ZIMBABWE

THE 2013 NATIONAL BUDGET STATEMEMT

"Beyond the Enclave: Unleashing Zimbabwe's Economic Growth Potential"

MINISTRY OF FINANCE

15 November 2012

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Unless the Lord builds a house,
The work of the builders is wasted.
Unless the Lord protects a city,
Guarding it with sentries will do no good.
Psalms 127:1

I. MOTION

1. Mr Speaker Sir, Section 103 (1) of the Constitution of Zimbabwe, read together with Section 28 (1)(a) of the Public Finance Management Act [*Chapter 22:19*], obliges the Minister responsible for Finance to prepare and lay before Parliament, on a day on which Parliament sits, before or not later than 30 days after the start of each financial year, Estimates of Revenue and Expenditure of Zimbabwe for that financial year.

2. In compliance with the mandatory provisions of our Law, I beg, Mr Speaker Sir, that leave be granted to bring in a Bill in connection with the Revenues and Expenditures of the Republic of Zimbabwe for January to December 2013.

II. INTRODUCTION

3. Mr Speaker Sir, it is exactly 1 350 days since we commenced this experiment of a Coalition Government which regrettably

right from the onset was born mired in the prophecy of failure, cynicism and collapse, particularly in certain powerful quarters, at home and abroad.

4. Against the odds, this construct has lasted, and indeed, it is a tribute to the People of Zimbabwe and their political leadership that, despite salubrious challenges we have faced, the Government of National Unity (GNU) has held out and we stand here to re-define through this Budget a new path and trajectory for our development in 2013.

5. As I present this fifth and last Budget of our Inclusive Government let me express my humble indebtedness and gratitude to the people of Zimbabwe, esteemed Honourable Members of Parliament, my colleagues in Government, as well as the Principals to the GNU for their patience, understanding, guidance, support and leadership offered to our programmes, and policies in the last four years.

6. Mr Speaker Sir, I am also grateful for having had the humbling privilege and opportunity of being in the cockpit providing stewardship over the economy's public resources during the last four years.

7. I must also right from the onset express my public indebtedness to the excellent hardworking and competent staff I have had at the Ministry of Finance starting with our Permanent Secretary, Mr. W.L. Manungo, and right down to the ordinary Office Orderly. For years, this team has burnt the candle tirelessly and without complaint, producing world class documents and advice. I thank them sincerely.

8. I must say, Mr Speaker Sir, that the path we have traversed in the last four years has been an incredible journey mired with hurdles, challenges, false starts, *cul de sacs* and all kinds of potholes. To put it simply, it has been an exceptionally difficult, trying and tiring period. This was inevitable given the contested spaces and ideologies that we all occupied.

9. Despite this, Mr Speaker Sir, it is incontestable that somewhat, along the way we found each other and meandered along a maze of insurmountable challenges centred around an isolated economy, without any fiscal legroom, with weak capacity, huge levels of poverty, debt and infrastructural decay.

10. That connection allowed us to navigate programmes and policies in pursuance of the interests of the ordinary person, with little dispute that Zimbabwe is now in an incomparably better standing than it was in 2008.

11. The experience of this GNU also demonstrates the infallibility of the contention that the socio-economic policy choices we make, our vision, our honesty, our value systems, our craft competence, consistency, inclusivity and transparency, are the difference between failure and success. In simple terms, development and prosperity and underdevelopment and poverty are by-products of the choices we make.

12. On the contrary, the pursuit of programmes and ideologies of exclusion, delegitimation, predatoriness, patronage, clientelism, seeking, and violence lead to poverty, under-development, enclavity and disintegration.

13. Therefore, as we enter the shadow of an election year in 2013, the lessons of the last four years must guide our political leaders to place the people and their developmental challenges first, appreciating the primacy of peace, mindful that as a People our only home and heritage is in Zimbabwe.

14. Thus, the 2013 National Budget must play its part in prioritising the development aspirations of the People of Zimbabwe, clearly articulated during this year's nation-wide Budget Consultative meetings, as well as in previous ones.

15. Mr Speaker Sir, from Dotito to Chendambuya, Insiza to Bubi, Tsholotsho to Rupike our people feel that they have paid their dues. The ordinary people yearn for peace, security, development and the education of their children.

16. They desire to see the Leaders of Government resolve challenges around food security, provision of critical social and infrastructure services in health, education, water and electricity, creation of jobs, and guaranteed non-selective application of justice and the rule of law.

17. Mr Speaker Sir, the 2013 National Budget seeks to play its part with regard to granting and fulfilling some of these legitimate aspirations.

III. FOOTPRINTS OF THE INCLUSIVE GOVERNMENT

18. Mr Speaker Sir, given the anticipated conclusion of the Global Political Agreement (GPA), it is proper and logical that the 2013 National Budget first begins by taking stock of progress made under the Inclusive Government during the past four years.

19. This should also inform policy interventions for 2013 and beyond.

Socio-Economic Environment Prior to 2009

20. Honourable Members will acknowledge that underlying the conclusion of the Global Political Agreement (GPA) and establishment of the Inclusive Government was also the recognition of the need for inclusive responses to the then prevailing pre-2009 severe socio-economic challenges.

21. These were mainly characterised by:

- Cumulative economic contraction over 2000-2008, exceeding 40%;
- Resultant drastic fall in per capita GDP, from US$700 in 1997 to about US$290 by 2008;
- Hyper-inflationary environment, with recorded rates of over 231 million percent;
- Wiping out of savings in financial instruments, including pension and insurance products;
- Resultant wide-spread rejection of the domestic currency by the public;
- An industry which collapsed under a massive business regulatory regime of controls, lack of re-investment, obsolete equipment, shortages of raw materials – all reducing average capacity utilisation to below 10%;

- High formal unemployment levels estimated in excess of 80%;
- Disappearance of basic consumer goods and services, amid price controls and other distortions unrelated to cost of production and replacement;
- Absence of domestic savings and revenue in support of the Budget, resulting in a corresponding collapse of public infrastructure and delivery of basic social services;
- Accumulation of external payment arrears to US$3.07 billion as at December 2008;
- Depletion of external reserves, leading to total absence of import cover. Minimum levels of over 3 months import cover are deemed the norm.

22. Mr Speaker Sir, it was in light of this scenario that in 2009 this Nation began a new journey for renewal, guided by the Global Political Agreement (GPA).

23. A key mandate for the Inclusive Government was, thus, defined in Article 3(1)(a) of the GPA as *"to give priority to the restoration of economic stability and growth in Zimbabwe*".

24. As Honourable Members will recall, the Inclusive Government's main vehicle for restoring macro-economic stability was

the Short Term Emergency Recovery Programme (STERP) launched and prefaced by His Excellency the President in March 2009 under the Theme '*Getting Zimbabwe Moving Again*'.

25. Mr Speaker Sir, to anchor sustained growth and development on the macro-economic stability that was achieved by the end of 2009, STERP was subsequently followed by the focus on '*Reconstruction with Equitable Growth and Stability*' in December 2009 under the Three Year Macro-Economic Policy and Budget Framework 2010-2012 (STERP II).

26. This was complemented by the Medium Term Plan launched on 7 July 2011, and outlining projects, investment opportunities and programmes guiding the Nation, and setting the National priorities to 2015 with the objective of '*Promoting Sustainable Inclusive Growth, Human Centred Development, Transformation and Poverty Reduction*'.

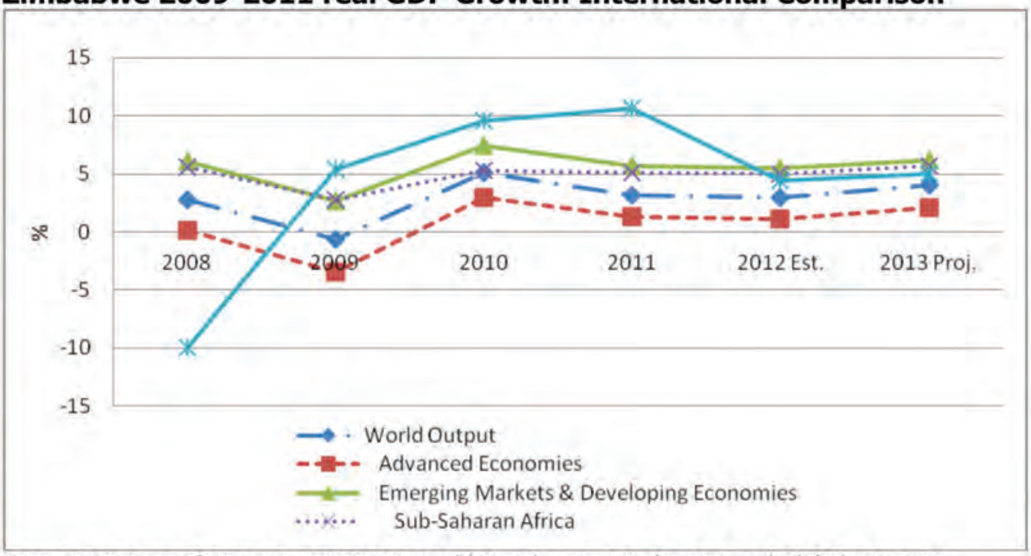
27. Mr Speaker Sir, the above policy initiatives were implemented through programmes supported under the annual National Budget.

28. As a result of these new policy measures, the years 2009—2011 saw serious economic rebound on the back of strong

economic growth averaging 9.5%, single digit inflation below 5% and doubling fiscal revenue collection from 16% of GDP to an estimated 32% of GDP in 2012.

29. Mr Speaker Sir, Honourable Members might be surprised to note that during the rebound period, Zimbabwe was the fastest growing economy in the world.

Zimbabwe 2009-2011 real GDP Growth: International Comparison

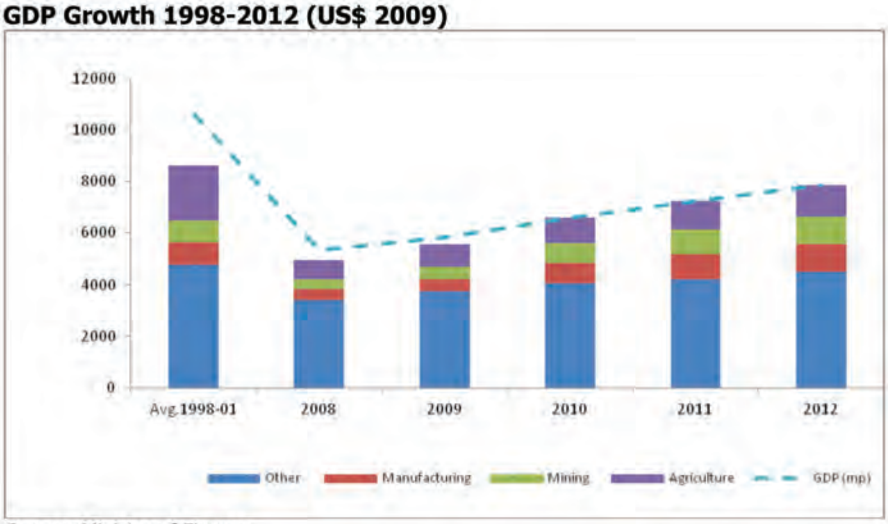


Source: Ministry of Finance, ZIMSTAT, World Development Indicators and Global Economic Prospects

30. This performance was remarkable since it was achieved with minimal external support and investment and also during a period of subdued global growth and international financial turmoil.

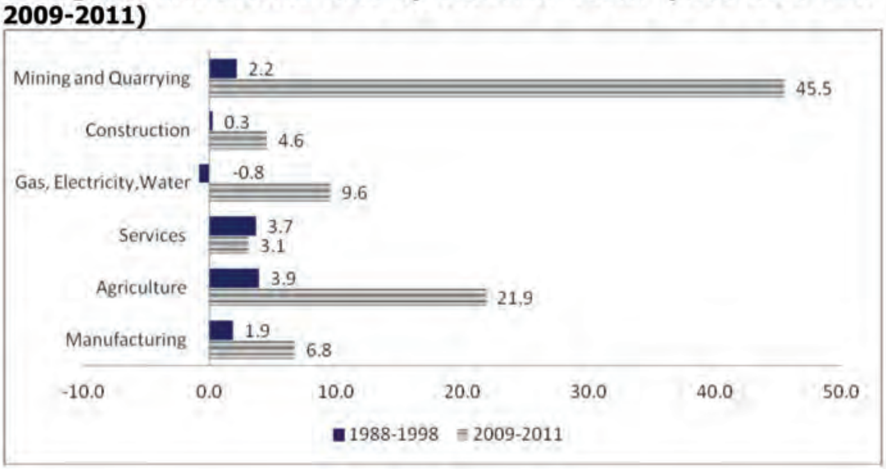
31. Most of the economy's growth during the period 2009 – 2011 was anchored by mining and agriculture, which recorded cumulative growth rates of 57.2% and 49.8%, respectively.

GDP Growth 1998-2012 (US$ 2009)



Source: Ministry of Finance

Average Annual Growth Rate by Economic Sector (1988-1998 and 2009-2011)



32. The significant recovery of GDP translated into real growth in per capita income, from negligible levels at the height of hyper-inflation.

33. Impressive progress was also made in the following areas:

- Attainment of single digit inflation;
- Increase in industrial capacity utilisation, from below 10% to averages of around 50%;
- Modest growth in overall investment, from 2% of GDP in 2008 to 9% of GDP;
- Increase in aggregate demand, 18.6%; domestic absorption, 32.2%; and external absorption, 48.5%;
- Increase in agriculture growth rates from -5.8% in 2008 to 37.6% during 2009; and
- The restoration of social services, in particular health and education.

IV. BEYOND THE ENCLAVE: UNLEASHING ZIMBABWE'S GROWTH POTENTIAL

34. Mr Speaker Sir, the 2013 Budget has easily been the most difficult to construct and engineer in the short life of this Inclusive Government.

35. The 2009—2011 economic rebound clearly decelerated in 2012, plunging the economy into what I described in my Mid Term Statement as a "**long winter of despair**, characterised

by low business and investor confidence, some disequilibrium in the economy, little growth and employment, declining social indicators and generally a lackadaisical business-as-usual mentality".

36. Weighed down by erratic electricity supply, tight liquidity, fiscal revenue underperformance, drought and continued de-industrialisation, the 2012 GDP growth rate was revised downwards from 9.4% to 5.6% in July 2012. Regrettably, clear output indications on the ground necessitate a further downward revision to 4.4%.

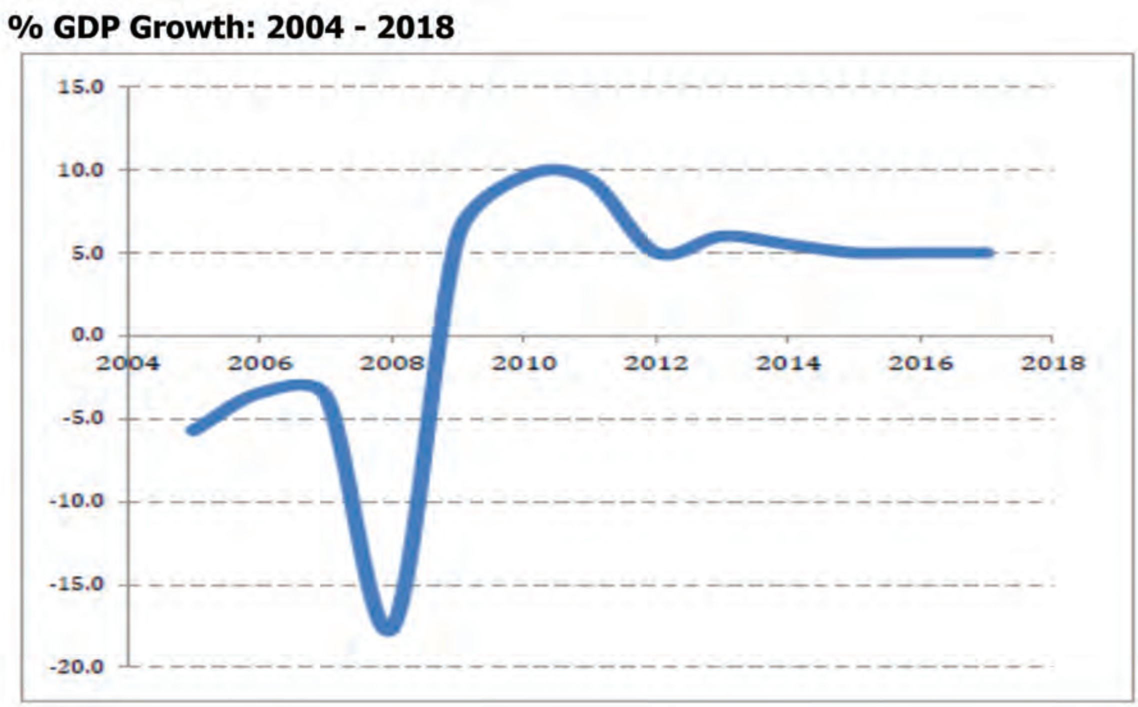
37. The 2013 outlook also looks bleak – blighted by a miscellany of factors that include a deeper global outturn, the continued capital deficit, financial sector instability, and a poor business climate, amid other challenges.

