4 Zimbabwe

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I. Introduction

Zimbabwe, officially known as the Republic of Zimbabwe is a country located in the southern African region. Located south of the equator and at the edge of the tropics, it is in both the eastern and southern hemispheres. Its coordinates are given as latitudes, 15° to 23°S, and longitudes 25° to 34°E. This falls in to the Central African Time (GMT +2). Completely landlocked, it shares its borders with Mozambique, South Africa, Botswana and Zambia. It is a developing country, home to an 16 million people (World Bank 2017 estimates) on a space of 390 757 km². Its name 'Zimbabwe' was derived from either 'Dzimba dze Mabwe' which means 'House(s) of Stone' or "Dzimba-Hwe" which means "House(s) of chiefs., which refers to the famous ancient 13th to 16th century stone city ruins located in the south east part of Zimbabwe and represented a historical empire of the Mutapa kingdom. These are some of the largest ancient ruins in Sub Saharan Africa, and point to an ancient advanced civilisation that ruled in the area, that we now know as Zimbabwe, in the late Iron Age era.

I.1. Geography and climate

With a total surface area of 390 757 km², 386 847 km² represent the total land area with 3 910 km² being attributed to the total water area. It is bounded to its north and east by Mozambique, South Africa to its south, Botswana to its south-west area and Zambia to it north-west, almost meeting with Namibia at its western most point. The area has been termed a double tripoints with four countries within reach of each other on a 150 metre stretch.

Terrain-wise, the Republic of Zimbabwe sits upon a high plateau, that is, a fairly level high ground, between the Zambezi River to its north and west and the Limpopo River to its south, thus creating a watershed, which is an area or ridge separating water bodies. The Zambezi River is home to the Victoria Falls, the largest waterfalls and largest curtain of falling water in the World with height, width and amount of water all taken into account and the Lake Kariba, which is the largest manmade lake by volume in the world as well. Studies indicate that this massive body of water was related to some seismic activity in the area particularly after completion in the 1960s.

About 21% of the country, the Highveld, running from the Northeast and narrowing down towards the Southwest is elevated above 1200 metres. The capital, Harare, sits at a lofty 1490 metres. The Middleveld,running towards the Northwest is between 900 metres and 1200 metres. The Lowveld,which is below the 900 metre mark mostly comprises of the area towards the Zambezi River (Zambezi Valley) and the Southwest area (near the Limpopo River). The eastern part of the country dramatically rises and forms a mountain spin, known as the Eastern Highlands which uniquely rise above 1800 metres. The main city of this region, Mutare, sits at an average altitude of 1120 metres. The highest mountain, Mt Nyanga sits at 2 595m above sea level and is located

Zimbabwe's climate is related to and varies with the altitude. Lying between the equator and the tropic of Capricorn, it is completely located in the tropics but enjoys subtropical conditions due to its high average elevation. On average, areas in the Highveld are cooler and receive much higher rainfall than those in the Middleveld and Lowveld. Temperatures in the Highveld vary from 12-13º C (54-55º F) in winter and 24º C (75º F) in summer. Some of these parts receive frost in the winter season. In the Lowveld, temperatures are usually around 6º C higher with the Zambezi and Limpopo areas experiencing summer temperatures above 32º C. Rainfall is higher in the eastern parts of the country and gradually diminishes as we move west. For instance, the Eastern Highlands receive more than 100 cm of rain annually, with the capital Harare; receiving over 81 cm while Bulawayo, which is more to the west, receives 61 cm. Seasons are marked by a dry season which runs from April to October, with a cool winter season from May to September, when there is little rain. November marks the beginning of the rainy season with typical thunderstorms up to March, which coincides with a marked increase in agricultural activities. Zimbabwe also experiences some recurring droughts. Severe storms are rare. The whole area is heavily influenced by the Inter Tropical Convergence Zone leading to these thunderstorms. Seismic activity is lower than in most parts of the world due to Zimbabwe sitting on the African Plate which has most of its borders in the Atlantic and Indian Ocean and less typhoon or hurricane related effects due to its landlocked status. Zimbabwe is predominantly savannah (tropical grassland), though pure grasslands is uncommon. Generous tree growth has been highly encouraged by the wet summers. Bushveld dominate the central and western areas. In the Lowveld areas, thorny scrubs and baobabs are more prevalent. Other species like jacaranda are commonly seen particularly in the capital Harare, with their unmistakable purple like petals, as well as the national flower, the Flame lily, which is also highly toxic though also used for medicinal purposes. It is a climbing lily prevalent in Zimbabwe.

Zimbabwe is also home to a diverse range of fauna which includes the continent's big five namely elephant, lion and leopard, buffalo and rhino populations. Zimbabwe is home to 199 identified mammal species, which among them includes animals in the family groups of Tenrecs and golden moles, elephant shrews, aardvarks, hyraxes, elephants, primates, rodents, lagomorphs, hedgehogs and gymnures, shrews, bats, pangolins, over 200 species of herbivores and over 250 species of the carnivores group. Among the well-known carnivores are lions, leopards, cheetahs, wild dogs and hyenas. The herbivores include the elephant, rhino, giraffe, buffalo and hippopotamus. There are numerous species of reptiles which include the Nile crocodile, found in most parts of the country and in virtually most water bodies such as lakes and rivers, handling an uneasy shared accommodation contract with their neighbours, the hippopotamus. As a result, most large water bodies are dangerous areas and crocodile attacks are not uncommon for those who stray too close to some rivers and lakes. Snakes are also common with the country hosting the likes of the African python, cobra species, puff adders, black and green mambas, as well as other less harmful snakes. They are 694 bird species in Zimbabwe, with the largest being the ostrich as well as other species belonging to the eagles, kites and hawks family, freshwater birds such as the geese, swan, flamingos, secretary birds and a host of other bird species.

The Zimbabwe has a wide range of resources among them coal, chrome, nickel, copper, iron, vanadium, tin, platinum and diamonds. It is also a significant producer of lithium and asbestos with gold, platinum group metals (being the second largest deposit in the world estimated at 2.8 billion tonnes), and chromium ore being some of the significant key minerals. It has considerable coal reserves which have been touted as the largest in the southern African region estimated at 12 billion tonnes and being high grade, suitable for both thermal and coking purposes. Zimbabwe is estimated to hold around 80% of metallurgical quality chromates. Iron ore deposits are estimated at 30 billion tonnes in the reserves. Apart from these are dimension stones, particularly black granite. Further there is strong potential for hydro-electricity sources as well solar energy, with average solar irradiation figures of up to 5.7 kWh / m². Most arable land is utilised for tobacco, sugarcane, cotton, wheat, coffee, tea and maize/corn, with cattle ranching more common in the drier areas.

I.2. History and Culture

Pre-colonial Zimbabwe's history dates back way before the 10th century. Before the arrival of the now predominantly Bantu people, the San had populated the area, with rock paintings in areas like Murewa laying testament to this. The Bantu speakers were classified as early Iron Age pottery makers. These were thought to have expanded from the areas of the great lakes (around present day Congo and Burundi), moving on to present day Tanzania, Kenya, onto Zimbabwe, Mozambique and Natal. However, the Shona ancestral speakers are believed to have moved from South Africa considering the similarities between South African and Zimbabwean pottery finds. After the Shona speaking people moved to Zimbabwe, many different dialects of the same language might have developed overtime.

From about 1250, this led to the rise of various Shona kingdoms. Trade was developed with the Arabian travelling missions on the Indian Coast helping a number of these states in their growth and dominance. This was precursor to the more impressive Shona civilizations, such Mutapa Kingdom and the Rozvi Empire. These are related the Great Zimbabwe stone buildings in the southeast part of the country and the Khami Ruins as well as other ruins dotted all over the country. Great Zimbabwe is considered as the greatest ancient structure in the Sub-Saharan African region and may have been a trade centre, particularly with the Portuguese in the 1400 – 1500s as well. It used a unique dry stone wall structure whereby cut stone was laid upon each other without the use of any cement or mortar. With trade between the Mutapa Empire and the Arab and Portuguese blooming, particularly in gold, the Portuguese with goals to monopolise trade, they started a system of interference in Mutapa's politics which saw a Portuguese missionary converting the ruler to Christianity before being influenced to kill him by the Arab Muslim traders. However, this marked the downfall of the Mutapa Empire as infighting together with Portuguese influence led to the crumbling of the empire. Around the 1600s, a new empire grew which eventually overcame the Mutapa Empire and drove out the Portuguese from the area.

Around the early 1800s, Mzilikazi, a Zulu general moved from South Africa to southwest area of Zimbabwe where they gained control of the remaining Shona empires that were now weak at that time. When Mzilikazi died around the 1860s, his son, Lobengula, became king and took over from his father's reigns. However his reign and empire was about to come to an end as British colonists arrived on the scene. In the 1880s, the British arrived via the Cecil Rhodes British South Africa Company. They initially avoided the Ndebele territorial area and moved north to establish their capital in what is now known as Harare. With the use of their new maxim guns, they managed to defeat the Ndebele in the battles that ensured after this. In 1898, the name Southern Rhodesia was adopted officially dictating colonial rule under England. Mass settlements were encouraged. Further revolts from the Shona against company rule failed which led to the growth in power of the colonial administrators. Resultantly, a land redistribution exercise was done which saw many of the indigenous people being evicted and moved to what was named, Tribal Trust Lands. These were areas not particularly suitable for agriculture due to poor soils and less than average rainfall.

The Shona tried to revolt against this unsuccessfully, in the late 1890s. In 1923 it became a self-governing British colony following its annexation by the United Kingdom. Further to this, Rhodesians of all races served the British Empire in the World Wars I and II, providing more per capita than the whole of the British Empire and Britain itself. A proposed union of Northern Rhodesia (Zambia), Southern Rhodesia (Zimbabwe) and Nyasaland (Malawi) failed in 1963, with Northern Rhodesia (Zambia) gaining independence in 1964. The then Prime Minister, dropped the name, Southern, and unilaterally declared independence from the England, in order to dribble past the new British policy 'No Independence until majority rule' that was now in place. The British government then petitioned the United Nations citing that Rhodesia had rebelled against the new policy.

A guerrilla war then ensured, which saw the main groups, Zanla and Zapu taking to the forests and strategically bombing and attacking key strategic areas of the Rhodesian administration. They got support from other independent African states as well as communist countries such as the USSR and Cuba. Towards the end of the 1970s, both parties finally got to the table which resulted in elections being held in the country. Robert Mugabe of the Zanu party won the elections and Zimbabwe was now formally granted its independence on 18 April 1980. However opposition to what was perceived as a Shona takeover erupted in the southern parts of the country. Reportedly, North Korean trained soldiers were moved to those areas where people were reportedly massacred. The campaign officially ended when the two leaders of Zanu and Zapu joined their parties in a show to work together in 1987, creating Zanu PF.

However, as result of decades of public mismanagement, perceived violation of human rights, and bad policies, Zimbabwe generally took a downturn. In 2000, the Zanu PF effected land redistribution with land being distributed from the white farmers to the black farmers. These disturbances led to lower national output and further led to low exports, food security and foreign currency. Companies downscaled and inflation rose, hitting tremendous heights in the year 2008. Elections were marred by allegation of voter intimidation and vote rigging. Further to this the country faced a barrage of sanctions. These events finally culminated to the coup that took place in November 2017 which saw Robert Mugabe being removed 37 years as Zimbabwe's ruler. The new leader Emmerson Mnangagwa has reportedly called for a New Economic Order and that Zimbabwe has now opened for business in re engaging partners all over the world and in waking up Zimbabwe's economy.

I.3. Government and Political Situation

Zimbabwe is a full presidential republic whereby the president is the head of the state, government and commander in chief of the army, as organised by the 2013 constitution. The current Zanu PF has ruled the country since independence. Political power is split in to three branches which are the executive branch, the legislative and the judicial branch.

In the Executive Branch, the President, who is elected by popular national vote, is limited to a maximum of 2 by 5 year terms in office. This individual concerned then appoints two vice presidents as well as forming a cabinet (ministers) which too is part of the executive branch and is also head of the House of Assembly.

The Legislative Branch refers to the Parliament. Parliament consists of the Senate as well as the House of Assembly. The senate is the upper of the two chambers in the parliament. The Senate has 80 members, with 60 of them being elected from 10 six member constituencies (based on provinces), by proportional representation using party lists. The other 20 seats are reserved for people with disabilities, with 18 of them being reserved for traditional chiefs.

The House of Assembly has 270 individuals inclusive of a speaker and attorney general. 210 of these are elected by popular vote in a respective 210 constituencies at the same time as the presidential vote is cast and also serve for a 5 year term. The last 60 are reserved for women and are elected by proportional representation in 10 six seat constituencies

The Judiciary is headed by the Chief Justice of The Supreme Court of Zimbabwe, who is appointed, together with other bench members, by the President after consultation with the Judicial Service Commission. Although they have no limited terms, they are expected to retire when they reach 70 years of age. The legal system is based on Roman-Dutch Law with South African Influences. The Supreme Court is the final court appeal, except in circumstances where the Constitutional Court has jurisdiction. After this follows the High Court, which is highest court of state. Any party not satisfied by verdicts given in this court can appeal to the Supreme Court. Then finally, they are the regional Magistrate's Courts which are found in different regions and districts as well and are below the High Court. The role of each can be surmised as follows. The legislative branch's role is to come up with laws which the executive will review and approve or disapprove as well as to implement them, with the judicial branch playing their role in interpreting and passing judgements on the same laws.

Zimbabwe has a centralized government and has 10 administrative provinces, 59 districts and 1200 wards. A provincial governor is appointed by the president and is assisted by provincial administrators and representatives of several ministries. The government currently has 20 ministries, 9 departments and 63 parastatals. Currently, the government is in a drive to sell of non performing parastatals that are a drag on the government funds.

Following a soft coup in November 2017, which saw the removal and resignation of Mr Robert Mugabe in a week, who had ruled the country since independence from colonial rule, as well as the death of Mr Morgan Tsvangirai, the main opposition leader, President Emmerson Mnangagwa took over the helm. Elections were held as scheduled in July 2018, with foreign observers from the European Union being allowed into the country after years of cold relations with the West. President Emmerson Mnangagwa narrowly won the elections which are still being questioned by the opposition leader, Mr Nelson Chamisa of the MDC Alliance Party, though he lost a Constitutional Court appeal challenging the results. Further, his party Zanu PF holds 34 senate seats and 178 seats in the House of Assembly in contrast to the main oppositions' party of 25 and 88 respectively. Since then, the president has appointed a cabinet of 20 ministers, down from 35, with a lot of new faces which include Cambridge Economist, Professor Mthuli Ncube as Minister of Finance, and Kirsty Coventry, Zimbabwe's previous Olympic medallist and chair of the International Olympic Committee Athletes Commission as the Minister of Sports, Arts and Recreation at just 34 years. The main mantra from the current administration is now that ‘Zimbabwe is open for businesses

I.4. Demographics

The last official census was held in 2012 and it showed figures and a total population of 13 061 239, with females slightly outnumbering males by figures of 6 780 700 to 6 280 539. The average size of a household was measured at 4.2 whilst the population density was at 33 people per Km². The Harare Metropolitan Province had the highest number of individuals amongst other provinces with 2 132 123 people.

On the education side, for the 2012 census, those who had at least completed grade 3, and can read and write English were classified as literate. The literacy rate was then the number of people who had at least completed grade 3 per 100 people in each age group.

According to the report as well, 99.7% is of African origin. Of the rest of the population, about 30,000 of them are of white origin. Zimbabwe has 16 official languages though the main groups are divided as follows. Shona speakers make up to 70% of the population. The Ndebele speakers make up to 20% with about 2.5% who are mainly the whites and coloureds considering English as their primary language. English is however used in administration, law and schools. It is spoken primarily in cities, with television broadcast in English, Shona and Ndebele, though local languages time slots are far behind English time slots, as many programs particularly from foreign English speaking countries get a lot of airplay.

Table 1 2012 Population Statistics

Population	13,061,239.00	**Age Composition %**	
Males	6,280,539.00	Under 15 years	41
Females	6,780,700.00	15-64 years	55
Sex Ratio Males/100 females	93	65+	4
Urban Population	4,284,145.00	**Literacy**	
Urban %	33	15+	96
Rural Population	8,777,094.00		
Rural %	67		
Area	390,757.00	**Average rate of Natural Increase %**	2.2
Pop Density (Sq.km)	33		

Source: ZIMSTAT Zimbabwe National Census 2012

Over 85% of the population is Christian, with traditional African religion getting a share of the other percentage. 67% are estimated to attend regular church services. However, Christianity is at times often mixed with enduring traditional beliefs. Less than 1% of the population is Muslim.

Traditional arts in Zimbabwe like pottery and stone sculpture are some of the remaining cultural elements that still remain in the society. The main staple foods happen to be mealie meal made from maize/corn and used to prepare the main meal known as sadza as well as porridge, amongst other cultural details.

II. Overview of Macroeconomic Activities and Fiscal Position

II.1. Macroeconomic Activity

Though Zimbabwe is a country rich in minerals and agricultural related resources, years of mismanagement in the areas of the fiscal and monetary policies, bloated government expenditure, consumptive rather than investment related expenditure and political instability all leading to high inflation, low output growth and high unemployment in the past two decades. The trend and consequences were inevitable. Given that in 1980, Zimbabwe's GDP per capita was mostly higher than its neighbours. Zimbabwe then had a strong manufacturing base with a good support system in terms of education and health. However, it was still characterized by a lot of wealth and social inequalities. As Zimbabwe has moved to address these issues, main productive sectors took a hit although they are indications that it is now rising again. For instance, the land reform in the late 1990s to early 2000 saw agricultural produce drastically falling, which is one of the main pillars in the economy. In terms of numbers, between 1980 and 2010, the economy deteriorated to astonishing levels, with the economy shrinking by over 40%, capacity utilization going to around 10% and below as well as widespread shortages of basic commodities.

All this culminated to the 2008 inflation debacle, with the estimated inflation rate hovering at astronomical and ridiculous levels of up to 79,600,000,000 %, and putting Zimbabwe into the record books for all the wrong reasons, as the second highest inflation rates experienced in recorded history after Hungary. Consequently, Zimbabwe generally fell behind most of its neighbours in term of the GDP and GDP per capita growth. Furthermore, with the collapse of the central government budget, key provision of public services such as health and education also tumbled. Use of local currency virtually collapsed in late 2008, which saw the abandonment and an informal shift of domestic trade and pricing to the United States Dollar, South African Rand and Botswana Pula. Though this was finally officially announced, local traders had long started asking for payment in foreign currencies particularly for physical assets such as properties. Following the economic downturn, a substantial part of the skilled workforce emigrated. With unemployment levels of around 95%, this has been the main factor in inducing skilled Zimbabwe labour force in migrating. With these in mind, estimates has put 2-3 million Zimbabweans working in neighbouring industrialized South Africa (9% of the entire population and around 20% of the estimated total labour force) , 200,000 to 500,000 in the United Kingdom, 40,000 in Australia and around 50,000 in Canada. Despite such a loss in human capital, a vibrant private sector and a growing informal sector has demonstrated surprising resilience as well as revealing the country's strong infrastructure and educational thrust as well as its human capital.

