5 Zimbabwe

Cynthia Portia Mutasah

I. Introduction

The Republic of Zimbabwe is a landlocked country located in Southern Africa and it shares borders with Mozambique, South Africa, Zambia, Botswana and Namibia. It is the 61st largest country in the world (*although below average size for Africa*) with a total area of 390 580 square kilometers. Zimbabwe (formerly Southern Rhodesia) gained its independence from British rule in 1980.The name 'Zimbabwe' means 'houses of stones' and it's taken from the Great Zimbabwe a city of stone walled buildings and ceremonial structures which were built between the 13th and 16th centuries located in the south eastern part of the country. The ruins are a symbol of the achievements of African cultures before the arrival of the British. Zimbabwe has rich mineral resources and farmland and it's often dubbed the "bread basket of Africa". Agriculture and mining are the main pillars of the economy. The capital city is Harare with a population of 1, 5 million.

Geography and Climate

Zimbabwe has total surface area of 390 580 km of which land occupies 386 670 square kilometers and water occupies 3910 square kilometers. It is bounded on the north and north west by Zambia (797km); south west by Botswana (813km); Mozambique (1231km) on the east; South Africa (225km) on the south and Namibia`s Caprivi strip touches its western border at the intersection with Zambia. Zimbabwe's geographical position in extreme co-ordinates is North 15°; South 22°; South East 33°and East West 25°. Zimbabwe sits astride the high plateaus between the Zambezi and Limpopo rivers which are its main drainage systems. Much of the country is elevated, 21% being more than 1200 meters and extends across the country from North East narrowing towards the South West. The **middle veld** lies between 900 by and 1200 meters above sea level, and mostly extending towards the North West. The **low veld** stands below 900 meters and occupies the Zambezi rand south east. The **eastern highlands** have a distinctive mountainous character, rising above 1800 meters and include Mount Inyangani standing above sea level.

Zimbabwean climate is mainly sub-tropical and tropical markedly moderated by altitude. Altitude and relief greatly affect temperatures in Zimbabwe .The higher areas in the east and the high veld receives more rainfall and is cooler than lower areas. Temperatures vary from 12℃ to 13℃ in winter to 24℃ in summer. On the lowveld the temperatures are usually 6℃ higher and summer temperature in the Zambezi and Limpopo valleys average between 32℃ to 38℃ .Rainfall decreases from east to west. Eastern mountains receive rainfall more than 100cm annually, Harare which is the capital city receive rainfall of an average of 81cm.The south and south west receives little rainfall and seasonal shortages of water are common. There is summer rain between November and March. It is followed by a transitional season, during which both rainfall and temperature decrease. The cool dry season follows, lasting from mid-May to mid-August. Finally there is warm dry season which lasts until the onset of the rains.

People and History

The history of Zimbabwe dates back to the 14th century. This is evident by the walls and structures known as 'Great Zimbabwe' which have stood the ravages of time and weather for almost 2000 years. Sitting on an open plain surrounded by hills, it was begun in the 13th century by the Shona people and is considered the greatest ancient structure in Sub Saharan Africa. Great Zimbabwe (meaning houses of stones) was finished in the 14th century at Great Zimbabwe lived outside the perimeter walls. The King lived on a hill in a series of other ritual and royal enclosures called the hill .This were the first set of structures to be completed, therefore the oldest. The valley enclosures, where lesser officials would have lived, are a series of walls and platforms, and containing a high conical tower. The Great enclosure thought to have housed the royal family, is the structure most identified with the site. It is 100 meters across and 225 meters in circumference and had mortar less walls rising 11 meters and in some places, they are 5 meters thick. The entire complex covers almost 1800 acres. Great Zimbabwe was a religious center, and trade center and items from China, Persia and India have been found there. By the 16th century Great Zimbabwe was deserted due to depletion of natural resources. After the decline of Great Zimbabwe the fragmented Shona tribes allied themselves and created the Rozvi state and encompassed greater than half of present day Zimbabwe. This state lasted until 1834 when it was invaded by Ndebele warriors migrating from South Africa and came under the rule of Lobengula. Lobengula soon found himself having to deal with Cecil Rhodes and British South Africa company and signed a contract giving up mineral rights to his land in exchange for guns, ammunition and money around 1890.In 1896 it was apparent to the Shona and Ndebele people that the Rhodesian government was not interested in their problems and it resulted in the first fight for liberation which lasted for only a year because opposition leaders were arrested and hanged. During the next 60 years, conflicts between blacks and whites continued until 1980.Zimbabwe gained independence on the 18th of April 1980.

Resources

Zimbabwe has wide range of natural resources to include deposits of more than forty minerals – coal, gold, platinum group of metals asbestos, copper, nickel, silver diamonds and others. Zimbabwe has coal methane deposits discovered in Matabeleland province that is greater than any known natural gas field in Southern or Eastern Africa. Despite having a huge mineral resource endowment the country is severely crippled by resource trap hence in order to develop these mineral deposits, Zimbabwe relies on foreign investment .And this is not doing so well because of economic and political institutions which scare away foreign direct investments.

Zimbabwe has rich farmland, on which cash crops like tobacco, sugar cane, cotton, wheat, coffee, tea and corn are grown. Beef cattle are raised on the veld. In 2010, agriculture accounted for 19% of GDP.

The diversity of the animal kingdom in Zimbabwe is evident in the 300 species of mammals that live there. You can find everything from elephant, lion, buffalo and leopard, bat, porcupine and pangolin. It’s one of the last of the great elephant sanctuaries in Africa with over 40 000 living in the national parks. There are 153 reptile species, 640 species of birds of which 17 are species of eagle. In addition, there are 131 species of fish including the fighting tiger fish of Lake Kariba. All these animals are dependent upon having enough water, food and shelter which Zimbabwe`s fauna helps to provide. More than 11% of Zimbabwe`s land - 44 688 square kilometers has been set aside as parks and wildlife estates. There are at least 40 national parks and private sanctuaries. For example there is Hwange national park which measures 14 620 square kilometers which has variety of animals and birds.

Zimbabwe boasts of the mighty Victoria Falls which is the largest waterfall in the world at 2,5km wide and height of 108 meters where 550mm of water plunge 108metres into a chasm every minute. The spray can be seen 30kilometres away.

Political Structure, State structure and Government Organizations

Political structure

Politics of Zimbabwe takes place in the framework of semi presidential republic where the President is the head of state and Prime Minister is the head of government. Zimbabwe`s constitution institutionalizes majority and protection of minority. In September 2008, a global political agreement was signed between the then ruling Zimbabwe African National Union Patriotic Front and two Movement rule for Democratic Congress factions which made the opposition. In February 2009 government of national unity was formed and new cabinet was sworn in on February 2009.Hence Zimbabwe is under a national unity government.

State structure

The Presidium is the highest organ of state power consisting of the Executive President and two Vice Presidents. The President according to section 27 of the constitution is the head of state, head of government and commander in Chief of the defense forces. He is part of the legislature in terms of section 32 of the constitution and he is elected by popular majority vote.

The Premier constitutes of the Prime Minister and two Vice Prime Ministers.

Arms of the Government and their relationship

The constitution of Zimbabwe recognizes and provides for three arms of the state namely the legislature, the executive and the judiciary. The Executive branch consists of the state, Prime Minister and cabinet of Zimbabwe. The legislative branch consists of a bicameral parliament, senate and house of assembly. The judicial government is headed by the Chief Justice of the Supreme Court, who like other Justices is appointed by the President on the advice of the judicial service commission. The provision of the constitution are formulated to ensure that these arms are distinctively separate, interrelated and plays a complimentary role of each other to ensure that the state functions effectively. The role of the legislature is to make laws, for the executive to execute or implement those laws while the role of judiciary is to interpret the laws by adjudicating disputes arising there from.

Administrative Divisions

Zimbabwe has a centralized government and is divided into 10 provinces administered by a provincial governor appointed by the President. The provincial administrator and representatives of several ministries assist the provincial governor. The provinces are divided into 59 districts and 1200 municipalities. Government has 32 ministries, 8 departments and 17 parastals.

Demographics and Language

There are 12, 4 million people in Zimbabwe by the end of 2008 statistical estimate. The population density is 29 people per square kilometer.

Table 1: Composition of Population (2008)

Components	Percentage of the total population
National :Total	100
Of which :Urban	35
Rural	65
Of which : Male	48
Female	52
Of which : 0-14 years	45
15-59 years	51
60+ years	4

From the table we establish that 35% of the population live in urban areas and out of this population 50% live in the capital city (Harare).Zimbabwe currently faces a number of migration challenges, including significant brain drain and irregular emigration flows. Zimbabweans migrated to neighboring countries or overseas in response to the economic challenges of the past decade.

Zimbabweans are divided into two major language groups, which are divided into several ethnic groups. The Mashona (Shona speakers), who constitute about 75% of the population, have lived in the area the longest and are majority language group. They live mostly in the north, Centre and eastern portions of the country. The Matabele (isiNdebele speakers), representing about 20% of the population and are centered in the South West around Bulawayo arrived within the last 150 years. The white and Asian population constitutes 5%. English is traditionally used for official business.

Religious and Culture

Zimbabwean government respect people`s personal religions and people are free of religious beliefs. Religions practiced include Christianity, offshoot Christian sects, indigenous beliefs and Muslim.

Christianity is embraced by the majority of the population estimated at about 75 to 90 per cent of the total population.

Arts and music are the backbone of Zimbabwe. Culture pots and baskets are finely detailed. Cloth is intricately woven .Everyday items carved from wood intricately patterned. Stone carvings are lovingly etched and many of the ideas for designs are inspired by designs found at Great Zimbabwe.

Zimbabweans cherishes music which can emphasize individuality and unity. Shared song can communicate a desire for love and happiness or a need for perseverance and struggle.

II. Overview of Macro economic Activity

From 2009, Zimbabwean **economy saw a recovery** from the blatant macro-economic policies that resulted in years of economic attrition which continued to pose challenges for any recovery and stabilization efforts. These drawbacks included shrinkage of the economy by over 40%, a decade-long high inflation which spiraled out of control to unprecedented levels of over 231 million percent by July 2008, severe capacity underutilization of below 10%, and subsequent shortage of basic commodities in the formal market. As a result, Zimbabwe lagged behind most South African Development Countries in terms of GDP and GDP per capita growth .This was against a background of price distortions and misalignments that were counterproductive and promoting speculative activities in both foreign exchange and goods markets. The erosion of the central government budget also led to an almost complete collapse in the provision of public services, particularly in health, education, water and sanitation. Added to these challenges, was the huge corrosion of the capital base of the financial services sector. Contributing to the above challenges **were structural development traps**, that arrested the economic liberation of this country and these included: conflict, debt, savings, human resource, integration and leakage traps. The relative macro-economic stability was achieved under Short Term Recovery Program (STERP) .This program necessitated the lifting of the price and exchange control restrictions, demonetized the Zimbabwean dollar and a multi foreign currency was introduced. Quasi fiscal activities of the central Bank have been halted and the institution has been forced to revert to its traditional role. The government operates a cash budget and lives within its means. This translated into unexpectedly significant improvement in capacity utilization in almost all sectors of the economy and hence marked the beginning of economic recovery and growth in the country.

Notwithstanding significant positive strides gains realized the economy remained fragile. Major challenges being unfinished business of political integration and harmony, total absence of fiscal space, lack of foreign direct investment and the absence of tangible external support, restricted domestic financial capacity in the economy`s recovery efforts. The Ministry of Finance has earmarked a three year macroeconomic policy and budget frame work 2010-2012 under (STERP 11).The program prioritize and pursue democratization as well as socio economic strategies that guarantee the integratability of the poor in the economic growth policy framework.

II.1 Macroeconomic Activity

II.1.1 International Environment

A. Trade Balance

Balance of payments show total exports growing by 25% in 2010, from US$2 billion in 2009 to US$2.5 billion. The economy continues to absorb a disproportionately large amount of imports of a finished nature, with the latest balance of payments projections showing total imports rising from US$3.2 billion in 2009 to US$3.6 billion in 2010.Hence in 2010 Zimbabwe had a trade deficit of 1.1 billion which is less in nominal terms as compared to 1.2 billion of 2009.

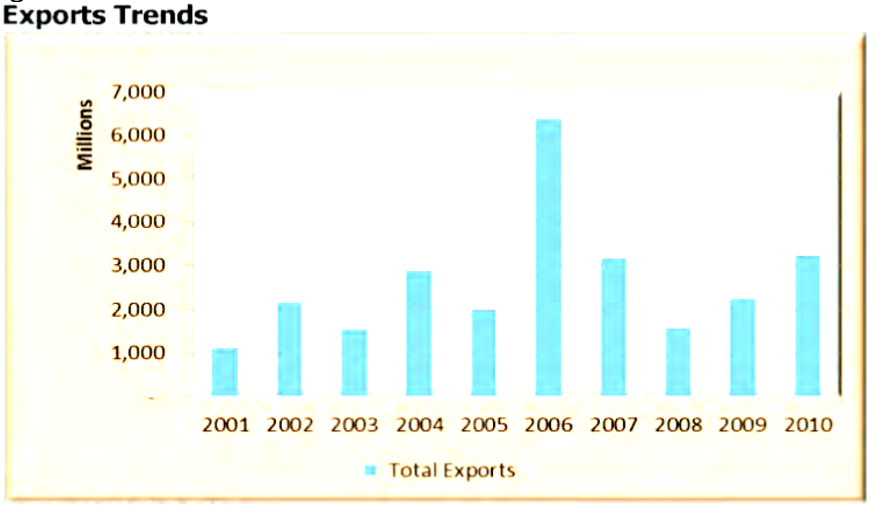
Figure 1: Monthly Exports and Imports, 2010

Source: ZIMSTAT, RBZ Note: Imports exclude imports of electricity

Exports

Figure 2

Exports Trends

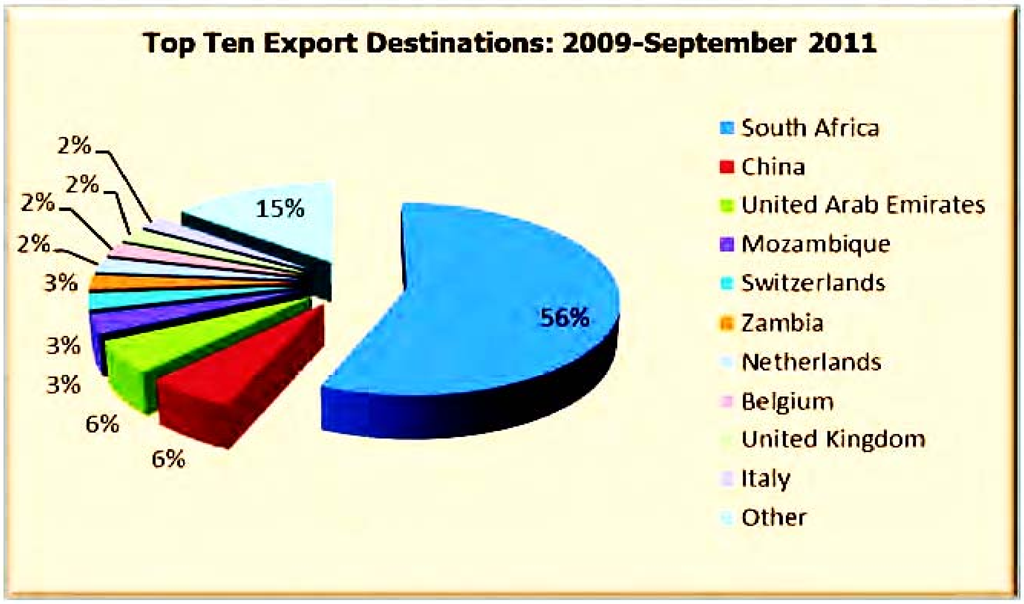


Source: ZIMSTATS

Export Destinations

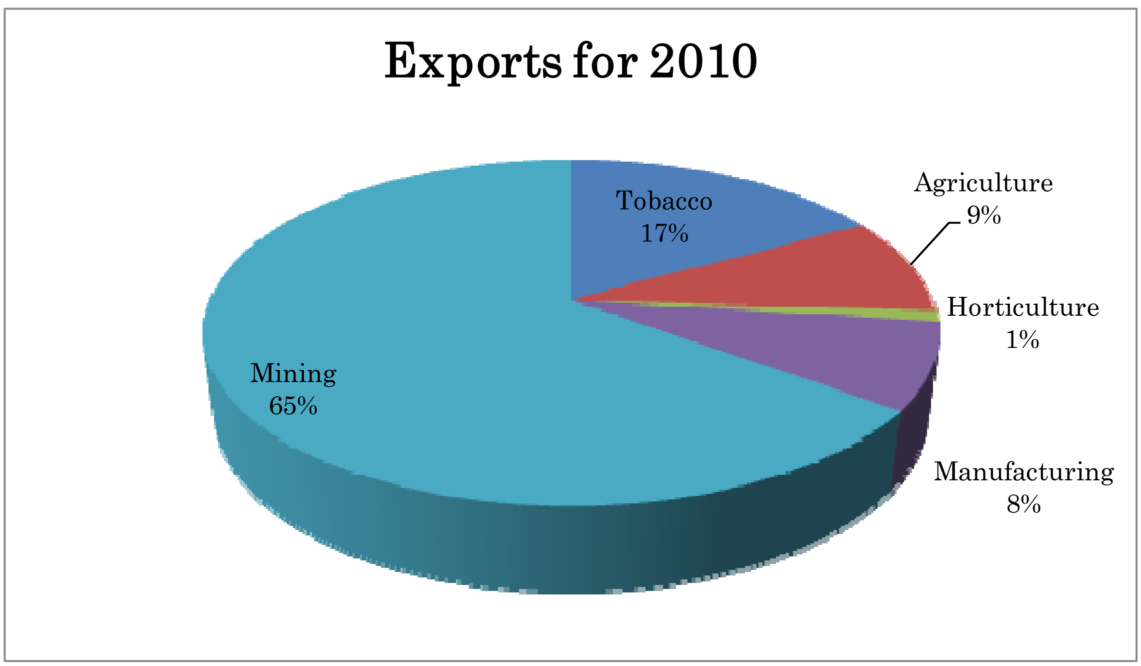
Main exports destinations for the period 2009 to 2011, among others; include South Africa (56%), China (6%), United Arab Emirates, Mozambique, Switzerland, and Zambia, each with 3%, among others, as indicated below:

Figure 3



Source: Zimbabwe Statistics department

Figure 4: Exports for 2010

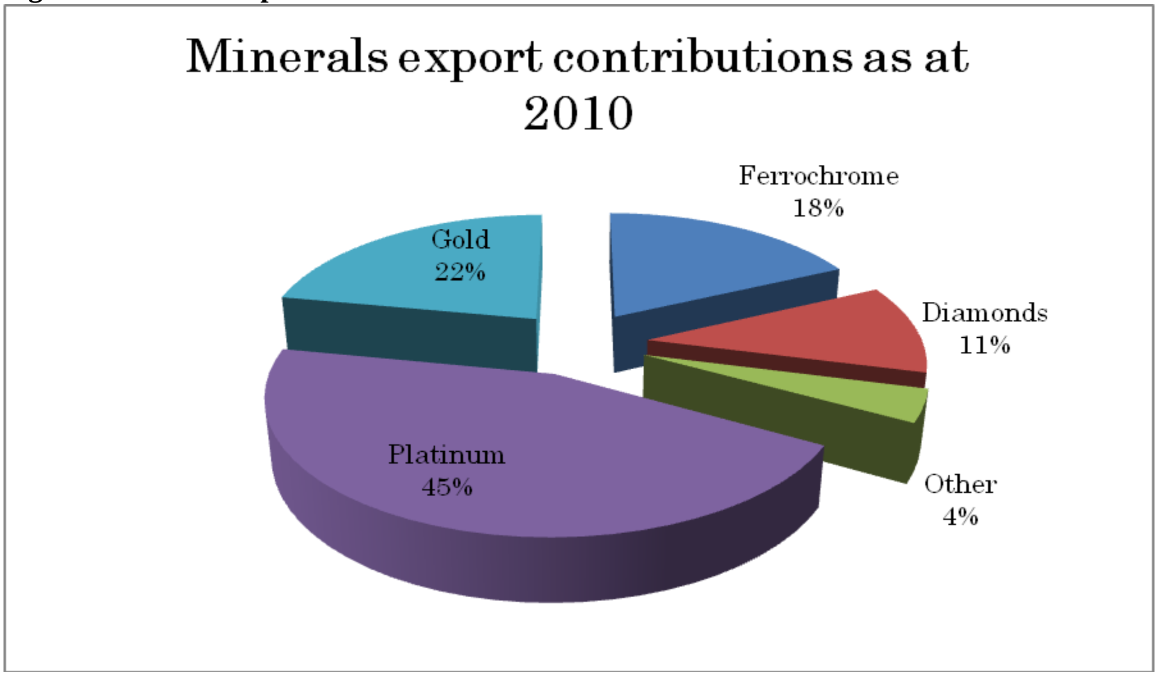


Source: ZIMSTAT

Mineral exports to year end of US$1.159 billion account for 65% of this, followed by agriculture, US$456.3 million; and manufactured exports, US$393.3 million

Recovery in export performance was largely spurred by improved world commodity prices, phenomenally pushing up cumulative export shipments up to mid November 2010 to US$1.813 billion compared to US$1.061 billion over the same period in 2009. Improved availability of foreign exchange on the market for importation of inputs, raw materials and machinery, following the introduction of multiple currencies in February 2009 also benefitted domestic production for the export markets. Global foreign currency receipts to 5 November 2010 amounted to US$2.285 billion. The corresponding receipts for 2009 were US$1.307 billion.

Figure 5: Mineral export contributions as at 2010



Source: Zimstat

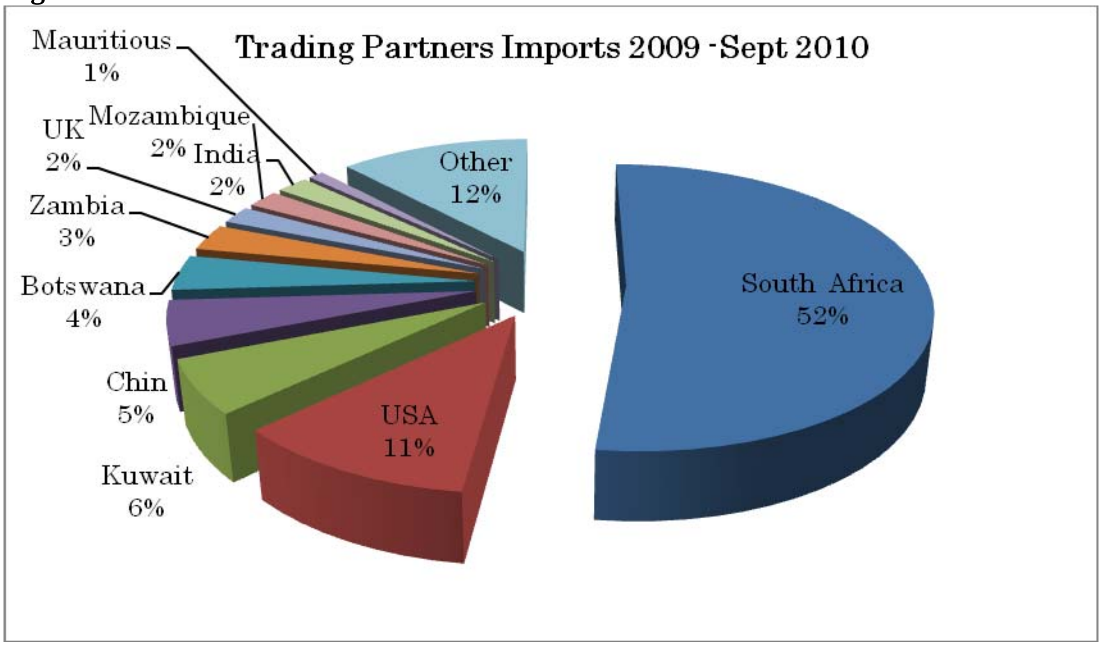
Major mineral exports underpinning recovery in export performance were platinum, US$596.2 m; gold US$304.8m; diamonds, US$126m; nickel, US$52.2 among others. The growth of mining exports reflects increased new investment in the sector in response to firming international mineral prices. In this regard gold prices firmed up from US$970 per ounce in 2009 to US $1 362 per ounce in mid-November 2010, while platinum prices rose from US$1000 per ounce in 2009 to US$1 654 per ounce.

Imports

Accordingly, global import payments through the banking system to 5 November 2010 increased by 50% to US$1.960 billion from US$1.307 billion during the same period in 2009. In terms of sectors, all sectors registered increases in import payments, except for the agricultural sector, which recorded decline of 2% to US$167.6 million.

Major imports source markets for the period 2009 to 2011, among others include South Africa (52%), the United States (11%), Kuwait (6%) and China (5%), as indicated below:

Figure 6



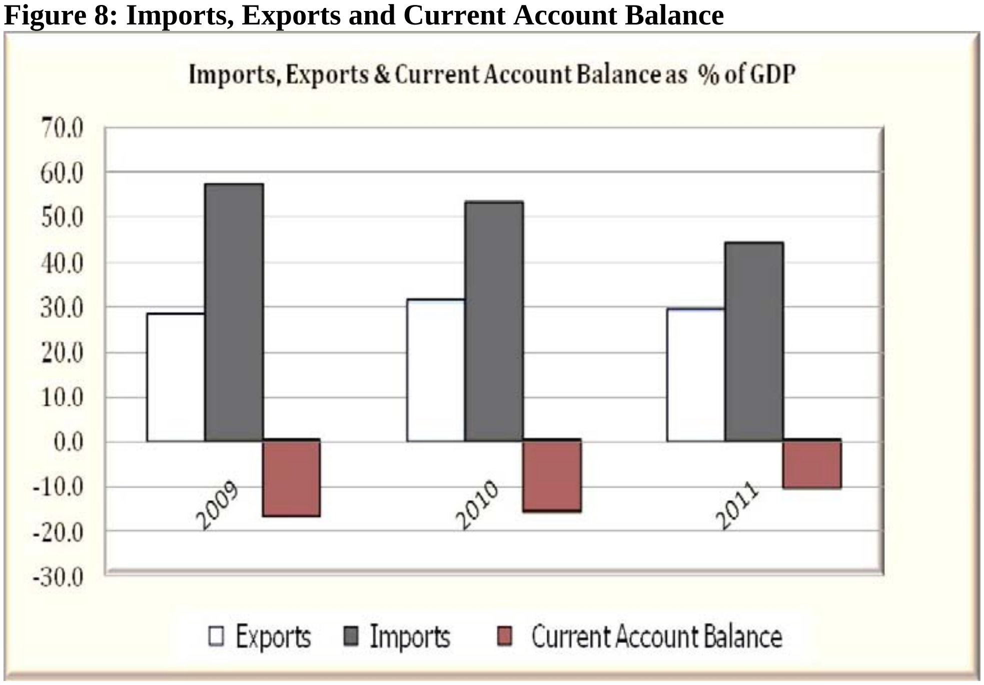
Source: Zimstats

Nature of Imports

Finished consumption goods continue to account for a support for disproportionate share of our imports, implying the need for greater investment in domestic manufacturing value addition. Failure will entrench our economy a supermarket for those countries whose development policies champion domestic value addition.

Contribution by Sector to imports in 2010

Figure 8: Imports, Exports and Current Account Balance



Source: Zimbabwe Statistics department

Capital Account

The capital account improved from a deficit of US$ 556.5 million in 2009 to a surplus of US$578.5 million in 2010 reflecting improved inflows in portfolio investment and short term capital.

B. Balance of Payment

The overall balance of payments deficit is accordingly projected to improve from a deficit of US$1.9 billion to that of US$462 million.

Table 2: Balance of Payments, Trade account Financing

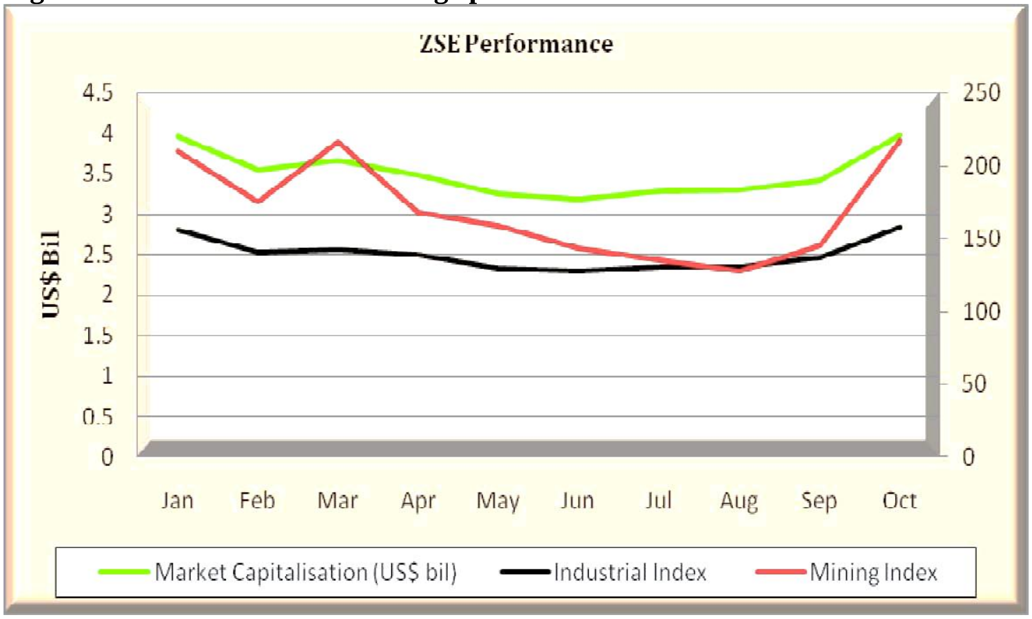
(millions US$)

Balance of Payments	2007	2008	2009 est.	2010	2011 proj
Current Account (excl.official transfers)	-243	-779	-927.8	-1041.1	-858.6
Trade Balance	-294	-972	-1621.8	-1462.2	-1189.5
Exports fob	1819	1657	1591.3	2089.8	2357.1
Imports fob	2113	2630	3213.1	3552.0	3546.7
Non-factor services (net)	-143	-207	-31.7	-41.4	-62.8
Income (net)	-245	-224	-200.4	-199.9	-204.1
Private transfers (net)	440	625	926	662.4	597.8
Capital Account (Incl. Official Transfers)	166	273	-70	578.5	470.5
Grants	42	73	391	300.0	210.0
Direct Investment (Net)	66	52	105	85.2	90.0
Portfolio Investment (Net)	-27	0	67	95	100.0
Long Term Capital (net)	12	-174	-128	-102.6	-21.3
Short term capital (net)	73	322	-925	200.9	91.8
SDRs	0	0	420	0	0
Overall balance	-323	-725	-1908	-462.6	-388.2
Memorandum items:					
Gross Official Reserves	153	76	366	420.8	395.0
Months of imports cover	0.7	0.3	1.2	1.4	1.3

C. Zimbabwe Stock Exchange

The revival of economic activity, coupled with the modest improvements in industrial capacity utilization, has not significantly spurred activity on the Zimbabwe Stock Exchange.

Figure 9: Zimbabwe stock Exchange performance



Source: Zimbabwe Stock exchange statistics

Negative investor perceptions coupled with persistent liquidity challenges, continued to subdue trading on the Zimbabwe stock exchange in 2010.Against this background, the daily average number of shares traded declined from 14.5 million in January 2010 to 12.8 million shares by October 2010.Key industrial index fell from 156.52 in January to 137.04 by September, while the mining index dropped from 209.81 to 145.65.Foreign investors maintained lead, with their participation increasing from an average of 20% in 2009 to 40 % in 2010 of total sales of shares.

D. External Debt Developments

Notwithstanding the green shoots on the economic recovery front, the country remains saddled with an unsustainable external debt amounting to US$6.9 billion which is some 103% of GDP(2010 establishment). About 75.3% of this debt is medium to long term and is owed to official creditors. Of the total external public debt, US$4.8 billion are arrears, representing about 71.6% of GDP.