38. Overall growth is projected to moderate to 5% in 2013, underpinned by anticipated output improvements in mining and agriculture.

Sectoral Performance (% Growth): 2009 – 2015

	2009 Actual	2010 Actual	2011 Actual	2012 Est.	2013 Proj	2014 Proj	2015 Proj
Agriculture, hunting and fishing	21.0	34.8	5.1	4.6	6.4	6.4	6.1
Mining and quarrying	33.3	60.1	25.1	10.1	17.1	22.0	15.0
Manufacturing	10.0	-4.0	15.0	2.3	1.5	3.2	2.8
Electricity and water	1.9	19.1	7.8	0.3	2.2	6.6	5.4
Construction	2.1	5.4	6.2	4.9	6.2	5.2	5.2
Finance and insurance	4.5	5.6	2.0	5.1	6.0	7.5	6.3
Real estate	2.0	5.4	3.1	4.9	6.2	5.2	5.2
Distribution, hotels and restaurants	6.5	8.8	4.3	3.9	4.0	4.6	4.2
Transport and communication	2.2	20.5	18.7	5.8	3.4	2.6	2.7
Public administration	2.0	0.0	4.8	3.0	2.0	1.2	1.0
Education	2.8	0.5	0.5	1.4	0.5	1.0	1.3
Health	3.2	15.8	10.0	2.5	2.0	3.0	4.0
Domestic services	2.2	6.7	0.4	1.5	1.5	1.5	2.0
Other services	2.3	14.6	10.9	5.0	2.5	2.5	3.0
GDP at market prices	**5.4**	**9.6**	**10.6**	**4.4**	**5.0**	**5.7**	**5.5**

39. Mr Speaker Sir, given the ground we need to recover, estimates of GDP growth rates of 4.4% in 2012, and 5% in 2013 represent stagnation and return to depression economics. The projected outlook falls short of average economic growth targets of 7.1% defined in our Medium Term Plan (MTP) 2011—2015.



40. Mr Speaker Sir, the fact of the matter is that we have not entered into a sustainable path to recovery and, most regrettably, is the overwhelming evidence of stagnation.

41. The sub-optimal equilibrium fuelled by low aggregate demand and low productivity, underpinned by the five binding constraints on our economy, namely electricity supply, finance, fragile balance of payments, politics and poverty need to be addressed.

Growth Scenarios

42. Zimbabwe has two options. The first is the retention of the status quo, characterised by uncertainty and the total subordination

of the economic agenda to predatory politics. This **crocodile scenario** will entail a continued reproduction of the **enclave economy** and further impoverishment of our people.

43. This is at a time when Zimbabwe's per capita income is a mere US$370 and all our human resources indicators are below acceptable baselines.

Human Development Indicators

Indicator	1990	2000	2006-08	2011
Human Development Index (Rank)	121	128	151	173
Human Poverty Index (Rank)		60	91	
Net Primary School Enrolment (%)		99	82	
Adult Literacy	67	89	89	92
Infant Mortality (per 1 000)	61	73	81	90
Maternal Mortality Rate (per 100 000 births)	330	700	880	960
Life Expectancy (Years)	63	43	41	51.4
Population Using Improved Water (%)	78	85	81	75.8
GDP per Capita	US$644		US$338	376
Poverty Rate	42%		Over 70%	72
Brain Drain			Over 3m	

Source: HDI 2011, ZDHS 2010-2011, MTP

44. The second option is one that requires a major paradigm shift by all of us, and the pursuit of a united common vision under a stable democratic political dispensation with strong leadership.

45. This scenario, the **cheetah scenario**, demands a graduation from the current status quo of **vicious cycles of exclusion**

into **virtuous circles of inclusion** amongst movers and shakers.

46. Central, Mr Speaker Sir, will be the pursuit of growth that is:

- **Sustainable**: facilitating innovation, entrepreneurship, rising living standards and demand;
- **Cross-sectoral**: facilitating growth in agriculture, manufacturing, services, SMEs, mining; and
- **Pro-poor**: Creating jobs in villages, towns and cities for adults/youths, men/women and raising tax.

47. In the short term, the **cheetah scenario** requires the pursuit of rigorous programmes of public reforms that include payroll management, strengthening Public Finance Management Systems, dealing with the infrastructure and technological deficit, restoring the land market and securing property rights and reducing financial sector vulnerabilities.

48. In this Budget we deliberately choose to pursue the **cheetah scenario**, and the policy measures we propose offer a fundamental paradigm shift that, everything being equal, will **unleash Zimbabwe's growth potential** and refocus and redirect this country **beyond the enclave**.

49. In the pursuit of this dream, Mr Speaker Sir, we all need to see and agree on this direction, understand the difficult steps required, persuade fellow Zimbabweans that the journey is worthwhile and provide the necessary leadership to pursue the same.

V. REVIEW OF DEVELOPMENTS IN THE ECONOMY

50. Mr Speaker Sir, developments in the real sector of the economy for 2012 have been poignantly retrogressive as a result of an unsavoury cocktail of endogenous and exogenous factors that include a poor rain season, lack of capital, revenue under-performance, corruption and a volatile and fragile global financial environment.

51. Structural bottlenecks, including power challenges and deteriorating infrastructure, have all contributed to the economic deceleration.

52. Thus, in my Mid Term Fiscal Review, I revised the 2012 National Budget GDP growth rate target.

53. Mr Speaker Sir, the original and revised 2012 Macro-economic Framework were as follows:

The 2012 Revised Macro-economic Framework

	2009	2010	2011 Est.	2012 Initial Proj	2012 Revised Prj
Nominal GDP (US$ Billion)	6.133	7.433	9.433	11.914	11.427
Real GDP Growth (%)	5.4%	9.6%	9.4%	9.4%	5.6%
Inflation Average (%)	-7.7%	-3.1%	3.5%	5%	5.0%
Central Government					
Revenues (US$ Billion)	0.973	2.339	2.921	4.000	3.640
Expenditures (US$ Billion)	0.850	2.107	2.895	4.000	3.640
External Sector					
Exports (US$ Billion)	1.613	3.317	4.496	5.167	5.090
Imports (US$ Billion)	3.213	5.162	7.562	6.800	8.215
Monetary					
Deposits (US$ Billion)	1.381	2.328	3.100	4.279	3.877
Domestic Credit (US$ Billion)	0.723	1.695	2.755	3.940	3.538

Source: MOF, MOEPIP and RBZ

54. Mr Speaker Sir, the economy will, as I have already alluded to, grow by a mere 4.4%. However, realisation of the annual inflation target remains on course.

55. The revised sectoral growth projections are shown below.

Sectoral Performance (% Growth): 2009 – 2015

	2009 Actual	2010 Actual	2011 Actual	2012 Est.	2013 Proj	2014 Proj	2015 Proj
Agriculture, hunting and fishing	21.0	34.8	5.1	4.6	6.4	6.4	6.1
Mining and quarrying	33.3	60.1	25.1	10.1	17.1	22.0	15.0
Manufacturing	10.0	-4.0	15.0	2.3	1.5	3.2	2.8
Electricity and water	1.9	19.1	7.8	0.3	2.2	6.6	5.4
Construction	2.1	5.4	6.2	4.9	6.2	5.2	5.2
Finance and insurance	4.5	5.6	2.0	5.1	6.0	7.5	6.3
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Transport and communication	2.2	20.5	18.7	5.8	3.4	2.6	2.7
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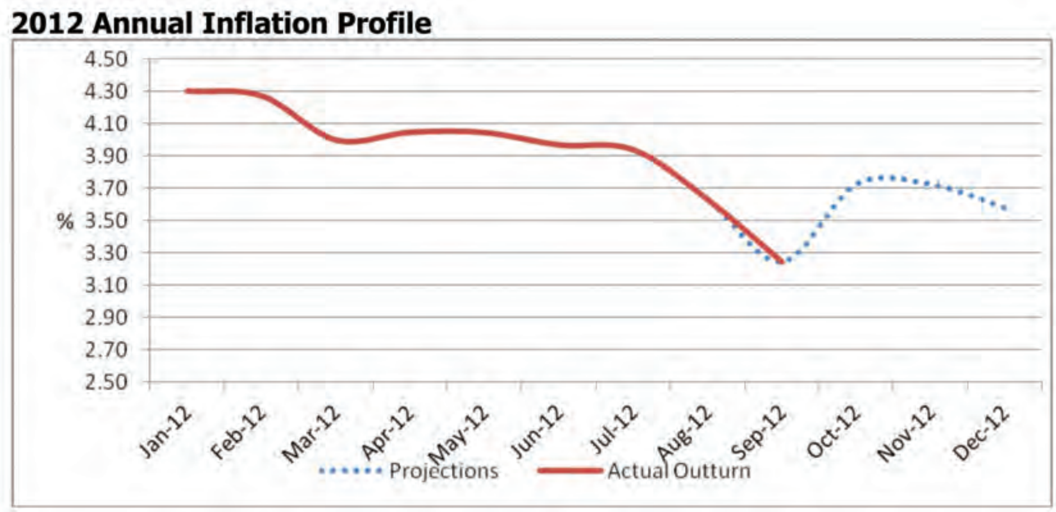
Education	2.8	0.5	0.5	1.4	0.5	1.0	1.3
Health	3.2	15.8	10.0	2.5	2.0	3.0	4.0
Domestic services	2.2	6.7	0.4	1.5	1.5	1.5	2.0
Other services	2.3	14.6	10.9	5.0	2.5	2.5	3.0
GDP at market prices	**5.4**	**9.6**	**10.6**	**4.4**	**5.0**	**5.7**	**5.5**

Inflation

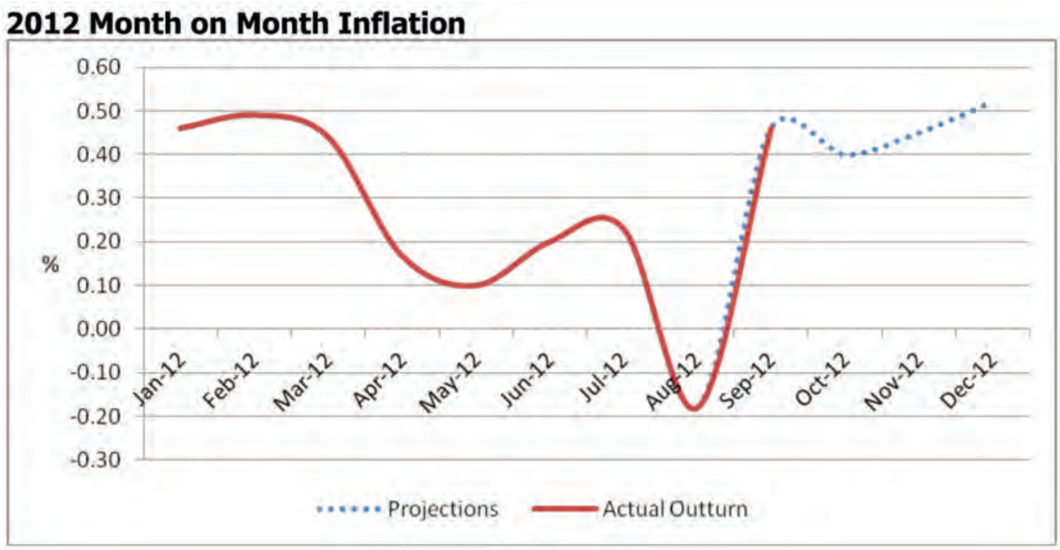
56. The country continues to score positively in maintaining stable price levels, with annual inflation for the greater part of 2012 remaining in the 3 - 4.5% band.

57. Stability in the price level has also benefitted from supply improvements, containment of costs, particularly the wage bill, depressed demand under tight liquidity conditions, tight market competition, and depreciation of the rand against the US dollar.

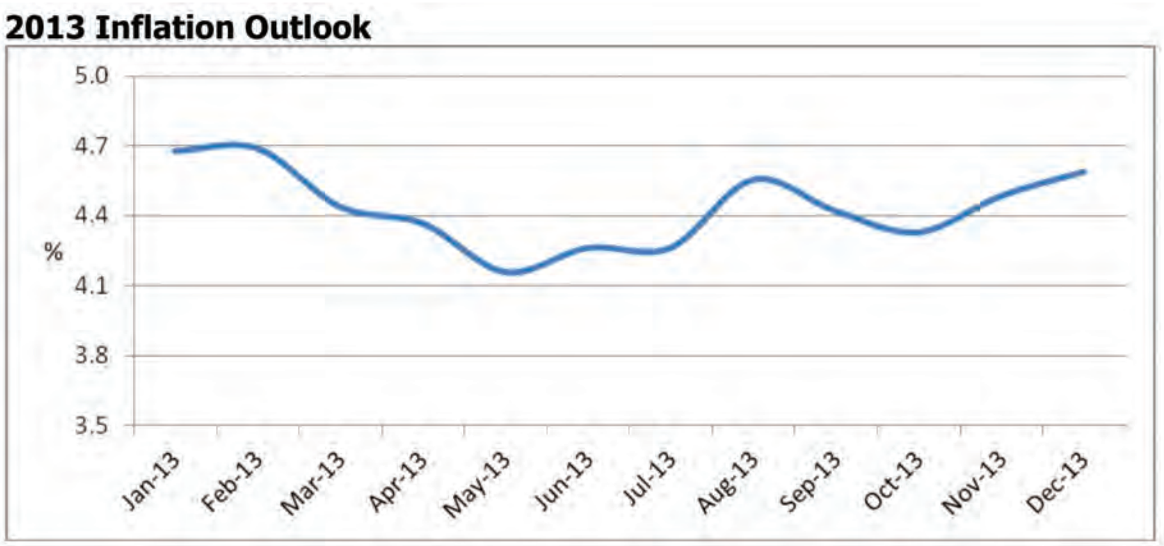
58. In the outlook to December 2012, inflation is expected to pick up due to seasonal induced demand, ending the year at around 3.5%.



59. Mr Speaker Sir, the positive prospects for inflation to year end 2012 are notwithstanding some volatility in transitory food and fuel prices.



60. In 2013, inflation is projected to remain below 5%, mainly underpinned by slowdown in global food prices, steady international oil prices, improved domestic capacity utilisation and managed expectations.



Agriculture

61. Agriculture performance, which was initially projected to decline by 5.8% in 2012, has been revised upwards to a growth of 4.6%, reflecting revised tobacco and cotton output.

62. Actual tobacco production amounted to 144.5 million kgs, against an earlier projection of 130 million kgs, while cotton output was 350 000 tons, against initial projection of 255 000 tons as indicated in the Table below.

Agriculture Production (000 tons)

	2011 Actual	2012 Mid Year Projection	Revised 2012 Projection	2013 Projection
Tobacco	133	130.0	144.5	170
Maize	1,452	968.0	968.0	1, 100.0
Beef	94	94.0	94.0	94.1
Cotton	250	255.0	350.0	283.0
Sugarcane	3264.6	4,476.9	4,476.9	4,500.0
Horticulture	45	51.0	51.0	54.3
Poultry	65	70.5	70.5	80.0
Groundnuts	231	120.0	120.0	130.0
Wheat	53	17.0	17.0	17.4
Dairy (m lt)	63	64.5	64.5	70.0
Coffee	2.7	1.9	1.9	1.5
Soyabeans	84	70.5	70.5	115.0
Tea	25	24.5	24.5	25.0
Paprika	4	4.0	4.0	4.5
Pork	13	13.8	13.8	15.0
Wildlife	47	48.0	48.0	49.0
Sorghum	95	64.8	64.8	114.0
Barley	44	44.0	44.0	44.0
Sheep & goats	4	6.3	6.3	3.0
Sunflower	12	15.0	15.0	17.0
Ostriches	17	17.0	17.0	19.0
Overall Growth	5%	-5.8%	4.6%	6.4%

Source: MoAMD.MoEPIP, MoF and RBZ

63. In 2013, agriculture is projected to grow by 6.4%. This will be supported by credit financing facilities to farmers and continued contract farming arrangements for major crops such as tobacco, cotton, barley and soya beans.

64. Mr Speaker Sir, Honourable Members may want to take note that the agricultural sector has received funding of around US$2 billion over the period 2009—2012 as indicated below.

Agriculture Financing Trends (US$): 2009 -2012

Source of funding	2009	2010	2011	2012
Government Support	18,908,040	336,230,093	324,586,464	323,900,000
Of which				
Grain procurement	5,650,000	101,345,967	63,000,000	81,900,000
Livestock production				3,000,000
Crop Input Support		87,400,000	141,400,000	79,000,000
Capitalisation of Agribank		17,000,000	2,500,000	1,000,000
Extension & other support services	13,258,040	129,641,126	112,086,464	159,410,000
Irrigation development		843,000	5,600,000	16,240,000
Presidential Support	3,000,000	9,700,000	15,000,000	20,000,000
Development Partners	322,074,663	126,307,213	58,647,787	179,170,524
Bank Sector Support				294,252,000
Lines of Credit				
Total	**359,890,743**	**798,767,399**	**737,820,715**	**813,572,524**

65. The planned intervention by Government and development partners in assisting vulnerable farmer households with inputs is also expected to result in improved grain yields.