Following the controversial incidents associated with the 2008 elections, which were marred by a perceived violent second round and finally a power sharing accord, the government of national unity which came to effect in February 2009 undertook some immediate recovery measures, under the Short Term Emergency Recovery Programs (STERP) I and II. The key goals of these programs were to stabilise the macro and micro economies, recover the levels of savings, investment and growth and lay the basis of a more transformative midterm to long term economic program that would resuscitate Zimbabwe's ailing economy. Among the raft of measures that were introduced, were, the formal adoptions of a multi-currency system, more stricter fiscal discipline and halting the central banks quasi fiscal roles and limiting its influence to its traditional role (although this role had already been limited by the adoption and use of foreign currencies). Given these factors, as well as a positive environment and improved confidence, Zimbabwe achieved some relative positive development from 2010. The multi-currency system restored price stability onto the domestic scene and helped to encourage more financial activity. Fiscal discipline availed more budget revenue. Together with an increase in offshore donor support, Zimbabwe was able to reopen and breathe life into the otherwise deteriorating educational, health and social sectors. Real GDP grew in 2010 and 2011 encouraged by such events. From a -17.67% in 2008, Zimbabwe experienced real GDP growth rates of 12.02% and 12.58% in 2009 and 2010 respectively.

However, 2013 saw an end to the inclusive government, elections and return to power of Mr Robert Mugabe. Zimbabwe's economy once again started going through trying times. A severe drought due to the El Nino phenomenon and high expenditure levels created a lot of problems. Limited foreign flows led to increased domestic borrowings. In terms of measured performance, the real GDP growth rate decelerated with rates tumbling to 5.3%, 2.8%, 1.4% and 0.62% in 2013, 2014, 2015 and 2016 respectively amidst lack of local expenditure, deflation and recession indications in the economy. Central government budget grew with the central government spending 98% of it on salaries in the period of January 2016 to June 2016. With low internal revenues, at 21.7% of the GDP in 2016, the budget deficit grew from 1.8% in 2013 to 9% by 2016. To finance this, the government issued treasury bills, and when the value of treasury bills exceeded the private sectors absorption capacity, the government resorted to an overdraft on the Reserve Bank thus straining the balance of payments. Resultantly, domestic debt reached around 25% of the GDP by the end of 2016, up from 14% just the previous year. In million, this marked an increase from US$ 479 million to US$ 4, 006 million. External debt also increased from US$ 5,389 million to US$ 7,321 million by 2016. This represented GDP percentages of 33.4% (2013) to 44.8% (2016). These factors in play led to crowding out of possible resources for use by the private sector. Compounded with the lack of a monetary policy, an inflexible wage policy resulted in an expansionary fiscal stance. The current account deficit remained high due to in part, falling commodity prices, drought effects which reduced agricultural output and reserves were almost depleted. Subsequently, the multi-currency system became unsustainable which saw the introduction of T-bills, small currency denominations ($2 and $5), and electronic balances.

To further curb import pressure and withdrawals pressure against a background of dwindling foreign reserves, a raft of measures were introduced. Apart from limiting foreign currency reserves towards use of critical imports, the public was encouraged to use debit and credit cards as well as other electronic means of payments as well as lowering daily withdrawal limits to as low as an equivalent of US$ 20 per day. This was paid out in form of introduced low denomination notes. With these bond notes and electronic transactions now used in circulation, US$ notes are now used being hoarded and being used for international transactions amongst the general public. The expanding informal sector uses cash to finance imports into country in instances where getting foreign currency via official sources has proved to be painstakingly long and difficult. In the parallel market, the US dollar is trading with electronic balances and bond notes at rates of US$ 1 to $1.8 (Bond notes/Electronic balances). On the inflation side, Zimbabwe actually experienced deflationary conditions as a result of depressed demand. Official figures show that Zimbabwe experienced -0.2% and -2.4% in terms of the Consumer Price Index (US$). However, in terms of the electronic balances side, the differences in value between the electronic balances rate to the US$ has actually seen prices of most goods in the consumer basket increasing. Thus, inflation is likely to increase as the monetary financing of deficits will increase the premium on US$ against quasi currency instruments.

Apart from the increasing domestic debt, external debt has also remained high. External debt grew from US$ 5,389 million in 2013, to US$ 6,613 million in 2015. The rate of increase has been lower than for domestic borrowings due to the limited external debt choices. Zimbabwe still has arrears with a number of multinational and bilateral institutions particularly the World Bank, which has reduced creditor confidence, limited Zimbabwe's external lines of credit and has largely resulted in Zimbabwe's isolation. Zimbabwe managed to settle its International Monetary Fund Poverty Reduction and Growth Trust obligations which partly saw the IMF removing their remedial measures. However access to funds still requires that Zimbabwe clear up their arrears with other institutions as well, such as the World Bank. Zimbabwean authorities are will to collateralize gold proceeds to settle these, which is an option with costlier financial terms. Though in 2016, Zimbabwe managed to clear about US$108 million in arrears to the IMF, they still remain US$1.7 billion in external debt, without a solid framework on how these arrears will be settled. Given unpaid external debts and continued borrowing on the domestic market, it is of no surprise that the total debt has continued to grow. Accordingly, the Banking Sectors' lending to the government increased from US$ 3.7 billion in 2016 to US$ 6.3 billion at the end of 2017. This has seen total debt increasing from 38.5% of the GDP in 2013, to 55.3% of the GDP in 2015 and now has gone past the 70% mark of the GDP by 2017. As a result, banking confidence has taken a hit leading to the current cash shortages being experienced.

Coming on to 2017, Zimbabwe's fortunes were boosted particularly by a good agricultural season, especially after the drought induced effects of the El Nino. The GDP growth rate jumped from 0.6% in 2016 to 3.4% in 2017. The mining sector, particularly in terms of gold and chrome continued to grow with small scale miners contributing to over half of the output. Given such a scenario, where small scale farmers and miners have started to contribute towards the national output, this reduced the number of extreme poor people since 2014, approximated to at least 140,000 households. The fiscal deficit continued to grow with 2017 recording an 11.1% figure to GDP mainly as a result of heavy expenditure in the agricultural sector, under the Command Agricultural Program meant to boost agricultural produce. The current account deficit stabilized at around 4% of the GDP. However, unable to borrow on the international market scene, domestic debt continued growing. Further to this, economic growth slowed as a result of tight liquidity constraints, drought, institutional weaknesses and an overvalued exchange rate (after the introduction of Zimbabwe bond coins and notes which acted as a local currency). Zimbabwe is still weighed down by high levels of public expenditure which were around 50% of the GDP. On a positive outlook, recent political events saw the former president being sacked with a new administration coming into play.

Elections were carried out and apart from an incident that scarred an otherwise peaceful process, the new administration that won the elections has since appointed a cabinet with a renowned economist leading the finance and economic development portfolio. This new administration has announced its intentions of inducing economic growth by re engaging the international community, reducing public expenditure and strongly supporting foreign inflows through the use of investment opportunities in a thrust aptly named 'Towards a New Economic Order'. A raft of measures have already been introduced which include reducing the number of foreign trips by government officials, trimming of ministry portfolios from 35 to 20 amongst other measures meant to curb the public wage bill. To some extent, this brought in some confidence on the macroeconomic scene as the parallel market's premium rate for the US$ dropped from 1.8 electronic balances to 1.4 electronic balances to US$ 1. And although Zimbabwe is highly depended on commodity prices which heavily affect export trends and subsequently the current account, Zimbabwe is optimistic it will induce more investment in the manufacturing sector to curb some of the fluctuations. Resultantly, growth rates are expected to pick up as more political stability, possible rises in commodity prices and increase in agricultural output as well as tighter fiscal discipline from the new administration may contribute towards this.

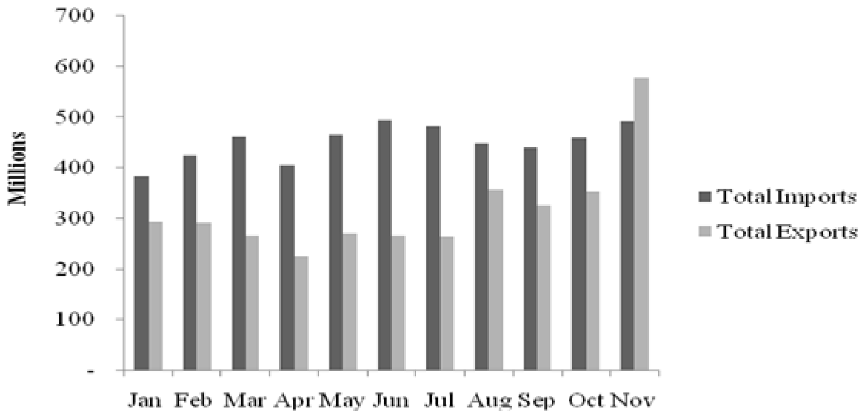
II.1.1. International Environment

A. Trade Balance

As at January 2018, the country's external sector's position was showing some improvements in line with the general improvements in the Sub Saharan region. This was or is as a result of the ongoing measures the government and other institutions such as the Reserve Bank of Zimbabwe are implementing to boost export earnings and values as well as trying to contain imports, apart from improving commodity prices.

From January 2017 to November 2017, total merchandise trade (this excludes services, capital transfers and foreign investment related activities) was at US$ 8,408.5 million, which increased from US$ 7,262.5 million recorded over the corresponding period in 2016. The trade deficit narrowed from US$ 2,181.6 million in the 2016 (January to December) to US$ 1,456.7 million in 2017 mainly due to a larger increase in exports over imports. The figures given below depict the picture of the movements in merchandise trade.

Figure 1 2017 Merchandise Exports and Imports US$



Source: Reserve Bank of Zimbabwe January 2018

Figure 1 depicts the monthly variations in exports and imports while Figure 2 gives the total merchandise trade for the periods January to November in 2016 and 2017 respectively.

Exports

Over the period of January to November 2017, merchandise exports increased by 36.8%. This represented an increase from US$ 2,540.4 million (2016) to US$ 3,475.9 million (2017). This increase was mainly fuelled by nickel (mattes, ores and concentrates), gold, ferrochrome, tobacco and black tea, revealing Zimbabwe's continued dependence on these commodities. Amongst these, gold, tobacco, nickel, ferrochrome and diamonds contributed about 80% of the total exports. South Africa and Mozambique were the major destinations with 62.8% and 10.5% shares of the exports, respectively. Most of the gold and the platinum group of metals were destined for South Africa. These were then later on exported to their final destinations by the countries in question. Zimbabwe's top 10 exports are presented below in terms of the 2 digit Harmonised System. These represent the highest value dollar value of Zimbabwe's global shipment in 2017. These categories accounted to 89.1% in value of the total Zimbabwe global shipments. Figures 3 and 4 depict the increase in exports as well as the composition of exports in the period Jan-Nov 2017. Zimbabwe still heavily depends on agricultural and mineral resources for export revenue. The proportion of manufacturing exports has heavily been affected by various factors among them influx of cheap imports such as used Japanese vehicles and Chinese goods, erratic power supplies that have continuously hampered production, obsolete industrial material and equipment as well as infrastructural challenges and finally, high domestic government borrowings which have reduced capital availability for the private sector.

Figure 2 Exports by HS Code 2016/2017in US$ Millions

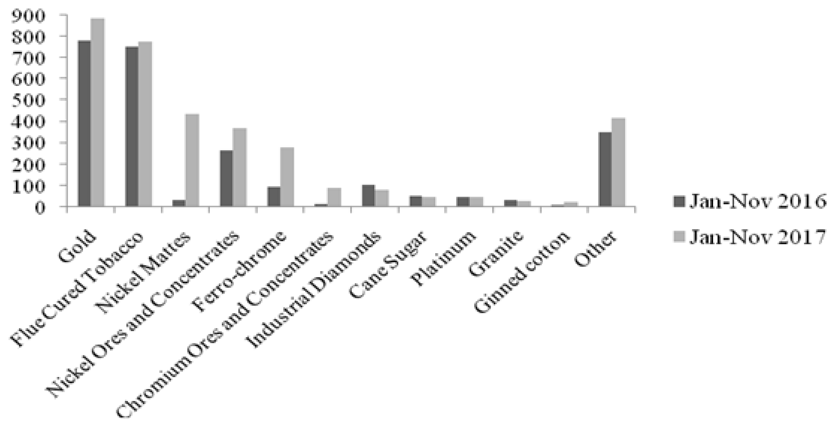
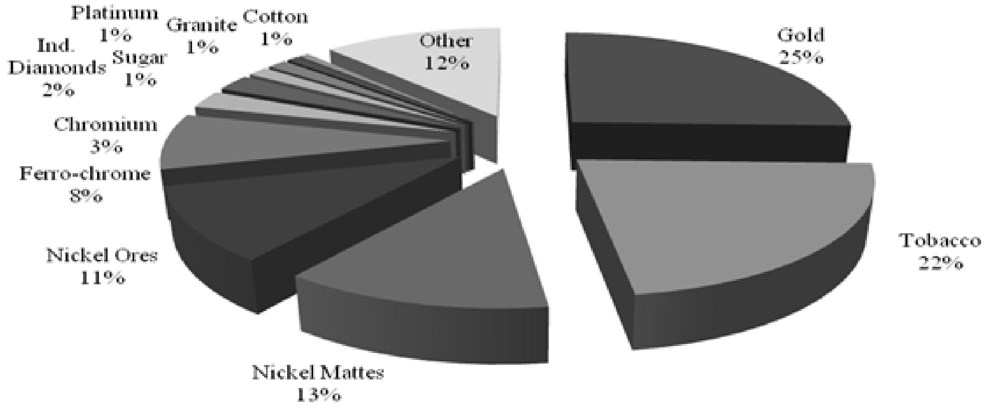


Figure 3 2017 Exports Distribution



Source: Reserve Bank of Zimbabwe, ZIMSTAT

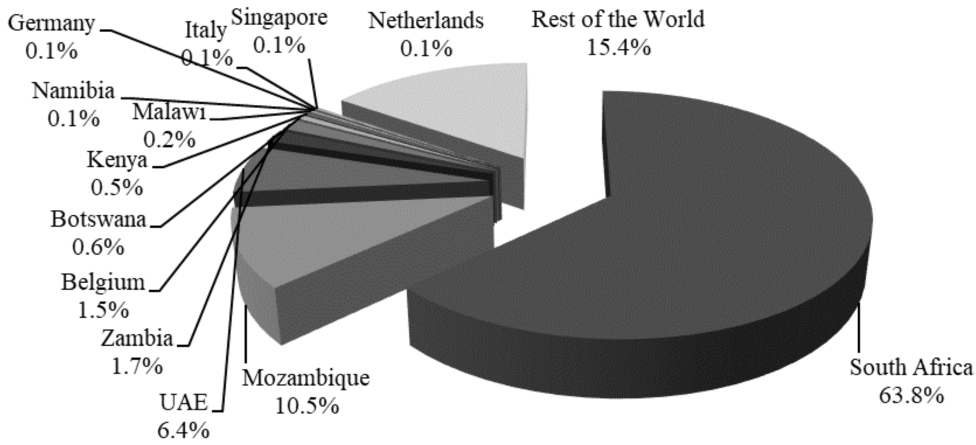
The proportion of manufacturing exports to the whole export basket stood at 25.6% in 2009 and although it increased in 2010, it gradually decreased from 31.2% to only 8.7%. In essence, it was also lower in absolute terms has total exports recorded from manufacturing reached US$ 320.2 million down from US$ 421.8 in 2009 and US$ 1,026.9 million in 2010.

In terms of composition of exports by sector, the mining sector has been the major contributor closely followed by the agricultural sector. As shown above, the major mineral exports have been gold, chromium and nickel ores with tobacco providing the bulk in terms of the agricultural arena. What has been worrying in Zimbabwe is the gradual decline of the contribution by the manufacturing base or sector. Manufacturing exports increased from US$ 421 million in 2009 to US$ 1,026.9 million in 2010. A further increase was noted in 2011 to US$ 1,259 million before they steadily declined from 2012 only contributing US$ 549 million in that year. By 2016, only US$ 320.2 million was recorded. In terms of the total contributions in percentages terms, it contributed 25.6% in 2009 to the total exports. The increases recorded in 2010 and 2011 also resulted in 31.2% and 27.5% contributions respectively. However, this fell to 13.7% in 2012 and finally rested at a paltry 8.7% in 2016.

Export Destinations

2017 major destinations remained in the SADC region. With South Africa and Mozambique taking the lion's share at total percentage of 73.3% headed towards these two countries. Most of the minerals, particularly gold, platinum and nickel mattes went to South Africa and the country has remained Zimbabwe's biggest trading partner for some time. Further to this, qualifying products enjoy territorial rebates and duty free entries into South Africa as well as other Southern African nations thereby making Zimbabwe's exports to the SADC region more competitive. Over and above, South Africa and Zimbabwe enjoy bilateral trade agreements which further qualify extra goods and products for more duty free concessions as well as various South African based companies holding key stakes in Zimbabwe's mining sectors.

Figure 4 2017 Zimbabwe's Top Export destinations

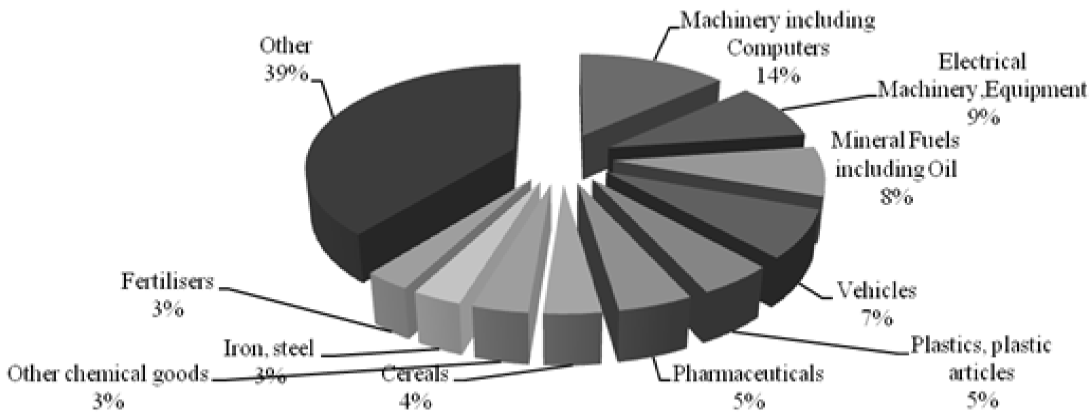


Source: Reserve Bank of Zimbabwe and ZIMSTAT

Imports

On the Imports side, a 4.5% increase was realised for the period January 2017 to November 2017 versus a comparison of the same period in 2016. In value terms, these imports increased from US$ 4,722.0 million to US$ 4,932.6 million. In general, his was mainly as a result of increases in fuel (Oil and oil related products such as petrol and diesel), electricity imports, maize/corn seed, machinery, fertilisers and medicaments and medical related products. Electricity imports for the period January to November 2017 were US$ 163.8 million versus US$ 146.4 million in the same period for the year 2016.

Figure 5 2017 Zimbabwe's Top Ten Imports and Other 2 digit Harmonised Tariff System

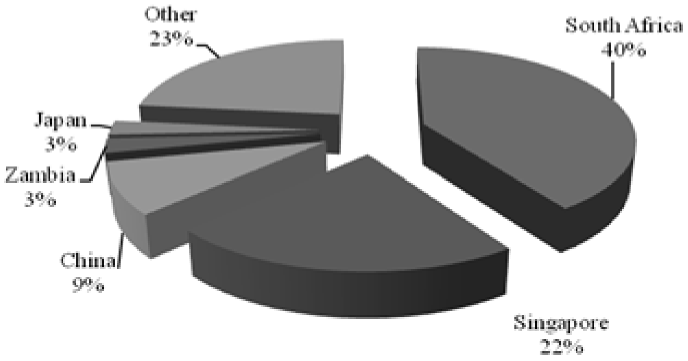


Source: World's Top Exports

Sources of Imports

Concerning the period January to November 2017, Most of Zimbabwe's imports were from African and Asian Countries. These are South Africa, Singapore, China, Zambia and Japan. The following diagram reveals the percentages of imports from various countries.