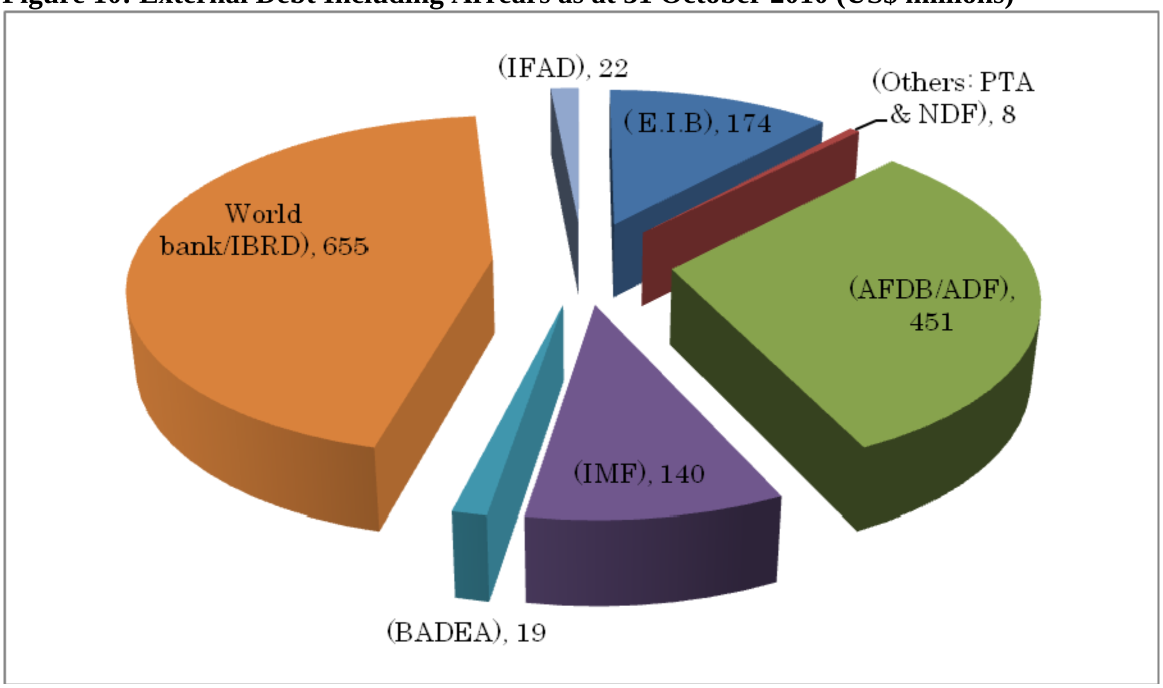
External Arrears

Of the public and publicly guaranteed debt of US$6.4 billion, total external arrears comprised US$4.7 billion by 31 October 2010 and are owed to:

Multilateral Financial Institutions	US$1.469 billion
Paris Club	US$0.386 billion
Non Paris Club	US$0.072 billion

Furthermore, the US$1.469 billion multilateral arrears are owed to the International Monetary Fund (IMF), World Bank, African Development Bank (ADB), International Fund for Agriculture Development (IFAD), European Investment Bank (EIB) and others as indicated below

Figure 10: External Debt Including Arrears as at 31 October 2010 (US$ millions)



Source: Zimstats

In summary, the country's external debt position, including arrears, as at 31 December 2010 is indicated in table 3 below: The full extent of Zimbabwe's external indebtedness and the effect of capitalization of interest due to arrears accumulation is yet to be quantified.

Table 3: External Debt Position

	Debt Outstanding Disbursed	Total Arrears Stock	Principal Arrears	Interest Arrears
I. GRAND TOTAL	6929	4769	3999	727
o/w public and publicly guaranteed	6414	4729	3966	725
II. Government Long Term	4044	2443	1865	574
Bilateral creditors	1866	1257	1008	248
Paris Club	1597	1190	946	242
Non-Paris Club	269	67	61	6
Multilateral creditors	2177	1186	857	327
AfDB/ADF	476	409	257	152
BADEA	19	19	13	6
World Bank	952	507	380	125
IFAD	33	22	16	6
I.M.F	550	140	118	22
E.I.B	121	81	67	14
NDF	23	5	3	2
PTA	3	3	3	0
III. Parastatal Sector Long Term	1070	987	802	151
Bilateral creditors	497	458	369	75
Paris Club	405	386	306	65
Non-Paris Club	92	72	63	9
Multilateral creditors	327	283	188	76
World Bank (IBRD)	174	148	86	43
AfDB	53	42	23	18
E.I.B	100	93	78	15
Air Zimbabwe	70	70	70	0
Noczim Suppliers Credits	75	75	75	0
Zesa Suppliers Credits	101	101	101	0
IV. Private Sector Long Term	112	40	33	1
V. SHORT TERM DEBT	1703	1300	1300	0
Reserve Bank	1300	1300	1300	0
Private sector	403	0	0	

E. Foreign Direct Investment

Sustained economic growth requires significant non-debt external inflows in form of foreign direct investment, to augment domestic resources. The ability of the country to attract foreign investment is being undermined by the high country risk profile. However, Zimbabwe is not benefitting significantly from the recent surge in foreign direct investment flows into the sub-region. In 2011 FDI inflows into the country are projected at US$125 million from US$123 million in 2010. Foreign direct investment (FDI), which averaged 18% of GDP in the 1980s and 20% in the 1990s, was a mere 1.1% between 2000 and 2009. This is too low compared to those received by other South African Development countries.

II.1.2 Domestic Environment

A. Economic growth rate

The economy grew to 8,1% in 2010 up from 5.7% in 2009.In 2011 the economy is projected to grow to 9.3% underpinned by strong performances in agriculture 33.9% and mining 47%.

Table 4: Real GDP by sector

GDP by Sector (%)	2008	2009	2010 Est.
Real GDP	-14.8	5.7	8.1
Agriculture, hunting and fishing	-39.3	14.9	33.9
Mining and quarrying	-33.4	8.5	47
Manufacturing	-17.1	10.2	2.7
Electricity and water	-13.6	1.9	1.5
Construction	-8.5	2.1	1.5
Finance and insurance	-27.9	4.5	0.5
Real estate	-36.4	2	0.9
Distribution, hotels and restaurants	2.8	6.5	0.5
Transport and communication	5.4	2.2	0.1

Source: Zimstats

Manufacturing growth in 2010 remains modest at an estimated 2, 7%, highlighting major challenges necessitating support for reversal of the de- industriliasation experienced over the decade. Growth in other sectors is, however, subdued, with 1.5% in construction, and 0.5% in distribution, hotels and restaurants. Growth in the finance and insurance industry during 2010 is also estimated at 0.5%, while the transport and communications industry is projected at 0.1%. Also notable is the increasing contribution to GDP of service sectors. Most notably, the share of transport and communication which was 8% in 2000 had grown to 15.2% by 2009.

Table 5: Sectoral contribution to GDP

INDUSTRY	2010 US$	CONTRIBUTIONS %
Agriculture	873,349,000	15.5
Mining	227,216,000	4.9
Manufacturing	825,538,000	14.7
Electricity and Water	275,789,000	4.9
Construction	32,624,000	0.6
Finance and Insurance	221,991,000	3.9
Real Estate	109,986,000	2.0
Tourism	615,837,000	11.0
Transport and Communication	853,796,000	15.2
Public Administration	222,609,000	4.0
Education	163,751,000	2.9
Health	70,137,000	1.2
Domestic Services	103,118,000	1.8
Other Services	241,075,000	4.3
GDP at Market Prices	5,623,217,000	

Source: Zimstats

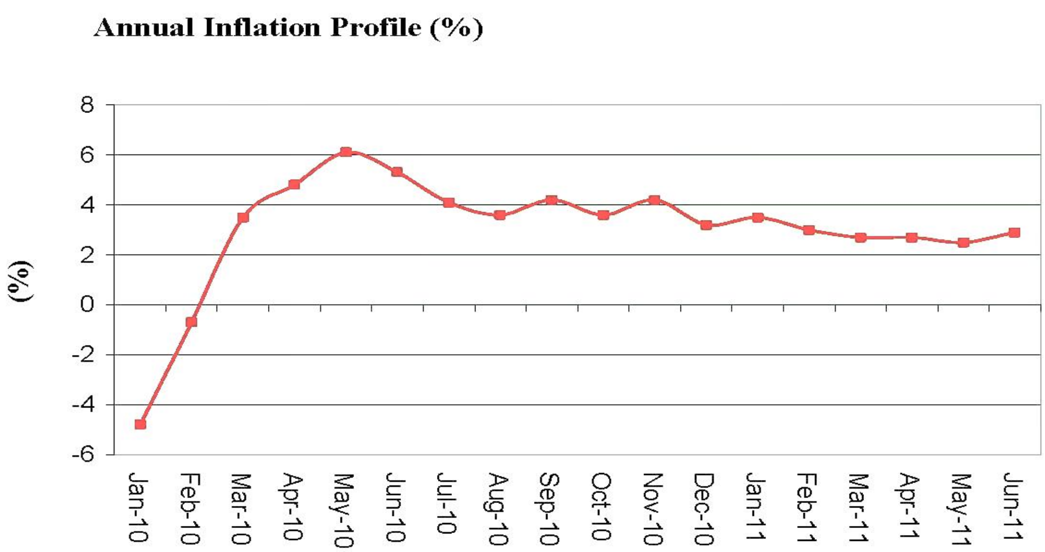
B. Inflation developments

A major achievement of STERP's macro-economic stabilization measures has been containment of inflation to levels consistent with the SADC and COMESA macro-economic convergence targets. During the period January 2010 to June 2011, Zimbabwe's annual inflation has generally been decelerating and remained lower than inflation rates prevailing in the region. The table below shows inflation profiles for selected countries in the SADC region, as well as for the USA.

Table 6: Annual inflation for SADC countries and USA (%)

	Zimbabwe	SA	Botswana	Mozambique	Tanzania	Zambia	Malawi	USA
Jan 2010	-4.8	6.2	6.1	5.1	10.9	9.6	7.8	2.6
Feb 2010	-0.7	5.7	6.1	6.8	9.6	9.8	8.2	2.1
Mar 2010	3.6	5.1	6	7.1	9.0	10.2	8.3	2.3
Apr 2010	4.6	4.8	7.1	9.1	9.4	9.2	8.1	2.2
May 2010	6.0	4.6	7.8	12.7	7.9	9.1	7.8	2.0
June 2010	5.3	6.9	7.7	14.5	7.2	7.8	7.5	1.1
July 2010	4.1	6.7	7.0	16.0	6.3	8.4	7.3	1.2
Aug 2010	3.6	3.5	6.7	17.1	6.6	8.2	7.2	1.1
Sept 2010	4.2	3.2	7.0	15.3	4.5	7.7	7.0	1.1
Oct 2010	3.6	3.4	7.2	15.3	4.2	7.3	6.7	1.2
Nov 2010	4.2	3.6	7.2	15.1	5.5	7.1	6.4	1.1
Dec-2010	3.2	3.5	7.4	16.6	5.6	7.9	6.3	1.5
Jan-2011	3.5	3.7	7.9	16.5	6.4	9.0	6.6	1.6
Feb-2011	3.0	3.7	8.5	15.2	7.5	9.0	7.0	2.1
Mar-2011	2.7	4.1	8.5	13.8	8.0	9.2	7.2	2.7
Apr-2011	2.7	4.2	8.2	12.8	8.6	8.8	7.1	3.2
May-2011	2.5	4.6	8.3	11.4	8.6	9.7	7.0	3.6
Jun2011	2.9	n/a	7.7	10.0	10.9	9.0	n/a	n/a

Figure 11: Annual Inflation Profile



Source: ZIMSTAT, June 2011

Year-on-year inflation in 2010 remained in single digit, with a maximum of 6.1% recorded in May 2010. Negative inflation of -4.8% and -0.7% was experienced in January and February, respectively. From June 2010, inflation took a generally downward trend, registering 3.6% in October. The surge in annual inflation was driven by both food and nonfood inflation. Annual food inflation accelerated from 2.3% in May to 3% in June, while annual non food inflation rose from 2.6% in May to 2.8% in June 2011.

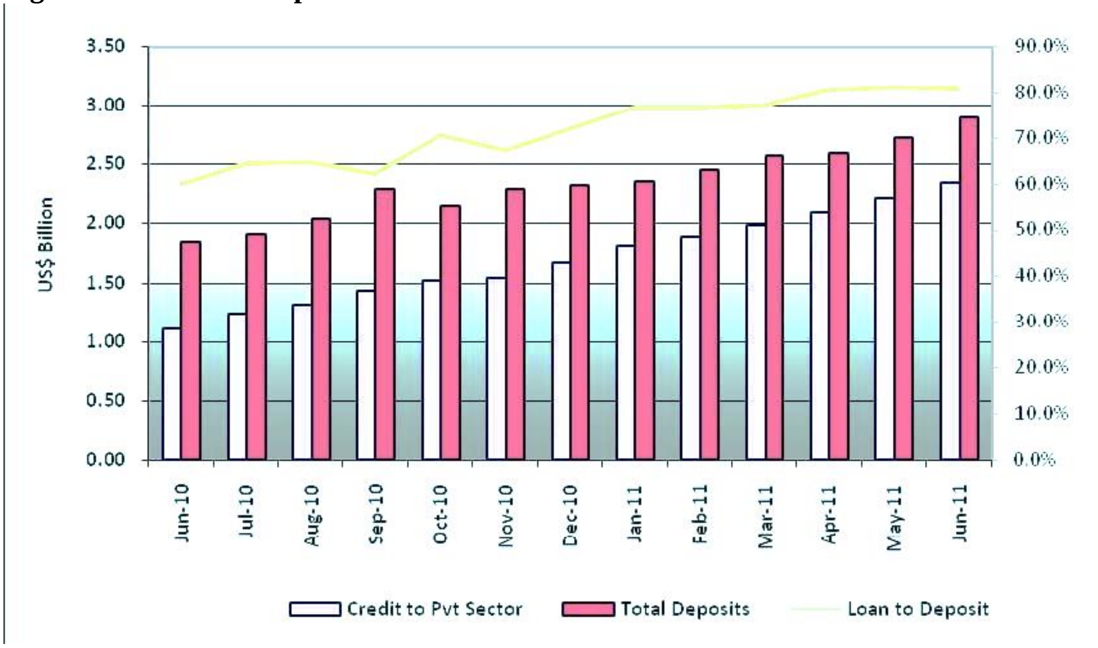
Month on Month Inflation

In 2010, month-on-month inflation opened the year at 0.7%, before rising to 1% and 1.1% in February and March 2010, respectively. This decelerated to 0.1% and 0.3% in April and May 2010, respectively. Over June to August 2010, prices fell by 0.1% in each month, before marginal rises of 0.1% and 0.2% experienced in September and October. In 2011 monthly inflation eased from 1% in January, to 0.5% in February before stabilizing at 0.1% in April and May 2011 and increasing marginally to 0.2% in June. During the year, major inflation drivers were alcoholic beverages, and such non-tradable services as housing, water, electricity, health and education. The high and sticky tariff levels of the above key non-tradable services have undermined the competitiveness of local production, thereby, putting pressure on the current account balance through higher growth of imports vis-à-vis that of exports. Inflationary pressures continue to emanate from significant increase in oil and global food prices.

C. Money Supply

Broad money, as defined by deposits held by banks, continued on an upward trend reflecting both improved deposit base and increased lending by banks. Total deposits held by banks grew by US$572.1 million to US$2 899.7 million in June 2011 from US$2 327.6 million in December 2010.

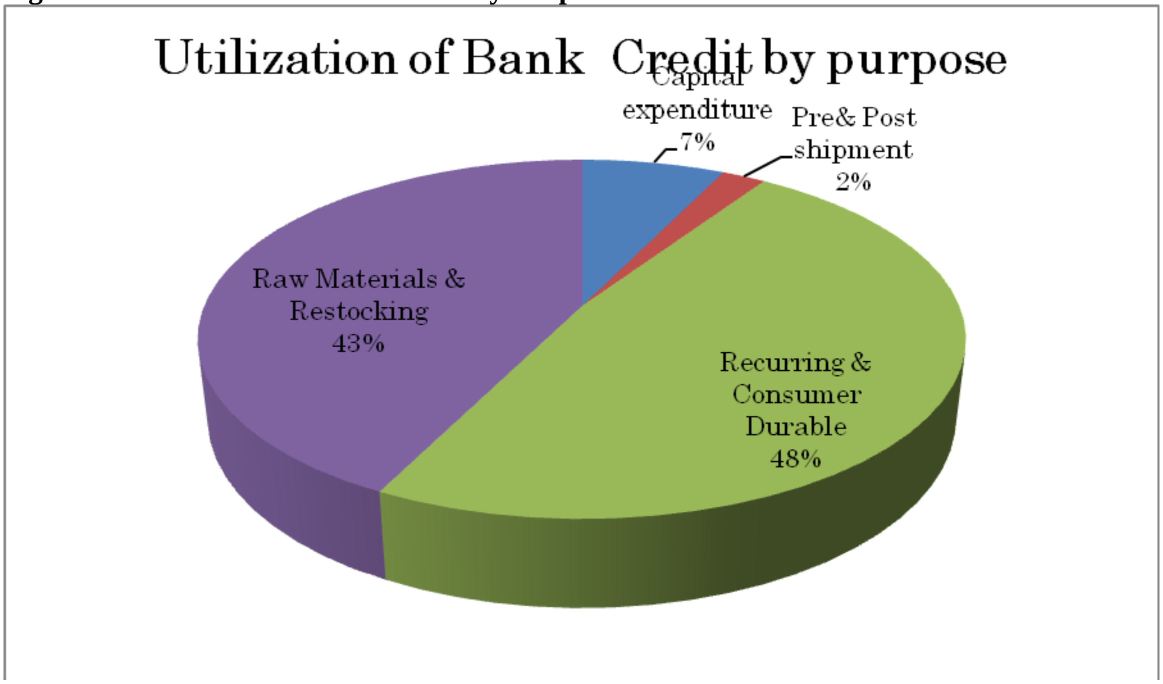
Figure 12: Levels of Deposits and Credit to the Private Sector



Source: Reserve Bank of Zimbabwe

Credit to the private sector grew by US$670.2 million to US$2 347.4 million in June from US$1 677.2 million in December 2010, translating to a loan to deposit ratio of 81%. Notwithstanding the improvement in economic activity, the country continues to experience liquidity challenges, which have manifested themselves through high proportions of transitory deposits and costly short term loans. As at end of May 2011, saving, demand and short term deposits constituted 90.1% of the total deposits. Sectoral distribution of bank Loans and advances shows that the non-productive sectors of the economy, distribution, services and individuals received the lion's share of bank credit, of around 40%. Agricultural sector, received 21.2%; manufacturing, 19.8%; mining, 6.8%; transport and communication, 4.6%; construction, 2.1%; and other sectors, 6.6%.