66. Furthermore, the on-going payments of outstanding arrears to farmers against grain deliveries to the GMB are also expected to capacitate their preparedness for the 2012/13 cropping season.

67. In addition, input suppliers have assured the farming community of adequate supplies of inputs, including seed and fertilizers for the 2012/13 season.

68. Already, seed houses have about 66 000 tons of maize seed, which is more than the country's requirement of 50 000 tons.

69. With regards to fertilizers, the major producers, namely ZFC, Windmill and Omnia, are building up stocks to meet the national requirement of about 300 000 tons after having received **US$5.6 million** part payment for last year's supplies.

Seed Supply and Planned Hectarage for the 2012/13 Season

Crop	Available	Hectarage
Maize	66,482 tons	2,659,280
Wheat	9,105 tons	91,050
Soya beans	6,730 tons	67,300
Sorghum hybrid	1,200 tons	120,000
Mhunga	500 tons	50,000
Rapoko	25 tons	2,500
Groundnuts	1,095 tons	10,950
Cow peas	350 tons	17,500
Cotton	15,000 tons	750,000

Source: GMB, Ministry of Agriculture, Seed Houses

Maize

70. Mr Speaker Sir, besides factors mentioned above, maize production is projected to increase from this year's 968 000 tons to 1,1 million tons in 2013.

71. Introduction of new drought tolerant maize seed varieties should boost output in drought prone areas.

Tobacco

72. With regards to tobacco, output is projected to increase from 144 million kilograms in 2012 to 170 million kilograms in 2013 in view of the increase in the number of registered tobacco growers now estimated at 46 431 from 19 975 who had registered by deadline of 30 September.

73. Similarly, in preparation for a better output season, a target of 85 000 ha in 2012/13 is planned, up from 82 000 ha in 2011/2012.

Dairy

74. Mr Speaker Sir, signs of recovery are emerging in dairy farming, with a 4% growth in the number of lactating cows to 12 500 cows in 2013. Dairy production is, therefore, set to improve in 2013 with output of 70 million litres of milk, up from 64.5 million litres estimated for 2012.

75. Contributing factors include the on-going support initiatives through Nestle's initiative of importing dairy cows and partnering with ARDA, Zimbabwe Farmers Union, Commercial Farmers Union and the National Association of Dairy Farmers.

76. However, current milk production levels still remain below the national milk requirement of about 120 million litres per annum, presenting further opportunities for investment in this sector.

Soya Beans

77. Local demand for soya beans is on the increase owing to its multiple uses which include production of cooking oil, stock feeds and other edible foods. As a result, a number of financing facilities of more than US$35 million are planned for 2013.

78. These include an injection of US$5.6 million by Olivine Industries, US$25 million AMA bills, as well as a US$5 million tripartite initiated facility involving GMB, Agribank, farmers and oil expressers.

79. In addition, the Infrastructure Development Bank (IDBZ) has also expressed interest in sponsoring 10 000 hectares of soya beans on ARDA Estates.

Cotton

80. Mr Speaker Sir, the fall in the international price of cotton, from about US$0.85 in 2011 to US$0.45 in 2012, will have a negative bearing on cotton production in 2013.

81. Honourable Members will recall the cries of cotton farmers during this year's marketing of the crop, with many of them experiencing low rates of returns, also compromising contract farming loan recovery rates. Some estimates put this at less than 56%.

82. As a result, cotton production is projected to register negative growth from 350 tons to 283 tons in 2013, as farmers seek refuge in other cash crops deemed more viable.

83. Reports of stocks' build up in the major cotton markets in India and China would only serve to further dampen international cotton prices.

Sugarcane

84. Mr Speaker Sir, improved irrigation infrastructure, coupled with favourable international prices, should benefit increased productivity, that way sustaining the prevailing levels of sugarcane production.

85. Output is, therefore, projected to rise marginally by 0.5% to 4 500 tons in 2013.

86. However, increased alternative use in production of bio-fuels at Chisumbanje should further sustain firming demand for sugarcane in the outlook period.

87. This should see growth in the number of sugarcane producers under contract farming initiatives, also at Hippo Valley.

Livestock

88. Honourable Members will be aware of the challenges facing our livestock in most parts of Matabeleland South, Matabeleland North, Masvingo, Midlands and Manicaland, with farmers losing animals as mortality rates deteriorated from 1—3% to 5.5%.

89. Furthermore, calving rates declined to under 45%, well below the normal 65%.

90. Cattle movement in search of grazing pastures has increased the risk of foot and mouth, and such other soil borne diseases as anthrax.

91. The Budget has, therefore, had to redirect US$3 million resources originally targeted at re-building of the national herd towards drought mitigation, targeting purchasing of feed stocks and veterinary medicines for the four affected Provinces.

92. Local district authorities, in collaboration with DDF, are also rehabilitating boreholes to supplement water availability.

Livestock Population Growth: 2010 - 2012

Livestock Class	2010 Population	2011 Population	2012 Population
Cattle	5 160 000	5 156 753	5 241 192
Sheep	391 000	502 205	502 205
Goats	3 321 000	3 027 850	3 027 850
Poultry	21 500 000	52 000 000	60 000 000

Source: Ministry of Agriculture

93. The impact of drought has seen increased cattle slaughter, from monthly averages of under 19 000 to around 24 000 as farmers attempt to cut on their losses.

94. This, Mr Speaker Sir, coupled with declining calving rates, will have a bearing on our capacity to further grow the national herd now estimated to end 2012 at 5.2 million.

95. However, livestock off-take rates have remained low at 20% from A2 farms and less than 6% from small-holder farmers, who account for about 90% of the cattle population.

Poultry

96. Mr Speaker Sir, poultry rearing has offered income generating opportunities for our farmers, including those with limited land.

97. As a result, increased investments have been noted, with broiler day old chick production in the first half of 2012 12% higher than over the same period in 2011.

98. However, table eggs and broiler meat production were 9% and 6% lower, respectively.

Poultry Production: Jan-Jun 2012

	Jan	Feb.	Mar	Apr	May	Jun	Average	Total
No. of Day old broilers	4,115,059	3,680,156	4,679,716	4,055,107	4,474,211	4,921,432	4320947	25925681
Dozens of Table eggs	1,816,442	1,788,950	2,146,270	1,417,513	1,425,953	1,822,589	1,736,286	10527716
No. of Dressed broilers	1,285,652	1,516,482	1,595,900	1,622,190	1,556,635	1,619,961	1,532,803	9196818
Dressed broilers (tons)	1,670	1,835	2,018	2,010	1,920	1,992	1,908	11,445

Source: Zimbabwe Poultry Association

99. Mr Speaker Sir, various challenges have continued to undermine poultry production, and the Budget will be proposing supportive measures.

100. Challenges facing poultry farmers include the following:

- Stiff competition from cheap imports for both table eggs and meat, threatening viability of producers;
- Rising input costs, particularly maize and soya meal, following poor harvests; and
- High volumes of illegal imports which are being sold in the domestic market at sub-economic prices.

Piggery

101. Mr Speaker Sir, the pig sow herd continues to improve from 7 000 in 2010, and is expected to reach 13 000 by 2012, with further growth of 5% projected in 2013.

102. Similarly, and consistent with the increase in the pig herd, pork production improved from 9 000 tons in 2010 to 13 000 tons by 2012.

103. In 2013, the pig industry should also benefit from Government interventions under the livestock development programme.

Wheat

104. Mr Speaker Sir, various challenges, including erratic power supplies, all served to further undermine production of the irrigated winter wheat crop.

105. Reflecting this, a paltry crop production level of 17 000 tons is expected to be produced in 2012, against an annual national requirement of 450 000 tons.

106. Recovery of domestic winter wheat production under irrigation will, therefore, require a major paradigm shift with regards to guaranteed availability of power, inputs, equipment, as well as finance.

107. Given the uncompetitive nature of domestic wheat production under irrigation, farmers would also need guaranteed rates of return and timeous payments against deliveries.

Mining

108. Mining has become the most dynamic sector of the Zimbabwean economy, leading economic recovery since 2009, with an average annualised growth of more than 30%.

109. Strong external demand for primary commodities, particularly of platinum and gold has supported higher production levels.

110. As a result, mineral exports rose by about 230% over the 2009–2011 period, making mining the leading export sector. By end

of 2011, mineral exports accounted for 47% of total exports, led by platinum (43%), gold (28%), and diamonds (20%).

111. Furthermore, the average share of mining to GDP has grown from an average of 10.2% in the 1990s to an average of 16.9% from 2009–2011 overtaking agriculture.

112. However, the country has been unable to fully exploit the benefits of high international prices to boost exports further as a result of low investment into the sector.

113. In 2012, the sector was also hard hit by slackening international mineral prices, particularly from the second quarter on the backdrop of the slowdown in global economic activity.

114. As a result, growth in the sector is expected to retreat from 25.1% in 2011 to 10.1% in 2012.

115. However, the anticipated recovery of mineral prices coupled with on-going investment in the sector as well as the resumption of production of nickel and asbestos in 2013 will see growth rebound to 17.1%.

Mineral Output Projection for 2012-2013

Mineral	2011 Actual	Cumulative up to Sept 2012	Projection to End of 2012	2013 Projection
Gold (kgs)	12,949	11,139	15,000	17,000
Asbestos (tons)	0	0	0	0
Coal (tons)	2,922,000	1,246,255	1,500,000	2,000,000
Nickel (metric tons)	7,992	6,168	8,500	10,000
Platinum (kgs)	10,827	8,224	11,000	12,500
Chrome Ore (tons)	599,000	358,266	420,000	282,000
Black Granite (tons)	168,000	65,516	170,811	173,748
Palladium (kgs)	8,422	5,743	8,800	10,000
Diamonds (tons)	8,719,000	8,170,423	12,000,000	16,900,000
Overall Growth	43,2%		10,1%	17,1%

Source: Ministry of Mines, Zimbabwe Chamber of Mines

Gold

116. Cumulative gold output for the first nine months of 2012 stood at 11.139 tons, which remains in line with the 2012 target of 15 tons. In 2013, gold output is expected to further increase to 17 tons in 2013, benefiting mainly from anticipated firming of gold prices.

Mineral Price Forecast in Real 2005 US Dollars

Commodity	2012	2013	2014	2015
Gold (US$/oz)	1 368	1 600	1 400	1 200
Platinum (US$/oz)	1 244	1 450	1 400	1 200
Nickel (US$/ton)	14 177	18 250	18 000	18 500

Source: World Bank, Development Prospects Group

Diamonds

117. Cumulative diamond output for the first nine months of 2012 stood at 8 million carats, against projected annual output of 12 million carats. Diamond output has been rising on account of improved production at Marange Diamond Fields.

118. Diamond output is expected to increase to 16.9 million carats in 2013, largely driven by enhanced production from the major diamond mining houses at Marange Diamond Fields.

Platinum

119. During the first nine months of 2012, cumulative platinum output stood at 8.224 tons against an annual target of 12 tons.

120. Sustained decline in platinum prices since November 2011 has, however, seen a slowdown in the implementation of expansion projects by Zimplats and, as a result, 2012 output is estimated at 11,0 tons.

121. However, platinum output is expected to rebound to 11.5 tons in 2013 on the back of an anticipated increase in platinum output of 10% by Zimplats.

Chrome

122. Mr Speaker Sir, the outlook for chrome production remains subdued on the back of unfavourable global prices, forcing downward revisions in chrome production from 750 000 tons to 420 000 tons.

123. Developments of low uptake of chrome at ZIMASCO processing plant for the first eight months of the year to August saw cumulative production of chrome decline significantly to 358 266 tons.

124. High carbon ferrochrome prices fell from US$131 per chromium pound in January 2011, to current levels of US$107 per chromium pound. This resulted in the shutting down of four of ZIMASCO's five smelting furnaces.

Coal

125. Mr Speaker Sir, coal output is projected at 1.9 million tons, down from 3.5 million tons, weighed down by frequent break down of plant and machinery at Hwange Colliery.

126. However, take off of planned recapitalisation programmes at Hwange Colliery Company should result in coal output growing to 2.5 million tons in 2013.

Nickel

127. Mr Speaker Sir, the downward revision of platinum output will also affect nickel production in 2012 as this is currently a by product of platinum production. Consistent with this, output for 2012 was revised downwards from 8 800 tons to 8 500 tons. During the first 8 months of 2012 cumulative production stood at 6 168 tons.

128. In 2013, nickel output is projected at more than 10 000 tons, mainly benefiting from anticipated resumption of production at Bindura Nickel Corporation's Trojan Mine.

Manufacturing

129. Mr Speaker Sir, Zimbabwe's manufacturing sector is still battling to recover on its potential, as the economy has grown more reliant on imported inputs that used to be sourced mostly locally. Hence, the current firm stress levels remain extremely high.

130. Furthermore, recovery of the manufacturing sector is suffering more from supply-side than demand-side constraints to capacity utilisation.

131. Low capacity utilisation levels largely stem from firms operating obsolete machinery, power outages, higher input costs due to lack of domestic linkages, limited availability and high cost of finance, stiff competition over domestic and export markets, due in part to unreliability of supply-chains, and overall business uncertainty.

132. Investment in the sector also remains subdued with only few firms investing, albeit at very low levels. Some firms are even failing to cover their cost of capital as shown by rising non-performing loans of as high as 9% as well as closure of some blue chip companies which were originally listed on the Zimbabwe Stock Exchange.

133. Reflecting the above challenges, the manufacturing sector is projected to grow by only 2.3% in 2012 compared to 13.9% in 2011.

134. In 2013, the sector is projected to grow by 3%, underpinned by implementation of the Industrial Development Policy, anticipated lines of credit, fiscal incentives as well as a favourable agriculture season.

135. Main manufacturing sub-sectors which will drive the growth include beverages (7.4%), foodstuffs (4%), furniture (3.7%) as well as paper, printing and publishing (2.6%).

Lines of Credit Performance

Zimbabwe Economic Trade Revival Facility (ZETREF)

136. Honourable Members will recall that Government, in conjunction with Afreximbank, are working together to support the productive sectors.

137. From the US$70 million ZETREF Facility, approvals to date amount to US$53 million whilst disbursements are US$27 million.

138. The low rate of disbursement is caused by some banks' delays in fulfilling conditions precedent. Furthermore, some banks are charging interest rates way above the agreed rates which has led to some entities withdrawing their applications.

139. To that end, I urge all participating banks to observe the terms and conditions of the Facility. Banks that are delaying drawing down on their allocations will forfeit the funds and Treasury will not hesitate to reallocate the funds.

140. Mr Speaker Sir, efforts are being made by both Government and the Afreximbank to have the full US$70 million processed and disbursed expeditiously.

141. Furthermore, I am pleased to advise that Afreximbank has agreed to avail another US$70 million towards ZETREF II, to which Government will be also making a US$30 million contribution to make a total of US$100 million.

Distressed Industries and Marginalised Areas Fund (DiMAF)

142. Honourable Members will also recall that, Government launched the US$40 million DiMAF facility in October 2011 to assist distressed and marginalised companies.

143. Since the launch, project approvals amount to US$16.2 million whilst disbursements are US$12.2 million.

144. The rate of disbursements has since improved and we anticipate that by the end of 2012, the first US$20 million will have been fully disbursed.

145. For 2013, Government will avail its last tranche of US$10 million whilst Old Mutual will also avail its portion of US$10 million to fully disburse the Facility.

146. Mr Speaker Sir, allow me to also report that after exhausting the current DiMAF resources, there will be a second round of the Facility after the first half of next year.

Electricity

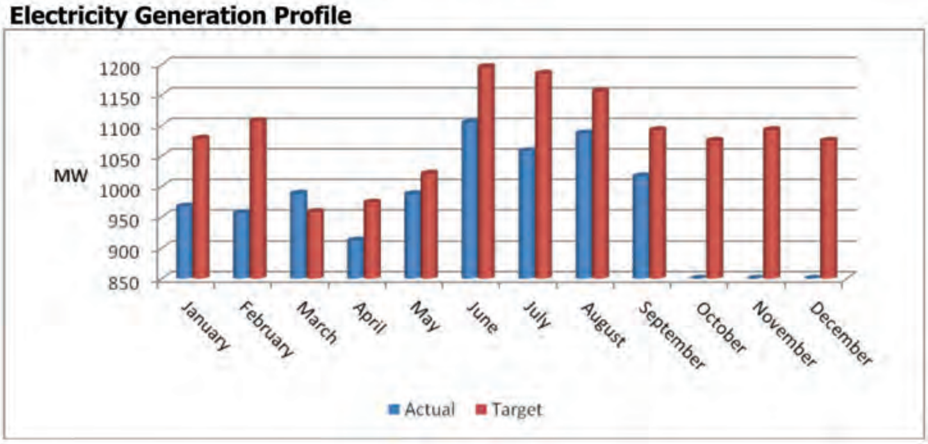
147. Mr Speaker Sir, availability of power remains the biggest

challenge facing the economy with negative effects on production and productivity across all sectors, including households.