Figure 6 Zimbabwe's 2017 Import Countries



Source: Reserve Bank of Zimbabwe and ZIMSTAT

B. Balance of Payments

Trade balances improved for the period January to November 2017 compared with the same period in 2016. This was noted by the trade deficit decreasing from US$ 2,181.6 million to US$ 1,456.7 million registering a 33.2% improvement. The country's export performance continued to be adversely affected by low competitiveness resultant of homogeneous products Zimbabwe exports in form of minerals. Such are heavily affected by the international commodity prices whereas Zimbabwe is a small player considering the larger numbers of buyers and sellers, and thus without much market influence. Low domestic production also resulted in larger number of imports and this adversely affected and still affects the liquid resources available in the economy.

The Services Account slightly improved in 2016 by 24% mirrored by an improvement in the deficit from US$ 1,137 million in 2015 to US$ 867.0 million in 2016. This was influenced by significant decline in merchandise imports during this period mainly as a result of import management measures as well as decreasing liquidity which was affecting demand for imports. On the other hand, the Income Account has consistently shown a negative balance on its primary income account. The obvious implications are that Zimbabwe is a net importer of capital. This account mainly deals with and takes into account non-resident transactions on returns to labour and capital particularly on employees' wages salaries and other related components, interest, dividends and earnings/profits ploughed back. In 2016, the primary account tumbled from a deficit of US$ 158 million to US$ 178.4 million in 2016.

However in from 2015, overall developments saw country's Current Account deficit reducing by 63%, from a deficit of US$ 1,520.6 million in 2015 to US$ 552.8 million by 2016. However, come 2017, the combined net effects of anticipated positive developments on merchandise trade as well as the need to increase local production in order to cater for local consumption as well as export business, facilitated by an increase in the importation of raw materials, machinery and some intermediate goods, saw the total current account deficit estimated to have slightly increased from an amount of US$ 591.3 million to US$ 618.1 million by the end of 2017.

The Capital Account, mainly utilised for the purpose of recording grants to the government, particularly those capital in nature, fell from US$ 398.4 million in 2015 to US$ 242.3 million. This was a direct reflection of Zimbabwe's isolation from most parts of the world, unpaid external debts and sanctions from the United States of America and most parts of Europe, that is, in the European Union. Other key areas such as portfolio investment, foreign direct investment and access to offshore loans for both the public and private sector institutions was tremendously limited as this declined from US$ 1,291.2 million in 2015 to US$ 4,756 million in 2016. However 2017 saw some further changes in some areas. International remittances decreased from US$ 1.6 billion in 2016 to US$ 1.4 billion. This was recorded as an 11% decrease. Of the total remittances, US$ 698.8 million came from diasporas remittances (mostly Zimbabweans working and in trade abroad).

In line with improvements in export generation, global foreign currency receipts on a cash basis increased by 1.4% in 2017, from US$ 5.5 billion in 2016, to US$ 5.6 billion in 2017. The main contributors in this case happened to be Export Proceeds (US$ 3,519 million); International Remittances (US$ 1,412 million) and Loan Proceeds (US$ 545.49 million) with foreign investment tumbling from (US$ 48.97 million in 2016) to (US$ 26.98 million in 2017). However, the huge import bill continues to negatively affect the otherwise positive and sterling performance with global foreign currency payments, amounting to US$ 4.81 in 2017 from US$ 5.14 in 2016, representing a 6% decline.

Table 2 Balance of Payments 2014 to 2017

	2014	2015	2016	2017
A. Current Account	-2289.40	-1557.30	-591.30	-240.50
Goods: Exports f.o.b	3682.10	3577.50	3662.90	4358.70
Goods: Imports f.o.b	6233.80	5980.10	5162.90	5599.00
Services: Credit	363.30	386.70	396.70	418.90
Services: Debit	1953.20	1523.80	1263.80	1090.10
Balance on goods and services	-4141.60	-3539.70	-2367.00	-1911.50
Primary Income: credit	201.30	210.80	220.20	230.80
Primary Income: debit	344.30	369.50	398.60	391.40
Balance on goods, services, and primary income	-4284.60	-3698.50	-2545.40	-2072.10
Secondary income: credit	2016.80	2164.70	1979.70	1858.40
Secondary income: debit	21.50	23.60	25.60	26.80
B. Capital Account	369.40	398.40	242.30	285.70
Capital Account: credit	369.40	398.40	242.30	285.70
Net lending(+)nt. borrowing(-)(bal. from cur. and cap. accounts)	-1920.00	-1158.90	-349.00	45.20
C. Financial Account	-1738.00	-1597.50	-522.90	-242.50
Direct Investment: assets	0.00	0.00	0.00	0.00
Direct Investment: liabilities	472.80	399.20	343.00	247.20
Portfolio Investment: assets	0.00	0.00	0.00	0.00
Equity and Investment fund assets	0.00	0.00	0.00	0.00
Debt securities	0.00	0.00	0.00	0.00
Portfolio Investment: liabilities	130.30	122.80	-80.10	-100.90
Equity and Investment fund assets	130.30	122.80	-80.10	-35.00
Debt securities	0.00	0.00	0.00	0.00
Financial Deriv. & employee stock options: net	0.00	0.00	0.00	0.00
Financial Deriv. & employee stock options: assets	0.00	0.00	0.00	0.00
Financial Deriv. & employee stock options: liabilities	0.00	0.00	0.00	0.00
Other investment: assets	-171.40	-125.50	-59.70	44.00
Other debt instruments	-171.40	-125.50	-59.70	0.00
Central Bank	-0.80	48.10	2.10	3.20
Deposit Taking corporations (except the central bank)	-170.70	-173.60	-61.80	40.80
General government	0.00	0.00	0.00	0.00
Other sectors and financial corporations	0.00	0.00	0.00	0.00
Nonfinancial corporations, household, and NPISHs	0.00	0.00	0.00	0.00
Other investment: liabilities	963.40	950.00	200.30	141.30
Other equity	0.00	0.00	0.00	0.00
SDR allocation	0.00	0.00	98.00	0.00
Other debt instruments	963.40	950.00	102.30	141.30
Central bank	39.90	-71.30	77.50	29.00
Deposit-taking corporations (except the central bank)	0.00	0.00	0.00	0.00
General government	-55.00	199.90	17.60	29.50
Other sectors	978.50	821.50	7.20	72.40
Other financial corporations	0.00	0.00	0.00	0.00
Nonfinancial corporations, household, and NPISHs	978.50	821.50	7.20	72.40
D. Net Errors and Omissions	136.90	-253.40	-93.80	-186.40
E.Overall Balance	**-0.40**	**-97.10**	**-99.00**	**-129.00**

Source: Reserve Bank of Zimbabwe and ZIMSTAT

The table above shows the balance of payments. It should however be noted that all figures are net. It does not show monetization, valuation features, use of IMF resources, extraordinary financing and net errors and omissions Further to this it includes timing adjustments, internal freights, gold sales and gold scrap agreements as well as includes statistical discrepancy.

Although facing a general decline in foreign payments compared with 2016, there was an increase in payments for consumption and manufactured goods which depleted foreign currency reserves for the most critical areas and aspects of the economy. The Financial Account also experienced its own developments as external inflows of funds and debts continued to decline, as well as suppressed levels of foreign direct investment and portfolio investments related flows. Net debt creating funds fell to a further US$ 315.6 million from US$ 544.7 million in 2016 and US$ 1,014.1 million in 2015. Foreign portfolio investment also fell from US$ 80 million in 2016 to US$ 41 million in 2017, with foreign direct investment taking a hit as it tumbled from US$ 343 million in 2016 to US$ 235.4 million in 2017.

Table 3 Zimbabwe's Foreign Currency Payments 2017

Category	2017 in US$ Million	Contribution %
Consumption Goods	1,055.90	22%
Capital Goods	802.60	17%
Intermediate Goods	783.30	16%
Electricity and Fuel	735.90	15%
Service Payments	782.10	16%
Income Payments (Profits and Dividends)	155.70	3%
Capital Remittances	489.10	10%
External loan repayments	418.70	9%
Other Payments	4.20	0.1%
Total	**4,808.80**	

Source: Reserve Bank of Zimbabwe

C. External Debt Developments

Zimbabwe has remained in a debt crisis with unresolved external debt arrear issues leading to a large increase in domestic debt. Past arrears with notably international finance institutions such as the World Bank, the International Monetary Fund and the African Development Bank have largely remained unsettled resulting from external funding drying up. The public and publicly guaranteed debt (PPG) stood at 44.8% by the end of 2016. Of this, up to 70% of it has remained in long standings arrears. With the total external debt measured at 68% of the GDP in 2016, over 20% of it was attributed to the private debt category.

Some most notable recent developments towards clearing of arrears were the payment of such to the International Monetary Fund. In October 2016, Zimbabwe fully settled its overdue financial debt to the IMF's Poverty Reduction and Growth Trust (PRGT). These arrears had been in existence since 2001. As at payment, the arrears had amounted to a total of Special Drawing Rights (SDR) 78.3 million. The total principal stood at SDR 61.7 million with the remainder coming from interest components, that is, SDR 16.6 million. With effect from November 2016, remedial measures that had been applied to Zimbabwe were removed mainly related to the declaration on non-cooperation, withdrawal of technical assistance and the removal of Zimbabwe from the PRGT eligible countries. Zimbabwe is now current on its IMF obligations and was relisted onto the PRGT eligible countries list. However, access to financial assistance still requires that Zimbabwe has a credible arrears solutions plan with other official creditors as well as private creditors apart from the implementation of strong and robust fiscal and monetary policies. Zimbabwean authorities tried to use market resources and collateralize gold proceeds, though with costlier financial implications, as the only way to clear these arrears.

As at the end of 2017, the total long term debt had increased from US$ 8,656 million in 2016 to US$ 9,006. Due to suppressed external debt sources, the total debt for the Bilateral and Multilateral categories only increased from US$ 8,105 million in 2016 to US$ 8,476 million by the end of 2017 resulting in a 4.58% increase. Short term external debt registered a 0.52% decrease with debt decreasing from US$ 2,304 million to US$ 2,292 million for the same periods. With the gross domestic product increasing from US$ 14,165 million in 2016 to US$ 14,551 million in 2017, the total external debt as to the GDP rose from 77.4% to 77.6%. This level remains unsustainable for the small African country as can be seen by the inability to service debts and clear arrears over long periods of time. With limited offshore finances, the domestic debt has ballooned and lack of fiancés on the domestic scene has led to the crowding out scenario, which has hampered private sectors borrowings and development further hampering Zimbabwe's production capacities. The new administration has not yet availed a clear plan or path on solving these debt issues, though they have reiterated their resolve to engage with international institutions and players to come up with some possible solutions on the matters. The table below reveals Zimbabwe's breakdown in terms of external debt position.

Table 4 2016 External Debt Calculations US$ millions

	Principal Outstanding	Arrears	Total	Percent of GDP (0%)
Public & Publicly Guaranteed	2,217	5,014	7,231	44.8
Bilateral Creditors	1,198	2,985	4,183	25.9
Paris Club	223	2,818	3,041	18.9
Non Paris Club	975	167	1,142	7.1
Multilateral Creditors	448	2,070	2,518	15.6
World Bank	253	1,149	1,402	8.7
AFDB	37	605	642	4.0
EIB	22	228	250	1.6
Others	137	65	202	1.2
RBZ External Debt	530		530	3.3
Private Debtors			2,117	13.1
Total External Debt			**9,348**	**58**

Source: IMF – Zimbabwe 2017 Article IV Consultation

D. Foreign Direct Investment

Both foreign direct investment and portfolio investment tumbled by 14% and 78% respectively from 2015 to 2016 and further took some hits as compared to 2017, falling from an estimated US$ 343 million in 2016 to US$ 235.4 million in 2017 for foreign direct investments. Net portfolio investment also fell from US$ 80 million to US$ 41 million. This signified a decrease of 31.4% and 48.75% for both the foreign direct investment and portfolio investment categories respectively. Interest still largely remains, particularly in the mining and energy sectors, but investors are yet to respond to positive structural reforms. Though following the November 2017 developments, investment was probably employing a wait and see attitude, particularly with elections looming in July 2018. However, now past the election period, the attraction of foreign direct investments still remains high on Zimbabwe's agenda. The first port of call was the relaxation of the controversial Indigenization Bill, which was attributed to exodus of a lot of foreign investment. Further to this, the recent parliamentary address saw authorities tabling various bills namely the Companies and Entities Act which seeks to overhaul the old Companies Act, the Regional town and Country Planning Amendment Bill aimed to reduce bureaucratic construction procedures, Investment and Development Agency Bill which seeks to consolidate various investment related pieces of legislature housed under different Acts, the Mines and Minerals Amendment Bill, the Gold Trade and Precious Stones Trade bills as well as the Citizenship and Immigration Act amongst other bills in attracting foreign investment through legislative procedures that reduce the time and cost of doing business. The country's tax administration is also moving to dump its previous combative approach in favour of a conciliatory approach.

The country is currently on a multi-currency system. However, the Central Bank moved to introduce low denomination bond notes valued at $2 and $5 for use on the domestic market as well as encouraging the use of electronic balances. Though these are officially valued at US$1: $1(Zimbabwean Bond Note), demand for the now evasive US dollar currency particularly for importers who are failing to get foreign currency through official channels, has led to a spike on the informal exchange market. Indications are now that as at September 2018, US$1: $2 on the black market. Restraint on the part of the RBZ has however moderated exchange rate pass-through effects and maintained accompanying inflation to within single digit levels. The authorities are slowly moving towards a floating exchange rate system.

II.1.2. Domestic Environment

Zimbabwe's economic performance is likely expected to improve on the back of a new administration riding on some increased hope as well as some scepticism thrown into the bag. The new minister of finance, Professor Mthuli Ncube, a Cambridge PhD graduate and a visiting Professor to Oxford University is now behind trying to resurrect Zimbabwe's comatose economy. Cash shortages, rising prices, high unemployment and dilapidated infrastructure are some of the problems which have contributed to Zimbabwe's current economic situation. Year on year inflation rose from 4.29% in July 2018 to 4.83% in August 2018. The current administration admits they have a herculean task in front of them, chief among them, spurning economic growth. However, the shift in economic policies is expected to boost long term growth, though their effectiveness may be hampered by the current liquidity shortages. Both short and long term capital inflows are expected to increase, alleviating financial constraints to growth.

A. Economic Growth

Zimbabwe's economy is estimated to have recorded a 3.7% growth in 2017, up from a 0.7% achieved in 2016. This was against a targeted 1.7% and a world output growth estimated at 3.6%. Measured in terms of GDP growth by sector, this was mainly as a result of strong contributions and growth, particularly in the agriculture sector, mining industry, energy (electricity generation) and the service industry mainly tourism and communication.

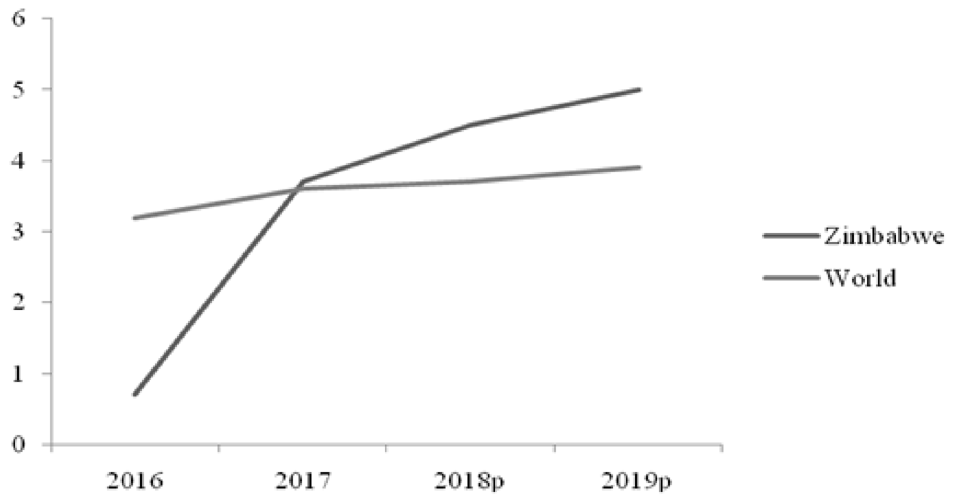
Following a period of roughly 2 years of suppressed agricultural output, an estimated 15.9% growth in the agricultural sector contributed heavily to the increased domestic product. The agricultural sector was particularly boosted by the good rains in the 2016/2017 season as well as government coordinated interventions in partnership with the private sector. Further, were also government's command agriculture programmes which have supported farmers with loans and repayments of the loans by use of crop yields usually valued above the international prices, albeit at the cost of increased domestic borrowing. Future programmes in 2018 and beyond are expected to include soya bean and livestock production. Growth in this sector also contributed to poverty alleviation, as approximately 140 000 people escaped the clutches of extreme poor people for the first time since 2014 as seen by the number of extreme poor people decreasing from 3.1% to 2.9%.

With over reliance on commodity exports, it is no surprise that growth in the mining sector also contributed heavily to the domestic product. A lot of reliance and faith is put in unprocessed and semi processed raw commodities such as gold, tobacco and platinum as the country's foreign exchange lifelines. Resultantly, fluctuations on the international commodity prices have a major bearing on Zimbabwe's foreign currency earnings and reserves. The mining sector contributed to economic growth with an 8% increase. This was boosted by improved commodity prices that continued their recovery from the lows of 2016 which saw base metals, precious stones, including nickel, chrome and granite as well as agricultural goods maintains a slight upward trend particularly due to a strong demand by China's property and manufacturing sectors. However, they were still suppressed compared to 2012s' high prices. Gold prices rallied amid geo-political tensions and a weakening US dollar which saw a demand for the safe haven metal improving to US$1 316 per ounce in September 2017, before slightly receding to US$ 1 280 in October 2017 on the back of a strengthening US dollar and anticipated higher interest rates. Platinum remained slightly depressed. Overly, base metals prices firmed, as the World's biggest consumer of base metals, China maintained a strong demand. Zimbabwe's small scale gold mining contributed to over half of the nation's gold output with a 51% contribution, as this contributed to the reduction in poverty as well. The rest, 49%, was produced by primary producers. Gold deliveries to Fidelity Refineries were boosted by policies aimed at supporting small scale production as well as reducing leakages via joint monitoring programmes by the Ministry of Mines, Home Affairs and the Reserve Bank of Zimbabwe. As such, gold deliveries to the Fidelity Refiners saw a 12% increase for the period of January to September 2017, as compared to the same period in 2016. This corresponded to the 17 163 kilograms delivered in this period. On the diamonds side, the consolidation of the diamond industry as well as Zimbabwe's Consolidated Diamond Company's capitalization saw a significant improvement in diamond output. As at September 2017, diamond production was at 1.8 million carats, compared to 1.3 million carats for the whole of 2016.

Management changes at Hwange Colliery Company together with recapitalization might have played a significant role in increasing coal production, with figures indicating an increase of over 900% in terms of monthly production. The first quarter registered monthly statistics of around 30,000 tonnes while the second half of the year saw coal production increasing to 300,000 tonnes per year. On the back of improved performance, the projected mineral export receipts are expected to increase from US$ 2.3 billion in 2017 to US$ 2.5 billion in 2018.

The Services sector grew by only 0.8% largely boosted by the tourism and communication categories. This suppressed performance is largely blamed on the expansionary fiscal policy currently in place which is resulting in the crowding out effect thus limiting the private sector's access to credit lines and ultimately, its growth and expansion.