Figure 13: Utilization of Bank Credit by Purpose

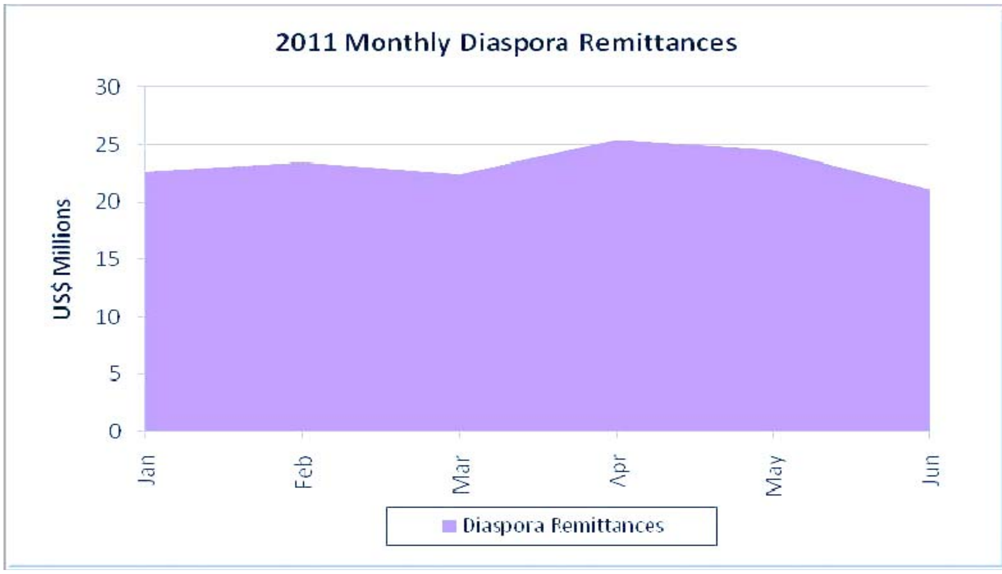


Source: Zimbabwe Statistics department

Due to the high cost and short term nature of credit, funds have largely been sourced for financing non-productive expenditures. Utilization has been largely used to finance recurrent expenditures and consumer durables, 48%; raw material, 42.6%; capital investments, 7.2%; and pre-shipment finance, 2.2%. Reflecting **the dominance of non-productive borrowing in the economy**, consumptive imports were estimated at US$2.7 billion in 2010, which translates to 59% of the non-food import bill. The allocation of much of the bank credit towards consumptive and recurrent expenditures, with less than 10% of credit going towards capital investments, continues to inhibit the economy from realizing its full growth potential.

D. Remittances

Remittances have been noted to bring positive benefits to the country if they are transferred through formal channels and invested in productive economic activities. It is worth noting that Zimbabwean abroad continued to support their families back home in financial and or in kind remittance transfers during the economic decline of the past decade .Remittances from Zimbabweans in the diaspora are continually increasing since the introduction of the use of multiple currencies. This is attributed to the use of multiple currencies which eliminated the exchange rate distortions and encouraged non-resident Zimbabweans to remit through the formal channels that are safer. During the first half of the year, a total of US$139.6 million was remitted compared to US$115.7 million during the same period last year. These remittances have also become a major source for financing imports. Worldwide, worker remittances continue to improve as incomes in industrialized economies improve.



E. Savings and Investment

Savings remained low at below 10% of GDP against the desired 20- 30% of GDP necessary for sustainable growth.

Between 2009 and 2010, the country's gross capital formation remained below 30%, ranging between 15-22% of GDP and is expected to remain within that range in 2011 -2012 as indicated below:

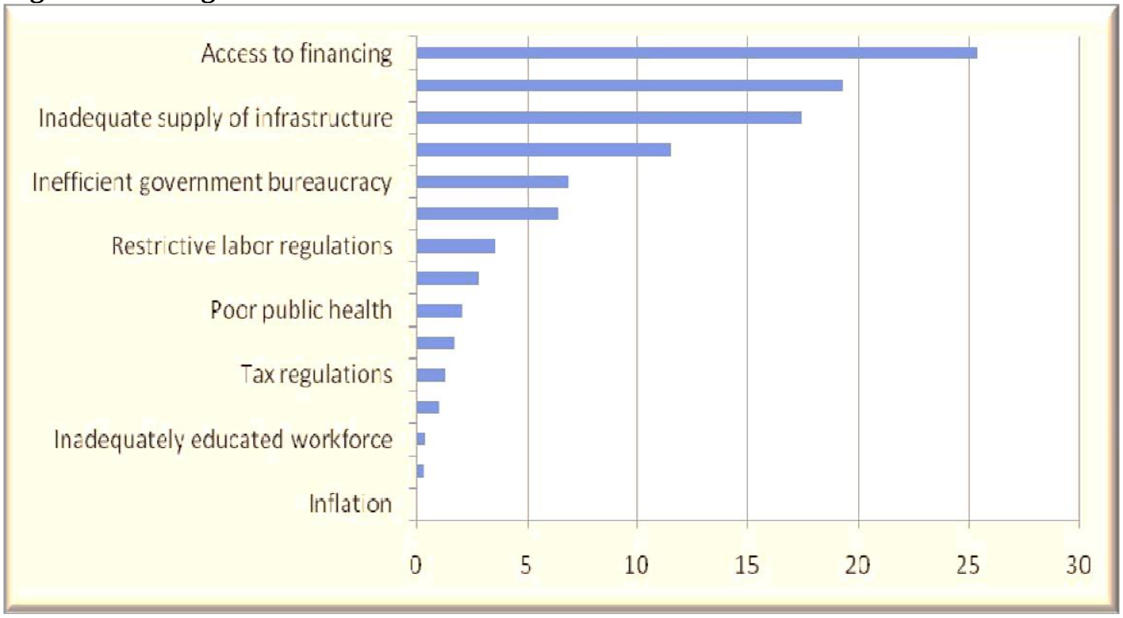
Table 7: Total Gross Capital formation: 2009 - 2012

Year	2009 % of GDP	2010 % of GDP	2Ollest % of GDP	2Ol2proj % of GDP
Government Gross Capital Formation	0.61	5.46	5.5	7.5
Private Gross Capital Formation	15.14	14.51	16.7	11.9
Total Gross Capital formation	15.75	19.97	22.2	19.4

For developing countries such as Zimbabwe, gross capital formation of at least 30% of GDP is required to facilitate high and sustainable growth rates. Zimbabwean economy is small and fragile and it is imperative and obligatory to expand the productive base. Domestic investment shortfalls necessitate that we intensify strategies to attract foreign direct investment, which is inextricably connected to growth and capital formation

In this regard, quite clearly foreign direct investment is an imperator. , The country's capacity to attract meaningful investment has been affected by a number of factors. These include general perception issues about the status and health of the Inclusive Government, the publication of the Indigenization Regulations and lack of competitiveness. The country's risk profile is high. Moreover, the country has been subjected to harsh ratings by both the Doing Business Index of the World Bank and the Global Competitiveness Report of the World Economic Forum. The latter in its latest Report has downgraded Zimbabwe from 133 to 136 due to the following factors:

Figure 14: Doing Business Index



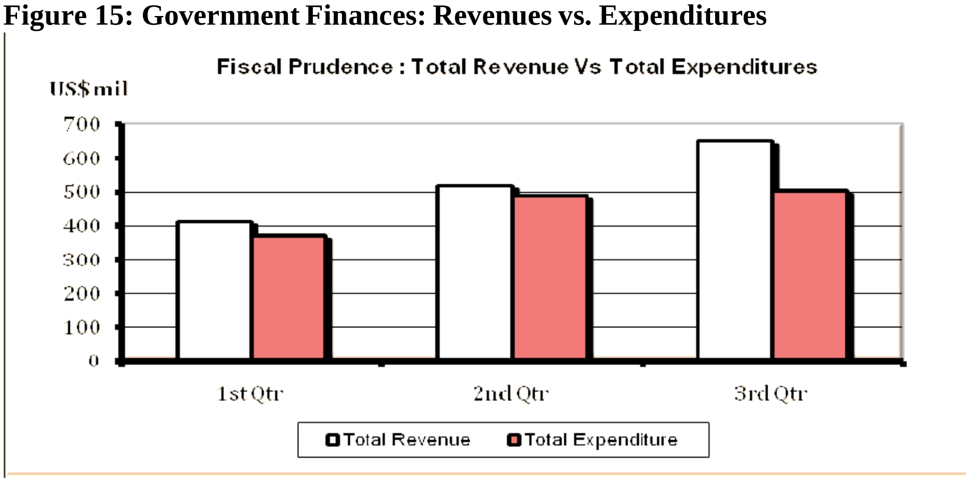
Source: World Economic Forum, Global Competitiveness Report 2010

It is, therefore, critical and imperative that Zimbabwe develops a well-articulated and well communicated Investment Strategy which removes any investment impediments. The strategy will entail the need to streamline investment approval processes, among others

II.2 Fiscal Developments

Zimbabwe has challenges with regard to the limited fiscal space we continue to experience. This forced the government to adopt the cash budgeting principle which has anchored positive gains we see on the macro-economic front. Public finance management based on cash budgeting is a challenge. Notwithstanding this, the revenue collections have exceeded the original target based on US$120 million per month. As of December 2010, total revenue collections amounted to US$2.151 billion. On the expenditure side, Government exhibited steadfastness and vigilance to fiscal prudence, containing expenditures in line with its own capacity to finance them. By end of 2010, expenditures were US$2billion or 30% of GDP by end of December 2010.As a result, the fiscus remained an important tool for sustaining macro-economic stability and improving public service delivery.

Figure 15: Government Finances: Revenues vs. Expenditures



The largest share of the Budget was current expenditures, consuming about 82% against capital development expenditures at 18%.

A. Tax Revenue

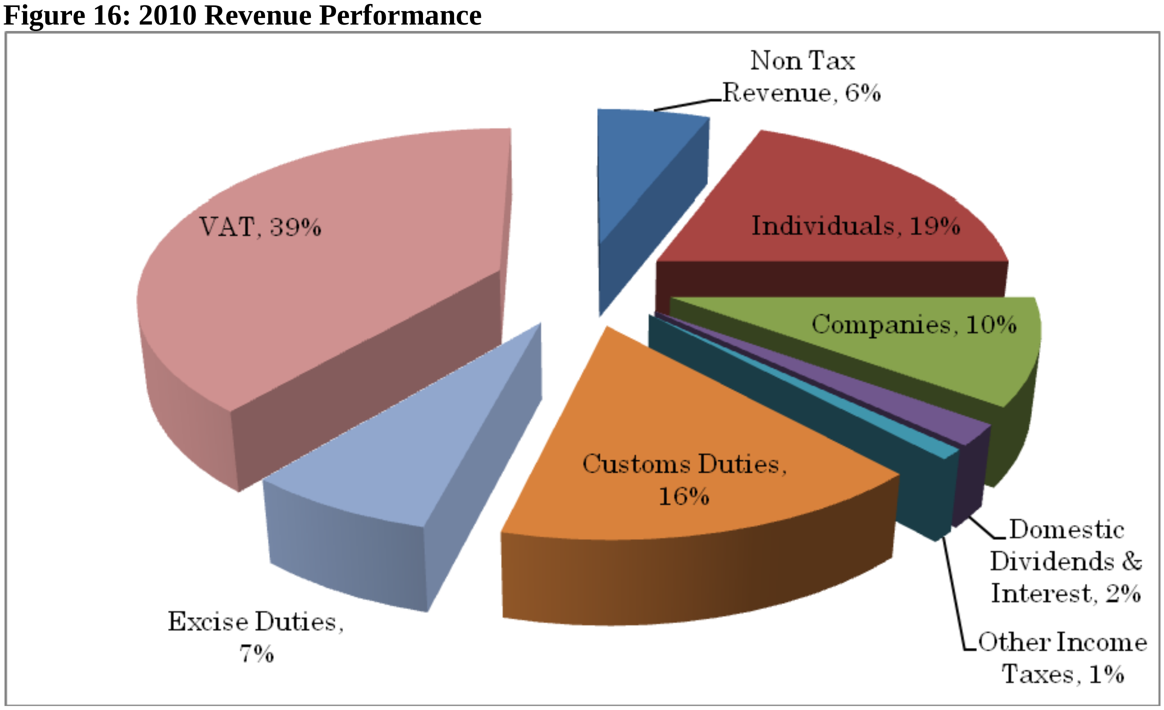
During the ten year journey (2001-2011) that ZIMRA has travelled so far, several achievements have been made. Of particular note is the Authority's culture of surpassing revenue targets, as illustrated below:

Table 8: Average tax revenue as a percentage of GDP

Country	2007	2008	2009	2010
Zimbabwe	4%	3.3%	17.3%	30%

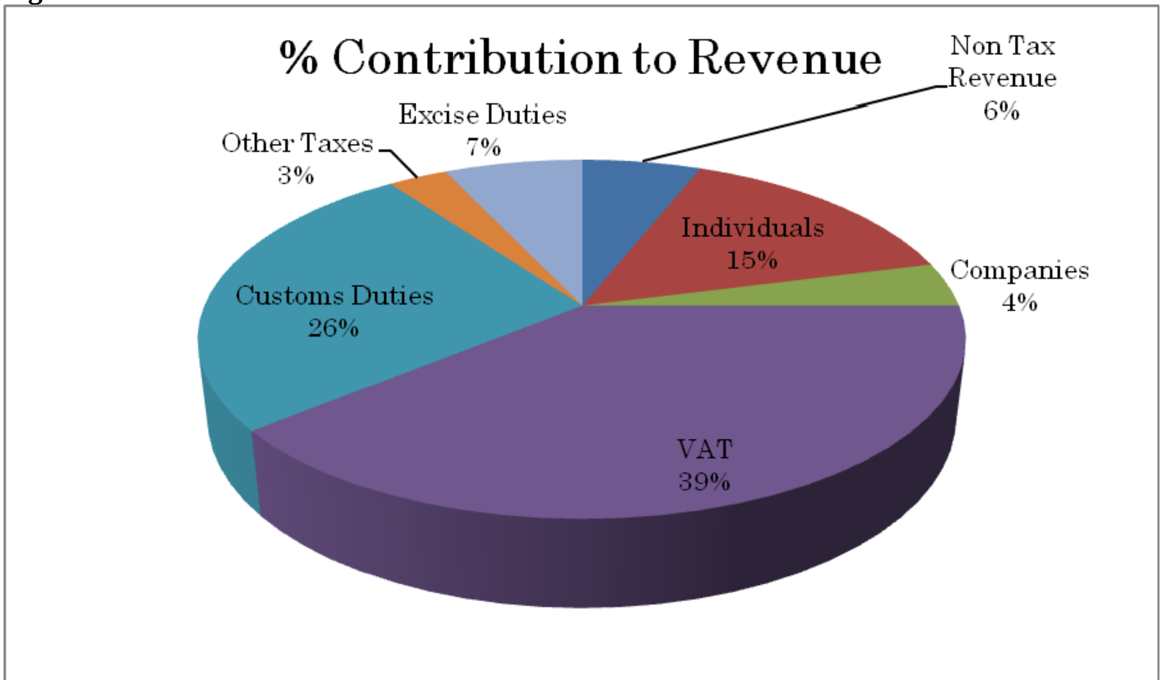
The tax revenue picked tremendously in 2009.In 2010, Zimbabwe had the highest average tax revue as a percentage of GDP in Sub Saharan Africa. It was 30%, far above the average that of Sub Saharan Africa of 24.8%.Cumulative realizations of US$2.1billion by October 2010, surpassed the target by 15%.Revenue heads that contributed significantly to total revenue during the period include Value Added Tax (VAT), Pay As You Earn (PAYE) and Customs Duty.