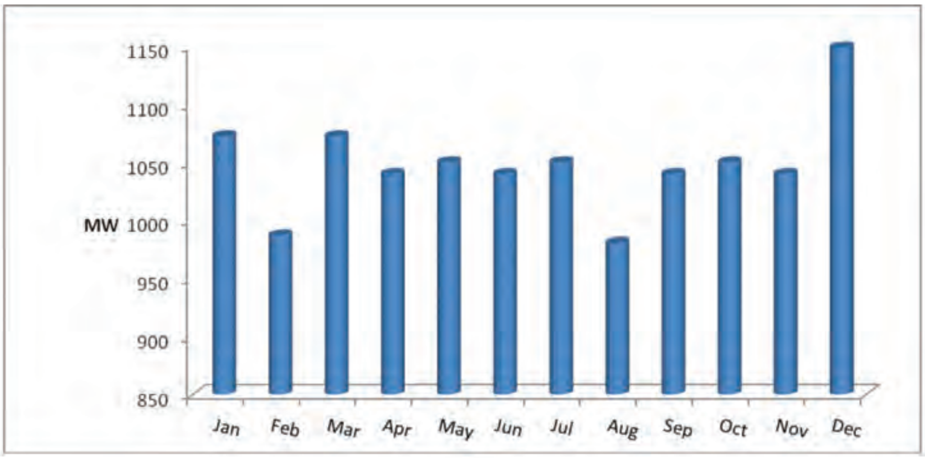
148. This is also confirmed by the 2011 Enterprise Survey, which shows 47% of firms ranking erratic electricity supply as a severe constraint to business.

149. Growth in electricity is estimated at a mere 0.3% in 2012 against 7.8% in 2011, reflecting operational inefficiencies associated with and frequent breakdowns affecting all the thermal power stations. Consequently, in 2012 generation averaged 1010 MW against a target of 1085 MW.

Electricity Generation Profile



Monthy Projected Electricity Generation Capacity: 2013



150. In 2013, the growth rate is anticipated to marginally improve to 1.9% due to re-powering of Bulawayo and Harare Power Stations and the rehabilitation of Hwange Power Units to guarantee average generation capacity of 430 MW in 2013.

151. In the medium term, electricity supply will require private sector participation and investment supported by demand side management measures which include installation of prepaid meters to enhance revenue collection, necessary for guaranteeing working capital requirements.

152. Furthermore, the clearance of outstanding arrears by the ZESA to regional generation power stations will also provide impetus for increased supply of imports to the country.

Tourism

153. Mr Speaker Sir, tourism, identified in the MTP as one of the vital pillars for transforming the country's economy, is expected to grow by 3.9% in 2012, following growth of 4.3% in 2011.

154. In 2013, the sector is expected to grow by about 4%, underpinned by the hotels and restaurants sector.

155. The successful hosting of the 20th Session of the United Nations World Tourism Organisation (UNWTO) General Assembly in 2013 should facilitate showcasing the potential of our tourism products, facilities and infrastructure, spurring prospects for further growth.

156. However, taking advantage of this, Mr Speaker Sir, will also be dependent on our capacity to overcome other challenges which include negative perceptions in some of the major source markets, re-investments in uplifting some of the '*tired*' tourism facilities and infrastructure.

157. Mr Speaker Sir, there are a host of self-induced policy distortions and own goals that clearly create some poison perceptions of Zimbabwe within and outside of Zimbabwe. To name a few, these include:

- The siege mentality, conflict, hate speech and intolerance reflected in our media;
- Perceptions of a police state as reflected through endless and meaningless road-blocks that are breeding all kinds of vice;
- The state of dirt, litter and general un-cleanliness in our towns and growth points, including the existence of potholes, leaking pipes, overflowing sewage and public street lighting that never works;

- The high levels of corruption at every level of our society, making Zimbabwe score -1.7 on the global corruption perception index;
- Decayed and dilapidated state of some of the critical infrastructure and public facilities, with those at the Beitbridge Border Post being of major concern;
- Incessant reports of assault on tourism assets, for instance invasion of conservancies, poaching and slaughter of valuable wild stock and unlawful commercial activities in places like Mana Pools or Sinamatela National Park; and
- Uncontrolled veld fires, massive environmental and land degradation due to illegal gold mining.

158. Mr Speaker Sir, all the above affect the pursuit of happiness of Zimbabweans and their tourist visitors and need redress.

159. Other critical interventions target the following:

Air Accessibility

160. Resumption of regional and international flights by Air Zimbabwe, together with increased direct flights into the country by major international airlines will also support the growth rebound.

Tourism Brand

161. Furthermore, marketing and image building efforts by Government and the ZTA are expected to continue to have a positive impact on the tourism sector as the new tourism brand “Zimbabwe—A world of wonders” becomes more established and known throughout the world.

Tourism Cooperation Agreements

162. Bilateral tourism cooperation agreements such as those signed between Zimbabwe and South Africa in May 2012 and with Zambia earlier on are also expected to increase the volume of tourists from the African continent, currently accounting for about 89% of the total arrivals into Zimbabwe.

Airline Connectivity

163. Both the public and private sectors are key enablers of tourism. As such the industry also heavily relies on private sector initiatives in terms of efficient airline connectivity. Efforts being made to introduce new airlines that are servicing Zimbabwe are crucial, although much more is required to open up Zimbabwe skies to attract more airlines.

164. The Ministry of Tourism will, therefore, be further engaging the Ministry of Transport, Communications and Infrastructure Development with a view of attracting more competitive airlines, inclusive of the domestic carrier in order to ensure that international, regional and domestic routes into the country are fairly serviced.

Visa Re-alignment Mechanisms

165. In a highly competitive environment, stringent Visa requirements act as a stumbling block to our destination marketing drive.

166. Government will, therefore, through the Ministry of Affairs engage friendly countries for Visa realignment methods and agreement on flexible visa regimes so as to attract visitors into Zimbabwe. This will be complemented by upgrading of ICT that drives our visa systems.

Decongestion of Border Posts

167. Most of our tourists who get into the country by road use the Beitbridge Boarder Post, which is heavily congested. It is, therefore, necessary that we establish more efficient ways to decongest our border posts for the convenience of our tourists.

168. The introduction of computerised traffic handling mechanisms at our border posts through the introduction of world standard ICT's will be pursued.

Tourism Satellite Accounting

169. The Industry is in the process of formulating a Tourism Satellite Accounting System, which is a mechanism that effectively and accurately traces and measures the contribution that tourism makes across the whole industry.

170. The system also captures actual value inflows of tourism into the economy, that way curbing leakages in tourism accounting. Government will, therefore, continue to support this project to its completion targeted for 2015.

Domestic Tourism Promotion

171. Previous perceptions and policies where tourism primarily catered for foreigners, neglecting the local population are unsustainable.

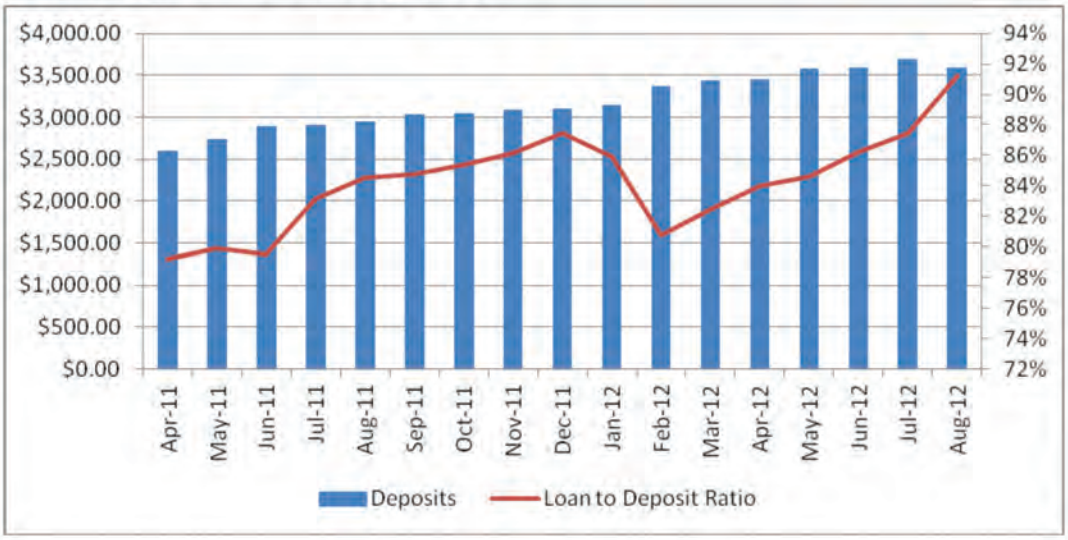
172. Domestic tourism, in fact, provides unique opportunities by involving locals both as tourists and service providers in a number of areas which immensely contribute to overall tourism.

173. Hence, the current National Tourism Policy will continue to promote and develop domestic tourism, also focussing on new products.

Financial Sector

174. Mr Speaker Sir, following the 2009 economic reforms, the country's financial sector, which had taken much of the brunt of economic crisis, was once again on a rebound, growing deposits from as little as US$4 million in 2009 to current levels of about US$3.8 billion.

Total Deposits and Lending Ratio

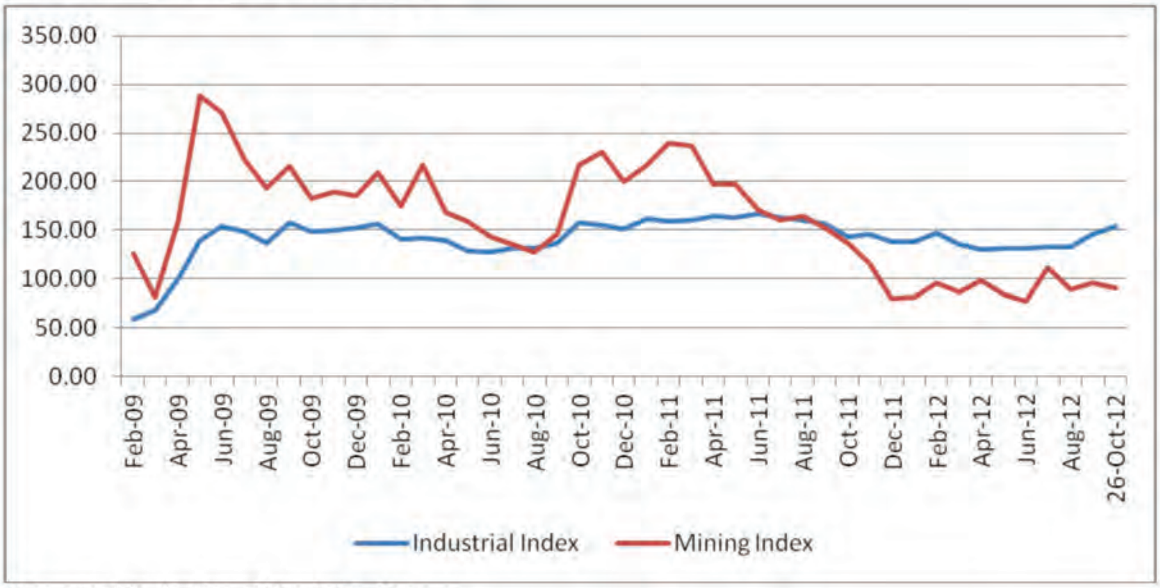


175. The country's banking sector is stable, notwithstanding some challenges, which include, liquidity constraints, the absence of the Lender of the Last Resort, high operating costs and high risk premium in accessing external lines of credit.

176. The sector has also managed to deepen financial intermediation, return positive real interest rates, introduce various facilities and products supported by ICTs.

177. Furthermore, the Zimbabwe Stock Exchange, which had shut down before re-opening in February 2009, has grown its capitalisation from US$1.67 billion to US$4.02 billion by October 2012.

Zimbabwe Stock Exchange



Source: Zimbabwe Stock Exchange

178. However, with rapid credit growth, the banking sector remains highly vulnerable and operating in a difficult environment characterised by liquidity constraints, deteriorating quality of assets, high credit risks and poor corporate governance.

179. Mr Speaker Sir, smaller banks in particular, have been severely affected by these challenges.

180. Steep growth of credit, delays in reforming the Central Bank and strengthening prudential supervision, have been accompanied by a substantial rise in levels of non-performing loans and steady deterioration of liquidity ratio, with 14 out of 26 banks facing tight liquidity.

181. Mr Speaker Sir, with banks' non-performing loans as high as 13% by the third quarter of 2012, there will be need for interventions in the financial sector during 2013.

Banking Sector

Deposits Base

182. The deposit base grew from US$3.1 billion in January to US$3.73 billion in September 2012. This represents an annual growth rate in banking sector deposits of 19.4% and a reflection of renewed confidence in the banking sector and improved economic activity.

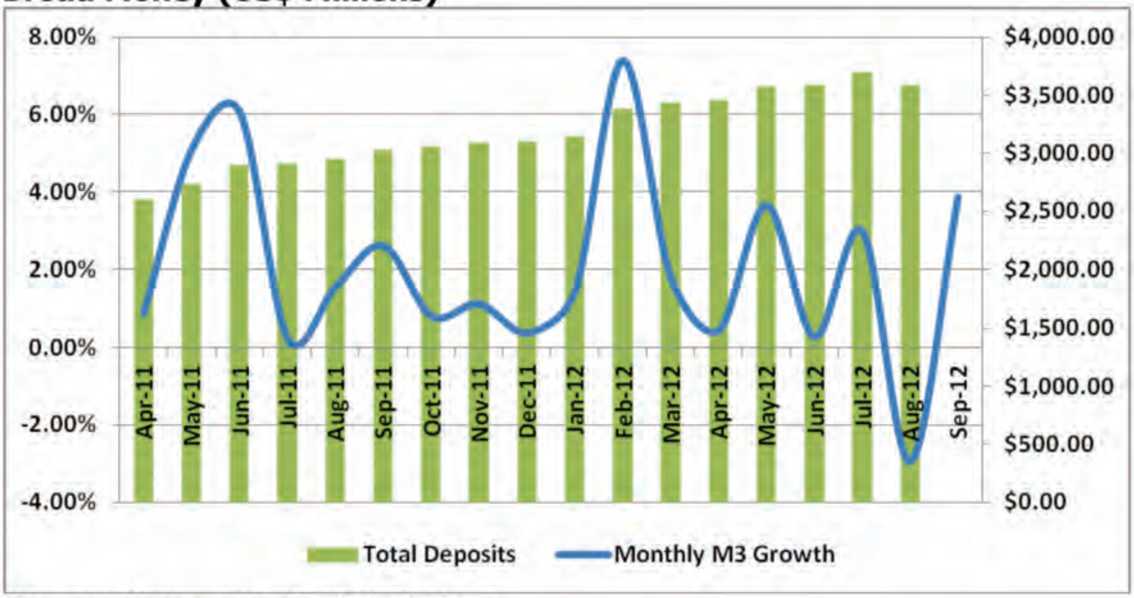
183. The Table below shows the total banking sector deposits and annual growth rate in deposits.