Figure 7 Current and Projected GDP (%) growth rates World and Zimbabwe



Source: First Quarter Parliament Budget Office

Table 5 GDP Growth Rates by Sector (%)

GDP by Industry Growth Rates	2017	2018p	2019p	2020p
Agriculture and Forestry	14.6	10.7	8.1	8.9
Mining and Quarrying	8.5	6.1	7.6	8.9
Manufacturing	1	2.1	3.9	4.2
Electricity and Water	10.7	28.5	11.9	6.6
Construction	2.2	2.1	8.1	8.4
Distribution, Hotels and Restaurants	1.1	7.3	7	8
Transport and Communication	2.3	1.9	4.1	6
Financial, Banking and Insurance	0.2	1.2	9.2	6.2
Administrative and Support Service Activities	-0.9	-0.9	-0.9	-0.9
Education and Training	2.3	0.5	3.1	3.1
Human Health and Social Work Activities	2	2.2	1	1
Private Education and Health	2.2	0.9	2.7	2.6
Real Estate Activities	2.2	2.1	8.1	8.4
Other Services Activities	-1.7	-0.8	-0.2	1
Private Households with Employed Person	-1.5	0	0.8	0
Average Growth Rate	**3.7**	**4.5**	**5.6**	**6**

Source: Ministry of Finance 2018 Budget

B. Inflation

Following deflationary conditions in early 2017, the country since has since experienced inflationary conditions since then with 2017's average inflation hovering around the 1% mark. Inflation has averaged 0.96% from 2009 to 2018, reaching a peak of 5.3% and a low of -7.5% in December 2009, a year after the madness of the hyperinflation era. Market distortions which started in late 2017 as well as an informal move to a 3-pier pricing system (that is payment for products being quoted in different prices for US dollar, Zimbabwean Bond Notes and Electronic balances, with the latter higher than the former) may have contributed to a spike in inflation. Inflation shot up to 3.46% in December 2017 before falling to 2.68% by March 2018. Some other effects apart from speculative tendencies included the pass through effects of parallel market premiums on foreign currencies, strengthening South African Rand (Zimbabwe's biggest trading partner) and firming oil prices all had pressure on the inflationary aspects in the Zimbabwean economy. However it may be expected that the aftermath of the elections, and general political and economic goodwill as well as hope and forecast of the implementation of sound economic policies may help pour cold water on speculative tendencies and help Zimbabwe remain within Southern African inflation target rates of between 3% -7%.

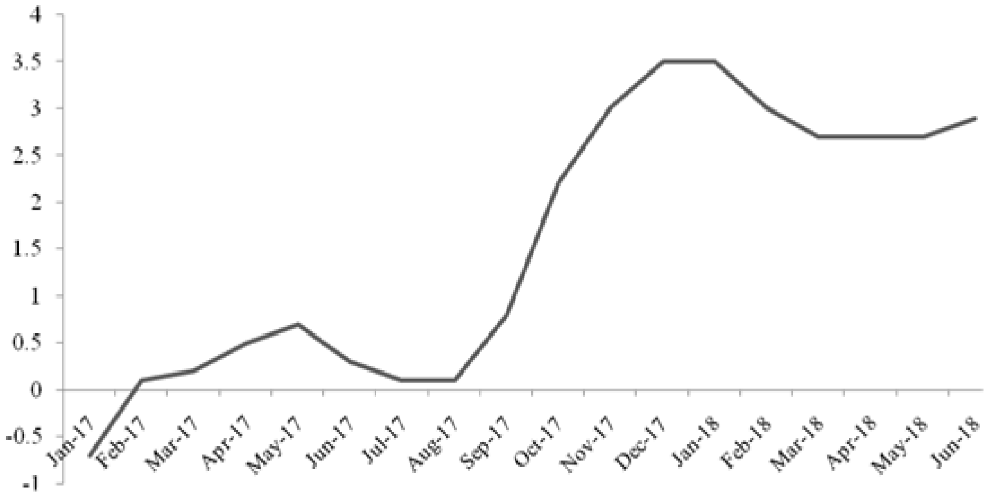
Food inflation rose, from deflationary conditions in January 2018 where it was at the -0.30% in January 2017. It reached a percentage of 5.65% in November 2017 before falling to 6.6% in December 2017. The main drivers behind these increases were mainly meat and meat related products such as beef, in relation to a lower general quantity of meat available decreased with livestock owners holding onto cattle in anticipation of a good grazing season due to good rains being forecasted. A case of avian flu also led to reduced output in terms of chicken production and thus impacted on the overall supply of birds onto the market. Overly, the supply side of these items are the main reasons which lead to increase in prices and overly food inflation rate. Sourcing of foreign currency on the informal markets for food related production also likely played a hand in inducing an increase in food inflation. Other notable contributions also arose from the vegetables and fish arenas. However, due to a good agricultural season in 2016/2017, improved supplies of agricultural produce, particularly in the case of bread and cereals helped to partially offset the price increases in other categories. Food Inflation has further fallen to 4.5% by March 2018 with further falls in bread and cereals, as an improvement in meat supplies, fats and oils adding to offset other increasing categories.

Non-food inflation also moved from deflationary conditions in January 2017. Initially at -0.82% at the beginning of the year, it rose to 2% by the end of the year. The main drivers were the furniture categories, recreation as well as clothing and footwear as well as other goods and communication prices. This was probably affected by the premiums that come into play when parties involved source of foreign currencies on the parallel market, thus leading to pass through effects onto the local prices. However by March 2018, non-food inflation had fallen to 1.8%.

With 2017 year end inflation hovering at 3.5%, Zimbabwe's inflation remained in the Southern African Development Community (SADC) targeted range of 3-7%. As at the end of March 2018, the inflation rate had however fallen to 2.68% which is below the given benchmark and was the lowest in the SADC region in comparison to other SADC members like South Africa (3.8%), Botswana (2.8%) and Mozambique (3.1%) and but higher than that of some world economic leaders like the USA (2.4%).

The general outlook is that inflationary pressure will be reduced by an increase in positive and domestic goodwill, following a new political and economic dispensation which will help dampen speculative tendencies particularly on the parallel markets. On the other side, a strengthening South Africa Rand, US dollar, a higher demand of imported goods and increasing oil prices may continue to add pressure onto the overall inflation rate. Back to a positive outlook, increased participation by the government in securing food security will lead to a lowering food inflation rate which may offset the negative factors.

Figure 8 Month by Month Inflation 2017 to 2018



Source: ZIMSTAT

C. Money Supply

Broad money supply (M3), as measured using IMF's Monetary and Financial Statistics Manual of 2000 which excludes Government deposits held by banks, registered a 47.97% growth, from US$ 5 420 million in November 2016 to US$ 8 020 million from November 2017 and to US$ 8 106 million by December 2017. Demand deposits grew by 58.99%, with negotiable certificates of deposits growing by 51.57%. However fixed time deposits tumbled by 1.2% in the same period.

Transferable deposits, which consist of mainly demand as well as savings deposits continue to be the major contributors to the money supply with a total contribution of 77% for the period under investigation. Time deposits made up to 18% of the total money supply, with the currency in circulation (being low denomination bond notes and coins) and negotiable certificates of deposits making up 4% and up to 1% respectively. In terms of domestic credit, credit lending to various economic agents grew from US$ 7 554 million in November 2016 to US$ 10 637 million by November 2017. This marked a 44% increase. This was split up with net credit to the Government increasing by 70.45% to US$ 6 271 million versus a small increase of net credit to the private sector of 6.97% by US$ 3 705 million. This continues to reflect governments increased borrowings from the domestic scene and particularly the over reliance on the banking system, as the private sector continues to be crowded out. This expansionary fiscal policy has continued to affect electronic balances with an addition of US$ 778 million in 2017, thus raining the 2016's balance of US$ 954 million to US$ 1 732 million by end of 2017. The increase in this RTGS position was largely driven by increased government borrowings which are being financed through an overdraft at the central bank and the issuance of treasury bills and bonds recording a rise from US$ 3 200 million to US$ 5 200 million by the end of 2017. The main part of this increase is related to financing of agriculture activities under the Command Agricultural Programme. Within Zimbabwe's multi-currency context, financing should ideally be from foreign sources so as to reduce the creation of domestic money without foreign currency backing.

With banking sectors deposits stood at US$ 8 480 million by the end of 2017. This showed an increase of 26.47% from June 2017 levels of US$ 6 990 million. This was most notably in part because of the expansionary fiscal policy, the impact of increased government expenditure together with the multiplier effects of new deposits, as well as increased export receipts. The increase of net credit to the private sector fell mostly to the productive sectors of the economy with a total of 73.64%. Consumptive loans only contributed 18.6% and other loans added 7.76%. Breaking it further down, of the 73.64%, the sectors that benefited from the loans are split as follows:

Agricultural -15.34%
Manufacturing - 17.29%
Financial Firms - 8.29%
Mortgages' - 13.16%
Mining - 3.8%
State and Enterprises - 2.21%
Trade and Services - 0.91%

Overly, the banking sector has continued to support the most productive sectors as can be seen by the bulk of the net loans to the private sector

Table 6 2017 Quarterly Movements in M3, Deposits and Currency in US$ Millions

	Jan	Mar	Jun	Sep	Dec
Broad Money M3	5,663.00	5,879.00	6,491.00	7,460.00	8,106.00
Transferable Deposits (Demand & Savings Deposits)	3,985.00	4,147.00	4,690.00	5,589.00	6,303.00
Currency outside depository corporations	82.00	142.00	196.00	243.00	331.00

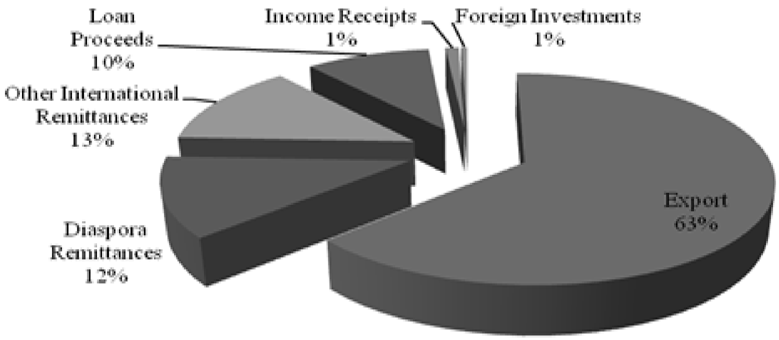
Source: Reserve Bank of Zimbabwe

D. Remittances

It is estimated that 3-4 million of Zimbabwe's population is now living outside Zimbabwe. That is roughly, 18-20% of Zimbabwe's population and 30-40% of the working population. With most Zimbabwean workers in countries such as South Africa, United Kingdom, Canada, Australia and the United States, continuing to support family members back home, Diaspora remittances can contribute significantly to economic recovery when channelled through official channels and utilized for productive activities and economic recovery. For the year 2017, International inward remittances registered a US$ 1 400 million flow, down from US$ 1 600 million that came in 2016. This resembled an 11% decrease in actual remittances. 49.9% of the US$ 1.4 billion that flowed into the country came in from the Diaspora, which translates to US$ 689.9 million and a 12% contribution to overall foreign currency receipts. This utilised channels set up by authorised registered dealers such as Moneygram, Mukuru, World Remit and Western Union who have invested in numerous technologies that broaden financial inclusion, reduce remittance costs and have increased access points to the benefit of both senders and buyers. With a multi-currency system in place, exchange distortions were removed with people receiving their money in foreign currency thus encouraging their further use of these channels. Unfortunately, this has also been finding its way to the informal market which is offering premiums.

In 2018, The Reserve Bank of Zimbabwe further introduced more incentives in order to spur international inward remittances. Zimbabweans abroad can now open a Diaspora investment account with local banks. The accounts which shall be investments and savings related activities shall be funded by offshore balances and entitled to a 7% Diaspora remittance incentive over and above the normal interest rate payable by local banks. These accounts are expected to be ring fenced in order to avoid commingling with RTGs monies. This is further to Nostro stabilisation facilities by the Central Bank in guaranteeing international remittances and individual foreign currency inflows received through normal banking channels.

Figure 9 2017 Foreign Currency Receipts % Contributions



Source: Reserve Bank of Zimbabwe

II.1.3. Fiscal Position

Zimbabwe's current budgetary operations show an expansionary fiscal stance as expenditure has steadily increased whilst revenues have not performed very well. The obvious result is that this has been crowding out funds to the private sector and stunting private sector growth. Expenditure for the past few years has been heavily tilted towards employment costs as well as agricultural support in the form of the Command Agricultural Support thus inhibiting release of funds particularly towards other critical sectors such as infrastructure and social outlays. In 2016 alone, employment costs reached a staggering 90% of the total revenues, and the resultant deficit went up to 6% of the GDP. Then on the public sector wage bill has remained unsustainably high. Agricultural support reached 4% of the GDP. Crowding out the private sector not only affects growth in that sector, but may also have aggravated liquidity shortages as well as exacerbating debt distress.

The current modus operandi of financing the deficit by use of the central banks' credit is somewhat unsustainable and has a tendency of inducing inflationary pressures. In 2016 after financing the deficit by use of the treasury bills had surpassed the private sectors absorption capacity, the government moved to the use of an overdraft facility thus adding on pressure to the balance of payments. Continuous monetary financing of the deficits will increase inflation since this raises the premium on US dollars particularly against other currency instruments like the bond notes. Zimbabwe needs to carry out various reforms in order to maintain a sustainable fiscal policy for economic growth. Fiscal reforms are urgently needed as they may be need to restructure expenditure behaviours, particularly in reducing employment costs and channelling resources towards other productive sectors as well as increasing revenues.

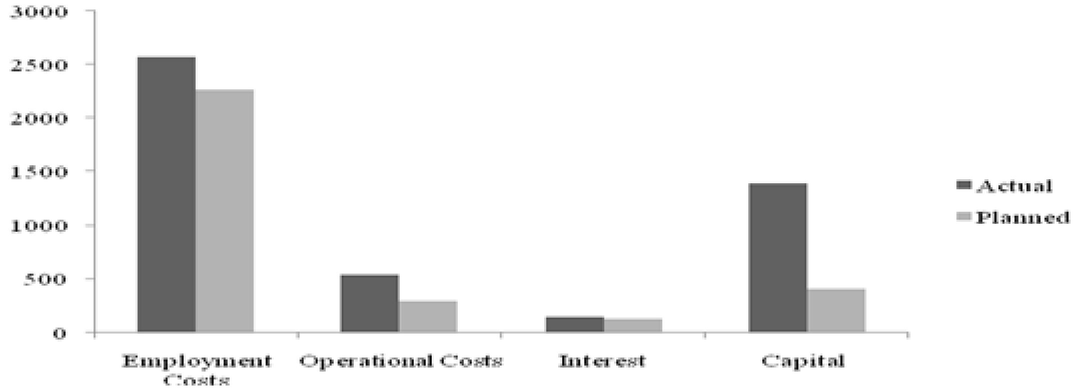
A. Expenditure Performance

Zimbabwe's government has its noted fiscal indiscipline as one of the main areas that has resulted in an unsatisfactory performance. Further, has been a waning domestic and foreign confidence level, especially given the previous policy inconsistencies' leading to an uncertain business environment. The failure to adhere to set budgets and laid down procedures has led to unbudgeted expenditure

For the period January to September 2017, budget expenditures amounted to US$ 4 650 million against a targeted and US$ 3.1 billion resulting in additional expenditure up to the tune of US$ 1.55 billion. Employment costs were the highest cost category with 55% share sitting at a total of US$ 2 567 million. This was against a previously budgeted amount of US$ 2 263 million leading to a variance of US$ 303 million showing over expenditure of 13.4%. Capital costs were the second largest cost with an amount of US$ 1 392 million, up from a planned US$ 408 million. The net increase was US$ 983 million, translating to a 241% variance over and above the planned expenditure. Interest expenditure stood at US$ 150 million against a budgeted US$ 133 million with Operational expenses resulting in a US$ 543 million versus an initially targeted US$ 295.5 million.

Under Employment costs, total costs increased from an anticipated US$ 2 263 million to US$ 2 567 million. The main drivers under this category were civil service salaries which rose from an anticipated US$ 1 456 million to US$ 1 589 million chiefly because of an unbudgeted 13th cheque award of US$ 171.3 million which was staggered over the period April to August 2017 accounted for the US$ 136 variance as well as the US$24 million variance related to grant aided institutions. Payments to the social security also ballooned from a planned US$ 26.1 million to US$ 192.5 million with a variance of US$ 166.4. This was so, because, over the period September 2013 to December 2016, the government has accumulated arrears to the tune of US$ 180.9 million to the National Social Security Authority in form of unremitted pension payments. Resultantly, treasury bills to the amount of US$ 180.9 million were issued which resulted in the expenditure overran

Figure 10 2017 January to September Actual vs. Planned Expenditure US$ Millions



Source: Ministry of Finance, 2017 National Budget

Operational and Interest Costs ballooned to US$ 543 million and US$ 150 million respectively. A persistent weak state of finances has continuously affected governments' ability to pay bills to both the public and private sector for goods and services rendered. As a result arrears have continuously mounted over the years and in 2017, treasury bills to the amount of US$ 224.5 million were made for payments to Zimbabwe Electricity Supply Authority (US$ 137.6 million); Zimbabwe National Water Authority (US$ 49.4 million); NetOne Communications (US$ 11.5 million); Natpharm (US$ 26 million). Another US$ 60 million of the same treasury bills were also issued in order to finance critical government programmes and projects during the course of the year. A lot of unplanned expenditure was also directed towards recapitalisation of some of the major countries parastatals such as Hwange Colliery (National Coal Company). Furthermore additional expenses were incurred for elections that were carried out in July 2018, with a total of US$ 18 million going towards the exercise in form of equipment and paperwork needs such as production on national identities.

Capital expenditure was driven by large increases in the Agricultural sector. Amounts for the agricultural sector alone reached US$ 1 027 million (73.8% of the total capital expenditure. Of this US$ 552.2 million was allocated towards grain activities such as grain procurement, rehabilitation of silos, and setting up grain collection points. The Command Maize Programme and Presidential Input Scheme gobbled up US$ 460 million. With few resources left for infrastructure development, a lot of projects were affected such as rod rehabilitation, ongoing dam construction projects.

Concerning the overall trend, government expenditure has steadily grown over the years. However as usual, the most worrying factor has been the increasing employment costs as well which have grown from US$ 2 134 million in 2012, to US$ 2,579 million in 2015 and most recently, to US$ 2,567 million for the first three quarters of 2017. Capital expenditure has remained subdued, increasing from US$ 355 million in 2012, to US$ 490 million in 2015, before shooting to US$ 1 392 million mostly as a result of agricultural projects which are being initiated to boost food security, increase exports, reduce imports and food inflation as well as the unemployment rate considering that it still employs an estimated 50-70% of the population. The ripple effects could be tremendous.

Table 7 2013 to 2020 Actual and Projected Central Government Expenditure US$ Millions

	2013	2014	2015	2016*e*	2017*p*	2018*p*	2019*p*	2020*p*
Total Expenditure	4,065	4,024	4,156	4,970	4,783	4,793	5,146	5,300
Current Expenditure	3,583	3,655	3,666	4,004	4,013	4,076	4,405	4,545
Employment Costs	2,344	2,583	2,579	2,756	2,709	2,709	2,848	2,908
Interest Payments	116	136	177	127	191	225	332	373
Goods and Services	359	322	319	370	446	464	500	510
Grants and transfers	763	613	590	751	667	678	724	754
Capital Expenditure	483	370	490	966	771	717	742	755

Source: International Monetary Fund

B. State Revenue

In 2017, cumulative tax and non-tax revenues, for the period January to September 2017, stood at a total of US$ 2 812 million against a targeted US$ 2 741 million resulting in a positive variance of 2.6% or US$ 70.8 million. Splitting it further, tax revenue contributed US$ 2 643 million against an anticipated US$ 2 519 million leading to a 4.9% positive variance and US$ 124.2 million above the target. However, non-tax revenue collected was US$ 168 million which was below the expected US$ 221.6 thus revealing a 24.1% or US$ 53.4 million variance.