Figure 16: 2010 Revenue Performance



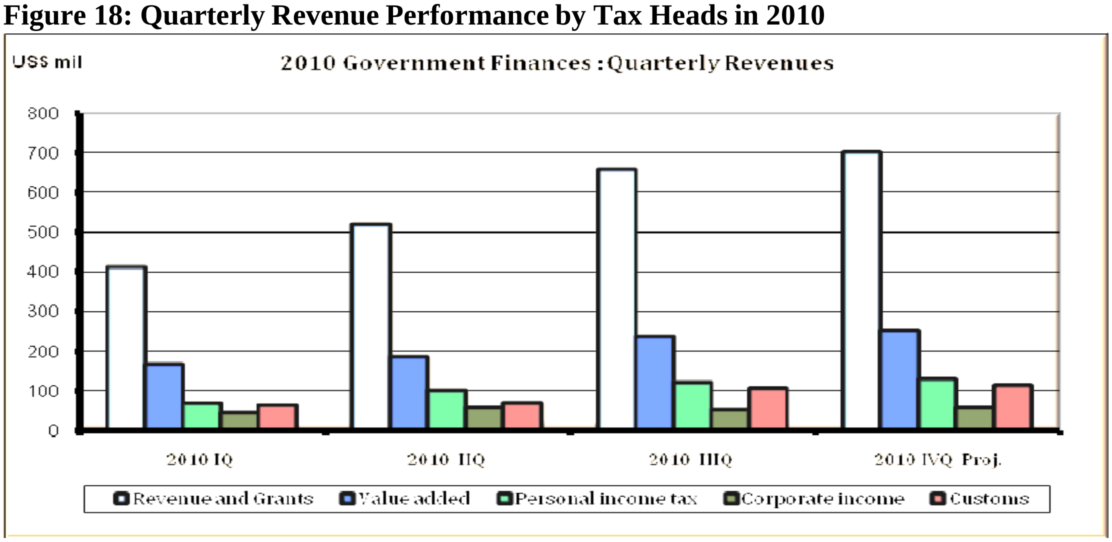
Source : Zimbabwe statistics department

Figure 17: 2009 Revenue Performances



Source: Zimbabwe statistics department

Figure 18: Quarterly Revenue Performance by Tax Heads in 2010



Value Added Tax (VAT)

The rise in total revenues largely stemmed from the increase in Value Added Tax (VAT), whose collections for the period January to October 2010 amounted to US$663.6 million or 37% of total revenue, against a target of US$586.6 million. VAT on domestic goods and services accounted for US$368 million, whereas US$259.5 million was collected from imported goods and services. The improvement in collections of VAT on domestic sales is also a result of the increases in capacity utilization of some of the manufacturing sub-sectors.

Pay As You Earn (PAYE)

PAYE collections for the period under review amounted to US$329.8 million or 18.4% of total revenue, against a target of US$268.3million. PAYE collections during the same period in 2009 amounted to US$104.4 million. There has, thus, been a significant increase in PAYE collections, which is mainly attributed to reviews of wages and salaries as some firms register improvements in their operations and employment levels.

Customs Duty

Cumulative revenue collections from customs duty for the period January to October 2010 amounted to US$271.9 million, or 15.2% of total revenue, against a target of US$241 million. Positive performance of this revenue head is mainly attributed to an increase in the volume of imports.

Corporate Tax

Corporate tax collections amounted to US$162.2 million or 9% of total revenue against a target of US$135.6 million. The positive contribution is mainly due to improved capacity utilization and compliance levels, despite the current liquidity challenges.

Excise Duty

Cumulative excise duty collections for the period under review amounted to US$123.6 million or 6.9% of total revenue, against a target of US$177.6 million. Low revenue collection on wines and spirits, and second hand motor vehicles contributed to the negative performance of this revenue head. Consumption of locally produced wines and spirits has drastically reduced as a result of stiff competition from smuggled alcohol which retails at very low prices, since no excise duty is paid.

Other Taxes

Revenue collection from other taxes for the period under review amounted to US$105.7 million or 5.9% of total revenue, against a target of US$64.8 million. Other taxes include dividends and interest, vehicle carbon tax, tobacco levy and withholding tax.

B. Non-Tax Revenue

Dividends and mineral royalties constitute non-tax revenue for the year 2010 amounted to US$136.8 million or 7.0% of total revenue, against a target of US$88.1 million.

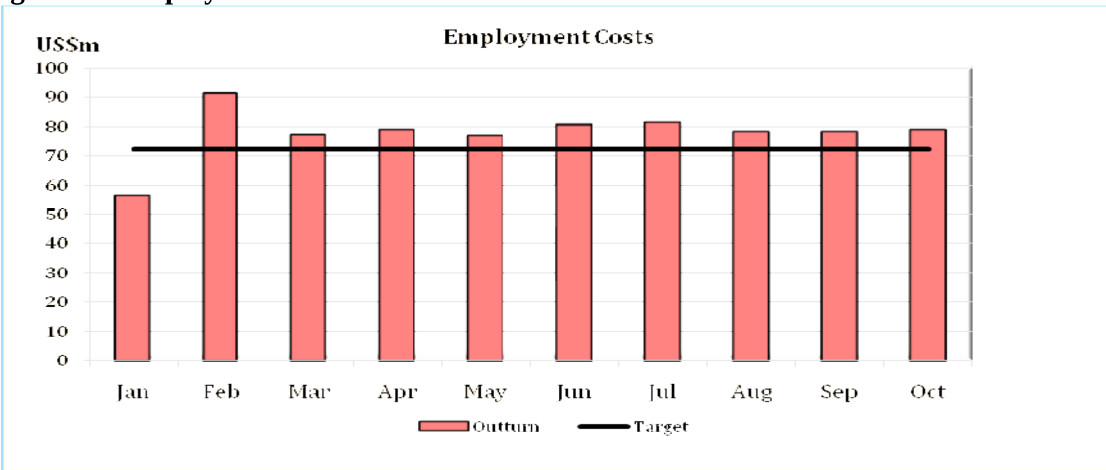
C. Recurrent Expenditure Developments

The 2010 national budget provided for recurrent expenditures of US$1.26 billion. Cumulative recurrent expenditures to December 2010 amounted to US$1.2 billion, representing 82% of the actual expenditures. The bulk of the current expenditures were on employment costs, goods and services, grants and transfers.

Employment Costs

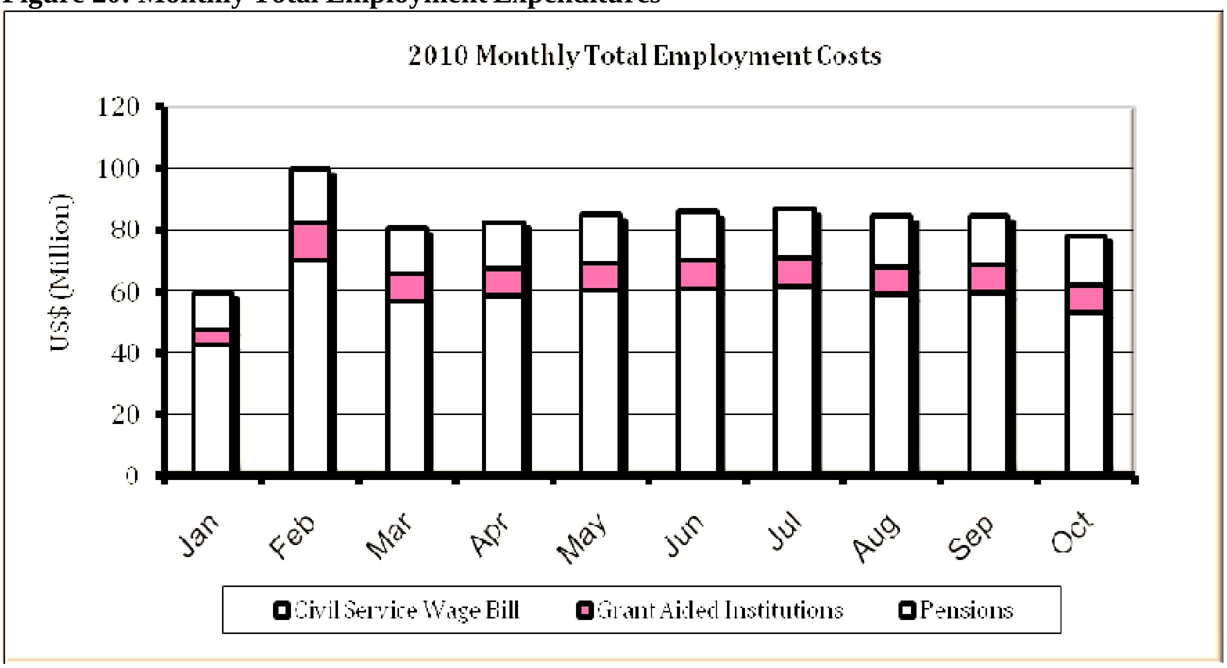
Employment costs to October 2010 for both the Civil Service and Grant in Aid Institutions for the period under review amounted to US$677.7million, representing 46.3% of the actual total expenditures to October. This is also against the original target of US$565.5 million for the period. The increase is on account of the decompression of the civil service wage structure effective 1 January 2010 and the introduction of transport and housing allowances in a bid to improve civil service welfare.

Figure 19: Employment costs of 2010



In addition, the filling of critical posts in Education and Health sectors which were exempted from the freeze also contributed to the growth in the employment costs.

Figure 20: Monthly Total Employment Expenditures



Pension

Cumulative expenditure on pension payments amounts to US$155.6 million, against a target of US$157 million. Currently, pension payments are indexed to serving members' remuneration under the Pay As You Go Scheme.

Medical Aid

Government is still meeting 100% medical aid contribution to Premier Medical Aid Society for all for civil servants view of low remuneration in the Public Service.

Operations and Maintenance

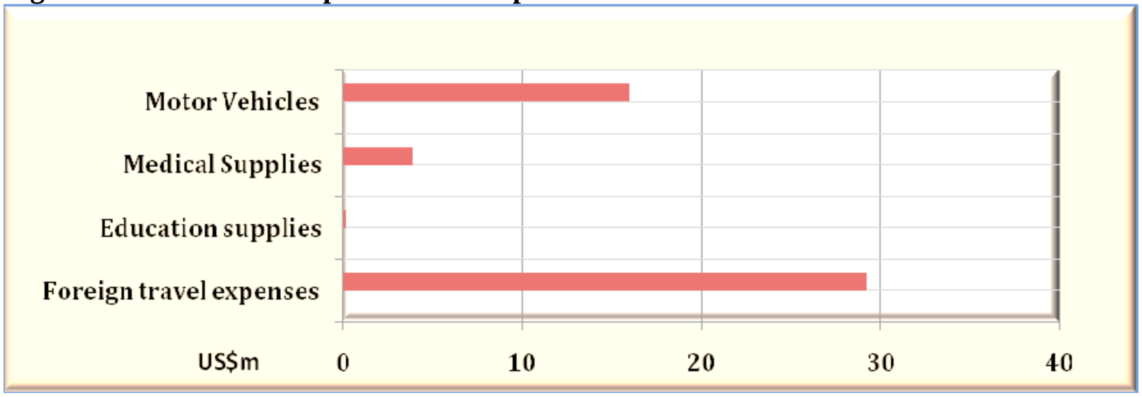
Operations and maintenance expenditures for 2010 amounted to US$233.4 million. The resources were mainly directed towards financing expenditures related to:

- Rental and hire expenses, US$51.9 million;
- Foreign travel, US$29.2 million;
- Ministries' programs, US$62.2 million; and
- Maintenance of buildings and infrastructure, US$2 million.

Foreign Travel

Foreign travel remains unsustainably high relative to other critical services. To October 2010, foreign travel expenditures amounted to US$29.2 million, against an original budgetary provision of US$24.2 million, representing 3% of total recurrent expenditure. At US$29.2 million, foreign travel represents 0.4% of GDP and, relative to other critical expenditure areas, this is unacceptably high. This can be evidenced in the figure below.

Figure 21: Cumulated Expenditure to September 2010 on Selected Items: US$ million



Capital Expenditures

The 2010 Budget provision for capital expenditures from domestic revenue amounted to US$266 million. As at end of October, expenditure on this item amounted to US$268 million. While capital expenditures are improving, these still fall far below the desired targets.

Figure 22: Capital versus Recurrent expenditures for 2010

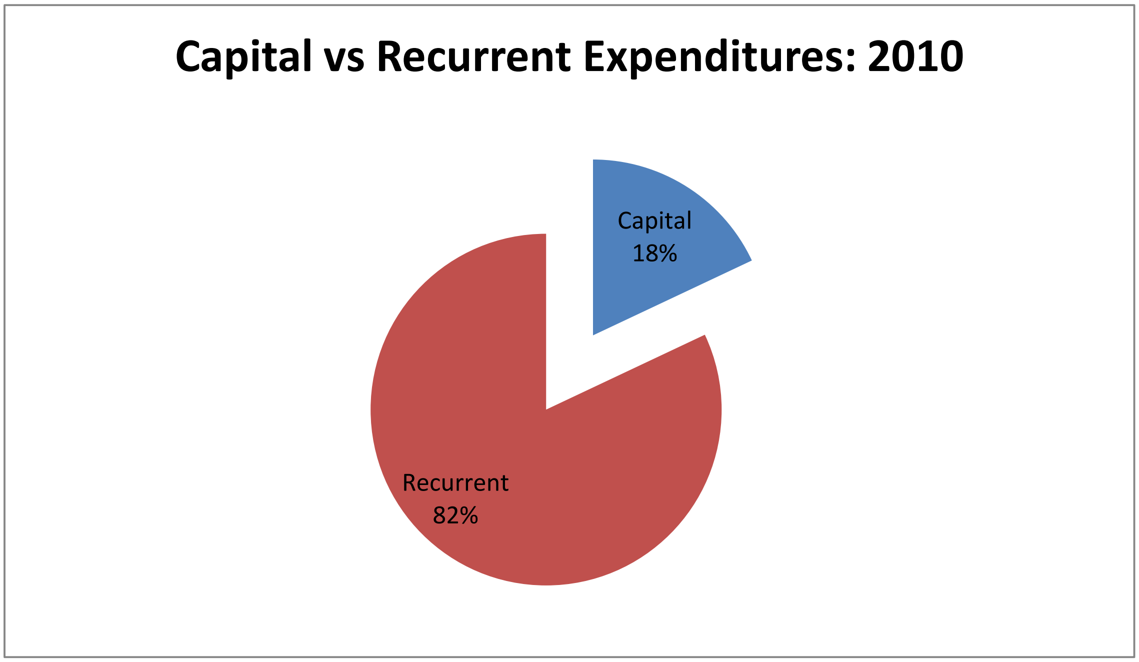
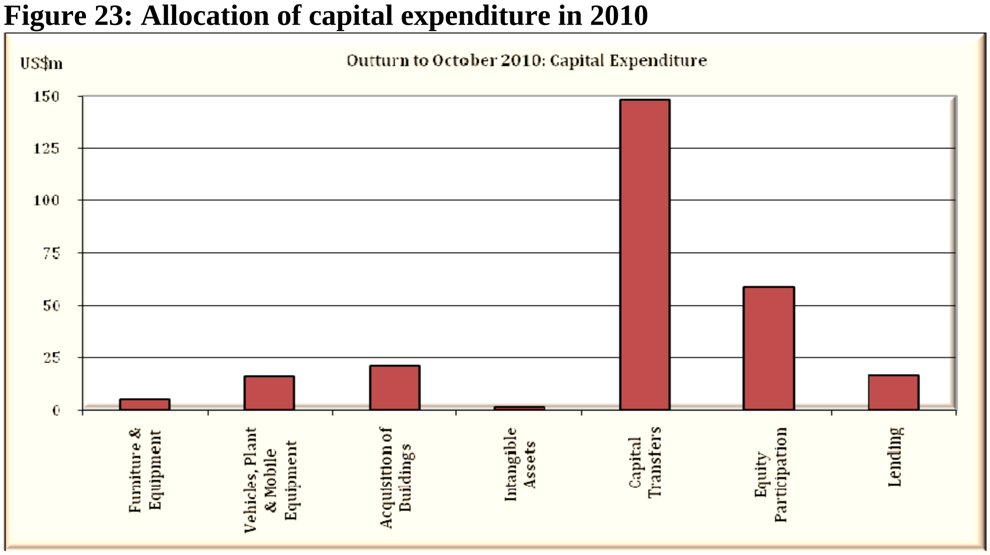


Figure 23: Allocation of capital expenditure in 2010



Source: Zimbabwe Statistics department

Adjusting for motor vehicle allocations of US$16 million, which are captured under capital expenditure reduces total capital expenditures to US$252 million

III. Tax Structure: Institutions and the Reality

III.1 Overview

The Zimbabwe Revenue Authority (ZIMRA) was established on 19 January 2001 as a successor organisation to the then **Department of Taxes** and the **Department of Customs and Excise** following the promulgation of the Revenue Authority Act on February 11, 2000. It is a semi-autonomous body under the supervision of Ministry Of Finance.

Since then, ZIMRA has grown at a tremendous pace and has put in place client-centric strategies for the convenience of the transacting public. In an effort to improve its operations, more stations (both permanent and temporary) have been opened nationwide. New border posts have also been opened since 2001 and these include Mphoengs, Sango and Maitengwe while Chirundu is now a one stop border post under the auspices of the Common Market for Eastern and Southern Africa (COMESA).

Operational hours at ports of entry/exit have also been increased and a case in point is Beitbridge Border Post which is now operational for 24 hours.

The Authority recently introduced a fully functional Large Client Office (LCO) to administer large clients in a personalised way.

