defence, interest payments and rentals.

ii. Social services

These are activities of the Government that are undertaken for the purpose of providing social welfare such as education and health care.

iii. Economic Activities

These are activities undertaken with the motive to create income, employment or enhancing the economy's capacity to grow. They cover infrastructure investments such as rail and road networks, energy, transport and communication.

6.7. Types of Budgeting

6.7.1 Cash Budgeting

Cash budgeting is based on the assumption that the Government should spend what has been raised through taxes and other revenues. The Government should equate revenues to its expenditures so that this results in a balanced budget. Such type of a budgeting does not create budget deficits or surpluses. This is the kind of budgeting which was being used post dollarization as the country faced liquidity challenges.

6.7.2 Gender Budgeting

Gender mainstreaming is one of the most topical issues nowadays; as such it has also found its way into the budgeting process. It can be defined as culturally and socially constructed roles, responsibilities, privileges, relations and expectations of women and men, boys and girls which can change over time. It is usually confused with sex; which is the biological make-up of male and female. The government needs to consider both gender and sex in the budget process, adequately taking into account the different biological needs of women and men and type of roles and responsibilities it wants to assign to women and men, boys and girls in economic development. It then should design, fund and implement policies and programs to move towards this goal.

Given the historical suppression of women, who comprise 52% of the Zimbabwean population, gender issues have mainly focused on them to the extent that gender has been considered to be synonymous with women rights. Is this justified?

Why does gender budgeting tend to focus on women?

- Nearly two thirds of the illiterate people in the world are women.
- In developing countries, maternal mortality continues to be a leading cause of death for women of reproductive age.
- Women are under-represented in decision-making in both government and business sectors, especially at senior levels.
- Women's economic work continues to be different in nature from men's. Women are engaged in less formal, lower status types of work and continue to receive less remuneration than men and
- Women continue to do most of the unpaid work of bearing, rearing and caring for children and other citizens.

6.7.3 Pro-Poor Budgeting

This type of budgeting requires that Government policies and expenditures should chiefly cater for the poor and vulnerable groups in society. These policies should lead to an increase in the income levels of the poor at a faster rate than the average rate of growth in income as a whole leading to a reduction in poverty levels. The question is, “Who are the poor and what policies should Government adopt to mitigate poverty?”

Characteristics of a Pro-Poor Budget

A policy is pro-poor when;

- It is labour intensive rather than capital intensive
- Target the sectors where the poor are employed such as agriculture,
- It creates income and employment for the poor and disadvantaged, especially the youths, women and the elderly
- Serves to reduce inequality
- Targeted at individual disadvantaged and poor groups

6.8 The Audit Office

1. The public accounts of Zimbabwe and of all accounting officers, receivers of revenue and other persons entrusted with public moneys or property of the State shall at least once in every financial year be examined, audited and reported on by the Comptroller and Auditor-General on behalf of the National Assembly.

2. It shall be the duty of the Comptroller and Auditor-General to satisfy himself/herself that:

a. All moneys that have been appropriated by Parliament and disbursed have been applied to the purposes for which they were so appropriated and that the expenditure conforms to the authority that governs it; and

b. All reasonable precautions have been taken to safeguard the collection of all fees, taxes and other revenues of the State and to safeguard and control property of the State.

3. The Comptroller and Auditor-General shall submit every report made by him/her in

accordance with subsection (1) to the Minister for the time being responsible for finance who shall, on one of the seven days on which Parliament sits next after he/she has received the report, lay it before Parliament.

4. In the exercise of his functions the Comptroller and Auditor-General shall not be subject to the direction or control of any person or authority other than the National Assembly.

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