Table 8 2017 January to September Revenue Performance US$ Millions

	Actual	Targeted	Variance	% Variance
Total Revenue	2,812.00	2,741.20	70.80	2.6
Tax Revenue	2,643.90	2,519.70	124.20	4.9
Non Tax Revenue	168.10	221.60	-53.4	24.1

Source: Ministry of Finance, 2018 Budget

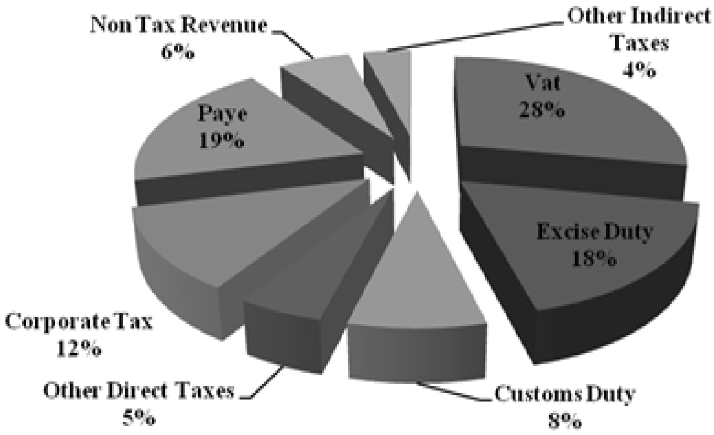
Tax revenues have improved as some key features and measures may have proved to be successful. Firstly, automation in terms of Value Added Tax has improved collection and ease of value added collection as well as verifying and auditing this tax head. This has been utilised by the use of fiscal devices as well as other ICT solutions such as E-Services. Further, the Authority has moved to increase the tax base by focusing on unregistered economic players thus tapping into the informal sector that is mostly small to medium sized. On the customs side, measures to secure unofficial points of entry, electronic cargo tracking, single window facilities and the reduction of vehicle temporary imports months from twelve to three months may have aided better revenue collection. This is apart from active in organisation measures to curb corruption such as opening up whistleblower facilities and lifestyle audits on Zimra personnel. In terms of contribution to the total revenue, the major tax contributors were Value Added Tax, Personal Income Tax also known as Employment Tax and Excise Duties. Value Added Tax contributed 28.6%, with Personal Income Tax bringing in 19.2%. With excise duties charged not only on alcoholic substances, but as well as fuel seen with prices of petrol(gasoline) and diesel hovering around US$ 1.5 per litre, it may not be much of a surprise to see Excise Duties also contributing a total of 18.2%. Corporate Income Tax contributed 11.6% with Customs Duties bringing in a contribution of 7.9%.

On the other side, non-tax revenue continued to underperform, with a 6% overall contribution to total revenue. This revenue stream is comprised of revenues collected by Ministries and Departments from fees, fines, rentals, interest, dividends, government sales, business licences, and pension contributions amongst others. The poor performance in 2017 was partially attributed to poor remittances of pension contributions, non-payment of telecom fees by Net One and Telecel (two of the three telecommunications companies in Zimbabwe) and lower than expected dividends from parastatals. The table below shows the performance of non-tax revenue:

Table 9 2017 January to September Non Tax Revenue US$

	Actual	Expected	Variance	Variance %
Government Property Rent, Dividends	8,755,865	39,975,000	-31,219,135	-78.1%
Dividends	-	30,000,000	-30,000,000	-100.0%
Pension Contributions	83,543,177	103,977,000	-20,433,823	-19.7%
Fees	61,149,167	70,518,000	-9,368,833	-13.3%
Telecom Fees	-	7,500,000	-7,500,000	-100.0%
Other	14,694,556	7,092,000	7,602,556	-107.2%
Total	168,142,765	221,562,000	-53,419,235	-24.1%

Figure 11 2017 January to September Revenue Split



Sources: Ministry of Finance, 2018 Budget

Total revenue has somewhat remain subdued over the years. From figures of US$ 3 496 million in 2012, it steadily grew to US$ 3 741 million in 2013 then hovering around the US$ 3 737 in 2015. However, tax revenue has steadily grown over the past 5 years, has it has moved from US$ 3 279 million in 2012, before rising to US$ 3 548 million in 2015. Total net tax collections for the year 2017 (January to December) finally stood at US$ 3 750 million. Non tax revenue has consistently failed to perform has it has always remained under the US$ 300 million mark. However, coupled with a steady increase in government expenditure as well, a deficit has always remained for the past decade.

Table 10 Movements in Total Revenue 2013 to 2020 US$ Millions

	2013	2014	2015	2016est	2017prj	2018prj	2019prj	2020prj
Total Revenue	3,741	3,770	3,737	3,502	3,714	3,981	4,302	4,427
Tax Revenue	3,414	3,519	3,548	3,237	3,439	3,676	3,961	4,071
Ind. Income	744	900	770	736	761	824	890	889
VAT	1,068	972	985	963	1,088	1,218	1,292	1,344
Excise Duties	510	517	714	642	665	665	758	789
Non Tax Revenue	327	251	189	265	275	304	342	355

Source: IMF

Figure 12. 2017 January to December Final Tax Revenue Performance

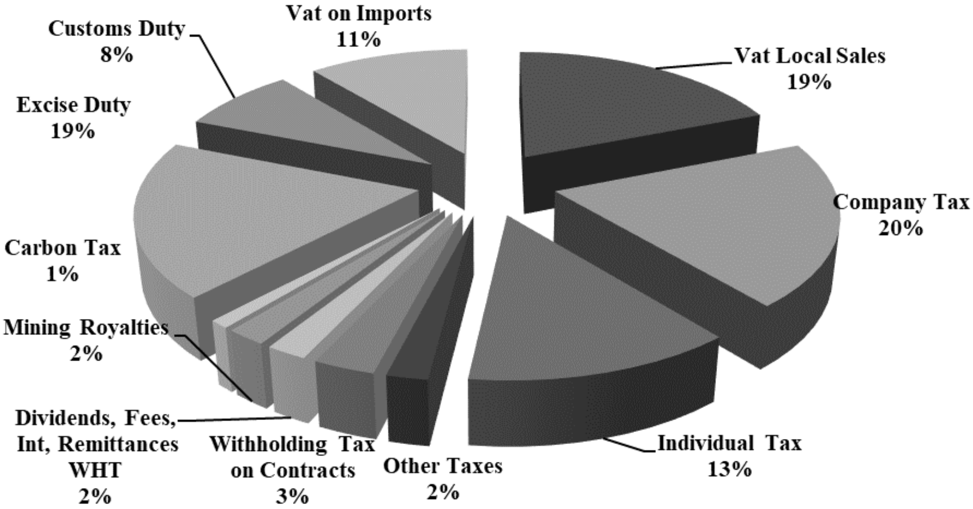


Table 11. 2017 January to December Final Revenue Figures in US$

Revenue Type	Amount in US$
Individual Tax	490,011,929.78
Company Tax	730,496,981.71
Vat Local Sales	687,083,586.97
Vat Imports	389,923,332.91
Customs Duty	295,750,282.21
Excise Duty	675,897,301.43
Carbon Tax	30,367,584.15
Mining Royalties	73,111,798.69
WHT on Dividends, Fees, Interest, Remittances	56,839,438.51
Withholding Tax on Contracts	126,446,817.08
Other Taxes (CGT, Tobacco Levy & Other)	83,500,611.78
Net Non-Tax Revenue	112,541,950.68

Source: Zimbabwe Revenue Authority Performance Report for year ended Dec 2017

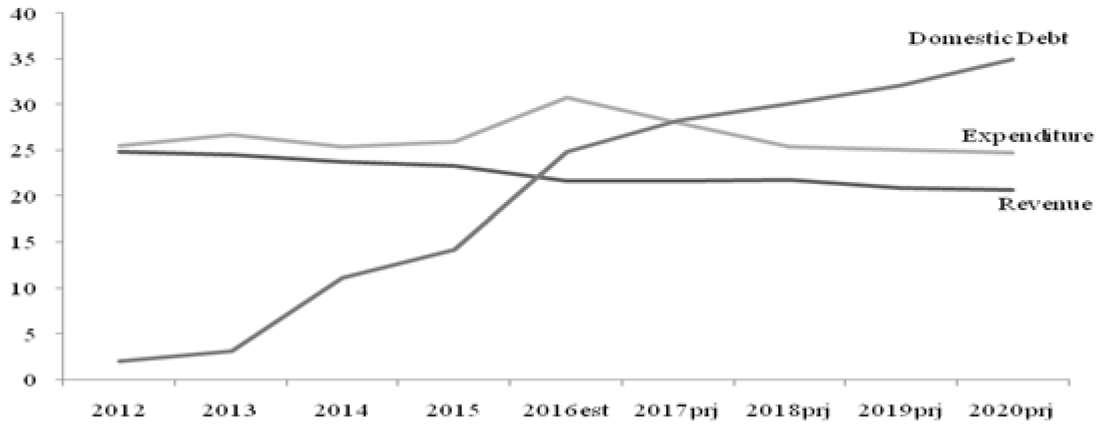
C. Fiscal Situation

Resultantly, Zimbabwe has continuously faced a fiscal deficit. Although revenues have been increasing, Zimbabwe's central expenditure has always been more that the revenues that could be collected. Of particular concern has been the contribution of the civil service wage bill to the overall. Without much external funding or offshore options, the government has resorted to domestic finances. The main instruments have been the issuance of treasury bills as well as utilising overdrafts with the central bank.

From January to December 2017, the government issued instruments to the value of US$ 1 750 million mainly in the form of treasury bills and bonds. Of this, US$ 386 million was utilised to fund government programmes or budget financing. A total US$ 1 070 million was directed towards government and legacy debts. For the Central Bank's debt, US$ 103.73 million was channelled and US$ 130.04 million went to the Zimbabwe Asset Management Corporation (ZAMCO). A total US$ 61.06 million was used for capitalisation ventures in the Agricultural Bank of Zimbabwe (Agribank), Infrastructure Development Bank of Zimbabwe (IDBZ) and the Small to Medium Enterprises Development Corporation (SMEDCO).

For the past few years, domestic borrowings have also shot up from 2% of the GDP to 14.2% by 2015 and an estimated 28.2% by 2017. The immediate risks are notable. This current trend leads to mounting interest payment obligations as well posing a significant risk of waking macroeconomic instabilities. Already, it has created a level of distortion between high levels of RTGs balances or electronic money, versus available money in the form of US dollars and bond notes. The scarcity has led to exchange rate premiums in the unofficial channels which have led to exchange rates affecting prices of goods and services, particularly for import related products. Some economic agents and market players have started discounting treasury bills and directing proceeds towards the purchase of scarce foreign currencies without directly promoting production and exports. Increased pressure has come from various avenues such as vendors like vehicle sellers who have offered government to take up unsold wares for treasury bills, which they have immediately discounted in the market in search of foreign exchange, as well as parastatals and quasi-government organisations that have asked for bailouts in form of treasury bills from the government.

Figure 13 Comparison of Domestic Debt, Expenditure & Revenue as % of GDP



Source: International Monetary Fund

With dire consequences, various steps are needed in order to correct the situation. Firstly on the expenditure side, the government has moved by freezing recruitment into the civil service. The policy on freezing vacant posts in the civil service has helped reduce expenditure pressures. The freeze has been maintained across the entire board save for critical areas and posts as determined by the Treasury in conjunction with Service Commissions. Retirements will be enforced as there are a lot of staff still working above the sixty five year old threshold. On retirement, staff will be assisted with capital to facilitate meaningful economic development particularly with a view towards agricultural land allocation. Furthermore, the government has introduced a voluntary retirement scheme with added benefits of assisting in start-up business or agricultural upon retirement.

The government has also moved to abolish duplication of functions across the board with some posts inside the ministries being abolished and functions being moved to other ministries. Some members of the public service, who did not have the requisite qualifications, were retired. The ministries have been reduced, from 35, down to 27 and recently, a cabinet of only 20 ministers and government ministries was announced. Other cost cutting measures include closing technically insolvent parastatals, reducing foreign bills, reducing foreign travel delegations as well as no first class flying except for the presidium, ministers, parastatals chief executive officers and equivalent grades apart from a whole other benefits such as car and fuel allowances that have been trimmed down.

III. Tax Structure

III.1. Historical Background

Before the year 2001, tax and customs administration in Zimbabwe were handled by the Department of Tax and the Department of Customs of Excise respectively. These departments directly fell under the Ministry of Finance and were part of the overall civil government structure. With an aim to improve its structure and tax collections in line with new international and recommend structures, the Authority was born

In 2001, the Zimbabwe Revenue Authority was established through an act of parliament known as the Revenue Authority Act Chapter 23:11. The purpose of the act was to establish a semi-autonomous tax governing body, for the purposes of the collection of certain revenues on behalf of the state, to provide for the authority's powers, functions and management, to provide for funds of the authority. The authority was created as a semi parastatal, which ran its own day to day affairs such as human resources, procurement and other activities under the watchful eye of the Ministry of Finance and Economic Development. The precise wording in the Revenue Authority Act which saw the establishment of the organisation is as follows

'There is hereby established an authority, to be known as the Zimbabwe Revenue Authority, which shall be a body corporate capable of suing and being sued in its own name, and subject to this act, of performing all acts that bodies corporate may by law perform.'

The organisation's headquarters are in Harare, as well as the main tax and customs offices which are housed at the Kurima House with centres all over the country and ports of entries

From the time establishment, Zimra has become one of the most efficient Zimbabwean government arms especially after the post crises hyper inflationary era. Since then the Authority has steadily grown and has introduced a number of strategies and client focused innovations to enhance revenue collection. In order to improve operation, new domestic stations as well as ports of entries have been opened to facilitate trade and travel and curb smuggling. For instance the Mphoengs, Sango and Maitengwe Border Posts where opened as well as making Chirundu Border Post (the gateway to East and Central Africa) a one stop border post under the auspices of the Common Market for Eastern and Southern Africa (COMESA). Further to that, other satellite offices have been opened in smaller towns and recently, a tax office was re-opened in Marondera, a small agricultural town approximately 50 kilometres away from Harare. This is apart from improved opening times which saw most of the important ports of entry shifting to a 24 hour operational time frame.

2011 saw the adoption of scanners, border patrols, post importation audits, client awareness programmes and cargo monitoring in efforts to curb smuggling and underhand dealings. Further to that saw the adoption of ASYCUDA World in a bid to modernise customs clearance as well continual upgrade of the SAP system used for the domestic taxes side. The authority also managed to set up an in house training school to undertake its own training programmes for new and old staff. Further to that, it managed to get into a joint venture with the country's second largest university, the National University of Science and Technology (NUST), which saw the introduction of an undergraduate degree programme in 2007 in Fiscal Studies before the Masters component in the 2010/2011 academic season.

Apart from these, saw the in-house developments as Zimra introduced two large client offices particularly in the major cities of the country. The purpose was to provide a smooth, one stop shop for the country's biggest tax contributors in order to improve voluntary compliance. In 2015, ZIMRA launched the E-Services platform, which saw taxpayers utilising the internet and online system to submit returns and make payments, reducing the need to submit paper returns as well as making it easy for taxpayers to comply by use of even a computer or smart phone. Updates to the Asycuda system were recently carried out in 2017, albeit a few delays.

Recent developments saw the previous head, Mr G Pasi being replaced Ms F Mazanhi on allegations of corruption. Ms F Mazanhi, a graduate of Yokohama National University, has vowed to shift from a combative approach which Zimra had previously employed to a more conciliatory and cooperative compliance approach. The aim is, to move towards a sustainable taxation environment, where the business arena is able to pay their dues, yet still remaining operational to create other positive externalities like employment creation and poverty reduction.

III.2. Zimbabwe Revenue Authority Functions

The effective date of operations was 19 January 2001. The Zimbabwe Revenue Authority derives its functions and mandate from the Revenue Authority Act and these functions are as follows.

a. To act as an agent of the State in assessing, collecting and enforcing the payment of all revenue
b. To advise the Minister on matters relating to the raising and collection of revenues
c. To perform any other function that may be conferred or imposed on the Authority in terms of the Revenue Authority Act or any other enactment.
d. Facilitate trade and travel
e. Protect civil society

In assessing and collecting state revenues, the Zimbabwe Revenue Authority administers quite a number of Acts as follows:

a. Revenue Authority Act, Chapter 23:11
b. Income Tax Act, Chapter 23:06
c. Value Added Tax Act, Chapter 23:12
d. Customs and Excise Act, Chapter 23:02
e. Capital Gains Tax Act, Chapter 23:01
f. Stamp Duties Act, Chapter 23:09
g. Income Tax Transitional Period Provisions Act, Chapter 23:07
h. Fiscal Appeal Court Act, Chapter 23:05
i. Tax Reserve Certificate Act, Chapter 23:10
j. Estate Duty Act, Chapter 23:03
k. Finance Act, Chapter 23:04

In advising the Minister of Finance, the authority is responsible for compiling its own statistics and reporting back to the Ministry of Finance on its performance and advice and recommendations and tax and customs issues.

In performing other functions as may be conferred, the Authority has been given and is given other tasks that would otherwise have been carried out by other semi parastatals or departments. For instance, the Authority collected road toll fees on behalf of the Zimbabwe National Roads Administration (ZINARA) after a statutory instrument was promulgated empowering Zimra to do so as initially in 2009 when the government adopted a user pay principle for road users, ZINARA did not have the capacity to handle such a huge project. The government thus utilised Zimra’s nationwide presence to collect road toll fees on behalf of ZINARA until handing over the reins to the road administration company. At present, Zimra also carries out and undertakes some additional responsibilities at ports of entries such as searching for prohibited materials or materials that require licensing by other departments and bodies such as the Agricultural Departments and the Medicines Control Bodies. This is over and behalf other fees that the organisation still collects for other agencies, such as the Aids Levy for Zimbabwe National Aids Council.

In protecting civil society, the Authority is responsible for ensuring our borders are safe from the entry of harmful substances such as dangerous drugs and medicaments, arms and ammunition, pests and diseases and other like matters. This is so, as customs officials are the first port of call for visitors and they have to ensure that all goods and products entering Zimbabwe are thoroughly checked and verified, requisite duties and fees are paid, and where needed, requisite departments are advised and notified and prohibited materials are confiscated and adequate measures are taken thereafter like storage and/or destruction.