ZIMRA has put in place measures to thwart smuggling which is prejudicing the fiscus of revenue and posing health risks to our society. By adopting various strategies that include use of scanners, border patrols, post-importation audits, client awareness programmes, and cargo monitoring; among others, the Authority has made an imprint in fighting underhand dealings.

Strides have so far been made in embracing information and communication technology as part of the Authority's efforts to modernise Tax and Customs operations. The introduction of ASYCUDA World and scanners at some stations to expedite Customs clearance is a case in point.

ZIMRA now has a fully functional in-house training centre whose goal is to impart skills to our officers. In conjunction with the National University of Science and Technology (NUST), ZIMRA set up a Bachelor of Commerce degree in Fiscal Studies and the first batch of graduates is expected before the end of this year. Plans are underway to introduce the Masters component for the programme.

Through its advisory role to the Government of Zimbabwe on fiscal matters, various fiscal reforms aimed at broadening the tax base have been successfully introduced and these include Presumptive Tax, Value Added Tax (which replaced Sales Tax) and Self-Assessment of Income Tax.

The organisation has also courted the confidence of the Nation and is responsible for collecting Road Tolls, Royalties on Minerals, and has been appointed, by the Motor Insurance Pool of Zimbabwe in conjunction with the Ministry of Transport, Communication and Infrastructural Development, as the sole agent for the issuing of Road Traffic Act insurance policies and collecting premiums thereon for all foreign registered vehicles entering Zimbabwe and foreign destined vehicles with effect from March 1, 2010.

In an effort to improve voluntary compliance and recognise compliant clients who pay their taxes on time and consistently, the Authority on 30 September 2011 launched the Taxpayer Appreciation Day which will be celebrated annually. Clients were honoured with awards in various categories including Customs, Excise and Domestic Taxes. Members of staff who have diligently served within ZIMRA for 10 years were also rewarded for their immense contributions.

What ZIMRA Does

The Zimbabwe Revenue Authority, which derives its mandate from the Revenue Authority Act [Chapter 23:11] and other subsidiary legislation, is responsible for assessing, collecting and accounting for revenue on behalf of the State through the Ministry of Finance.

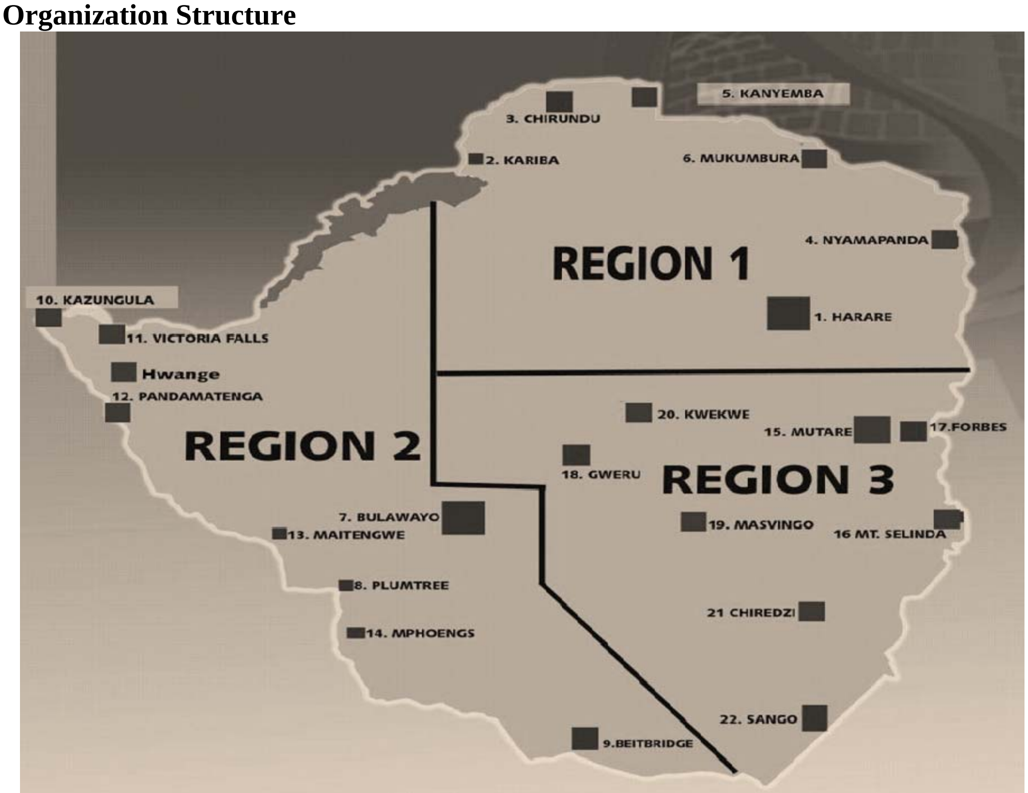
ZIMRA's mandate is to:-

1. **Collect revenue.** The following are some of the revenue heads which are administered by ZIMRA:
    - *Customs Duty* – levied on imported goods in terms the Customs and Excise Act [Chapter 23:02]
    - *Value Added Tax (VAT)* - levied on consumption of goods and services
    - *Excise Duty* - levied on specified locally manufactured goods

- *Income Tax* - levied on income earned from trade
- *Pay As You Earn (PAYE)*- levied on income earned from employment
- *Presumptive Taxes*- it's a concept of taxation according to which Income Tax is based on average income instead of actual income
- *Road Tolls* **-** fees levied for the use of the roads
- *Capital Gains Tax (CGT)* – levied on sale of immovable properties and marketable securities
- *Surtax* – levied on imported vehicles older than five years

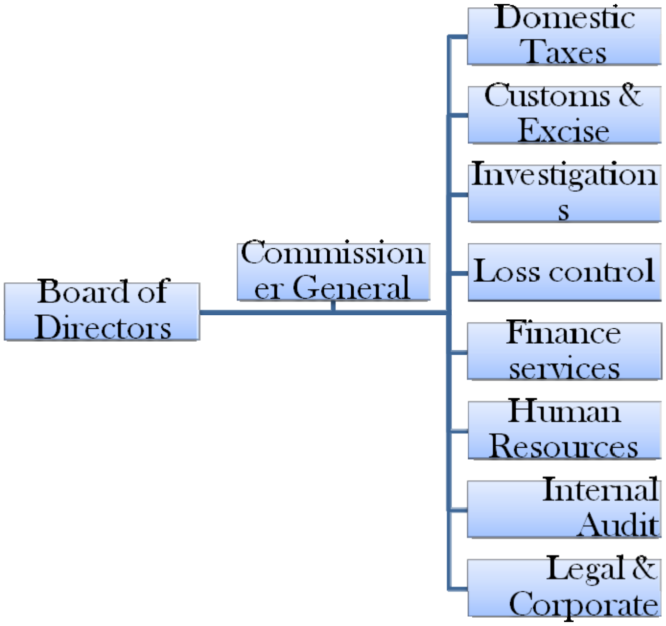
2. **Facilitate trade and travel.** This is achieved by ensuring smooth movement of goods and people through inland and border ports of entry/exit.
3. **Advise Government on fiscal and economic matters.** This includes **r**evenue forecasting, participation in national budget process and revision of Acts.
4. **Protect civil society.** ZIMRA's operations also include curbing smuggling and any forms of international trade crime as well as to enforce import, export and exchange controls. Most of these controls are meant to protect the consumer against dangerous and harmful drugs, hazardous substances, expired drugs, pornographic, objectionable or undesirable materials, and harmful substances.

Organization Structure



From the Zimbabwean map above one can establish that ZIMRA is divided into **3** regions, have a total of **24** offices. There are **2300 staff members.** These is inclusive of both taxation and customs offices.

Organization chart



Zimbabwe Authority is a semi-autonomous body under the supervision of Ministry of Finance and reports to the Board of Directors. The Commissioner General oversees the running of both taxes and customs departments. It has nine divisions as highlighted in the chart above.

III.2 Tax Specific Analysis

A.Value Added Tax

Value added tax is governed by Value Added Tax Act chapter 23:12 and came into existence on 1 January 2004.It replaced sales tax with the objectives of increasing revenue mobilization by broadening tax base and to achieve neutrality, efficiency, fairness and transparency in tax administration. Zimbabwe embraced destination principle in VAT system that imposes tax on the taxable transaction within the jurisdiction of Zimbabwe. VAT is categorised into Local VAT and Import VAT. The registration of taxpayers is guided by nature of transaction, place of supply and annual turnover.It is the highest revenue contributor. In 2010 it contributed 36% of total collections.

Due date for submission of VAT returns and payment is the 20th of the month following the end of the tax period. For example the VAT payment for the month of January 2012 shall become due and payable on or before 20 February 2012.

Responsibilities upon registration include:

- Keeping accounting records for a period of at least six (6) years after the tax period to which the period relates.
- Completing and submitting VAT returns even if you do not owe ZIMRA. Frequency of submitting the returns is monthly.
- Calculating and remitting the VAT due to the Commissioner on or before the due date.
- Issuing tax invoices for any taxable supply whose value is more than US$10.00.
- Advising ZIMRA of any change in business details, including address, addition of/or change of partner, cessation of trade, etc.
- Allowing ZIMRA officials to enter your business premises and examine goods and all business records.

Features of Zimbabwe`s VAT

Standard rated supplies

These are supplies of goods and services that are taxable at the rate of 15%.Most of the goods are standard rated unless they have a specified rate, are zero rated, or exempt. With effect from 1 January 2010, some items which were formerly zero rated were added on to the list of standard rated products. This means that the supply of goods listed below is now VAT chargeable at the rate of 15%.

Butter, almonds, hazelnuts, walnuts, chestnuts, pistachios, macadamia nuts, margarine (excluding liquid margarine), groundnuts (peanut butter), lotions, rubber gloves, plastic gloves, raincoats, fish fillers, yoghurt and cream.

Zero rated supplies

Zero rated supplies are taxed at the rate of 0%. Zero rating is a way of ensuring that goods are provided free of VAT. A registered operator who supplies zero rated goods or services is allowed to claim input tax credit in relation to that supply. Such an operator must obtain and retain documentary proof of his entitlement to apply the zero rates. Zero rated supplies are specified in the VAT Act and include:-

- Basic foodstuffs such as mealie-meal, sugar, milk, meat, salt, bread, etc.
- Agricultural inputs such as fertilizer, seeds, and pesticides, animal feed, animal remedy, plants, tractors, etc.
- Exported goods with the exception of un-beneficiated chrome which is taxed at 15%.
- The supply of day old chicks weighing not more than 185g is now zero-rated with effect from 1st September 2010.

Exempt supplies

Exempt supplies are supplies of goods and services on which no VAT is chargeable at all. VAT incurred on goods and services acquired to make exempt supplies shall not be claimed as input tax credit. Traders who exclusively provide exempt supplies are not required to register for VAT purposes. Exempt supplies include the following service and products:

- medical services
- educational services
- rentals from residential properties
- transport of fare-paying passengers
- water for domestic use
- electricity for domestic use
- fuel

Invoice Based VAT

Zimbabwe use an invoice based VAT.Document prescribed in Vat Act section 20.To be furnished within30 days to the recipient of a good or service. Features of a proper tax invoice are

- The word <u>tax invoice</u> in a prominent place.
- Name and address of supplier and recipient.
- Serialized and date of invoice issue.
- Quantity or volume of goods or services supplied.
- Price and Vat charged.

Tax on exportation of unbeneficiated chrome

With effect from 1st August 2010, the VAT Act was amended by the insertion of Section 12B. The new section broadens the definition of “unbeneficiated chrome” so as to include chrome ore, chrome fines as well as semi-processed chrome concentrates. Un-beneficiated chrome means chrome ore and fines which have not been subjected to the following processes:--crushing, milling and washing to remove the waste material; and the smelting of the resulting chrome concentrate into pellet or ingot form. Where chrome concentrate has undergone a smelting process which results into pellets and ingot, the chrome concentrate shall be considered to have been beneficiated and will not be liable to the 20% export tax. The rate of export tax on ‘’unbeneficiated chrome’’ has also been increased from 15% to 20%.The 20% export tax should be declared on the VAT return as output tax and should not be claimed as input tax

Refund of VAT

Generally Value Added Tax (VAT) refund can arise where the input tax exceeds the output tax. However there are other instances which include the following; where ZIMRA refunds less than the correct amount and where a registered operator, in paying an amount of VAT, additional VAT, penalty or interest pays more than the correct amount.

Conditions to be fulfilled before a refund are processed.

- The Commissioner is obliged to process the VAT refund upon submission of the registered operator’s return which essentially triggers the claim for the VAT refund.
- VAT refunds must be claimed within six years from the end of the tax period in question.
- Where the total amount refundable is US$60, 00 or less, it is carried forward as a credit into the next tax period.
- If the registered operator has failed to furnish any return for any period as required by the Act, the Commissioner may withhold the payment of the amount refundable to the registered operator until such time as the return is submitted.
- The Commissioner may set off a refund of VAT due to a registered operator against any other amount of VAT, additional VAT, interest or penalty which the registered operator has failed to pay within the stipulated time period.
- The Commissioner may also set off a VAT refund due to the registered operator against other revenue heads such as income tax payable by the same operator.
- If authorisation of a refund to the registered operator is denied by the Commissioner, a letter of refusal shall be furnished to the registered operator.

Delays in processing VAT Refund.

If the Commissioner fails to process any VAT refunds owing to the registered operator within 40 days from the date on which the Commissioner received the registered operator’s return, interest is payable to the registered operator on the outstanding amount at the prescribed rate of interest. The interest is calculated from the end of the 40 day period to the date the refund is made. However, if the return submitted is incomplete or defective in any material respect, no interest is payable. Furthermore, no such interest is payable by the Commissioner, where the registered operator is in default in respect of his statutory obligations to submit a return for any preceding tax period.

Guidelines on VAT Refund Claims for Diplomats and Diplomatic Missions

Refunds Granted to;

Diplomats, specified persons, diplomatic missions, consular missions and external aid agencies.

Procedure for Granting Missions

- Claimant to be accredited by the Ministry of Foreign Affairs as a diplomat, diplomatic or consular mission.
- To register with Zimbabwe Revenue Authority (ZIMRA).
- Complete the refund claim form (VAT 14 form). Attach original invoices.
- Take the completed forms and the invoices to the Ministry of Foreign Affairs-Protocol Section, for onward submission to ZIMRA.
- Once ZIMRA has finished processing your claim, all the invoices will be returned to you.
- Ministry of Foreign Affairs officials submit the claims to ZIMRA for processing

ZIMRA deposits any amount refundable into the claimant’s s bank account.

Deferment of VAT

VAT is normally payable on importation of goods or removal of goods from Bond. VAT may be deferred in certain instances as follows: Deferment of VAT is an officially sanctioned temporary postponement of paying VAT on importation of specified goods of a capital nature and medical equipment approved by the Minister in consultation with Minister of Health. The goods should have been imported for own use by the importer and the VAT amount to be deferred should be at least $4 800.The deferment is for a period not exceeding 90 days from the date of the deemed importation. It is granted on application to the Commissioner.

Who qualifies for deferment?

Any person who produces proof to the satisfaction of the Commissioner that he or she has imported goods of a capital nature or approved medical equipment for his or her own use. This includes companies and partnerships as well. The importer`s tax record should be up to date. Non-filers will not be entertained.

How does one apply?

The application should be in writing quoting your business partner number (BP) and should be submitted to your nearest ZIMRA office .Specify the goods on which deferment is being applied for and the industry which you operate under. For medical equipment Ministry`s approval should be attached. Copy of the invoice as proof of goods imported and value of such good should be attached. Specify the period for deferment you require which should not be more than three months. Declare that the goods are for own use and will not be disposed of even after deferment period without notifying the Commissioner.

Which goods are of a capital nature?

Goods of a capital nature in this context refer to:

i) Specific prescribed plant, machinery or equipment used exclusively for:

- Mining purposes on a registered mining location as defined in the Mines and Minerals Act[*Chapter 21:05*]; or
- Manufacturing or industrial purposes in, on or in connection with a factory (including spare parts required for the purpose of maintaining or refurbishing such plant, equipment or machinery);
- Agricultural purposes (including spare parts required for the purpose of maintaining of refurbishing such plant, equipment or machinery);
- The aviation industry (including spare parts required for the purpose of maintaining or refurbishing aircraft and such plant, equipment or machinery);
- Equipment and or machinery for use in medical sector.
- Note that goods of a capital nature do not cover motor vehicles intended or adapted for use on roads or capable of being so used.
- The goods are prescribed by the Minister of Finance in consultation with the Minister responsible for the particular industry.
  ii) Medical equipment prescribed by the Minister of Finance in consultation with the Minister responsible Health.

What happens if one fails to settle the deferred VAT debt?

Deferred debts which are not settled on due date may result in the VAT deferment facility being stopped or withdrawn. In addition, ddeferred VAT debts may also be subject to interest and penalty charges

What happens if one sells the goods during or after deferment period?