Banking Sector Deposits: March – September 2012

Month	Amount (US$) 2012	Amount (US$) 2011	Annual Growth Rate (%)
March	3.44	2.58	33.3%
April	3.45	2.60	32.7%
May	3.58	2.73	31.1%
June	3.59	2.90	23.8%
July	3.70	2.91	27.1%
August	3.59	2.95	21.7%
September	3.73	3.029	23.1%
December (projection)	3.89	3.10	20.2%

Source: Reserve Bank of Zimbabwe

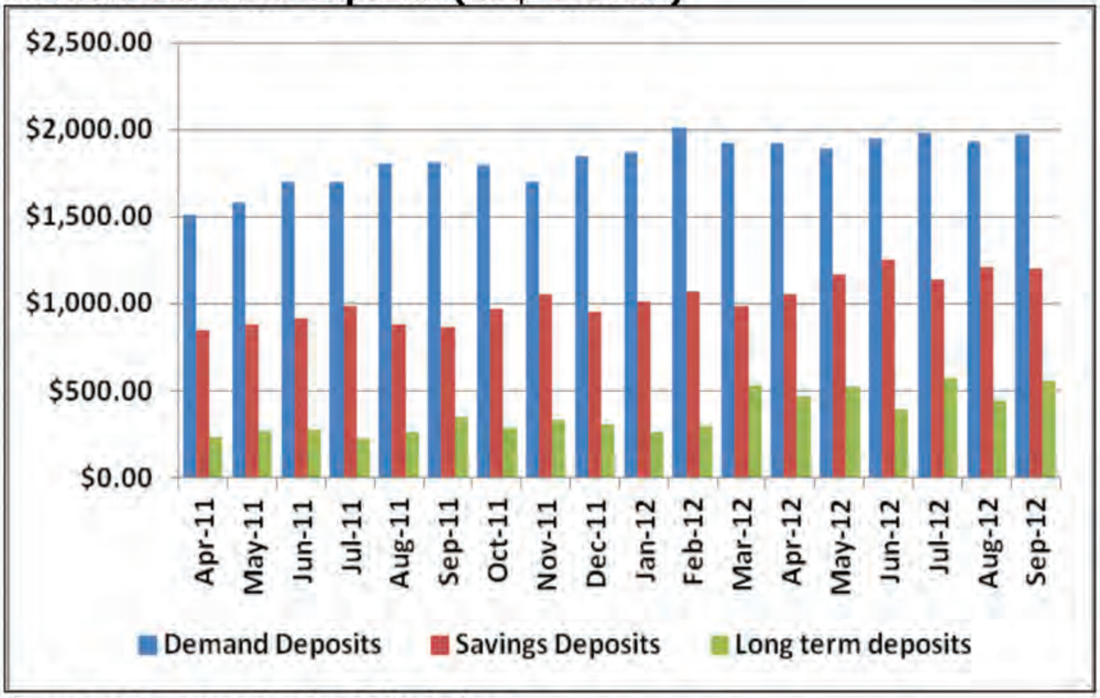
Broad Money (US$ Millions)



Source: Reserve Bank of Zimbabwe

184. As of September 2012 total bank deposits were dominated by demand deposits 53% followed by savings and short term deposits 32% and long term deposits 15%.

Structure of Bank Deposits (US$ millions)



Source: Reserve Bank of Zimbabwe

185. Sustaining growth in deposits, will however require addressing challenges on depositor confidence, high bank charges, low deposit and low savings rates.

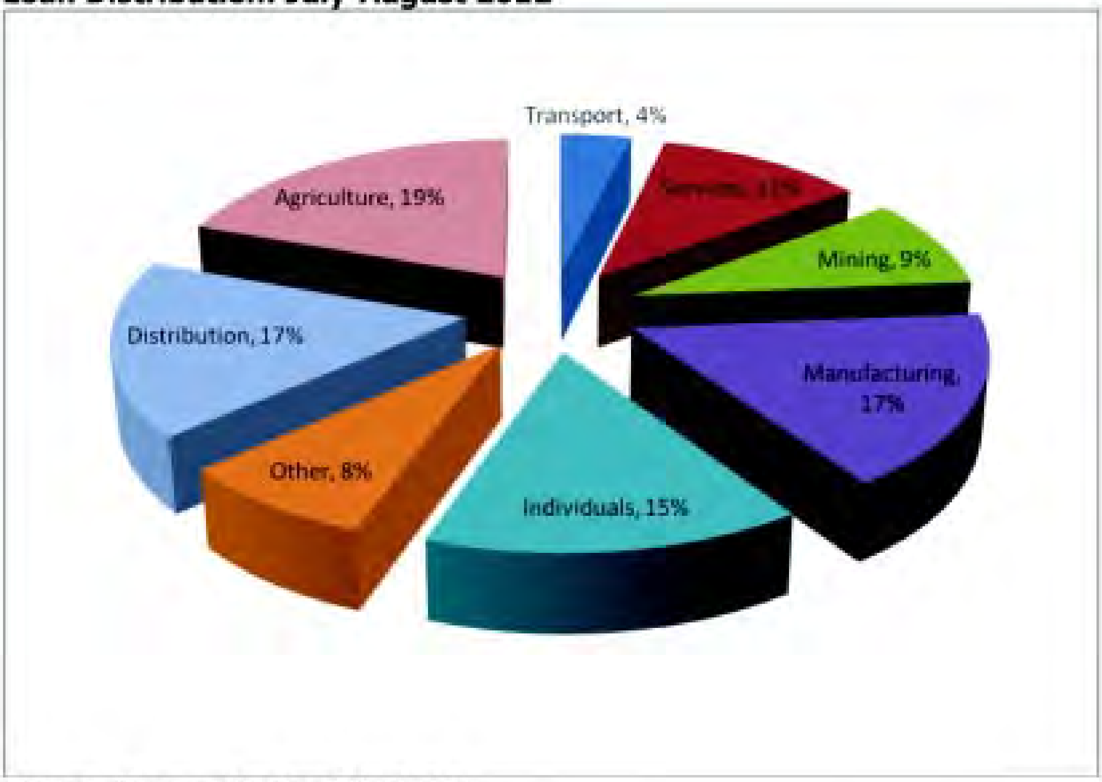
Loans and Advances

186. The loans and advances to the private sector marginally increased by 1.3% from US$3.10 billion at the end of June 2012 to US$3,35 billion as at 30 September 2012.

187. This translated into a loan to deposit ratio of 91% reflecting increased exposures as some banks were exceeding liquidity threshold ratios of 30%.

188. The loan distribution by banks during January—October was as follows: Agriculture (19%), Individuals (18%), Distribution (17%), Manufacturing (17%) and Mining sector (9%).

Loan Distribution: July-August 2012



Source: Reserve Bank of Zimbabwe

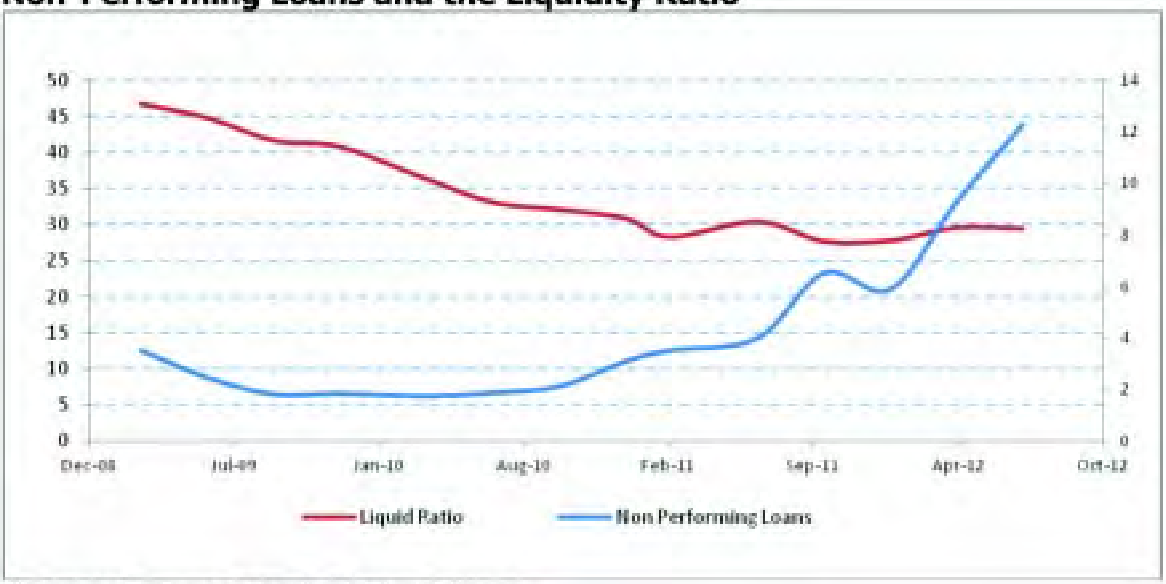
189. Given the domestic liquidity constraints, banks are now augmenting domestic sources of funds by increasingly relying on foreign sources of capital, as evidenced by the current account deficit estimated at above 20% of GDP in 2011.

Non-Performing Loans

190. Lending institutions, which have nearly doubled their loan-to-deposit ratio over the last two years, are now paying for it through an increasing fraction of non-performing loans, indicating that the underwriting process has not adequately priced credit risk.

191. As a result, the average level of non-performing loans stood at 9% of the loan book as at 31 October 2012, against 3% in January, reflecting high default rates.

Non-Performing Loans and the Liquidity Ratio



Source: Reserve Bank of Zimbabwe

192. Honourable Members will recall the review of minimum capital requirements of banking institutions and microfinance institutions by the Central Bank as part of the 2012 Mid-Term Monetary Policy.

193. The revised minimum capital requirements of financial institutions are being implemented in a phased manner as follows:

Banking Sector Capitalisation

	Capital Requirements (US$)					
Institution	Current	31 Dec 2012	30 June 2013	30 Dec 2013	30 Jun 2014 Full Compliance	31 Dec 2014 Full Compliance
Commercial Banks	12.5 mil	25 mil	50 mil	75 mil	100 mil	100 mil
Merchant Banks	10 mil	25 mil	50 mil	75 mil	100 mil	100 mil
Building Societies	10 mil	20 mil	40 mil	60 mil	80 mil	80 mil
Finance Houses	7.5 mil	15 mil	30 mil	45 mil	60 mil	60 mil
Discount Houses	7.5 mil	15 mil	30 mil	45 mil	60 mil	60 mil
Micro-finance Banks	1 mil	1.25 mil	2.5 mil	3.75 mil	5 mil	5 mil
Micro-finance Institutions	5 000	10 000	15 000	20 000	25 000	25 000

Source: Reserve Bank of Zimbabwe

194. In this regard, banking institutions submissions of re-capitalisation plans to the Reserve Bank take account of the staggered approach, mindful of the need to facilitate orderly re-capitalisation.

Interest on Deposits

195. The spread of interest rates for savings, demand and time

deposits remained unchanged. Savings deposit interest rates were between 0-12% during the period under review.

Deposit Rates (% per annum)

Period 2012	Demand	Savings	3 Months
June	0.0 - 3.00	0.00-12	6-17
July	0.0 - 3.00	0.00-12	6-17
August	0.0 - 3.00	0.00-12	6-17

Source: Reserve Bank of Zimbabwe

Lending Rates Developments

196. During 2012, effective lending rates in the banking sector remained far above deposit rates within a range of 10-35% per annum. This is much higher than prime lending rates of up to 9%, prevailing in the region.

Indicative Average Comparative Interest Rates: 2012

Rates	Zimbabwe	South Africa	Libor
91 Day TB Rate	8.51%	5%	0.13%
Short Term (< 1 year)	6% - 35%	8.5% - 17%	0.55%
Medium Term (> 1 year)	15.5% - 19%	5.9% - 8%	3.67% - 4.12%

Source: Reserve Bank of Zimbabwe, South African Reserve Bank

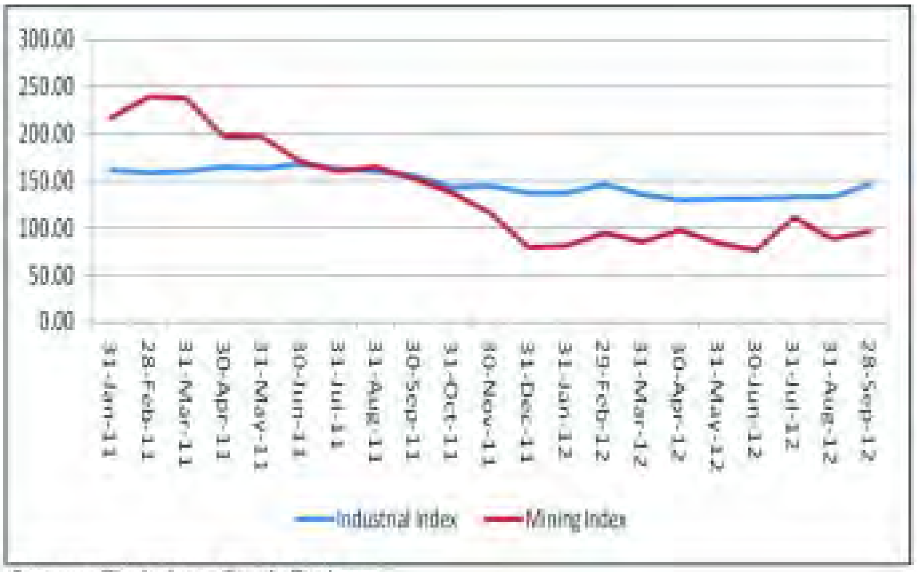
Zimbabwe Stock Exchange

197. Mr Speaker Sir, during the first two quarters of 2012, trading on the local bourse was generally depressed, but picked up during

the third quarter. Industrial index, which started the year at 138.52 points, peaked to 146.0 points in September 2012.

198. Similarly, the mining index, which opened the year at 79.09 points, marginally improved to 96.0 points in September.

Zimbabwe Stock Exchange Indices



Source: Zimbabwe Stock Exchange

199. The subdued trading on the ZSE was also reflected through market capitalisation which had been averaging $3.4 billion between January and September 2012. By October, market capitalisation reached the US$4 billion mark implying signs of recovery.

200. The mixed trading in both the industrial and mining shares was attributed to domestic liquidity challenges, forcing the securities market to be largely driven by foreign investors.

201. The Table below summarises the performance of the exchange from January 2012 to date.

ZSE Market Indicators: January–October 2012

Date	Industrial Index	Mining Index	Market Capitalisation (US$)
Jan-12	138.52	79.09	3 489 841 345
Feb-12	146.03	95.39	3 696 613 989
Mar-12	136.76	85.01	3 458 055 450
Apr-12	129.55	97.15	3 303 408 283
May -12	132.03	83.73	3 351 215 680
June-12	131.0	75.70	3 341 457 429
July- 12	132.92	112.12	3 445 934 705
Aug-12	132.27	89.04	3 433 991 814
Sept- 12	146.03	96.00	3 822 796 278
Oct- 12	154.62	87.48	4 029 044 430

Source: ZSE

Automation and the Central Securities Depository

202. Mr Speaker Sir, Government remains committed in ensuring that trades and settlements on the securities market are automated.

203. I am pleased to announce that, the CSD Company has been established, comprising of 51% ownership by Government related entities and Chengetedzai with 49%. The company is in the process of identifying a CSD system vendor. It is expected

that the CSD system will be operational by the first quarter of 2013.

204. Notwithstanding these developments, I still want to register my disappointment towards the slow progress in operationalising the overall automation project.

Insurance and Pensions

205. Mr Speaker Sir, the introduction of the multiple currency system saw the insurance industry experiencing sustained recovery and growth in gross premium written. Total gross premium written amount increased by 20% from US$192.9 million in June 2011 to US$231.2 million in June 2012.

206. The industry has continued to grow, with underwriting profit up by 175.32% to US$6.6 million in June 2012 compared to the same period last year. The above trend is projected to be maintained during the rest of 2012 and into 2013.

207. The industry performance in the past two years is shown in the Table below:

Insurance Industry Performance 2011–2012

	30 June 2011	30 June 2012
Total Gross Premium	192 923 311	231 169 670
Underwriting Profit	3 760 000	6 600 000

Source: Insurance and Pension Commission

208. Notwithstanding the increase in volumes of business underwritten, the industry reported depressed investment income due to limited investment opportunities in the market.

Financial Inclusion

209. The results of the 2011 FinScope Survey launched in May 2012 revealed the following statistics on the level of financial inclusion in Zimbabwe:

- Only 38% of Zimbabweans are served by formal financial institutions;
- 40% of the population is financially excluded from both the formal and informal financial products/services;
- Only 24% of the other population have access to a bank account;
- 27% of the adult population keep their savings at home instead of using formal financial savings products;
- 51% of the rural adult population is financially excluded, yet 65% of Zimbabweans live in rural areas;

- Farming activities account for 29% of income for all Zimbabweans, yet the majority of them do not have access to financial products.

210. Mr Speaker Sir, given the above findings of the FinScope Survey, I strongly urge the three (3) financial sector regulators to work with their respective regulated entities in developing measures that will address the gaps identified by the Survey.

Balance of Payments

211. Mr Speaker Sir, macro-economic stabilisation and liberalisation since 2009, which helped improve capacity to bring in fuel, machinery, transport equipment and other raw materials in support of economic recovery, has seen a rebound of exports, led by platinum, gold, tobacco and cotton, among others.

212. The external position, however, will remain under pressure from a high import bill, as the rebound of exports will not match the steep rise in imports, leaving an anticipated current account deficit of 28.5% of GDP.

Exports

213. Recovery of exports also benefitted from favourable international commodity prices. Exports, which were US$1.613

billion in 2009, rose to US$3.317 billion in 2010 and US$4.496 billion in 2011.

214. For the period January to October 2012, total exports were valued at US$3.09 billion compared to US$2.86 billion declared during the corresponding period in 2011. This represents an increase of 8.3% in 2012 declared exports shipments.

215. On a sectoral basis, declared mineral export shipments accounted for (64%), followed by tobacco (19.4%), agriculture (9.1%), manufacturing (7%), horticulture (0.3%) and hunting (0.2%).