III.3. Organisational Structure and Administration

Organisational Structure

As a quasi-government, the organisation is modelled along the structure of a common or ordinary company. This sees it having departments and functions that are normally found in a company such Human Resources, Finance and other such aspects. As such, it has an appointed board that oversee the running of the organisation. However this board is appointed by the Minister of Finance and Economic Development and such the organisation reports to the Ministry of Finance and Economic Development. Further to that, the Government of Zimbabwe is the sole shareholder of the organisation. The finances to fund its operations are appropriated by the relevant ministry from time to time from the National Budget. The structure is as illustrated below:

Figure 14 Zimra Executive Management

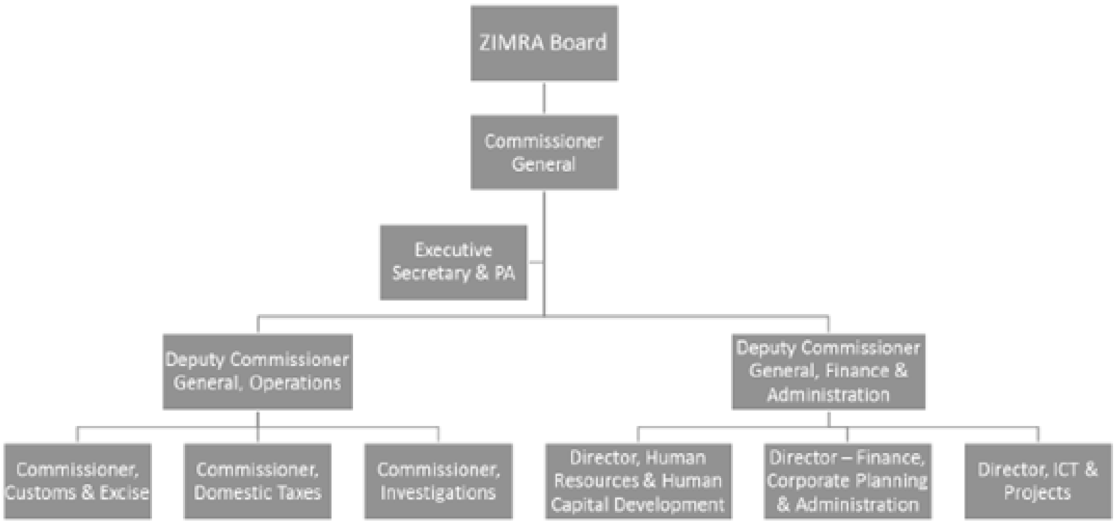
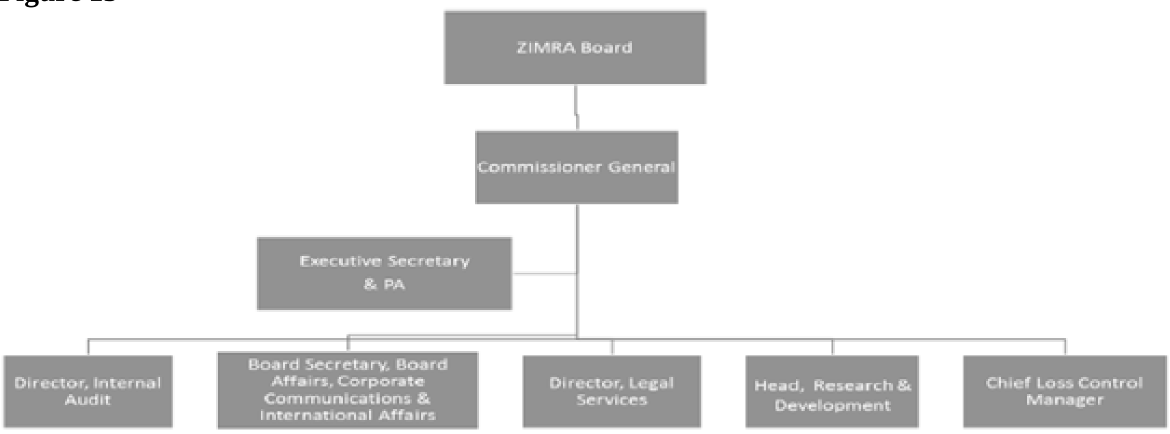


Figure 15



The executive management which is chaired by the Commissioner General provides policy guidelines and direction on all operations of the organisation. Furthermore, the Commissioner General's office has executive management over the Zimbabwe Revenue Authority and the mandate is discharged through the following executive management committees: Audit Committee, Revenue Committee, Procurement Committee, Risk Committee and ICT Committee.

It is also important to note that the Zimra Board was removed as at 1 October 2018 by the Minister of Finance. Zimra will report directly to the treasury until a new board is put into place. This is mostly in line with the active reforms that the government is taking.

Figure 16 Customs and Excise Division Structure

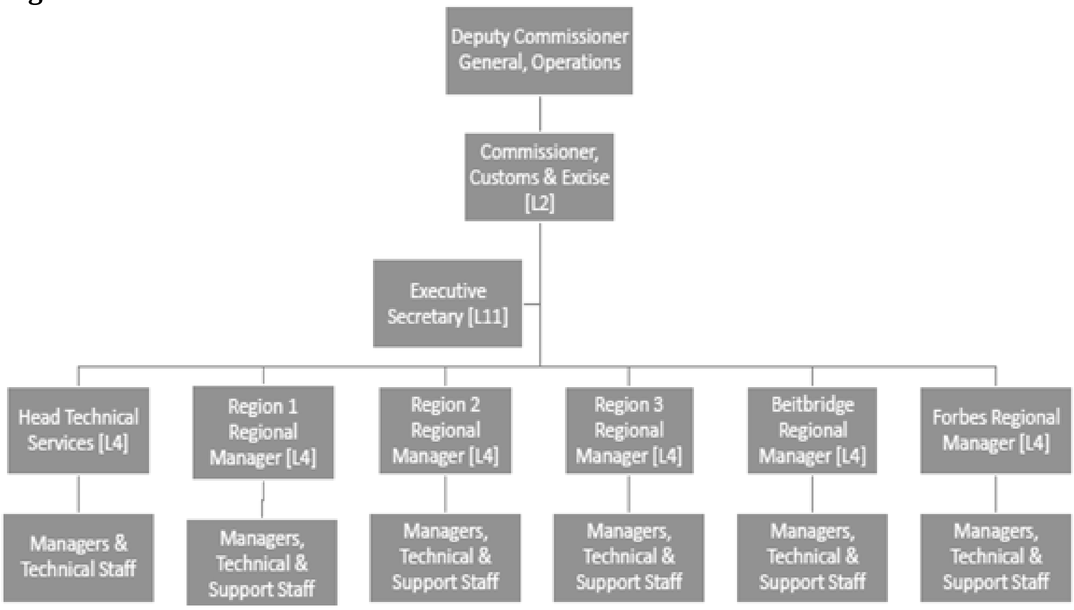
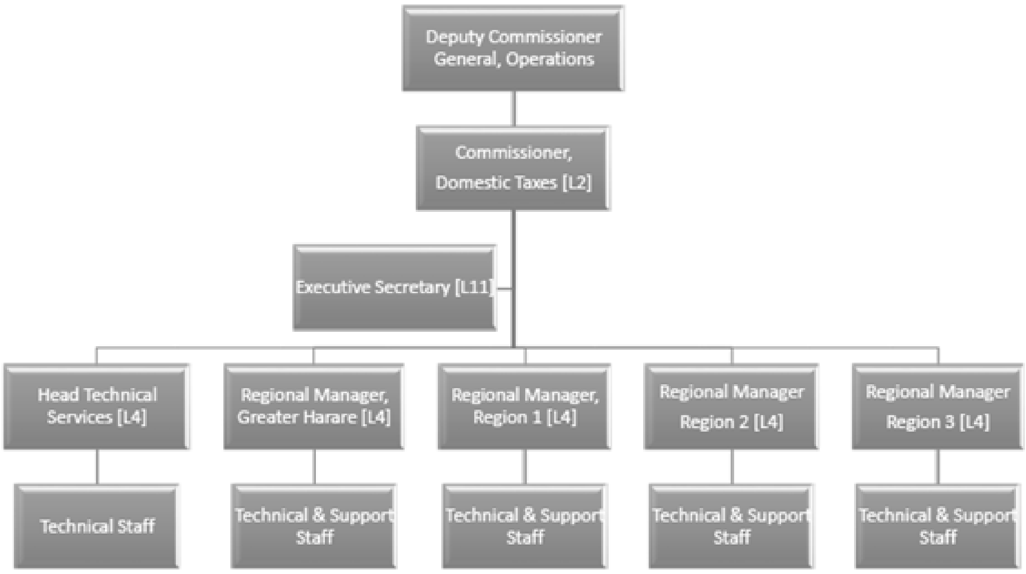


Figure 17 Taxes Division Structure



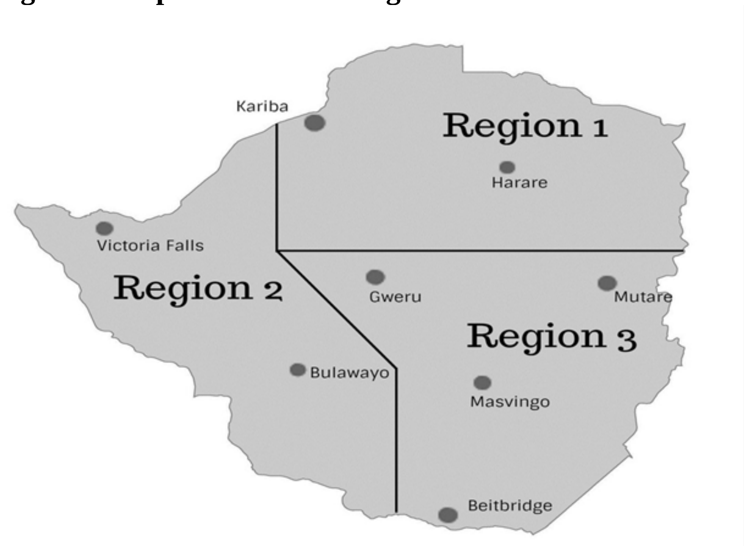
The Zimbabwe Revenue Authority is staffed with over 2500 employees who are in both the Taxes and Customs Division. It also continuously recruits and trains revenue officers from time to time to assure a consistent and available workforce for taxation and customs duties. In terms of other resources and assets, the Authority owns office and residential buildings, solar farms, sewer systems, servers, computers, furniture and fittings, information technology systems such as the System Application

Programme (SAP) and the Automated System for Customs Data (Asycuda) as well as e-mail networks and other such assets.

These assets including human resources are situated in various parts and offices across the country. For administrational purposes, the country was divided into three main regions for the purposes of tax purposes and these are named Region 1, Region 2 and Region 3. Over and above that, the country's economic hub, Harare gets special treatment in terms of domestic tax issues, as it is treated as a standalone region and named Greater Harare, due to the enormous and expected domestic tax issues that are carried out at the main centre at Harare Kurima House.

With an estimated 30 000 people crossing every day, Southern Africa busiest inland border handles millions of trade destined for South, East and Central Africa. Resultantly, the 24 hour Beitbridge Border Post also gets its share of preferential treatment as it is regarded as a standalone Region for the purposes of customs and excise duties. Further to the map provided below are additional stations such as Chinhoyi and Marondera offices which are approximately 116 km on the Harare-Chirundu Road, and 75 km on the Harare-Mutare road, respectively. The following map illustrates these tax and customs regional divisions.

Figure 18 Representation of Regional Divisions



III.4. Tax Specific Issues

The Zimbabwe Revenue Authority administers a lot of acts in pursuance of its mandate in assessing, collecting and accounting for revenue. Subsequently, these have been split and spelt out according to the relevant tax acts as listed below:

a. Income Tax
b. Pay as you Earn
c. Withholding Taxes
d. Presumptive Tax
e. Value Added Tax
f. Customs Duties
g. Excise Duties
h. Carbon Tax
i. Surtax
j. Capital Gains Tax
k. Stamp Duties

Further to that, each of these taxes and/or tax heads is derived from principal tax acts and legislations. This is shown in the following table as follows

Table 12 Tax Heads according to Source of Legislation.

Income Tax Act	Income Tax (Individual and Corporate Income Tax) Pay as you Earn (Employment Tax) Withholding Taxes Presumptive Tax
Value Added Tax Act	Value Added Tax
Customs and Excise Act	Customs Duties Excise Duties Carbon Tax Surtax
Capital Gains Tax Act	Capital Gains Tax
Stamp Duties Act	Stamp Duties

III.4.1. Value Added Tax (VAT)

Value added tax is an indirect tax that is levied on consumption of goods and services and came into existence on 1 January 2004 replacing the previously known Sales Tax under the Sales Tax Act Chapter 23:02. Every operator who exceeds or expect to exceed US$ 60 000 per month is taxable goods and/or services, or US$ 240 000 per year is required to be registered.

VAT is divided into Local VAT and Import VAT. It is consistently Zimbabwe's highest contributor to total government revenue. The due date for submission of VAT returns and payment is the 25th of the month following the end of allocated tax period. Tax periods are allocated at a monthly or bi-monthly basis, with those required to account for VAT on a monthly basis in Category C and those required to account every 2 months in Category A and B. Therefore, Category C account for their VAT on a monthly basis. Those in Category A account for every 2 months beginning with from December/January then on to February/March and so on. And finally, Category B taxpayers account for VAT every 2 months starting with the period, January/February and so on as shown below

Table 13 Category A

Tax Period	VAT Return No.	Due Date
December/January	01	25 February
February/March	02	25 April
April/May	03	25 June
June/July	04	25 August
August/September	05	25 October
October/November	06	25 December

Table 14 Category B

Tax Period	VAT Return No.	Due Date
January/February	01	15 March
March/April	02	15 May
May/June	03	15 July
July/August	04	15 September
September/October	05	15 November
November/December	06	15 January

A. Responsibilities upon registration

a. Keeping accounting records for a period of at least six (6) years after the tax period to which the period relates.
b. Completing and submitting VAT returns even nil returns if no activities have taken place. Frequency of submission depends on the time periods allotted and approved by the Commissioner.
c. Calculating and remitting the VAT due to the Commissioner on or before the due date.
d. Issuing Fiscal Tax Invoices for any taxable supply whose value is more than US$10.00.
e. Every registered operator is now required to be fully fiscalised and use fiscal gadgets to issue invoices. These are connected to Zimra servers and assist in reducing and eliminating VAT fraud.
f. Advising Zimra of any change in business details, including address, addition of/or change of partner, cessation of trade, etc.
g. Allowing ZIMRA officials to enter business premises and examine goods and all business records without any hindrance.
h. Not all to be fully fiscalised, but to record all sales on fiscal gadgets as well as reporting any faults or instances that led to the gadgets not being used.

B. Features of Value Added Tax

Standard rated supplies

These are supplies of goods and services that are taxable at the rate of 15%. All goods and services are first classified as standard rated unless they have a specified rate, are zero rated, or exempt according to the VAT Act. The onus is usually on the taxpayer to prove that the goods or services in question are zero rated or exempt.

Zero rated supplies

Zero rated supplies are taxable supplies, but at the rate of 0%. A registered operator who supplies zero rated goods or services can claim input tax credit in relation to that supply. Zero rated supplies are specified in the VAT Act and include basic foodstuffs such as mealie-meal, sugar, milk and agricultural inputs such as fertilizer, seeds, and pesticides, animal feed, animal remedy, plants and tractors. All goods and services that may have been otherwise treated as standard rated if sold locally, are also zero rated if exported or sold to parties outside Zimbabwe. The exception is un-beneficiated chrome which is taxed at 15%.

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 or who provide at least exempt supplies at 90% of their total sales are not required to register for VAT purposes. Exempt supplies include the following service and products such as medicaments, educational supplies, rentals for residential properties, transport of domestic fare paying passengers, water and electricity for domestic use and fuel.

C. Additional Developments

All registered operators are now required to be fiscalised. This means that in terms of sales and issuing out tax invoices, operators are required to use what are termed fiscal gadgets which are cash registers but with a fiscal memory. These are unique machines which are connected to Zimra servers' and interface and thus allow the tax authority to get true information regarding the sales of a registered operator. The deadline for every operator was given as 31 December 2017. Thereafter, failure attracted penalties of US$ 25 per point of sale, per day, up to a maximum of 181 days with prosecution being an additional added consequence.

With effect from 1 October 2016, a 10% withholding VAT on output tax charged on suppliers of goods and services was introduced. Zimra was empowered to appoint agents for this programme and those appointed were mostly the country's large and key organisations. Basically, on paying amounts for goods and services to suppliers, these agents are supposed to collect one thirds (1/3) of the VAT tax amount charged by the supplier, and remit the monies by the 15th of the following month. Furthermore, the agent issues a VAT withholding tax certificate to the supplier. Subsequently, specified operators shall claim withheld amounts on their input tax by submitting the schedules and certificates

D. Fiscal Tax Invoice

Zimbabwe has now resorted to use of a fiscal tax invoice based VAT. Document prescribed in Vat Act section 20.To be furnished within 30 days to the recipient of a good or service. Since the invoices are now all expected to similar, the general features of a proper fiscal tax invoice are

a. The word fiscal tax invoice in a prominent place.
b. Name and address of supplier and recipient.
c. Serialized and date of invoice issue.
d. Quantity or volume of goods or services supplied.
e. Price and Vat charged.

E. Tax on export of unbeneficiated chrome

The definition of "unbeneficiated chrome" was amended so as to include chrome ore, chrome fines as well as semi-processed chrome concentrate. Un-beneficiated chrome means chrome ore and fines which have not been subjected to 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 export tax. The export tax should be declared on the VAT return as output tax and should not be claimed as input tax.

F. VAT Refunds

Generally Value Added Tax (VAT) refunds 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. The conditions and processes are as follows

a. 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.
b. VAT refunds must be claimed within12 months. That is, client can only use fiscal tax invoices for a period of up to a year. Where the total amount refundable is US$60, 00 or less, it is carried forward as a credit into the next tax period.
c. 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.
d. 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.
e. 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.

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 or where the registered operator is in default in respect of his statutory obligations to submit a return for any preceding tax period.

G. Diplomatic Missions and Diplomats VAT

This covers Diplomats, specified persons, diplomatic missions, consular missions and external aid agencies. The general requirements are as below

a. Claimant to be accredited by the Ministry of Foreign Affairs as a diplomat, diplomatic or consular mission. To register with Zimra.
b. Complete the refund claim form.
c. Attach original invoices. Take the completed forms and the invoices to the Ministry of Foreign Affairs-Protocol Section, for onward submission to Zimra

H. Deferment of VAT

Vat is normally chargeable on importation of goods or removal of goods from bond. However there are certain instances that payment may be delayed on approval. Deferment is simply approval granted in delaying payment of VAT on specified goods of a capital nature imported by entities in the manufacturing, agriculture, mining, aviation, and transport and health sectors. After approval by the Commissioner, the thresholds are as follows

Table 15 Deferment Periods

Value in US$	Time allowed
100,000 to 1 million	90 days
1,000,001 to 10 million	120 days
Above 10 million	180 days

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.

When applying for this, the application should be in writing quoting the business partner number and should be submitted to the nearest Zimra office .Specification on the goods on which deferment is being applied for and the industry is required. For medical equipment, Ministry`s approval should be attached. Documentation as to the proof of goods imported and value of such good should be attached. Specification of the period for deferment required or selected between the three available periods. The applicant should declare that the goods are for own use and will not be disposed of even after deferment period without notifying the Commissioner.

Applicable goods that are considered are

Specific prescribed plant, machinery or equipment used exclusively for:

a. Mining purposes on a registered mining location as defined in the Mines and Minerals Act[Chapter 21:05]; or
b. 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);
c. Agricultural purposes (including spare parts required for the purpose of maintaining of refurbishing such plant, equipment or machinery);

d. The aviation industry (including spare parts required for the purpose of maintaining or refurbishing aircraft and such plant, equipment or machinery);
e. Equipment and or machinery for use in medical sector.
f. 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.

Further to that are, medical equipment prescribed by the Minister of Finance in consultation with the Minister responsible for Health.

Consequences of failure to adhere to payment include, deferred debts which are not settled on due date may result in the VAT deferment facility being stopped or withdrawn. In addition, deferred VAT debts may also be subject to interest and penalty charges.

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.

III.4.2. Pay as you Earn (PAYE)

The Pay as You Earn (PAYE) system is a method of paying income tax on employment income or remuneration. The employer deducts tax from salaries, allowances or other benefits covered by the definition of remuneration in the Income Tax Act which includes salaries, allowances, benefits, severance payments, gratuities and such. 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 states income that is exempt and deductions allowed prior to the calculation of actual tax.