Where goods that enjoyed deferment of tax are sold, re- exported or disposed of before or after expiry of the deferment period instead of being used for the declared use, the importer will pay in addition to any tax for which he or she is liable on such disposal the outstanding deferred amount, 100% penalty and interest at prevailing rates. Any person who carries on trade in taxable supplies and whose annual taxable turnover exceeds or is likely to exceed US$60 000.00 must apply to register for VAT on Form VAT1.

B. Employees Tax - Pay As You Earn (PAYE) System

The Pay as You Earn (PAYE) system is a method of paying income tax on remuneration. The employer deducts tax from your salaries or pension earnings before paying you your net salary or pension. The Income Tax Act [Chapter 23:06] specifies what elements of an employee's remuneration or earnings are subject to tax and at what rate of tax. It also deals with what income is exempt from tax and what deductions are allowed from these earnings, prior to tax being calculated. Assume then for a moment that everything you earn - be it in cash, benefits, or an item of value you are given instead of cash - is subject to some form of tax. However, the determining of the value and its associated tax liability in respect of any of these forms of payments will differ in some cases.

The official tax table operates on an escalating scale basis, (i.e. the higher your earnings the greater percentage tax you pay on each bracket of earnings). When your earnings reach a certain amount, the percentage stops increasing and a flat rate of tax becomes applicable for any earnings above this level, which is Marginal Tax Rate (MTR). The MTR is set at 35%. The tax-free threshold for individual taxpayers has been raised from US$175.00 to US$225.00 with effect from 1st January 2011

The due date for the submission of PAYE returns and payment is **<u>the 10th of the</u>** following month. PAYE is calculated as follows:

1. Determine gross income for the day/week/month/year.
2. Deduct exempt income, for instance bonus
3. You get => ***Income***
4. Deduct allowable deductions, e.g. pension:
   You get => ***Taxable Income***

Use the appropriate PAYE Tables to determine the tax charge.

Responsibilities upon registration include:

- Every business person who becomes an employer is required to apply to the Commissioner General for registration within 14 days of becoming an employer.
- The employer will be given the relevant tax deduction tables and informed of his/her obligations as an employer.
  Some of the obligations include:
- Calculation and deduction of PAYE in accordance with the tax deduction tables
- Remittance of PAYE to ZIMRA within 10 days after the end of the month during which the amount was withheld. Please note that with effect from 1st September 2010, the remittance of PAYE was moved from within 10 days after the end of the month during which the amount was withheld.
- Keeping accounting records for a period of at least six (6) years.
- Submission of the ITF 16 return which contains details on annual earnings, deductions, credits and PAYE for each employee within 30 days after the end of the year.
- Failure to withhold any amounts which you are required to withhold renders one to be liable to the amounts due as well as penalties and interest. Observing these basic requirements will assist you in running your business professionally and helps avoid the anxiety and stress associated with non-compliance and having to pay arrears, interest, fines and penalties.

C. Company Income Tax

All clients, including individuals, companies, partnerships and cooperatives who want to venture into any business venture are required to register with ZIMRA and comply with all obligations as stipulated in the legislation. To register, you are required to have a bank account among other requirements. Once you have a bank account, you can then approach ZIMRA for registration. You will be required to complete registration forms depending on the nature of your business operations. All clients will be required to

complete the REV 1 form, which can be obtained from ZIMRA offices or can be downloaded from this website. Once registered, you will be issued with a Business Partner Number (BP) which acts as the business' identification number and is used for all transactions with ZIMRA, including remittances of tax.
After commencing operations, the taxpayer is required to keep records of all business operations and pay Provisional Tax on the stipulated dates (as shown below). The dates are referred to as Quarterly Payment Dates (QPDs). The Provisional Tax payable is based on the respective percentage of estimated annual tax due. The annual estimated tax due should be revised to update the estimate every quarter.

- The form ITF 12B, which is a return for provisional tax payments, has to be completed in respect of these payments.
- The payment dates and the percentage of tax due for each tax year are listed below

Table 9: Due Dates for 2010

QPD	Due Date (on or before)	Instalment Due (as a % of the annual tax payable)
1st QPD	25th March	10%
2nd QPD	25th June	25%
3rd QPD	25th September	30%
4th QPD	20th December	35%

A tax return is required after the end of each tax year. The tax year runs from 1 January to 31 December of each year. Clients who have been specified in terms of Section 37A of the Income Tax Act [Chapter 23:06] as being on Self-Assessment are required to furnish Self-Assessment Returns in duplicate by 30th April of the following year. Operators will also require a Tax Clearance Certificate - form ITF 263 which is issued by ZIMRA once you have met all the stipulated obligations which include submission of tax returns and remittances of tax due. If you do not have this clearance, anyone who pays you any amounts in excess of US$250.00 are required to withhold and remit to ZIMRA 10% of the amounts paid. There is need to strictly observe the requirements in Section 80 of the Income Tax Act [Chapter 23:06]. It requires that all registered business taxpayers who enter into any contracts which result in an obligation to pay any amounts whose total or aggregate is US$250.00 or more to withhold 10% of each amount payable to payees who fail to furnish valid tax clearance certificates.

Tax Rate

The standard corporate tax rate is 25%.Zimbabwe offers a number of tax and customs incentives in the form of tax holidays, reduced tax rates and accelerated depreciation. The incentives are given by sector type of activity, form of organisation and geographical location of investment .The table below show the different rates.

Table 10: Corporate Tax rates as at 2010

Details	Finance Act	Tax Rate
Income of individual from trade and investments(Standard Rate)	14(2b)	25%
Income of company or trust	14(2c)	25%
Income of pension fund from trade or investment	14(2)d	15%
Income of licensed investor during first five years of operation	14(2) e	0%
Income of licensed investor after first five years of operation	14(2) e	25%
Income of a holder of special mining lease	14(2)(f)	15%
Income of a company or trust derived from mining operations	14(2) g	25%
Income f person engaged in approved BOOT or BOT arrangement: First 5 years	14(2) h	0%
Income f person engaged in approved BOOT or BOT arrangement: Second 5 years	14(2) h	15%
Income of industrial park developer before 5th year of operations	14(2) i	0%
Income of industrial park developer after 5th year of operations	14(2) i	25%
Income of operator of a tourist facility in approved tourist development zone before the fifth year of operation	14(2) j	0 %
Income of operator of a tourist facility in approved tourist development zone after the fifth year of operation	14(2) j	25%
Income from manufacturing of a company which exports 50% or more of its output	14(3)	20%
Aids Levy: Rate is based on tax chargeable		3%

Allowable deductions

On calculation of the taxable income there are several items which are allowed **as** deductions before coming up with the amount legible for tax purposes. This is shown in the table 10 below

Table 11 : Allowable Deductions for corporate tax for the year ended 2010

Details	Reference	Maximum amount allowed
Donations to National Scholarship Fund, National Bursary Fund and charitable trusts	Sect 15(2)(r)	There is no limit.
Contribution for equipment, construction, extension, maintenance of hospitals and procurement of drugs and equipment.	Sect 15(2)(r1)	The amount is limited to US$100 000 per annum per taxpayer.
Contributions to a research institution	Sect 15(2)(r2)	The amount is limited to US$100 000 per annum per taxpayer.
Contribution for equipment, construction/ extension, and maintenance of schools and procurement of books	Sect 15(2)(r3)	The amount is limited to US$100 000 per annum per taxpayer.
Donations to the Public Private Partnership Fund	Sect 15(2)(r4	The amount is limited to a maximum of US$50,000 without any consideration
Donations to the Destitute Homeless Persons Rehabilitation Fund	Sect 15(2)(r5)	The amount is limited to a maximum of US$50,000.
Expenditure on attending Convention or Trade Mission	Sect 15(2)w(i)	Amount incurred for attending not more than one convention or trade mission in any one year of assessment limited to US$2 500
Contribution to the maintenance of buildings, roads, bridges, sanitation works, water works, public parks, or any other utility amenity or item of infrastructure approved by	Sect 15(2)(kk)	The amount allowable is limited to US$50 000 per annum.

Capital allowances

The Income tax act stipulates that certain capital expenditures should be allowed for up to a certain amount. The selected capital allowances are listed in the table below.

Table 12: capital allowances under corporate tax

Capital allowance	4th schedule paragraph	Limit
Passenger Motor Vehicle	14(1)(m)	The limit was pegged at US$10 000
Any Staff Housing	1(p)	The limit was pegged at US$25 000
School, hospital, nursing home or clinic	15(2)	Cost to the employer. No limit
Staff housing for employees at a school, hospital, nursing home or clinic which qualifies as farm improvements and alteration and additions thereto.	15(3)	Cost to the employer. No limit
SIA for Small to Medium Enterprises	Para 9(g)	Reduced to150% SIA on cost of plant and machinery for the 2010 tax year. 100% allowed in first year of use and claim and balance over two years at 25% as accelerated wear and tear.
Buildings, Improvements, Machinery and Equipment used for Commercial, Industrial and farming	Para9(h)	25% SIA from 1/1/2010 or any subsequent year of assessment

D. Presumptive Tax

Presumptive tax legislation was introduced to broaden the revenue base in view of the increase in informal business activities. Selected sectors of the economy were targeted to ensure the participation of informal businesses in tax payment in line with experiences of other developing countries. Details relating to the current rates and due dates of the various categories are shown below.

Table 13: Transport Operators' Presumptive Tax

Operators of:	Description	Presumptive Tax (USD per quarter for each vehicle) 2009	Presumptive Tax (USD per quarter for each vehicle) 2010& 2011
Omnibuses	8 to 14 passengers	150	150
	15 to 24 passengers	200	175
	25 to 36 passengers	400	300
	From 37 passengers and above	650	450
Taxi-Cabs	All	100	100
Driving Schools	Class 4 vehicles	500	500
	Class 1 and 2 vehicles	600	600
Goods Vehicles	More than 10 tonnes but less than 20 tonnes	1 000	1000
	More than 20 tonnes	2 500	2500
	10 tonnes or less but with combination of truck and trailers of more than 15 but less than 20 tonnes	2 500	2500

Table 14: Due Dates for the Transport Sector and also Hairdressing Salons:

Period of each year	Due Date
1st Quarter (Jan to March)	10th April
2nd Quarter (April to June)	10th July
3rd Quarter (July to September)	10th October
4th Quarter (October to December)	10th January of the following year

Taxicab and omnibus operators are required to carry a tax clearance certificate in the respective vehicle. Failure to carry or produce the tax clearance certificate renders the person in charge of the vehicle liable to a fine of 100% of the amount due or, if in default of payment, imprisonment for a period not exceeding six months. Failure to pay the Presumptive Taxes in time also renders the operators liable to interest charges.

2. Hairdressing Salon Operators' Presumptive Tax

Every operator of a hair dressing salon is required to pay Presumptive Tax amounting to **US$1 500.00 per quarter**. Amounts not paid by the due date are subject to interest charges. Due dates are shown in the table above.

3. Informal Traders' Presumptive Tax

All persons in receipt of rental income from an informal trader in respect of residential accommodation, premises or a place on which trade is carried on are required to withhold an additional amount of Presumptive Tax equal to **10% of the rental** and remit to ZIMRA. This includes local authorities.

The amount should be remitted within 30 days from the date the amount is recovered. Failure to recover or remit the Presumptive Tax renders the lessor personally liable for the payment of the Presumptive Tax and a penalty of 100% of the amount due. Failure or refusal on the part of the informal trader to pay the Presumptive Tax constitutes a breach of the lease and allows the lessor to terminate the lease without notice.

4. Small-Scale Miners' Presumptive Tax

Every agent who buys any precious metals or precious stones from a small scale miner is required to withhold **2% of the gross amount payable** and remit the amount to the Commissioner General. The only exception is where the small-scale miner holds a valid tax clearance certificate. The amount should be remitted by the 10th of the following month in which payment was made. Failure to recover or remit the Presumptive Tax renders the agent liable for payment of the tax, penalties at 100% and interest charges.

5. Cross-Border Traders' Presumptive Tax

Cross border traders who import commercial goods into Zimbabwe are required to pay a Presumptive Tax equal to **10% of the value for duty purposes (VDP)** of the commercial goods. The only exception is cases where the trader is registered with ZIMRA for Income Tax purposes and is up to date with submission of tax returns and payment of all taxes due.

6. Operators of Restaurants or bottle-stores

Every operator of a restaurant or bottle store is required to pay presumptive tax amounting to US$300 per quarter. The due dates are shown on the table above. Interest is chargeable on all amounts not paid by the due date.

7. Cottage Industry Operators

Every person who owns or is in charge of a cottage industry regardless of it being licensed or not is required to pay presumptive tax amounting to US$300 per quarter. Cottage industry operators include those in the furniture-making or upholstery trade, metal fabrication and any other cottage industry that the Minister may, by notice in a statutory instrument prescribe. Interest is chargeable where the amounts due are not paid by the due date.

Collection of Presumptive Tax by Local Authorities

Local Authorities may be appointed as agents for the collection and remittance of the following presumptive taxes:-

1. Informal traders
2. Operators of taxicabs
3. Operators of omnibuses
4. Operators of driving schools
5. Operators of Trucks
6. Operators of hairdressing salon
7. Operators of restaurants or bottle stores
8. Operators of cottage industry

Local Authorities wishing to act as agents for the collection of the above presumptive taxes shall make a written application to the Commissioner. One of the conditions to be considered before being appointed as an agent is that the applicant should be compliant with PAYE & VAT statutory obligations. Successful applicants may enter into a contract with the Authority to collect and remit presumptive taxes on behalf of the Authority and retain a fee of not more than 10% of the collected presumptive taxes. All such collection contracts shall be processed and ratified by our Legal Division.

Please note that the Authority is still obliged to collect all the presumptive taxes in the absence of the proposed arrangement with Local Authorities.

The payment of Presumptive Taxes does not exempt the presumptive taxpayer from the obligation to render Income Tax returns. ZIMRA will be carrying out routine checks to ensure that all operators comply with these requirements.

F. Capital Gains Tax

Capital Gains Tax (CGT) is a tax levied on the capital gain arising from the disposal of a specified asset. Specified asset means immovable property (e.g. land and buildings) and any marketable security (e.g. debentures, shares, unit trusts, bonds and stock).

Who is liable to remit it?

Seller; or Depositary; or Agent.

Depositary includes:

A conveyancer, legal practitioner, estate agent, building society, Sheriff or Master of the High Court, stockbroker or financial institution.

Documents required when applying for a CGT Clearance Certificate

- Completed CGT 1 form by the seller.
- Copy of Agreement of sale for the property in question with full description of the property.
- Copy of Agreement of sale for the new property where partial or full roll-over is claimed
- Copy and original of Deed of transfer/title deeds for the specified property and share certificate if sale of shares (N.B Original copy for verification purposes only).
- Receipts as proof of expenditure incurred on additions, alterations and improvements to the specified asset. Approved plan and quotations where proceeds from the sale of old Principal Private Residence (PPR) are going to be utilized on construction of new PPR.
- Two utility bills from two different service providers with service address .
- Letter of undertaking to pay withholding tax where client is represented by a depositary.
- Receipt for payment of CGT/Withholding Tax.
- Copy of marriage certificate where the transfer is between spouses.
- Valuation reports three where there is a relationship between the seller and the buyer.
- Certificate of incorporation, CR14, CR6 and minutes of resolution to sale where the seller is a company.
- Where the transfer is between companies under the same control: special board resolution signed by the Company Secretary or Chairman; agreements of the proposed mergers or reconstruction; organogram for the organisation; and share register of the company; and CR 14.
- Where the transfer is from an individual to a company under his control: CR 14 and share register of the company
- Copy of Court order if it is a divorce case, Death certificate and Final distribution account if it is a deceased estate.

N.B Clients are required to come to ZIMRA Offices and bring their IDs for face to face interview.

Rate of tax

The Capital Gains Tax shall be calculated at a rate of **20%** of the capital gain determined in accordance with the CGT Act. Where a specified asset that was acquired prior to 1 February 2009 is disposed of after that date, CGT shall be calculated at a rate of 5% of the selling price. The rate of capital gains withholding tax for unlisted securities was reduced from 10% to 5% with effect from 1/09/2010. In the case of a sale of a listed marketable security (e.g. listed shares), the rate of Capital Gains Withholding Tax shall be 1% of the price at which the security was sold. This is with effect from 1 August 2009.

Provision for sales of principal private residence (PPR)

No Capital Gains Tax is chargeable where one elects for roll-over by spending all the proceeds from the sale of the old principal private residence (PPR) on the purchase/construction of a new PPR. This also applies where a residential stand which qualifies as a principal private residence is disposed. Where part of the proceeds is expended on the acquisition of the new PPR, CGT is chargeable on the remaining portion.

Instances where CGT is not payable

- Transfers of specified assets between spouses.
- Transfers in a scheme of reconstruction/merger or the like that is approved by the Commissioner General of ZIMRA.
- Transfer of business property used for the purposes of trade by an individual to a company under his control where such company will continue to use the property for the purposes of trade.
- Where a person aged 55 years or above sold his or her PPR.