2012 Export Shipments by Sector

Month	Agriculture	Horticulture	Hunting	Manufacturing	Mining	Tobacco	Grand Total
January	14,045,143	572,853	334,690	10,195,374	160,053,634	64,407,531	249,609,225
February	20,046,700	728,454	441,842	30,345,237	189,745,797	18,286,103	259,594,133
March	21,112,159	1,610,321	918,846	42,002,768	310,292,632	14,828,300	390,765,026
April	17,807,548	1,132,174	631,730	27,841,599	167,082,434	7,320,020	221,815,505
May	19,586,143	1,116,723	689,302	24,220,277	173,983,164	19,567,283	239,162,892
June	16,504,589	834,128	624,713	16,698,671	202,619,424	55,912,191	293,193,716
July	29,728,821	1,225,654	598,045	13,235,452	199,818,837	57,084,228	301,691,037
August	60,086,894	933,192	956,818	17,971,599	212,543,424	71,906,822	364,397,745
September	49,011,626	630,329	877,349	15,867,190	181,253,547	118,078,010	365,718,052
October	32,657,624	542,824	941,110	18,275,196	181,375,205	171,969,403	405,761,362
Total	**280,587,247**	**9,326,652**	**7,014,445**	**216,653,363**	**1,978,768,098**	**599,359,891**	**3,091,708,693**

Source: Computerised Export Payments Exchange Control System (CEPECS), RBZ

Imports

216. Import growth continued to be mainly influenced by fuel, chemicals, machinery, and manufactured goods, accounting for 8.6% of GDP in 2012.

217. For the period January to October 2012, imports payments were US$6.5 billion, compared to US$5.2 billion for the same period in 2011, representing a 26% increase in imports.

218. As growth in the manufacturing sector remains sluggish, internal demand for consumption goods remains covered mostly through imports.

Monthly Foreign Payments in USD—January–October 2012

Month	2012	2011	% Change
January	650,847,283	387,994,932	+68
February	563,530,165	466,233,427	+21
March	716,107,953	512,897,472	+40
April	619,694,695	512,532,865	+21
May	696,966,515	437,292,806	+59
June	664,153,491	730,866,938	-9
July	713,960,681	542,747,215	+32
August	679,183,851	548,945,095	+24
September	622,271,468	613,344,930	+1
October	600,777,064	440,694,912	36
Total	**6,527,493,166**	**5,193,550,592**	**+26**

Source: CEBAS Foreign Payments Reporting System, RBZ

Imports by Sector

219. The retail and distribution sector contributed the highest share of imports, this is largely attributed to the low production in the manufacturing and agriculture sectors which normally produce goods which are currently being imported, such as grains, groceries and others.

220. The Table below shows the imports by sector.

Imports by Sector 2011–2012

Sector	2012	2011	% change	Contribution (2012)	Contribution (2011)
Distribution & retail	2,474,237,317	1,717,774,456	+44%	38%	33%
Services	1,885,115,133	1,304,942,735	+38%	28%	25%
Manufacturing	1,004,332,790	809,791,090	+24%	15%	16%
Mining	589,199,698	852,056,912	-31%	9%	16%
Individuals	379,949,468	114,099,131	+233%	6%	2%
Agriculture	274,658,761	394,886,227	-30%	4%	8%
Total	6,527,493,166	5,193,550,592	+26%	100%	100%

Source Reserve Bank of Zimbabwe

221. In 2013, imports will continue to grow while exports remain compressed, thus worsening the current account to -24.8% of GDP and mainly financed by short term capital inflows.

Current Account

222. Further growth in imports during 2013, without countervailing significant expansion in the economy's export base, will only worsen the current account deficit.

Current Account (US$ mil): 2008– 2013

	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Proj.	2013 Proj.
CURRENT ACCOUNT (excl.official transfers)	-775	-1600	-1844	-3066	-3125	-2928
TRADE BAL f.o.b	**-969**	**-1600**	**-1844**	**-3066**	**-3125**	**-2928**
Exports f.o.b	1660	1613	3317	4496	5090	5516
Imports f.o.b	2630	3213	5162	7562	8215	8445

Source: Reserve Bank

223. This, Mr Speaker Sir, is clearly unsustainable even when one takes account of inflows arising out of higher unregistered remittances, unreported exports, and unidentified financing.

Public Finances

224. Mr Speaker Sir, with the introduction of cash budgeting, multiple currencies and embracing of growth and liberalisation oriented economic reforms, the Inclusive Government managed to rebuild the fiscal base and restore fiscal discipline from 2009.

225. Budget revenue, which was US$975 million or 16% of GDP in 2009, rose to US$2.9 billion or 33.7% of GDP by 2011, supported by good performance in tax revenue which increased by 150.9% in 2010 and 20.2% in 2011. This was on the back of robust growth in VAT, income taxes, and customs duties.

226. As Honourable Members are aware, this year the revised Budget targets revenues are only US$3.6 billion or 34.6% of GDP, notwithstanding the certification by the Kimberly Process to sell diamonds.

227. The levelling off of fiscal revenue in 2012, with prospects of stagnation as a proportion of GDP in 2013-2015, threatens to

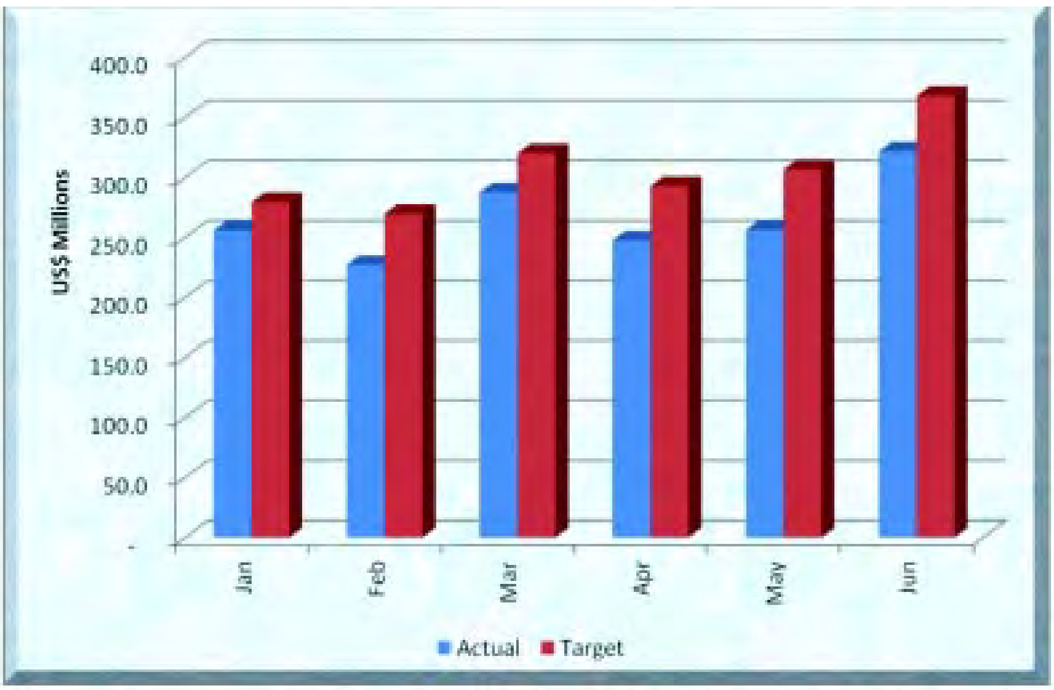
limit realisation of additional fiscal space, aggravating fiscal stress.

Revenues

First Half 2012 Revenue Performance

228. Mr Speaker Sir, you will recall that in my Mid Year Fiscal Policy Review, I reported revenue collections for the period January - June 2012 at US$1.6 billion of which US$1.5 billion was tax revenue, and US$99.9 billion being non-tax revenue, of which diamonds accounted for US$41.7 million. This performance was against tax targets of US$1.8 billion and US$337.6 billion as non-tax revenue.

Monthly Revenue Collections & Targets: Jan–June 2012



2012 First Half Revenue Performance (US$ million)

	Jan-Jun Actual	Jan-Jun Target	Shortfall
Total Revenue Including ZIMRA Grant	**1,597.0**	**1,837.8**	**-240**
Tax Revenue	1,497.1	1,500.2	-3
Total Non-tax Revenue	99.9	337.6	-237.7
O/ W diamonds	41.7	271.0	-229.7
Other	58.2	66.6	-8.0

Source: Ministry of Finance

229. As indicated above, throughout January to June 2012, revenues persistently underperformed every month, to give a cumulative shortfall of -US$240 million.

Revised 2012 Revenue Targets

230. In view of the above revenue under-performance, particularly with regards to diamonds dividends, I was forced to review the 2012 Budget from US$4 billion to US$3.6 billion.

2012 Revenue Revised Targets vs Actuals

231. Based on this revised Framework, tax revenues for the rest of the year were projected at US$3.4 billion, with non-tax revenues of US$200 million.

2012 1st Half Revenue Performance & 2nd Half Projections (US$ million)

	Jan-Jun Actual	Jul – Dec Rev Targets	2012 Rev Cumulative Targets
Total Revenue Including ZIMRA Grant	**1,597.0**	**2,043**	**3,640**
Tax Revenue	1,497.1	1,736	3,233.2
Total Non-tax Revenue	99.9	306.9	406.8
O/ W diamonds	41.7	197.2	241.6
Other	58.2	109.7	165.2

Source: Ministry of Finance

Third Quarter 2012 Revenue Outturn

232. During the third quarter, revenue collections amounted to US$902.3 million against a quarter target of US$976.9 million, to give a shortfall of US$74 million.

233. This means that all months from January to September missed targets by a cumulative US$314 million based on the revised budget.

Monthly Revenue Collections vs Original & Revised Targets: Jan–June 2012

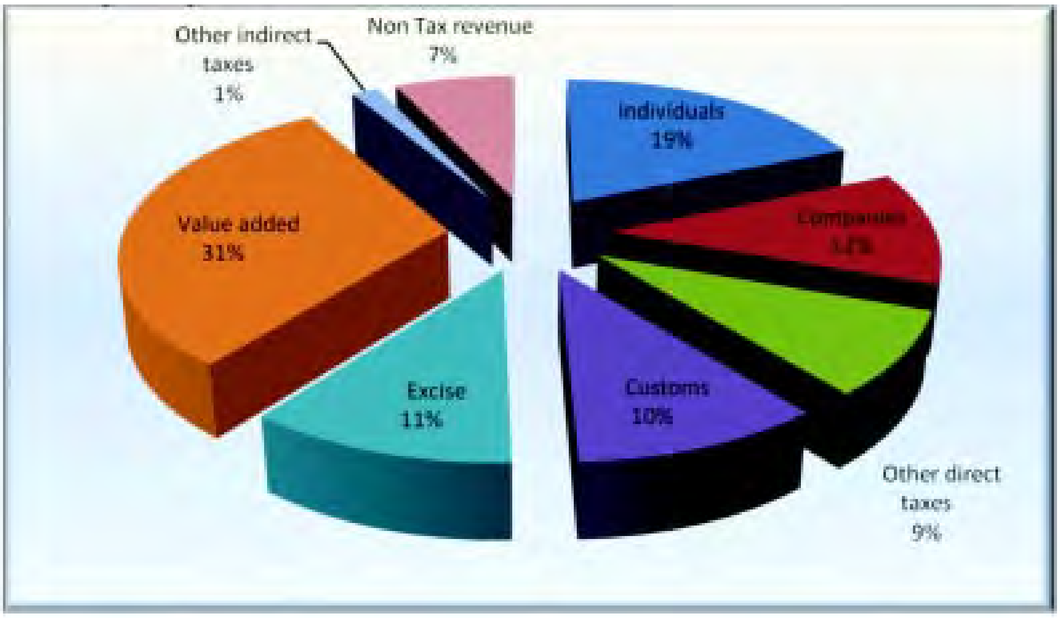
Contributions to Total Revenue: Jan–Sept 2012

234. The bulk of the third quarter revenue collections came from taxes. However, non-tax revenues remain below targets.

Revenue Projections (US$) October–December 2012

	Cumulative Actual		Revised Projection			2012 Revised Budget Estimate
Tax Head	Jan-Sep 2012	Jul –Sept 2012	12-Oct	12-Nov	12-Dec	
Total Revenue	2,499,246,353	902,325,767	293,056,770	308,960,430	401,869,003	3,500,000,000
Tax Revenue	2,322,896,440	825,767,938	273,684,770	275,665,460	364,055,303	3,233,169,417
Individuals	464,634,632	163,032,353	55,200,000	55,297,800	70,300,000	645,000,079
Companies	296,556,859	117,212,965	23,657,000	16,000,000	81,000,000	415,000,893
Customs Duty	258,283,908	89,292,605	33,842,500	39,415,030	37,039,078	376,900,000
Excise Duties	277,260,939	101,822,274	35,478,270	35,367,950	36,551,065	385,899,999
VAT	770,059,956	270,088,980	102,730,550	102,835,100	110,564,420	1,085,000,006
Other	256,100,146	84,318,761	22,776,450	26,749,580	28,600,740	325,368,440
Non Tax Revenue	176,349,913	76,557,830	19,372,000	33,294,970	37,813,700	266,830,583
Of which Diamond Revenue	41,659,936	90,000	5,000,000	17,500,000	20,000,000	84,159,936
Other	134,689,977	76,467,830	14,372,000	15,794,970	17,813,700	182,670,647
Of which POTRAZ Licence Fees	40,000,000	40,000,000				40,000,000

January–September 2012 Revenue Outturn



235. In the outlook to December 2012, prospects for diamonds non-tax revenue (which comprise of 90% of total non-tax revenue) remain gloomy.

236. As a result, we are now expecting an even lower total revenue outturn to December 2012 of US$3.5 billion instead of the revised mid-year projection of US$3.6 billion.

Expenditures

237. Mr Speaker Sir, while the execution of the 2012 Budget has been heavily compromised by the under-performance of revenues, current expenditures have remained disproportionately high, accounting for 70% of the total Budget, a development that is crowding out resource availability for the development budget.

Current Expenditures

238. Particularly worrisome is the level of employment costs in the recurrent Budget, accounting for a staggering 81% of the total current expenditures, while non-wage expenditures have been declining, accounting for the remaining 19% of total current expenditures.

239. Hence, Mr Speaker Sir, interventions aimed at progressively reducing the share of re-current expenditures will be pursued over the Three Year Rolling Budget 2013–2015.

240. This will allow ring-fencing of non-wage resources to support other priorities in the areas of health, education, infrastructure and rural development.

Employment Costs

241. In order to gradually move towards the international best practice thresholds of 7% of GDP and about 30% of the total Budget on the wage bill, Government will continue to maintain the freeze on recruitment, save for case by case special dispensations on critical areas.

242. Furthermore, Government will also develop a remuneration framework that will guide the cost of living adjustment taking into account macro-economic fundamentals such as inflation and capacity of the economy.

243. Mr Speaker Sir, the previous framework where negotiations continued well after the announcement and approval of the Budget compromised the effectiveness of Budget execution.

Expenditure Performance

244. Mr Speaker Sir, expenditures to September 2012 were US$2.5 billion, against planned expenditures of US$2.8 billion, seemingly by complying with the principle of a balanced budget or living within our means.

245. However, while this is true with regards to overall expenditures, a closer look at the sub-heads of Budget performance indicates otherwise.

246. Hence, in reality, expenditures on employment costs to September 2012 actually surpassed their targets by US$37.3 million.

2012 Budget Expenditures: US$ million

Component	Planned Expenditure Jan – Sep 2012	Outturn Jan – Sep 2012	Outturn % of GDP	Surplus/ Deficit	Surplus/ Deficit % of GDP
Employment Costs	1,182.7	1,220.0	11.6	(37.3)	(0.4)
Operational Costs	398.7	270.4	2.6	128.3	1.2
ow Foreign Travel	34.0	29.1	0.3	4.9	0.0
Capital Budget	415.4	181.4	1.7	234.0	2.2
Total	2,818.7	2,461.9	23.4	356.8	3.4

247. Mr Speaker Sir, during the second half of the year, planned expenditures based on the Amended Estimates are US$1.802 billion, comprising the following main programmes:

2012 Budget Expenditures: US$ million

Component	Planned Expenditure Jul – Dec 2012	Planned Expenditure Jul – September 2012	Outturn Jul – September 2012	Balance amount to December 2012
Employment Costs	1,469.5	608.2	597.7	871.8
Operational Costs	204.6	173.2	201.7	2.9
ow Foreign Travel	24.5	10.04	12.6	11.9
Capital Budget	128.1	151.6	83.1	45
Total	**1,802**	**933.18**	**882.5**	**920**

248. By end of September 2012, cumulative employment costs had reached US$1.78 billion, operational costs US$483 million and the capital budget US$250 million.