The official tax table operates on a progressive tax system, i.e. the higher the earnings the greater percentage tax paid on each bracket of earnings. However, when earnings reach a certain amount, a flat rate of tax becomes applicable for any earnings above this level, which is Marginal Tax Rate (MTR). The current tax-free threshold for individual taxpayers is US$300.

The due date for the submission of PAYE returns and payment is the 10th of the following month. Paye is calculated has follows

a. Determination of gross income for the day/week/month/year
b. Deduction of exempt income, for example bonus payments
c. Result is Income
d. Deduction of allowable deductions such as pensions
e. The result is Taxable Income, then referral to weekly, monthly, yearly tax tables which updated on a yearly basis

Employers are expected to

a. Every business person who becomes an employer is required to apply to the Commissioner General for registration within 14 days of becoming an employer.
b. The employer will be given the relevant tax deduction tables and informed of his/her obligations as an employer. Some of the obligations include
c. 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.
d. Keeping accounting records for a period of at least six (6) years.
e. 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.

f. 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.

III.4.3. Corporate, Trade and Business Income Tax

All clients, including individuals, companies, partnerships and cooperatives that intend to venture or have ventured into any business venture are required to also register with Zimra and comply with all obligations as stipulated in the legislation. To register, one is required to have a bank account among other requirements. Once a potential registrant has managed to open a bank account, the applicant can now then approach Zimra for registration. One will be required to complete their registration online and upload the documents as well as approaching any Zimra Office for assistance, depending on the nature of the business operations. All clients will be required to complete the REV 1 form, on the E-Services platform. Once registered, a Business Partner Number (BP) is issued which acts as the business' identification number or simply, can be likened to a bank's account 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 in advance. 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 16 Quarterly Payments

Quarterly Payment	Due Date	Instalment of Estimated Tax Payable
1st QPD	25 March	10%
2ND QPD	25 June	25%
3rd QPD	25 September	30%
4TH QPD	20 December	35%

A tax return is required after the end of each tax year. A normal tax year runs from 1 January to 31 December of each year. However, other periods are acceptable upon approval by the Commissioner. Clients who have been specified in terms of Section 37A of the Income Tax Act 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 to taxpayers who have met all the stipulated obligations in the previous years, particularly complete submission of tax returns and remittances of tax due. Taxpayers are obliged to withhold 10% of any amounts payable to parties without tax clearances and remit these amounts to Zimra. The amounts in question are any amounts payable to a party in the aggregate of an excess of US$1,000.00 per annum.

There is need to strictly observe the requirements in Section 80 of the Income Tax Act. 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$1,000.00 or more to withhold 10% of each amount payable to payees who fail to furnish valid tax clearance certificates.

The standard normal rate of corporate tax rate is 25%. However, as a developing country and with the intention of probably utilising tax tools, Zimbabwe offers a number of tax and customs incentives in order to attract foreign investment particularly in recent developments where it has gone on overdrive in order to do so. These are mainly in the form of tax holidays, reduced tax rates and accelerated depreciation. These incentives are given according to different key areas authorities feel as crucial or in kick starting Zimbabwe's growth. Naturally, they are targeted towards utilizing Zimbabwe's natural resources as well as promoting infrastructural development and industrialization.

Thus the main picture is of tax incentives given by sector type of activity, form of organisation and geographical location of investment .Further there are several items which are allowed deductions before coming up with the amount legible for tax purposes. The following tables, table 14 and 15, summarize and reveal these tax incentives as well showing the main areas concerned and geographical locations.

Table 17 Standard and Specialized Corporate Income Tax Rates

Details	Tax Rate
Income of individual from trade and investments	25%
Income of company or trust	25%
Income of pension fund from trade or investment	15%
Income of licensed investor during first five years of operation	0%
Income of licensed investor after first five years of operation	25%
Income of a holder of special mining lease	15%
Income of a company or trust derived from mining operations	25%
Income for a person engaged in approved BOOT or BOT arrangement: First 5 years	0%
Income for person engaged in approved BOOT or BOT arrangement: Second 5 years	15%
Income of industrial park developer before 5th year of operations	0%
Income of industrial park developer after 5th year of operations	25%
Income of operator of a tourist facility in approved tourist development zone before the fifth year of operation	0%
Income of operator of a tourist facility in approved tourist development zone after the fifth year of operation	25%
Income from manufacturing of a company which exports :	
- more than 30% or more of its output but less than 41%,	20%
-more than 41% or more of its output but less than 51%	17.50%
-more than 51% or more of its output	15%
Aids Levy: Rate is based on tax chargeable	3%
Dividends from company incorporated outside Zimbabwe	20%
Income of Special Economic Zones for the First 5 years of operation	0%
Income of Special Economic Zones after the First 5 years of operation	15%

Table 18 Allowable Deductions

Headings	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 year 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	Sect 15(2)(kk)	The amount allowable is limited to US$ 50 000 per annum.

In terms of capital allowances, the Income tax act stipulates that certain capital expenditures should be allowed up to a certain amount. This is so as such expenses are not normally allowable or since these expenses are of capital in nature. Thus they are not treated like any other expenses but get special treatments known as capital allowances. These are shown below

Table 19 Capital Allowances

Capital allowance	4th schedule paragraph	Limit
Passenger Motor Vehicle	14(1)(m)	The limit is pegged at US$10 000
Any Staff Housing	1(p)	The limit is pegged at US$25 000
School, hospital, nursing home or clinic	15(2)	The limit is pegged at US$ 10,000
Staff housing for employees at a school, hospital, nursing home or clinic which qualifies as farm improvements and alteration and additions thereto.	15(3)	The limit is pegged at US$ 10,000
SIA for Small to Medium Enterprises	Para 9(g)	50% allowed in first year of use and claim and balance over two years @ 25% as accelerated wear and tear as from 1/01/2011
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
Special Mining Operations	22ndSchedule	
Residential Unit erected on or after 1stJanuary 2018 used for housing the holder's employees.	Para 2 (f) (iv)	The limit is pegged at US$25 000
Passenger motor vehicle purchased on or after 1stJanuary 2009	Para 2 (g) (iv)	The limit is pegged at US$10 000
Residential unit used by employees at the school, hospital, nursing home or clinic	Para 2 (h) (ii) (IV)	The limit is pegged at US$10 000

III.4.4. Withholding Taxes

Zimra has employed various withholding taxes. These are amounts withheld by taxpayers on different amounts that are paid to other parties in or out of Zimbabwe. These include payments to non-executive directors, to resident, to non-residents and on amounts that include payments for goods or services, payments on dividends and as such. Normally, the withholding party is required to issue a certificate to the other party then remit the monies to Zimra. On the final year end corporate/income tax calculation, the party whose amount was withheld can then apply the amounts as credits on the final tax payable on the strength of the withholding tax certificates.

Table 20 Withholding Taxes

Withholding Tax	% (Range: Depending on Destination Country)
Non-Resident/Resident Shareholders Tax	10-15%
Non-Resident Tax on fees	15%
Non Resident Tax on Remittances	15%
Resident Tax on Interest	15%
Non Resident Tax on Royalties *(15%)*	15%
Automated Financial Transactions Tax *(USD 0.05 per transaction)*	USD 0.05 per transaction
Tobacco Levy *(7%)*	7%
Intermediate money transfer tax *(USD 0.05)*	USD 0.05
Withholding Amounts under contract *(10%)*	10%
Non-Executive Directors Fees *(20%)*	20%
Withholding Tax on Tenders	10%

III.4.5. Presumptive Taxes

Due to the increasing informal estimated size and the shift of some economic activities from the formal to the informal sector authorities have seen the need to apply presumptive taxes. The informal sector usually refers to small scale businesses and trade and usually not registered with other public entities for trade purposes, Presumptive tax legislation was introduced to capture and 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.

A. Transport Operators

Table 21 Transport Operators

Operators of:	Description	Presumptive Tax (US$ per quarter for each vehicle)	Presumptive (US$ per month with effect from 1/01/2017
Omnibuses	8 to 14 passengers	150	40
	15 to 24 passengers	175	45
	25 to 36 passengers	300	70
	From 37 passengers and above	450	100
Taxi-Cabs	All	100	25
Driving Schools	Class 4 vehicles	500	100
	Class 1 and 2 vehicles	600	130
Goods Vehicles	More than 10 tonnes but less than 20 tonnes	1000	200
	More than 20 tonnes	2500	500
	10 tonnes or less but with combination of truck and trailers of more than 15 but less than 20 tonnes	2500	500

Starting from 1 January 2015, the Zimbabwe National Roads Administration Authority was appointed to collect transportation operators' presumptive tax from transport operators who approach ZINARA to register and renew their transportation licences as well as any other dues related to road use. However, some checks and balances seemed to indicate that the Authority was not fully collecting all dues that could be collected and that there was room for some improvement.

B. Hairdressing and Salons

Every operator of a hairdressing salon is now required to pay Presumptive Tax amounting to US$10.00 per chair per month. The full amount should have to be paid by the 20th day after the end of the quarter. Amounts not paid by the due date are subject to interest charges.

C. Informal traders

It is now mandatory that 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 recover an additional amount by way of Presumptive Tax equal to10% of the rental and remit it to ZIMRA. This also 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.

D. Small Scale Miners

With effect from 1st October 2014 Small Scale Miners Presumptive tax was reduced from 2% of the gross amount payable to 0%, therefore no Presumptive tax will be collected from Small Scale Miners.

E. Cross Border Traders

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.

F. Restaurants’ and Bottle Stores

Every operator of a restaurant or bottle store is required to pay Presumptive Tax amounting to US$70 per month. The full amount should have to be paid by the 10th day after the end of the quarter. Interest is chargeable on all amounts not paid by the due date.

G. Cottage Industry Operators

Every person who owns, is in charge of a cottage industry regardless of it being licensed, or not is required to pay Presumptive Tax amounting to US$70 per month. 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. The full amount should have to be paid by the 10th day after the end of the quarter. Interest is chargeable where the amounts due are not paid by the due date.

H. Commercial Warehouse Vessels

Presumptive Tax is charged to operators of commercial waterborne vessels used for the carriage of passengers for profit and fishing rigs. The full amount of presumptive tax shall be remitted by the 10th day after the end of each quarter; however operators can still remit on monthly basis. The rates are shown in the table below.

Operator of:	**Carrying capacity inclusive of cabin crew/description**	**Presumptive tax per quarter per vessel in US$ with effect from 1 January 2012**	**Presumptive tax per month per vessel in US$ with effect from 1 January 2017**
Waterborne Vessel	Up to 5 passengers	250	60
	6 to 15 passengers	500	100
	16 to 25 passengers	1 000	200
	26 to 49 passengers	1 500	350
	50 passengers and above	2 000	450
Waterborne Vessel	Fishing rigs	350	80

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

Collection of these is carried out by Local Authorities who may be appointed as agents for the collection and remittance of the following presumptive taxes 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 the Legal Division. However, the Local Authority is still obliged to collect all the presumptive taxes in the absence of the proposed arrangement with Local Authorities.

III.4.6. Capital Gains Tax (CGT)

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).A Seller; or Depositary; or Agent is liable to remit this to the Authority. In this case, a depositary includes a conveyancer, legal practitioner, estate agent, and a building society, Sheriff or Master of the High Court, stockbroker or financial institution.

For administration purposes, the following documents are required:

a. Completed CGT 1 form by the seller which is now done online.
b. Copy of Agreement of sale for the property in question with full description of the property.
c. Copy of Agreement of sale for the new property where partial or full roll-over is claimed
d. 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).
e. 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.
f. Two utility bills from two different service providers with service address.
g. Letter of undertaking to pay withholding tax where client is represented by a depositary.
h. Receipt for payment of CGT/Withholding Tax.
i. Copy of marriage certificate where the transfer is between spouses.
j. Valuation reports three where there is a relationship between the seller and the buyer.
k. Certificate of incorporation, CR14, CR6 and minutes of resolution to sale where the seller is a company.
l. 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; structure for the organisation; and share register of the company; and CR 14.
m. Where the transfer is from an individual to a company under his control: CR 14 and share register of the company
n. Copy of Court order if it is a divorce case, Death certificate and Final distribution account if it is a deceased estate.
o. Clients are required to come to ZIMRA Offices and bring their IDs for face to face interview.

The rate of tax of 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.

There is however a special provision for sale of personal homes. This is known as the Provision for sales of principal private residence (PPR). Here, 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.

A. Instances when CGT is not payable

a. Transfers of specified assets between spouses.
b. Transfers in a scheme of reconstruction/merger or the like that is approved by the Commissioner
c. 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.
d. Where a person aged 55 years or above sold his or her PPR

B. Deemed Sales

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

e. Transfer under deed of sale - (deemed at market price).

C. Allowable Deductions

a. Cost of acquisition of specified asset which has been sold.
b. Cost of additions/alterations/improvements of specified assets
c. Inflationary allowance: this is now calculated at 2.5% of the purchase price.
d. Selling expenses.

III.4.7. Transactional Tax

The recent increase in this tax has made a lot of noise and announcements recently in Zimbabwe. In an effort to increase the revenue base, the Ministry of Finance has increased transactional tax from 0.005 cents per transaction to 2 cents for every dollar per transaction. Although some transactions have been exempted from this, among them transfers related to salary payments and transfers by the government, a lot of the general public has voiced their opposition towards this albeit to little success at the moment.

III.4.8. 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.

A. 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.

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 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

In terms of Importation or Exportation of Restricted Goods, these 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.

III.4.9. Fiscal Incentives for Attracting Investment

Fiscal measures that are used to attract local or foreign investment capital to certain economic activities or particular areas in a country have been in place in Zimbabwe for some time, but particularly related to the recent events which have raised hope and helped to attract some attention to Zimbabwe. Generally speaking tax incentives confer an advantage on the beneficiary while at the same time imposing a cost on the government in the short run, with hope that a long run picture will see the government and the host country benefitting from higher employment, technology transfer and possibly higher standards of living.

Zimra administers various tax incentives aimed at promoting investment while the Ministry of Industry and International Trade, the Industrial Development Corporation and the Zimbabwe Investment Authority are the main administrators of non-tax incentives. Revenue incentives in Zimbabwe apply equally to both domestic and foreign investors and the major goals of incentives in place are obviously,

a. Income generation
b. Export promotion
c. Employment creation and skills transfer as well as technological transfer
d. Small business development
e. Industrial development
f. Increased Revenue inflows

Like many other developing countries, Zimbabwe offers a number of tax and customs incentives in the form of tax holidays, reduced tax rates, and accelerated depreciation.

Income Tax Incentives

A. Built, Own, Operate and Transfer (BOOT)

Contractors enter into contracts with state or Statutory Corporation under which they undertake to construct infrastructure for the state or statutory corporation. This will be in consideration for the right to operate or control for a specified period after which the contractor will transfer ownership or control of the item to the state or statutory corporation. They get to enjoy a tax holiday for first 5 years. After, tax is at 15% for the second five years.

B. Manufacturing Companies

The rate of tax for manufacturing or processing companies which exports,

a. more than 30% or more of its output but less than 41% -20%
b. more than 41% or more of its output but less than 51% -17.5%
c. more than 51% or more - 15%

C. Mining Companies

All capital expenditure on exploration, development, and operating incurred wholly and exclusively for mining operations is allowed in full. There is no restriction on carryover of tax losses; these can be carried forward for an indefinite period. Taxable income of a holder of special mining lease is taxed at a special rate of 15%.

D. Special Initial Allowances / Accelerated Depreciation

This is a capital allowance, which ranks as a deduction. It is allowed on expenditure incurred on construction of new industrial buildings, farm improvements, railway lines, staff housing and tobacco barns. It is also allowable on additions or alterations to existing items as already mentioned.

SIA is also allowed on articles, implements, machinery and utensils purchased for purposes of trade. The definition of articles, implements, machinery and utensils now includes tangible or intangible property in the form of computer software that is acquired, developed or used by the taxpayer.

However this allowance is optional and once claimed it replaces wear and tear capital allowance. It is claimed at the rate of 25% of cost from year one and the next three years. The rate of SIA for Small to Medium Enterprises (SMEs) is 100% of which 50% is allowed in first year of use and the balance is spread over two years at 25% as accelerated wear and tear.

The rate of SIA for a licensed investor is 100% of which 50% is allowed in first year of use and the balance is spread over two years at 25% as accelerated wear and tear.

E. Farmers Special Deductions

Farmers are allowed special deductions over and above the normal deductions for instance expenditure on fencing, clearing and stamping land, sinking boreholes, wells, aerial and geophysical surveys.

Value Added Tax Incentives

F. Services supplied by designated tourist facility operator

Tourist facility operators conducting business in approved tourism development zones or an operator of a hunting safari is required to charge VAT at 0% for services offered to persons who are not residents of Zimbabwe and who are required under the exchange control Act to pay for such services in foreign currency. Such operators usually end up in a refund position for goods and services acquired locally.

G. Farming Inputs and Equipment

Various farm inputs such as animal feed, animal remedy, fertiliser, plants, seeds and pesticides and equipment or machinery used for agricultural purposes are zero-rated.

H. Deferment on collection of VAT on capital goods

VAT can be deferred on some capital equipment for the exclusive use in mining, manufacturing, agricultural and aviation industries whose investment generally relies on imported capital. Any person who produces proof to the satisfaction of the Commissioner General of ZIMRA that he or she has imported goods of a capital nature for his or her own use can qualify for this incentive. (Please refer to Table 12, Deferment Periods).

I. Vat Relief for Diplomatic Missions

VAT refund may be granted to persons who are not a citizens or permanent residents of Zimbabwe, and enjoys full or limited rights or privileges, in terms of the Privilege and Immunities Act or any diplomatic or consular mission of a foreign country, established in Zimbabwe for official supplies. This refund shall not be payable to a citizen or permanent resident of Zimbabwe.

Administrative Incentives

J. Large Client Office

The Large Client Office was formed in April 2010 to provide one-stop-shop services to large clients in the administration of Income Tax, Pay as You Earn and Value Added Tax. The LCO offers specialised service to ZIMRA's largest clients through increased interaction, consultation and professional advice. Services offered are

a. Timeliness in processing returns, queries and refunds
b. Conduct focused client education and registration
c. Prompt delivery of letters and documents to clients
d. Automatic issuance of tax clearance certificates

In terms of debt management, it gives the highest priority to collect tax in arrears, negotiate payment arrangements with clients, and follow up on the demand notices issued to clients. It is also responsible for identifying clients who fail to file Income Tax and VAT returns. As part of the LCO's wider service improvement initiatives, audits are programmed so as to cause minimum inconvenience or disruption to clients and their business programmes. The LCO is also reviewing such details such as case selection methodology in order to ensure equitable treatment for all clients. The creation of such a unit to monitor, audit and enforce collection for the largest clients has yielded significant results in terms of revenue and the level of compliance of this client group has greatly improved.

The following qualify to be promoted to the LCO Unit:

a. All companies registered on the Zimbabwe Stock Exchange
b. Banks and insurance companies in spite of turnover, but excluding insurance brokers
c. All mining companies
d. Manufacturers of wines and spirits regardless of turnover
e. State corporations and large parastatals
f. Large contributors in terms of aggregate payments in PAYE, VAT and Income Tax

III.4.10. Double Taxation Agreements

Zimbabwe has signed several Double Taxation Agreements according to Section 91, 92 and 93 of the Income Tax Act Chapter 23:06. The purpose is meant to avoid or reduce double taxation of the same income in the two countries to the agreement, that is, where a business entity operates in the two territories. Thus, the agreements restrict some withholding taxes to the amounts specified. The DTAs offer reduced rates of withholding taxes on dividends, interest, royalties and technical fees. As an example, almost all the DTA's signed limit the rate of tax on Technical Fees to 10% or less.