Deemed Sales

- Donations or disposal other than by way of sales - (deemed at market price).
- Expropriations – (deemed at expropriation/compensation).
- Sold in execution of Court Order – (deemed at selling price).
- Maturity/redemption of specified assets – (deemed at maturity amount/redemption value).
- Transfer under deed of sale - (deemed at market price).

Allowable deductions

These include:

- Cost of acquisition of specified asset which has been sold.
- Cost of additions/alterations/improvements of specified assets
- Inflationary allowance: this is now calculated at 2,5% of the purchase price.
- Selling expenses.

D. Customs and Excise Duties

Customs Duty is levied on imported goods in terms of the Customs and Excise Act [Chapter 23:02] whilst Excise Duty is levied on certain locally manufactured goods in terms of the same Act. Applicable rates of Customs and Excise Duties are set-out in the Customs Tariff, which is published in the form of a statutory instrument. The applicable rates of duty depend on the category of goods.

Value Added Tax (VAT) is another tax levied on imported goods in terms of the Value Added Tax Act [Chapter 23:12].

A Special Excise Duty is charged on the change of ownership of locally registered second-hand motor vehicles at a rate of 5% of the value of the second-hand motor vehicle in terms of the Customs and Excise Act [Chapter 23:02].

Duty may be reduced or waived where the following circumstances exist: suspensions, rebates, bilateral and multilateral agreements, remissions.

Restricted and Prohibited Goods

The importation and exportation of certain goods and substances is **restricted** that is to say it may be possible only under certain conditions such as production of a relevant permit or license. For some products, the importation or exportation is absolutely **prohibited or banned.**

ZIMRA has been charged with the control of these import and export restrictions and prohibitions. Most of these controls are done in the interest of the public. They are meant to protect the consumer against: dangerous and harmful drugs, hazardous substances, expired drug, pornographic, objectionable or undesirable materials, Harmful substances which include skin lightening creams, soaps and lotions. Some of the controls are meant to protect the environment against: destruction of fauna and flora and extinction of endangered species. Others are meant to protect: Revenue, Conserve foreign currency, Maintain export standards, and Intellectual property against infringement of rights such as trademarks, copyrights, designs and patents.

Restricted Goods

Usually restricted goods in this context are those which are subject to import or export control - that is, goods which may not be imported or exported except under license or permit. Examples include :wildlife and wildlife products ,agricultural produce, firearms and ammunition

Prohibited Goods

These are goods whose importation or exportation is absolutely prohibited or banned and include the following: Pornographic materials, Flick knives/lock blades, Skin lightening creams containing hydroquinone and mercury, Any goods the importation of which is prohibited by or under the authority of any enactment, Any goods which are indecent, obscene or objectionable, Any goods which might tend to deprave the morals of the inhabitants, or any class of the inhabitants, of Zimbabwe, extracts, essences or chemical products which are noxious or injurious

Importation or Exportation of Restricted Goods

The importation or exportation can only be done under a relevant permit or license. Below is a list of some of the most common restricted goods and the respective authorities that authorizes their importation or exportation.

IV. Country Specific Fiscal Issues

Large taxpayer`s Office

Zimbabwe Revenue Authority has, from August 2011, opened a Large Tax Payer's Office providing dedicated service to large tax payers. This is critical not only in ensuring quality service to our tax payers but also encouraging compliance with our tax laws.

Self-Assessment Systems

Zimbabwe adopted Self-Assessment Systems for Value added Tax and income taxes in 2004 and 2007 respectively. Reality of Self-Assessment System require tax authorities to move from processing forms to providing services to taxpayer of assisting them to understand the application of the tax law .However, most developing countries (Zimbabwe included) is that they shifted the burden of assessing tax liability to the taxpayer but completely or weakly adopted the essential components of effective self-assessment systems which are tax education, auditing and how to deal with delinquent taxpayers. Due to this partial implementation, experience show that self-assessment has not lived up to the expectation of Zimbabwe`s taxation. Adoption of a system not in its entirety might cause more harm than good. Crucial measures need to be taken in order to achieve an entire Self-Assessment System. This would be a timely endeavour for improved tax compliance and might spill to the much needed tax revenues.

Corporate tax and Incentives

Due to globalization and the much need to attract foreign direct investment, there was a corporate rate tax cut from 30% to 25% in 2009. Zimbabwe`s standard corporate tax rate of 25% is lowest and also below the average of the sub Saharan region of 30.5%, yet the country`s Foreign Direct Investment (FDI) is the lowest and far below the Sub Saharan African countries` average of 6.8%.

In addition there are a wide range of fiscal, customs and excise incentives**.** Although corporate tax policy and incentives are capable of affecting the volume and location of FDI their use and effectiveness in Zimbabwe is far from universal. Zimbabwe's capital account inflows, thus, remain a sad story; with 2011 FDI levels at US$125 million.FDI, which averaged 18% of GDP in the 1980s and 20% in the 1990s, was a mere **1.1%** between 2000 and 2009.It is the least in Sub Saharan Africa

.This clearly shows that tax policy in isolation is a poor instrument to compensate for various negative factors in the investment climate of a country. Factually Zimbabwe in the 1980s up to 1990s had sound infrastructure political and economic institutions which then deteriorated late in 1990s. However the corporate tax reform became favorable with years but as evidenced by FDI figures it’s failing to compensate for other obstacles in the business environment and thus failing to attract meaningful foreign companies. Tax incentives with multiple tax rates create significant possibilities for suspicious behaviors from tax administration and companies. Thus it poses a room for creation of some unnecessary bottlenecks in order to solicit rent seeking. As tax incentives can be abused by existing enterprises disguised as new ones through nominal reorganization, their revenue costs can be high. Tax incentives can be justified if they address some form of market failure, most notably those involving externalities (economic consequences beyond the specific beneficiary of the tax incentive).Unfortunately, the most prevalent forms of incentives found in Zimbabwe tend to be the least meritorious.

Since tax reduction and incentives do not really attract meaningful investment, I suggest that majority of these should be scrapped off in order to reduce crowding out effect on local investors and to boost revenue which can be then used to fund other sectors which in turn lure investment. Indirect tax incentives should be avoided, and discretion in granting incentives should be minimized. Compared with tax holidays, tax credits and investment allowances have a number of advantages. They are much better targeted than tax holidays for promoting particular types of investment and their revenue cost is much more transparent and easier to control.). For example, incentives targeted to promote high-technology industries that promise to confer significant positive externalities on the rest of the economy are usually legitimate. Safeguards must be built into the system to minimize dangers of distortion of choice and abuse.

The best strategy for sustained investment promotion is to provide a stable and transparent legal and regulatory framework and to put in place a tax system in line with international norms. One way is to set the corporate tax rate in line with those of main host countries of investment. Since tax rate might not be the main reason affecting investment, so it's wise to use a rate close to host countries` rates and in most cases it's higher than 25%.In reality it's another avenue of increasing revenue.

Fiscalisation

Value Added Tax (VAT) is an important source of revenue which contributes about a third of total revenue to the fiscus. In line with the current regional and international trends to plug loopholes in the VAT system, Government introduced the VAT fiscalised recording of taxable transactions with effect from 1 April 2010, in order to promote integrity and transparency among registered operators. Whilst there has been some progress in the implementation of the VAT (fiscalised recording of taxable) transactions, there are, however, some registered operators who are yet to comply with the legislation. It is, thus, imperative that urgent measures be instituted to enforce compliance.

Efficiency in Tax Administration

ZIMRA restructured in 2011 with a view to ensure a modern and effective tax and customs administration, which efficiently mobilizes resources and facilitates trade and investment.

Automation

Reform of the tax administration is incomplete without automation which enhances efficiency of tax administration. A key benefit derived from automation is the provision of data to improve decision making thereby improving service delivery. Government has already provided a significant resource envelope towards implementation of the automation programme. It is envisaged that automation will facilitate fast clearance of goods, reduce interlace between taxpayers and the tax administrators, thereby minimizing corruption

Expenditure

On the expenditure side, government exhibited steadfastness and vigilance to fiscal prudence containing expenditures in line with the country`s own capacity to finance them. However, due to the limited fiscal space and low percentage of revenue being channeled to productive sectors, there is need to further streamline the recurrent expenditure. One area which needs urgent address is on foreign travel. It remains unsustainably high relative to other critical services. In 2010, foreign travel expenditures amounted to US$29.2 million, against an original budgetary provision of US$24.2 million, representing 3% of total recurrent expenditure. At US$29.2 million, foreign travel represents 0.4% of GDP and, relative to other critical expenditure areas, this is unacceptably high.

In general employment costs always constitute the greater portion (above 50%) of total expenditure. In 2011 it accounted for 63% of total expenditure and net lending, against a budgeted ratio of 53%, is unsustainable. This outcome consequentially crowded out non-wage expenditures in areas such as infrastructure development and social service delivery. Civil servants are approximately 235 000, representing1.78% of the population. The implication of this unsustainable equation is that Government is spending 63% of its budgetary resources on 1.78% of the population, while the remaining 98.22% have to share the balance of 37%.

V. Conclusion

Where We Stand?

The Establishment of a Government of National Unity in February 2009 and the adoption of macroeconomic stabilization policies including the multi-currency regime resulted in early signs of economic recovery**. The economy** is rebounding after a decade of economic decline during which real time GDP fell by more than a 1/3 .Currently GDP growth rate is 8.2% (2010 established).

Notwithstanding significant gains realized in areas of inflation reduction and improvements in the supply of goods and services and fiscal discipline, the economy remained fragile. At the epicenter of the challenges facing the nascent government were the legacy issues associated with years of economic attrition which continue to pose challenges for any recovery and stabilization efforts. Contributing to these challenges are structural development traps that arrests the economic liberation of the country and these include:

The conflict Trap: For a long time the country has been caught up in vicious traps of conflict which manifested themselves in cataclysmic conflicts up to 1980.Post Independent Zimbabwe, as well has had its own share of these conflicts associated with political confrontations which led to the loss of value in the economy and subsequently gave rise to the Government of Political Agreement and the Inclusive government. The major challenge constraining speedy recovery is the unfinished business of political integration and harmony. Uncertainty, continuous attrition inside the inclusive government remain major eye sores in the country`s anatomy. Peace and stability or social cohesion is clearly the first pre-condition of the effective State. War, violence and conflict are an anathema to development.

The Economic Trap: The economy has an unsustainable debt and external arrears status quo that have eroded the country`s credit worthiness. Notwithstanding the green shoots on the economic recovery front, the country remains saddled with an unsustainable external debt amounting to US$6.9 billion which is some 103% of GDP(2010 establishment). Because of this enormous debt overhang Zimbabwe cannot borrow from international financial institutions. In addition, Zimbabwe adopted a multi-currency regime in 2009 using the United States dollar as the anchor currency.Foregoing capacity to create money, an alternative means of increase government revenue and a national emergency remedy. Zimbabwe has lack of fiscal space. Thus it has no other alternative instruments to finance its expenditure other than the fiscus. In addition the economy suffers from lack of Foreign Direct investment.

The Resource Trap: Zimbabwe has limited financial resources against huge natural resources endowments and yet the failure to articulate an alternative progressive development model less dependent on raw commodities and agriculture. In addition, there is massive brain drain which resulted in more than 4 million people out of a total of 12.4 million having been migrated to other countries.

The Integration Trap: This is arising out of the absence of a regional market and synergies and economies of scale that come with horizontal and vertical integration of small economies .As a result, the country has lost out from regional and international initiatives.

The Leakage Trap: This has resulted in millions of dollars through corruption, arbitrage and rent seeking activities. As a result, the country is ranked 122 out of 128 covered by 2007 Global competitiveness Index. Uncertainties in the country and the country`s uncompetitiveness also constrained foreign direct Investment.

Gender Trap: The gender trap manifests itself in the relatively small numbers of women taking up influential positions in political and economic institutional set up and managerial posts in both the public and private sectors. This is notwithstanding that women constitute 52% of the population.

External shocks Trap : Economic fortunes are closely inter-twinned with developments in the global economy. Developments during the first half of the year to June 2011 indicate that overall average capacity utilization in the manufacturing sector improved to about 57.2%, compared to 43.7% for 2010. Capacity utilization in some of the higher performing sub-sectors is set to significantly improve, from current average levels of around 65%. However, capacity utilization in such sub-sectors as Food stuffs, clothing, textiles and printing is set to remain poor, with levels of as low as 20% anticipated in some industries. Major factors constraining capacity utilization include obsolete machinery susceptible to frequent breakdowns, lack of working capital and raw materials.

The overall effect of the above has been the reclassification of the country `s population into 3 distinct classes- the submerged and drowning poor representing 85% of the population, the 13% floating or dog paddling “middle class” and the 2% prawn eating free stylers.The challenge of economic transformation in

Zimbabwe is, therefore, a developmental challenge seeking to improve the lives of the 85% drowning poor and the middle class who form the bulk of this class.

Where We Go?

The strategic focus of the Short Term Emergency Recovery Programme`s (STERP) objectives are to generate adequate investment in the productive sectors as well as infrastructure and guaranteeing improved delivery of public services. The focus is to nurture the little “green roots” evident in our economy to achieve a pro poor, broad based and inclusive development framework. The program intends to achieve higher economic growth largely driven by increased investment and production in agriculture, mining, and capital development programs. A strong emphasis is on key issues of education, health and social services and the continuation of a strict and disciplined macroeconomic stabilization program. Mining is anticipated to remain the major driving force behind overall economic growth, benefitting from further private capital injections, firm international commodity prices and anticipated initiatives to minimize electricity supply interruptions. Recovery in both agriculture and mining should have positive spill over benefits for manufacturing industry, which is projected to register a 6% growth by end of 2012.

Transparency and Accountability of Public Resources

Zimbabwe qualified and gained certification of the Kimberley Processing Certification Scheme Environment Africa in 2011.In addition there has been an urgent call on managing the mineral resource in a transparency manner. The responsible authorities are working towards accountability and transparency strategies. So far the revenue from the mining is transparently reported in the budget. In addition, the civil society, ordinary citizens and the Press must also play their part in ensuring that national assets, including the Consolidated Revenue Fund, are not pillaged through corruption, clientelism, or bad decisions. The intention being that within the confines of the limited fiscal space there is need to create and support an environment conducive for investment that addresses issues of equity and equality of opportunity across the country. It is important to involve everyone and to account on all mining activities because it promotes consensus building. Everyone should be involved in critical decisions such as the rate at which minerals should be extracted, revenue allocations and priority on development plans. The decisions made on such issues can have a long lasting impact on both today and future generations. It brings institutional strengthening as citizens become actively involved and develop a sense of ownership that unlocks inertias such as corruption.

Investment

Raising the current low savings and investment levels to at least 30% of GDP is paramount for sustainable economic growth. For example, from experience, ceteris paribus, investment growth of 5% of GDP potentially gives a 0.6% economic growth margin. Effective implementation of structural policies such as domestic financial reforms, stabilization, and reform of external transactions, also potentially increases growth by 0.5 -2.5%.It will be necessary that our fiscal stance inculcates a culture of high savings and investment. In addition, for the country to successfully compete for external investment, a number of factors need to be in place. These, among others, include a secure, conducive and business-friendly environment. Accordingly, Government will focus on improving on key indicators where Zimbabwe had slipped. These include starting a business, dealing with permits, registration, credit availability and protection of investment. The One Stop Shop Investment Centre launched in 2010 should, therefore, be strengthened through secondment of officials from line Ministries to the Zimbabwe Investment Authority (ZIA) in order to reduce bureaucracies on the above key indicators. This will result in the processing of all investment applications and licensing to within five working days. Furthermore, the ZIA Act will be amended to reinstate former export processing zones under the new Special Economic Zones which will be credited with special incentives for enticing investments. Attracting investment will also require an accelerated approach to resolving the country's external debt issue.

Debt Repayment

The government is making frantic efforts on the repayment of the external debt. The debt level has lowered to 103% of GDP in 2010 from 150% of GDP in 2009. After completion of the debt validation exercise which is in progress, government will move to the next level, entailing re-engagement with the international community.

Reviving Industries

Government has mobilized a number of lines of credit in support of the revival of meaningful production activities, that way allowing increased capacity utilization and, hence, employment and growth. Given the high number of financially constrained companies, it is essential that the above facilities be topped up and complemented by other new financing arrangements. Therefore, the ministry of finance is coordinating financial sector support to the tune of US$60 million for a broader Industrial Revival Fund facility. In addition a separate US$30 million offshore line of credit facility through the Infrastructure Development Bank of Zimbabwe (IDBZ) has been signed.

Promotion of Value Addition

The government has engaged in promotion of value addition particularly in the mineral resources among others. Penalties have been introduced on export of some unprocessed mineral resources where value addition options are possible. Export tax of 15% on the value of gross export proceeds of chrome ore and coal fines is charged. However when value is added on these minerals, there is no tax due.

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