249. Overall, during the year, the main funded current and capital programmes were as follows:

Recurrent Disbursements to September: 2012

Programme	Revised Allocation US$	Disbursements US$	Purpose
Animal disease control programme	4,500,000	2,000,000	Procurement of dipping chemicals and vaccines as well as tsetse control operations
Training, extension and research services	8,600,000	3,200,000	Provision of extension and training services to extension officers and the farmers.
Security of tenure	1,600,000	1,200,000	Surveying of farms
Education	28,400,000	7,600,000	➢ Teaching and learning materials (US$1 million); ➢ Schools supervision (US$0.6... million); ➢ Examination expenses (US$0.4 million); ➢ Student support (US$5.6 million).
Health	43,300,000	23,200,000	➢ Drugs procurement; ➢ Other healthcare services.
Social protection	23,300,000	7,00,000	➢ BEAM (US$5 million); ➢ Health assistance (US$1 million); ➢ Harmonised cash transfers (US$0.4 million); ➢ Food deficit mitigation (US$.0.2 million) ➢ Other social protection programmes(US$1 million)
2012 Population census	24,600,000	24,600,000	➢ Conduct of the 2012 population census.
War Veterans Welfare	18,100,000	18, 100,000	➢ Fees, funeral, health and administration costs.
Empowerment and employment creation	6,200,000	1,900,000	➢ Income generating projects.
Constitution making process	1,800,000	4,300,000	➢ Drafting and finalisation of the Constitution making.
Domestic Arrears	35,500,000	17,500,000	➢ Settlement of arrears to service providers.
Preparations for the UNWTO Conference	1,000,000	545,000	➢ Conference preparations and marketing programmes.
Grand total	**196,900,000**	**86,045,000**	

Capital Disbursements to September, 2012

Sector	2012 Revised Budget	Disbursements To September	Disbursements as % Of Budget
Development Budget			
Energy	21,000,000	11,170,000	53%
Transport & Communication	60,200,000	40,216,000	67%
Water & Sanitation	69,889,000	47,739,000	68%
Housing	57,595,000	30,958,972	54%
ICT	25,700,000	26,366,418	103%
Health	54,735,000	32,059,001	59%
Education	41,028,000	20,697,815	50%
Social Services	661,000	180,000	27%
Irrigation Development	7,135,000	3,450,000	48%
Research & Extension Infrastructure	2,070,000	720,000	35%
Sub Total	**340,013,000**	**213,557,206**	**64%**
Other Capital Expenditures			
Agriculture - Strategic Grain Reserve	47,200,000	53,900,000	114%
Crop Input Support	32,160,000	34,623,200	108%
Livestock Support	3,000,000	3,000,000	100%
Agribank	1,000,000	1,000,000	100%
Compensation for farm improvements	1,990,000	1,171,000	59%
Other Capital Transfers	19,885,000	2,268,000	11%
Furniture & Equipment	2,765,000	1,457,623	53%
Procurement of Vehicles	6,660,000	5,003,200	75%
Dimaf	10,000,000	10,000,000	100%
Shareholding in International Organisations	10,800,000	800,000	7%
Other	25,603,781	24,034,081	94%
Sub Total	161,063,781	137,257,104	92%
Grand Total	**501,076,781**	**350,814,310**	**73%**

250. Therefore, as we move into 2013, reducing employment costs from the current 70% of the total Budget will enhance the productivity of the Budget through adequate financing of other

essential areas of infrastructure and social services becomes our utmost priority.

Public Services Delivery and People's Livelihood

251. Mr Speaker Sir, the rebuilding of public finances from 2009 afforded Government capacity to push on improving public services delivery.

252. Notable achievements were on resumption of maintenance and rehabilitation of infrastructure such as roads, rail, power, water and sanitation as well as restoration of social services in health and education.

253. The Table below gives a summary of Budget subventions over the period since 2009 on key infrastructure projects.

Capital Development Programmes: 2009–2012

Sector	2009	2010	2011	2012 Jan - Jun
Energy		15 000 000	35 000 000	11 170 000
Water & Sanitation	1 508 585	40 020 000	46 725 000	47 739 000
Transport				
Roads	376 897	11 480 000	22 405 800	28 700 165
Rail		2 000 000	15 000 000	4 500 000
Aviation		25 600 000	7 500 000	6 500 000
ICT		15 000 000	665 000	26 366 418
Health		17 060 500	29 630 405	32 059 000
Education	809 850	52 379 548	28 628 238	20 697 815
Agriculture				
Irrigation Development		1 080 000	5 600 000	3 450 000
Research & Extension Infrastructure		720 000	250 000	720 000
Government Housing	4 526 564	32 279 139	68 674 347	30 958 972
Total	**7 221 896**	**212 619 187**	**260 078 790**	**212 861 370**

254. While economic recovery has had demonstrable and positive impacts on overall service delivery over the last three years, indicators in our social sectors confirm that service delivery continues to lag behind the MDG targets.

255. This is reflected through the slow improvement in most of the key indicators in health and education, such as mortality rates and school completion rates, among others.

External Support

256. Mr Speaker Sir, in pursuit of normalising external relations, the Inclusive Government has been on a re-engagement process with the international community, including Multilateral Financial Institutions, creditors and other development partners.

257. This process has resulted in resumption of dialogue on a number of developmental issues, with some restoration of Official Development Assistance now in the offing.

258. Preliminary projected inflows of official development assistance for 2013 are currently at US$333 million, and are expected to increase as more development partners finalise their next Budgetary cycles.

259. This will be targeted towards health, governance, multi-donor trust funds, education, food security, social protection, economic, water and sanitation, and humanitarian interventions.

Official Development Assistance

260. Inflows of development assistance have been erratic and remain outside the Budget. Total development assistance pledged in 2012 from both Bi-lateral and Multi-lateral development partners was US$588.2 million, of which US$651.1 million has so far been disbursed and utilised, as at end September 2012.

Bilateral

261. Bilateral inflows for January to September 2012 amounted to US$438.6 million, against total annual pledges of US$566.5 million, representing an improved disbursement rate of 77.4% compared to 64.4% over the same period in 2011.

262. Major contributors remain the United Kingdom, US$137.9 million; the United States, US$115.5 million; China, US$37.7 million; Australia, US$36.1 million; and Sweden, US$27.7 million.

263. The Table below shows the breakdown of bilateral development assistance received.

Bilateral Development Assistance Inflows (Jan–Sept 2012)

Development Partner	Total Disbursements 2011	Pledges Jan-Dec 2012	Cumulative Disbursement Jan - Sep 2012	Projected Expenditure Jan-Dec 2013
Australia	54,193,949.00	48,000,000.00	36,085,800.00	50,000,000.00
Canada	11,326,482.00	4,467,145.00	-	2,891,539.00
China			37,711,536.06	
Denmark	19,786,205.00	25,785,933.00	12,668,947.00	3,579,226.00
European Union	85,944,498.00	74,899,390.00	15,316,942.00	89,314,579.00
Finland	-	5,362,000.00	-	5,320,000.00
France	1,595,874.00	425,000.00	-	425,000.00
Germany	34,918,400.00	18,672,000.00	18,461,000.00	19,970,000.00
Ireland	8,237,411.00	3,975,000.00	904,920.00	-
Japan	5,966,548.00	-	245,114.00	-
Netherlands	22,943,423.00	17,780,892.00	15,314,218.00	-
Norway	20,158,127.00	23,420,000.00	14,989,490.00	-
Sweden	32,890,000.00	34,500,000.00	27,653,139.00	34,000,000.00
Switzerland	11,739,477.00	9,060,180.00	5,846,249.00	5,126,000.00
United Kingdom	68,690,000.00	168,455,000.00	137,924,000.00	122,086,400.00
United States Of America	86,838,230.00	131,662,000.00	115,498,200.00	
Spain	2,325,680.00	-	-	-
Italy	1,133,594.64	-	-	-
Czech Republic	82,993.00	-	-	-
Total	**465,228,624.00**	**566,464,540.00**	**438,619,555.06**	**332,712,744.00**

264. Mr Speaker Sir, bi-lateral disbursements during January - September 2012 supported the following areas:

- Health, US$114.4 million;
- Governance, US$53.8 million;
- Multi-donor trust funds, US$39.5 million;
- Education, US$38.9 million;
- Food security, US$56.9 million;
- Social protection, US$30.8 million;

- Economic sectors, US$37.4 million;
- Water & sanitation, US$26.9 million; and
- Humanitarian interventions, US$20.3 million.

Multilateral

265. Mr Speaker Sir, development partners' multilateral contributions over the same period amounted to US$212.5 million.

266. These were mainly contributions by the Global Fund, the World Bank and various UN Agencies, targeting health, education, social protection, and food security.

267. The Table below shows the breakdown of multilateral development assistance received.

Multilateral Development Assistance Inflows (US$): Jan–Sep 2012

Development Partner	Pledges 2012	Jan-Sep 2012 Disbursements
World Bank	-	7,302,330
Global Fund	-	191,124,115
UN Women	741,750	551,875
IFAD	-	80,000
AfDB	-	20,000
UNESCO	868,323	577,610
ILO	353,438	288,557
FAO	148,753	184,560
UNFPA	2,911,851	2,728,270
WHO	8,698,356	4,321,150
UNDP	3,612,903	3,638,507
UNICEF	4,381,245	2,267,350
Total	**21,716,619**	**212,506,716**

Source: Ministry of Finance

Disbursement Modalities

268. Mr Speaker Sir, both bi-lateral and multi-lateral assistance were disbursed through the Programmatic Multi-Donor Trust Fund (Zim-Fund) administered through the African Development Bank (AfDB), the Analytical Multi-Donor Trust Fund and Results Based Trust Fund managed by the World Bank, the Health and Education Transition Funds as well as the Child Protection Fund all managed by UNICEF.

Programmatic Multi-Donor Trust Fund (Zim-Fund)

269. Mr Speaker Sir, commitments made through Zim-Fund as at end September 2012 amounted to an equivalent of US$124.1 million, in various currencies earmarked for power and water projects.

270. Of this amount, US$101.5 million has already been transferred into the Fund administered by the AfDB as illustrated in the Table below.

Status of Pledges and Disbursements as at 30 September 2012

Development Partner	Amount Pledged (in original currency)	Amount Pledged (US$ Approx)	Amount Disbursed (US$) (into AfDB Account)	Amount Not Yet Paid (in currency of donor)
Australia	AU$20 million	19,864,040.00	19,864,040.00	0
Denmark	DK75 million	13,120,243.56	13,120,243.56	0
Germany	Euro € 20 million	26,658,997.00	13,769,937.00	Euro €10 Million
Norway	NOK 82 million	14,217,615.82	7,073,818.03	NOK 41 million
Sweden	SEK 90 million	13,112,218.65	10,116,409.91	SEK 20 million
Switzerland	CHF 4.9 million	6,112,749.61	6,112,749.61	0
United Kingdom	BP£ 20 million	31,411,000.00	31,411,000.00	0
Total	US$124.4 million*	124,496,864.64	101,468,198.11	US$22.6 million

Source: AfDB

**This value is approximate and depends on exchange rates of the day*

271. However, an amount of only US$1.2 million has been utilised, benefitting power and water projects as illustrated in the Table below.

Zim-Fund Utilisation Levels

Disbursements Description	US$
Contract Services for the Water Project	663,319.80
Contract Services for the Power Project	365,392.94
Contract Services for Procurement	158,881.93
Total	**1,187,594.67**

Analytical Multi Donor Trust Fund

272. Mr Speaker Sir, total contributions to the Analytical Multi Donor Trust Fund (A-MDTF) amounted to US$19.7 million during the period June 2008 to September 2012.

Development Partner Contribution to A-MDTF

Development Partner	Total Contribution (2008-2012) US$
Canada	468,099
Finland	1,249,010
USA	1,700,000
EU	1,004,747
Denmark	2,195,433
Netherlands	1,969,300
Australia	2,358,102
Germany	884,020
UK	4,411,400
Sweden	1,529,029
Norway	631,009
**Switzerland	300,000
World Bank	1,000,000
Total	**19,700,149**

** Swiss Agency for Development and Cooperation (SDC) came on board in 2011 increasing the number of Development Partners to 13.

273. Mr Speaker Sir, of the above disbursements to the Analytical Multi Donor Trust Fund, US$17.6 million was utilised over the period 2009 - 2012 as indicated below.

A-MDTF Cumulative Disbursements (US$) to 30 September 2012

Year	2009	2010	2011	2012	Total
Disbursements	1,353,000	3,251,000	2,483,000	10,500,000	17,587,000

274. The above resources supported the following studies and consultancies:

- Payroll and Skills Audit;
- Upgrading of the Public Financial Management System;
- Country Integrated Fiduciary Assessment (CIFA);

- FINSCOPE Consumer Survey;
- Infrastructure;
- Safety Net Programme;
- Budget Process; and
- Public Investment Management, among others.

275. The above studies have produced informative notes and reports which enable policy makers to keep a tab on the state of our economy so as to make informed policy decisions.

Results Based Financing Trust Fund

276. Mr Speaker Sir, the World Bank is also financing a US$15 million Health Initiative Project under its Results Based Financing (RBF) Trust Fund.

277. The above Project is designed to increase coverage of key maternal and neo-natal health interventions in 18 rural districts of Zimbabwe, as well as strengthening institutional capacity of the country's health system, removal of some user fees, and introduction of performance based grants for health facilities.

278. Already, this initiative is yielding positive results over access and utilisation of priority maternal and neo-natal services due to the removal of user fees.

279. In addition to providing funding to health facilities, the above Trust Fund has also demonstrated positive effects on several areas of the health system through:

* Introduction of Performance Based Contracting;
* Improved Accuracy and Timely Reporting of health service delivery data from primary health centres to central government through the designated health referral system; and
* Improved Supervision of health facilities by District Medical Officers and Provincial Medical Directors, motivated by provision of quarterly grants.

280. Furthermore, the Trust Fund has strengthened planning and utilisation of resources at health facility levels, and improved motivation amongst health workers due to improved resources at their disposal.

Health Transition Fund

281. Mr Speaker Sir, health delivery in Zimbabwe has also benefitted from the Health Transition Fund (HTF), with a planned budget of US$435 million over 5 years (2011-2015) and particular focus on women and children under the age of 5.

282. With the broad objective to reduce maternal and child mortality through abolishing user fees, and supporting high impact interventions and health system strengthening, the Health Transition Fund has 4 main pillars.

283. Mr Speaker Sir, these are:

- Maternal, newborn, child health and nutrition;
- Medical products , vaccines and technologies;
- Human resource for health; and
- Health policy, planning and financing.

284. The targets of the Fund are to:

- Reduce maternal mortality by three quarters;
- Reduce under 5 mortality by two thirds, towards achievement of MDGs 4 & 5;
- Eliminate user fees for children under 5 years of age;
- Eliminate user fees for pregnant and lactating women by 2015;
- Halve the prevalence of malnutrition in children under 5 years of age, in line with MDG 1;
- Halt and reverse trends in HIV and AIDS; and
- Halt and reverse trends in malaria and other diseases, in fulfilment of MDG 6 by 2015.

285. Mr Speaker Sir, the following pledges have been made in 2012 towards the five year US$435 million Health Transition Fund.

Health Transition Fund 2012 Contribution Status

Development Partner	Pledges US$	Disbursements US$
Ireland	2,666,660.00	2,666,660.00
Norway	1,474,507.00	1,474,507.00
United Kingdom	20,000,000.00	29,108,097.12
European Union	21,648,000.00	19,523,719.23
Switzerland	3,300,000.00	-
Canada	9,000,000.00	8,516,156.71
Sweden	1,456,960.00	1,456,960.00
Total	**59,546,127.00**	**62,746,100.06**

Education Transition Fund

286. Honourable Members will be aware of the significant contributions the Education Transition Fund (ETF) has made in response to the challenges faced by the education sector in 2009.

287. The first phase of the ETF, funded to the tune of US$51 million, focused on the revitalisation of the education sector, through the distribution of essential primary and secondary school stationery and core textbooks.

288. The breakdown of the contributions to Phase I by Australia (AusAID), Denmark, European Union (EU), Finland, Germany, Japan, Netherlands, New Zealand, Norway, Sweden, the United

Kingdom (DFID) and the United States (USAID) is reflected in the Table below.

Development Partner Contributions to ETF Phase I

Donor	Pledge (US$)	Amount Disbursed (US$)
Denmark	1,932,000.00	1,805,647.00
Netherlands	2,135,000.00	2,088,945.00
USAID	1,000,000.00	934,519.00
Norway	7,159,130.00	6,545,516.00
AusAid, Finland, DFID, New Zealand (Pooled Fund)	18,658,435.00	16,833,616.00
SIDA	2,394,810.00	2,238,189.00
Japan	1,000,000.00	1,068,349.00
EU	10,284,863.14	9,701,372.00
Germany	14,303,000.00	9,740,897.00
Total	**58,867,238.14**	**50,957,050.00**

289. Major achievements of ETF Phase I include:

- Procurement and distribution of over 22 million text books (7 million secondary and 15 million primary);
- GIS mapping of all schools in Zimbabwe, including those in newly resettled areas;
- Procurement and distribution of teaching and learning materials;
- Capacity building for School Development Committees;
- Technical assistance to the Ministry of Education, Sport, Arts and Culture; and
- Production of 3 215 Braille books for the visually impaired, which were distributed to 60 special needs schools across Zimbabwe.