Some of these countries include the major trading partners like South Africa, Mauritius and Namibia, where sadly there are fewer African countries than they are European and Asian countries. Currently, treaties have been made with 19 countries and include:

a. United Kingdom
b. South Africa
c. Namibia
d. Mauritius
e. Germany
f. Sweden
g. Norway
h. Bulgaria
i. Netherlands
j. Canada
k. Poland
l. France
m. Malaysia

n. China
o. and more recently, the United Arab Emirates

II.4.11. Submission of Returns and Technology

The Zimra E-Services was introduced in 2015 to facilitate online and paperless environment for the submission of returns. The purpose was for clients to submit their returns, upload related documents, make online payments and keep track of their tax affairs from anywhere in the world. The services currently offered include submission of returns, application for registration, including voluntary VAT registration, as well as applying for a tax clearance certificate and checking the authenticity of tax clearances of other trading partners.

This is currently available on efiling.zimra.co.zw.

III.4.12. Audits (Tax Examinations) and Objections

Audits and Investigations are regularly carried out in line with verifying the correct treatment of the taxpayer's business transactions for tax purposes. It is possible that they may reveal inaccuracies or incorrect treatment of transactions or transaction components that may result in the adjustments (upwards or downwards) of taxes due from or paid by the taxpayer.

In carrying out such, various audits may take place which may involve taxpayers visiting Zimra offices, as well as Zimra officers visiting taxpayers' offices and places of trade. The audits are based on a risk assessment system employed to select cases for audit. Given that the audits are based on risk assessment, the frequency and timing of audits cannot be calculated for each taxpayer. It, therefore, means that as long as the risk is established, the taxpayer will be subjected to audit, even though he may have been audited before.

Given that the bulk of the taxes payable to ZIMRA are based on self-assessment by taxpayers. While this carries a greater need for accuracy and compliance on the part of the taxpayer, there still is a need for ZIMRA to carry out verification audits.

A. Types of Audits

Inspections Audits are an examination of records or documents or devices, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset. Compliance Audit is mostly a review of all tax heads for adherence to all statutory requirements. Desk Audit is a limited scope examination of documents and records away from the place of business that is done within the office of Zimra. Comprehensive Audits are audits done which includes one or more tax heads where there is suspicion of non-compliance. Project Audits are audits done to target specific industries/ sectors and audit their activities and ascertain the risk areas and select certain issues for in-depth reviews or investigations or research. Examples will be an audit of the Transport Industry, Asset Management Companies, the Banking Sector, Motor Dealers, among others.

Third Party Audits are cases referred/selected for audit on the basis of information supplied by anonymous/third parties either for reward or patriotism and Spin offs are related cases resulting from ongoing audit/investigations of related entities, other companies, or individuals doing business with the entity being audited/investigated. Basically observations on transactions between two or more entities can lead to the audit of the other players. In other words, the scope of the audit "spins-off" towards issues that may not have been planned for that particular audit.

B. Procedure of Audits

A set of steps is usually taken when an audit is being conducted.

a. Audit cases are allocated to Zimra Officials who are duly authorised to carry out the audit before any work is begun.
b. The assigned official will establish preliminary details about the targeted taxpayer, for instance addresses, contact numbers, contact persons, nature of business, bank records and other public records where possible, among others.
c. An appointment will be set with the Public Officer or person responsible for the targeted taxpayer to start the audit. However, depending on the nature of the audit this part may be dispensed with. For example, where it is determined that the appropriate strategy is to proceed with an audit without prior notification to the targeted taxpayer in cases where notification is likely to cause the taxpayer to conceal valuable evidence such as records, ZIMRA will proceed to the taxpayer and notify them of the intention to audit on arrival. This occurs in extreme cases where there are reasonable grounds to suspect that he taxpayer may not be forthcoming with required information.
d. On the agreed date, the Officers will visit the client's premises or call the client to Zimra Offices for the first interview. At this first meeting the officers will ask questions using a standard questionnaire.
e. They also clarify issues of interest during the meeting. The interviewee will be given the completed questionnaire to read and confirm by appending signature that it's a correct record.
f. Zimra officials will also request to be taken through the business processes and premises for familiarisation.
g. A request may be made for specific records or equipment to be availed on an agreed date. A receipt for the records will be issued.
h. Thereafter, the Officials will analyse all the information and return to present findings of the audit. The audited person is given an opportunity to respond to the findings.
i. Where there are any underpayments of tax, assessments will be raised and client will be requested to pay the tax, including any penalties that may be due.

Taxpayers are encouraged to cooperate as this has a bearing on the final penalties and prosecution steps that may be taken on finalisation of audits. Cooperation means amongst other things, unveiling correct information and answering questions truthfully and honestly.

Further, it is important to note that Zimra officials are not permitted to carry out the audit alone. There should be at least two Officials. The Officials must be carrying valid Zimra ID Cards. The cards show the official's full names, ID number, validity date and the name and logo of the Zimbabwe Revenue Authority as well as the Commissioner General's Signature and the signature of the holder. Where taxpayers are in doubt as to the identity of the person approaching them for an audit, they are permitted to contact their nearest Zimra Offices for confirmation.

Three main results main arise on finalisation which are an under declaration, over declaration or no result as the initial declaration will be correct. Penalties charged range from 0 to 200% depending on the error margins and intentions. However if taxpayers are not happy with the results, they are permitted to write an objection

An objection can be made by writing a letter to ZIMRA.

a. The letter must state the grounds of objection and should be submitted within 30 days of the decision or assessment.
b. The Commissioner will consider the objection and is required by law to respond within 90 days.
c. The response will be either to agree with the taxpayer or to disallow the grounds of objection.
d. Where the objection is disallowed, the client can appeal to the Fiscal Appeals Court or High Court.

In terms of an appeal, these are usually related to where a client agrees to the assessment but may be requesting certain measures such as penalty reductions, more considerations and such areas which are mostly linked with him/her trying to reduce penalty arrears or requesting for a manageable time frame in order to pay any arrears.

IV. Country Specific Fiscal Issues

Firstly, there are bloated public sector wages. Zimbabwe's fiscal deficits continue to grow particularly with the expansionary fiscal stance the current administration seems to have taken. This has also been heavily affected by the lack of outside or external funding which has seen government increasing its borrowings from the private sector and banking industry. The main areas of concern are mostly with the high civil service wage bill. The wage bill dominates a large part of government expenditure. At close to 20% of the GDP, these costs are very huge and unnecessary. At one time, the costs ballooned close to 30% of the GDP which was extremely high. A snapshot shows countries like Brazil, Russia and Turkey, having wage bills sitting at the equivalent of 13%, 10% and 9%. Neighbours, South Africa maintain a bill that is less than 15% of the GDP. The issue is, it leaves little room for productive sectors of the economy as the previous government created a lot of ministries without any actual production or contribution. Vast duplication of activities was carried out as well high numerous benefits for some senior staffs particularly linked to business trips costs and the like. This is an area the country needs to address urgently if it is to tackle the issue of fiscal deficits.

Secondly there are few external finance sources and outstanding arrears. With un-cleared arrears at various multilateral institutions, economic imbalances, concerns over political issues, governance and corruption issues as well as human rights cases, Zimbabwe largely remained isolated and its financing options have remained low. Though it managed to clear some payments with the International Monetary Fund, funding still remains low as they still need to have good credit standings with other institutions as well. The process of re engagement with external creditors has remained particularly lower and slower than had been hoped for. This means that Zimbabwe needs substantial domestic and structural reforms in order to find a way of clearing its external debt that stands at around 50% of the GDP.

Increasing domestic debt is leading to the 'crowding out' effect. With weakening revenue figures and increased expenditure, coupled with a few external financing options, the administration has turned to domestic borrowings in order to finance the debts. This has also been necessitated by an increased spending in the agricultural sector in aims of boosting food security. However, financing needs have exceeded the private sectors absorption of treasury instruments, the government has also turned to the use of overdraft facilities with the Central Bank adding additional pressure onto the balance of payments as well. Furthermore, this has resultantly left the private sector with a few resources to utilize to use. Subsequently, the growth in the private sector has been comprised and thus further aggravating the already low production levels, high unemployment and low exports. The government has thus increased transactional tax in order to increase the revenue base.

Without a doubt, Zimbabwe heavily relies on minerals as well as agricultural produce such as tobacco for exports as well as foreign currencies. The issue with these products as that they are prone to unexpected fluctuations in comparison to manufactured products. Commodity prices have been rather remained depressed in the past decade, down from the average highs of 2010. Resultantly, Zimbabwe's real dollar earnings have remained lower than around a decade ago and yearly earnings are very dependent on better prices. Moreover, agriculture is still heavily affected by drought conditions which seem to follow a cycle. This as well indicates the reliance on rainfall more than irrigation projects in the agricultural sector as well.

Following the general decline of Zimbabwe's economy over the past two decades, a lot of changes have occurred particularly in the way of economic activity. The past decades saw numerous entities downsizing and closing, as well as the retrenchment of various workers. With nowhere to go, most workers utilised their working days skills to earn some sort of living. For instance, the furniture industry is now dominated by small and individual carpentry workers who used to earn their living working for large furniture manufacturing companies as well as corporate department stores. The current shoe industry is also heavily dominated by sole traders and individuals as well who for most part have become vendors. In other words, the workforce has now shifted to vendors as considering the high unemployment rate, estimated at over 90%.

The issues that are now at hand are now about adjusting tax collection efforts and methods towards the changes in economic activity. Before the changes, economic agents were easily identifiable such as corporate and employees, whose earnings could easily be followed and tax calculated. However, with more sole traders and small businesses dealing with smaller transactions, dealing directly with the public and possibly in cash transactions, this has given tax authorities new headaches. Zimbabwean tax authorities introduced presumptive taxes in hope of increasing the tax base by capturing such activities. A fixed amount is levied on a quarterly basis on a particular industry or sector, for instance in the transport operations and furniture manufacturing.

The problem has been collection, and the Authority was empowered to appoint agents on its behalf such as departments that handle transportation licenses like Zinara, local authorities that issue such licenses to such players. However this is proving difficult, as monies collected are actually lower that calculated. Most of the traders escape payments and there are not enough facilities that have been put in place to enable these agents to trace and collect these payments. The amount of paperwork is still considerably high and unclear even when it comes to auditing and trying to verify the amounts of money that should have been collected. Resultantly, presumptive taxes, as a part with other taxes still contribute very low to total revenue, with it playing a part in contributing less than 10% annually to revenues. The case is usually different for developed nations, where most of the economic activities are usually dominated or at least linked to large organized entities which allow enforcement of tax rules to be easier.

On the issue of tax incentives, in order to stimulate more investment and foreign interest, the administration introduced quite a number of tax incentives which among them include tax holidays, tax cuts and accelerated depreciation. However, the main argument is on their effectiveness. Firstly, this lowers tax revenue, as the amounts that should be collected are reduced or waived. The case however is if the economy actually benefits in the long run in terms of increased productions, higher employment levels, technology transfers and as such. This is however hard to measure, but the main worry is how most of these seem linked to extraction of resources rather than value addition. The result is that mining companies rent seeking and have taken advantage of this by coming in with different names after some of their tax holidays have elapsed. Zimbabwe`s standard corporate tax rate of 25%, apart from other lower rates applied to other sectors, is the 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%.

Further, they are strong indications that investment is also attracted by other strong factors such as property rights, political stability and market existence. Studies have revealed that developing worlds offer more tax incentives yet still receive fewer flows than their counterparts in the developed world who may offer less tax incentives yet receive substantial flows. Although it may be difficult to measure, a thorough analysis is still needed in this area.

A lot of the formal business and economic activities is now being handled by multinationals. In face of increasing cross border digital technology and globalization, Zimbabwe still remains rather unprepared in this area. As yet, areas of concern are that there is not a specific unit that actually looks into transfer pricing issues. Training has been carried out, but is still low in regards to the level that multinationals may have experienced with other tax authorities particularly those hailing from developed and advanced parts of the world. Further to this is the low amount of cooperation, not only between African nations but as well as other tax jurisdictions as well. Resultantly comparability studies and information sharing have revealed to be a stumbling block in achieving correct tax measurements with regard to international transactions and business.

V. Conclusion, where we stand and where we go?

Recent Political events have largely inspired some hope on the plans to turn around Zimbabwe's economic direction as well as some negative economic activities. In the past few months, Zimbabwe has seen increasing inflationary pressures particularly on food items. This has been caused by the changing rates between the strengthening US dollar versus the locally used bond notes and RTGS values. The Old Mutual Implied Rate, which keeps track of Old Mutual share prices in Zimbabwe, the UK and South Africa, has shown the US/RTGS and US/Bond Notes standing at 280% and 250% respectively. This means that the US $1 is trading at $3.80 and $3.50 respectively. Subsequently retailers have increased prices as most of them claim the unavailability of foreign currency from official sources is poor and thus have to rely on parallel markets for their foreign currency needs.

However, the new administration has stressed its commitment to managing the fiscal deficit challenges. In recent past weeks, the new minister of finance has introduced the Transitional Stabilisation Programme aimed as the first step towards the target of Zimbabwe achieving an upper middle economy by 2030 and raising per capita income to an equivalent of US$ 3 500. Its timeframe runs up to the end of December 2020. This will then be superseded by 2, 5 year plans. The main thrust is targeted towards stabilising the macro- economy and the financial sector, introducing necessary policy and institutional reforms to translate to a private sector led economy and addressing infrastructure gaps.

In a nutshell the new drive is centred on:

a. Correcting Fiscal Imbalances and Financial Sector Vulnerabilities
b. Instituting Public Enterprises and Local Authorities Reform
c. Improving the Investment Environment
d. Dealing with Corruption
e. Re-engaging the International Community
f. Stimulating Production, and Exports
g. Increasing employment

With main emphasis on the high wage bill, the new finance ministry is targeting to reduce the wage bill by at least 50%. The plan is to shed the bill by US$ 200 Million by 2019 and a further US$ 130 Million by 2020. Already the government has started to shed off "ghost workers" and has put a freeze on employment apart from critical areas which are discussed by the respective heads of department before any actual appointment is done. Further, the government has whittled down duplicated roles as well as cutting the ministries from 35, to 28 and now down to 20 ministries. Benefits especially related to foreign travel have been adjusted by adjusting classes on planes, as well as number of people who support the senior staff when attending government business in foreign countries. Apart from this, the civil service is enforcing compulsory retirement as well as encouraging voluntary retirement with economic benefits such as farming plots or machinery to assist retirees on engaging in economically beneficial activities. Domestic benefits such as car and housing benefits have also been adjusted. Foreign diplomatic mission are going to be reduced as well as capping such things as rentals. The parliamentary sittings allowances are set to be reviewed downwards as well.

Concerning Public enterprises, the government is pushing to privatise the state owned telecommunications company, Net-One, the savings bank, POSB, and the fixed telephone company, Tel-One in the next 6 months. 5 entities are set to be liquidated which include two glass companies and one cloth manufacturing entity. Eleven other entities are in the firing line to be merged. In terms of corruption, penalties are to be reviewed as well as laws granting civil forfeiture on properties acquired through proceeds of corruption. Zimbabwe recently engaged concerned debt stakeholders at the recent International finance meeting in Bali and is preparing to first meet its US$ 608 Million obligation to the African Development Bank (AFDB), then its US$ 1.4 Billion to the World Bank before finally settling its US$ 308 Million debt to the European Investment Bank (EIB).

Overly, if government sticks to these and more massive reforms, the wage bill which in the past has led to very bloated government expenditure, reductions in fiscal deficits will go a long way in helping the economy to get back onto its feet.

Public Enterprises are also expected to undergo major restructures in line with reducing flow of monies towards inefficient enterprises. Those not fully beneficial and fail to raise their own revenues risk facing outright closure Public Accounting is also being revamped and being improved to improve on accuracy as well as transparency.

It is on this case that targets have been set whereby the new administration hopes to lower budget deficits to 4% of GDP and subsequently capping deficits to below 3%. Furthermore, targets of 70% to the GDP of Public and Publicly Guaranteed Debt are set. Also this involves limiting central bank's borrowings to 20% of the revenues from the previous year. They are also plans to increase the capital minimum spending by increasing it from the current 11% to 15% in 2018 and 25% by 2020 as well as decreasing employment costs share from 70% to 60% by 2020.

Huge efforts have been poured into rebranding Zimbabwe's brand. Amongst the critical components, has been the ending of isolation and re engagement with the larger international environment. The current administration has embarked on massive investment meetings and has re engaged former commonwealth members particularly the United Kingdom with a view of returning to the Commonwealth. Further, the administration has taken advantage of several international meetings and conferences such as the Davos Meetings and United Nations General Assembly meetings to conduct Investments drives in Host Countries. In line with improving Zimbabwe's brand, foreign election observers were invited into the country for the first time after decades and live broadcasting of election challenges were aired. The administration has been on an overdrive to spruce up the image of the country and is in the process of trying to clean up the capital Harare, by removing illegal vendors on the roads as to give rent paying businesses the opportunity to do business. Efforts have been made and are underway in engaging multilateral institutions with the view of settling Zimbabwe's current external debts. The main steps the government is undertaking or have already undertaken are:

a. Removal of policy uncertainty, and inconsistency, guaranteeing safety of investments
b. Amendment of the Indigenisation policy, as well as other business/investment related bills
c. Lowering cost of doing business
d. Re-engaging with the international community
e. Security of land tenure, and introduction of bankable land leases
f. Enhancing foreign exchange generation, including tapping into the Diaspora
g. Concrete, and time-framed public enterprises reforms
h. Dealing with corruption, rent-seeking, and other business malpractices

The Tax Authority is strongly engaged in international cooperation and treaty formations in anticipation of improved investor confidence and flows. Currently, it has a paltry 19 treaties and is in the process of revising and engaging new players onto the field.

A general positive outlook with regards to Zimbabwe's economic fortunes is prevailing. The economy is expanding on account of high consumer demand, increased business confidence, and positive expectations especially after the conclusion of some of the most peaceful elections that Zimbabwe has ever had in the past few decades. Developments have been encouraging, and the economy is expected to surpass the 4.5% mark previously set. Better than expected performances were witnessed in the first half of the year in the agricultural, mining, manufacturing and tourism industries. In agriculture, tobacco outperformed initial projections as it registered a 250 million output, the highest ever recorded. There was also significant growth in the mining sector particularly in the gold, platinum, chrome and coal, amongst other key elements. Adoption of the plastic money drive has seen an upsurge in the switch to paperless transactions with levels rising to above 95% of retail transactions. The Central Bank has moved in to protect investors' foreign currencies by instructing banks to create and ring fence foreign currency account, which some see as an official announcement of a possible move to a floating exchange rate between the bonds notes and US dollar.

On the tax administration side, the Minister of Finance recently removed the Zimra Board and has directed the Authority to report directly to the Treasury until a new board has been put in place. This is part of the national reform processes that are underway. Further, latest development has seen an increase in taxes for RTGS transactions which have been raised to 2 cents for every dollar.

And finally, re engagement efforts with external international institutions in line with the 2015 Lima, Peru arrangement are being examined so as to clear debts. All in all, barring challenges, Zimbabwe has a positive economic outlook.

It is on this note that coupled with challenges; Zimbabwe's projected GDP is still expected to grow. Current estimates show that it is still expected to grow anywhere between 2% to 4%. Generally, the outlook remains positive. With commodity prices remaining stable, agricultural output expected to improve, more investment expected to enter as well as improvements in energy production boosting production in the private sector, the multiplier effects might induce some Zimbabweans in foreign countries to return home with more international exposure and expertise further boosts production levels. This has all been promised, albeit some pain as well.

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