290. Currently, the Education Transition Fund is in its second phase and has a total budget of US$80 million, principally focusing on the continued revitalisation of the education sector.

Child Protection Fund

291. The Child Protection Fund (CPF) is a multi donor funded project in support of the National Action Plan II for Orphans and Vulnerable Children in Zimbabwe (2011-2015).

292. The objective is to reduce the number of vulnerable and marginalised children through the provision of quality social and child protection assistance in promotion of children's rights.

293. The CPF has an estimated budget of US$72.8 million, and to date, development partners have pledged US$48.7 million towards the Fund, out of which US$33.3 million has already been disbursed.

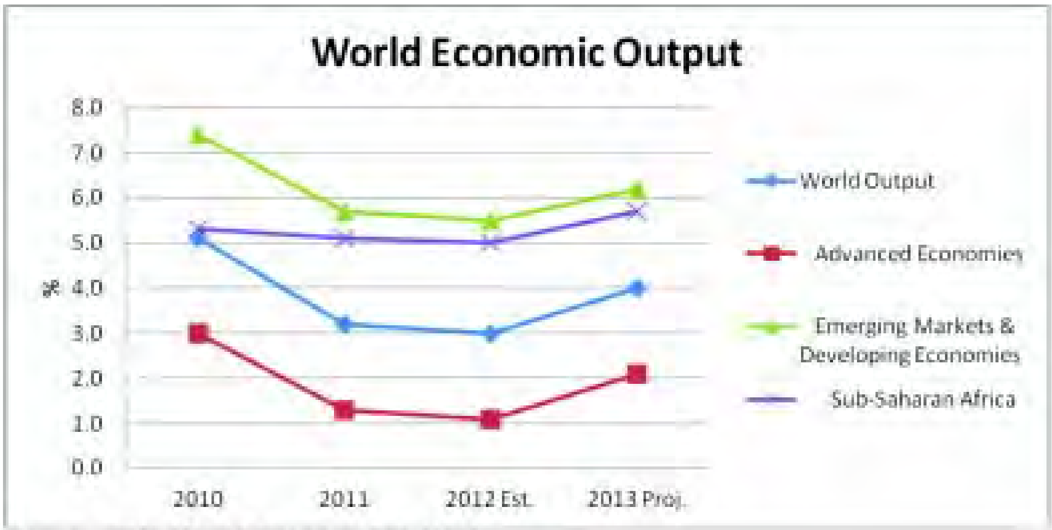
Development Partner Contributions to CPF as at 30 September 2012

Development Partner	Pledge Amount in Original Currency	Pledge Amount in US$	Amount Received in US$
United Kingdom	GBP 19,000,000	30,351,360	18,210,816
European Union	Euro 6,000,000	8,486,580	8,486,580
Sweden	SEK 30,000,000	4,526,400	1,578,947
Netherlands	US$ 5,430,000	5,430,000	5,000,000
Total		**48,794,340**	**33,276,343**

Source: UNICEF

VI. GLOBAL ECONOMIC OUTLOOK

294. World economic growth in 2012 was further revised downwards from 3.5% to 3.3%. The revision was necessitated by the worsening Euro Zone crisis and the subsequent economic slowdown in emerging markets and developing economies.



Source: IMF World Economic Outlook

295. The weakening growth in developed and leading emerging markets such as China, India, Russia and Brazil implies reduced demand for developing countries' exports. This, coupled with decreased foreign direct investment from the developed nations, will dampen growth momentum in developing countries.

296. In 2013, global growth is projected to slightly improve to 3.6% owing to modest improvements of financial conditions in

developed economies and, hence, re-acceleration of global economic activity.

297. With regards to world prices, the slowdown in global activity and aggregate demand in both advanced and developing economies resulted in declining inflation.

298. In OECD economies, inflation fell from 2.7% in 2011 to 1.9% in 2012 and is further projected decline to 1.6% in 2013, also reflecting lower commodity prices.

299. Inflation in emerging market economies is also expected to decline from 7.2% in 2011 to 6.1% in 2012. In 2013, inflation is projected to further ease to around 5.8%.

Consumer Prices (Annual Percent Change)

	2009	2010	2011	2012 Est.	2013 Proj.
Advanced Economies	0.1	1.5	2.7	1.9	1.6
Emerging Markets & Developing Economies	5.1	6.1	7.2	6.1	5.8
Sub-Saharan Africa	9.4	7.5	9.7	9.1	7.1
Zimbabwe	-7.7	3.0	3.5	4.0	4.5

Source: IMF WEO

Source: IMF WEO

VII. ATTENDANT ECONOMIC CHALLENGES

300. In our diverse Budget Consultations, multitude of Zimbabweans spoke on the structural challenges that are bedevilling this economy.

301. The challenges include:

Political Environment

- A challenged political environment;
- Uncertainty over sustenance of peaceful contestations.

Savings

- Low domestic savings, manifesting through liquidity constraints, high lending interest rates, facilities short term tenure;

Foreign Direct Investment

- Low foreign direct investment;

Fragile Growth

- Uneven and non-inclusive growth;
- Low per capita income;

De-industrialisation

- Uncompetitive production structures;
- Absence of foreign direct investment and de-industrialisation;
- Highly informalised economy;

Fiscal Space

- Non-performance of anticipated non-tax revenue, mainly diamonds, making Budget implementation even more difficult;
- Absence of capacity to deliver on infrastructure deficit and social services.

Infrastructure

- Decayed infrastructure and attendant bottlenecks;

Institutions

- Weak institutions, also lacking in role clarity;
- The central challenge facing this economy also relates to the lack of progress in building institutions and processes capable of fostering an environment conducive to high savings and investment for rapid growth, employment generation, enhancement of decent incomes and overall poverty reduction.

Competitiveness

- Low production competitiveness in both the domestic, as well as export markets;

Re-engagement

- Slow progress in re-engaging creditors over arrears clearance resolution of the debt overhang, and debt relief;

Policy Implementation

- Lack of effective policy implementation;
- Business as Usual attitude;
- Absence of collective responsibility and leadership;

External Deficit

- Low export and value addition base;
- High dependency on imports;

Business Confidence

- Sustainability of economic reforms;
- Violent free political processes;
- Property rights;

Unemployment

302. Mr Speaker Sir, the expectations of our unemployed youth for inclusion in meaningful economic activities are so high that we have no other option but to address head-on all obstacles and challenges we encounter in the road towards sustainable rapid economic growth.

Financial Support

303. Compounding the above problems is absence of external development financial support, forcing Zimbabwe to overwhelmingly rely on its own resources to finance its own programmes.

304. At the present moment Zimbabwe's Budget is around 32% of GDP, as the country does not have access to overseas direct assistance, access to international financial markets and access to long-term finance from International Financial Institutions.

305. In simple terms, Zimbabwe does not enjoy the benefits of a 'normal fiscal diamond'' which, besides own domestic revenues and savings from efficiency, affords a country deficit financing and access to external resources in the form of Official Development Assistance, and Foreign Direct Investment.

VIII. RE-THINKING THE STATE: ECONOMICS & DEVELOPMENT

Budget Plan

306. Mr Speaker Sir, the multitude of challenges facing our economy require an fundamental re-think of the State, Economics and Development in Zimbabwe. Only a mad person repeats the same mistake over and over again.

307. This entails the pursuit of an economic vision that would structurally transform this economy from the current low production base, low value addition, poverty arrested status quo to a modern transformative and democratic State.

308. In this regard, the 2013 National Budget seeks to offer leadership and direction on the bold structural measures that must be taken to unleash Zimbabwe's growth potential in the pursuit of the MTP's vision of constructing, a modern democratic developmental State.

309. We offer a **15 Point Roadmap** of action that in the short term will seek to reverse the current slow-down in growth and refocus the economy on a higher growth trajectory that is inclusive, sustainable, cross sectoral and pro-poor.

310. The **15 Point Plan**, thus, focuses on:

i. *Macro-economic Stability*

- Consolidating the gains of the past three years by guaranteeing a stable macro-economic environment.
- Sustaining our economic development through protection of the environment.

ii. *Revenue Base*

- Deepening revenue measures and expanding the revenue base.

iii. *Expenditure Control*

- Managing and controlling expenditure and in particular clearing and prevention of domestic arrears which are compromising cash budgeting principle.

iv. *Foreign Direct Investment*

- Attraction of Foreign Direct Investment in partnership with local investors.

v. *Industrial Competitiveness*

- Enhancing competitiveness to facilitate production for both domestic and export markets, and supporting growth of exports and reduction of the current account deficit.

- Laying the basis of the country's industrialisation agenda through support to the programme of spatial development initiatives, raw materials beneficiation, value addition, product diversification and job creation through support of anchor productive sectors of the economy.

- Enhancing research and technology.

vi. Savings Mobilisation

- Creating the environment for mobilisation of domestic savings, mobilising meaningful affordable resources and lines of credit to modernise and protect existing industry.

  This will also entail reform and refocus of the financial service sector through:

- Deepening financial sector intermediation;
- Financial Sector Legislative Reforms;
- Enhancing supervision and surveillance;
- Promoting financial inclusion; and
- Addressing the challenge of high lending interest rates.

vii. Agriculture & Food Security

- Financing of agriculture;
- Land Tenure System;
- Livestock development;
- Marketing;
- Irrigation; and
- Research and Extension Services

viii. *Leveraging Mining*

- Leveraging the mining sector on a matrix of greater transparency and the creation of synergetic high value and high impact mining projects.

ix. *Social Services and Social Safety Nets*

- Improving health services delivery.
- Adequate support for our education system.
- Addressing rural poverty,
- Strengthening social safety nets and focusing on clean water, access to power, social services and income generating programmes.

x. *Development Budget*

- Stepping up the capital development budget targeting the key enabler infrastructural deficits.

xi. *Debt Relief*

- Pursuing the resolution of Zimbabwe's external debt relief initiative through the Cabinet approved Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy (ZAADDS).

- An integral part of this will be the implementation of the Zimbabwe Accelerated Re-engagement Economic Programme (ZAREP), also approved by Government in March 2012.

xii. *Reform Agenda*

- Pursuing the unfinished reform agenda:
- Public Finance Management Regulations;
- Parastatal Reforms;
- Labour Market Reforms;
- Pension Reforms;
- Security of Tenure;
- Public Private Partnership Legislation; and
- State Procurement Reform.

xiii. *Peace & Nation Building*

- Support the peace and nation building agenda through:
  - The Referendum;
  - Elections; and
  - Support for Constitutional Commissions, including the Anti-Corruption Commission.

xiv. *Youth & Women*

- Re-defining and implementing the developmental agenda for women and youth.

xv. *Small and Medium Enterprises*

- Tackling the informal economy and deepening the role of SMEs.
- Deepening the role of co-operatives.

311. These issues will be the focus of the 2013 National Budget and beyond.

IX. THE MACRO-ECONOMIC FRAMEWORK: 2013-15

312. Mr Speaker Sir, in order to address the above issues, the 2013 National Budget is predicated on an active policy scenario which projects overall GDP growth of 5% in 2013 and levels of above 6% in 2014 and 2015, mainly driven by mining, agriculture, manufacturing, tourism and construction.

313. A good agricultural season, together with improved preparations, is anticipated to underpin agriculture, while improved investment and supply of power are expected to support operations in the mining sector.

314. While there are some anticipations of gains in overall investment in 2012 and 2013, this will be mainly led by private investment, followed by public investment underpinned by anticipated growth in infrastructure spending.

315. The above growth and investment projections assume a stable macro-economic and political environment accompanied by consensus on credible and consistent policies.

316. Furthermore, on the external sector front, growth of exports is anticipated to moderate between 2013 and 2015, reflecting slow emergence of developed countries from the current global economic crisis.

317. Similarly, inflation is anticipated to be contained within single digit levels on account of prudent macro-economic management through fiscal austerity, improved supply and competitiveness.

318. Cash budgeting together with the multiple currency regime will be maintained in 2013 and beyond. It is also anticipated that capacity utilisation will average 40 - 50% in 2013.

319. Therefore, total revenues of US$3.8 billion are anticipated in 2013, translating to 34.5% of GDP. Of the total revenues, recurrent expenditures are set at US$3.3 billion (86.4%), with only a balance of US$500 million (13.6%) left for the capital development budget.

Macro-economic and Budget Framework: 2013

	2009	2010	2011	2012 Proj	2013 Proj
Real Sector and Inflation					
Real GDP Growth	5.40%	9.60%	10.6%	4.4%	5.0%
Annual Inflation (Average)	-7.70%	3.10%	3.40%	4.0%	4.5
Central Government (US$ m)					
Total Revenues and Grants	973.1	2 339.1	292.1	3 640	3 844.8
Tax and Non Tax Revenue	931.8	2 339.1	292.1	3 640	3 844.8
Budget Grants	41.3	0	0	0	0
Total Expenditure and Net Lending	850.3	2 106.9	2 895	3 640	3 844.8
Current Expenditure	804	1 603.3	2 499.9	3 156.4	3 323.7
Capital Expenditure and Net Lending	46.3	503.6	395.1	483.6	521.1
External Sector (US$ m)					
Exports	1 613.3	3 317.5	4 496.4	5 089.7	5 540.8
Imports	3 213.1	5 161.8	7 562	8 214.9	8 536.6
Current Account Balance	-1 140.3	-1 917.8	-3 118.5	-3 122.6	-3 025.1
Capital Account	-623.5	646	1 566	2 483.9	2 800.5
Overall Balance of Payments	-1 867	-412.1	-593.3	-638.7	-224.6

Source: Ministry of Finance Projections

320. In 2013, employment costs at about US$2.6 billion will account for a 65% share of the US$3.8 billion total Budget.

321. Though down from over 70% in 2012, the target is to gradually further reduce this share by 10 percentage points each year to reach 45% of the total Budget by 2015 and further to about 30% by 2016, consistent with international thresholds.

322. This level of employment costs implies that during 2013 a mere US$700 million is left for:

- Ministries operations;
- Maintenance of facilities and equipment;

- Institutional provisions;
- Operations for grant aided institutions, and
- Other non-capital National programmes.

323. The above Budget projections for 2013 assume steady flow of tax revenues, safe-guarding of minimal levels of capital development programmes, social services delivery and managed expectations on the 2013 public sector wage bill.

Downside Risks

324. The above 2013 Budget scenario faces a number of downside risks. These include:

- The threat of another poor rain season;
- The threat of a collapse in international commodity market;
- The threat of further external shocks in the context of current limited buffers;
- The 'wait and see' attitude from investors;
- The slow pace of reform in government;
- Continued discord and cross-talk particularly on the issue of investment and indigenisation;

- Continued lack of proper revenue inflows particularly from diamonds;
- Fiscal slippages and overruns especially emanating from Referendum and election costs;

325. The biggest risk to this economy in 2013 remains that of a violent, contested State election. Any reproduction even on a small scale of the fraticism and friction we saw in 2008 will virtually collapse the nascent foundations we have tirelessly re-laid in the last 45 months. A case of two steps forward and twenty steps backwards.

326. Political crises place a premium on development. We cannot afford to carry-on on these cyclical paths of permanent conflict temporarily suspended by short periods of peace. We can do better.

X. THE 2013 NATIONAL BUDGET PRIORITIES

327. Mr Speaker Sir, the 2013 Budget priorities are thus intended to support our 15 Point Plan crafted consistent with the inputs from the nationwide consultations which were undertaken up to this Budget day.

328. Accordingly, this Budget has been developed to support the following four prioritised areas of:

- Agriculture and Food Security;
- Social and Pro-Poor Services;
- Infrastructure; and
- Industrialisation and jobs creation.

Agriculture and Food Security

329. Mr Speaker Sir, the restoration of food security and agricultural buoyancy is a cornerstone in our **15 Point Plan**.

330. Realising the full potential of agriculture will require that we re-inculcate the manner in which we deal with agriculture.

Agricultural Recovery Strategy

331. Mr Speaker Sir, re-looking at agriculture in order to restore its pecking order at the top also requires, as we have stated before, a recovery strategy.

332. The comprehensive agriculture strategy should include the following:

- Finalisation of the Fast Track Land Reform Programme and the Land Audit;
- Defining the judicial framework governing property rights and in particular the restoration of the land market through a judicial enforceable title;
- Development of Human Capital, infrastructure, biological capital and research, including to take account of climate change;
- Strengthening the use of technology, including ICT;
- Establishing reliable and consistent private sector models of financing agriculture;
- Establishment of open commodity exchange markets for agricultural outputs;
- Resolving the issues of compensation as defined in the GPA;
- Supporting agriculture training, extension service systems and research; and
- Promoting value addition through incentives.

Agricultural Interventions in 2012/2013

333. Mr Speaker Sir, to support the 2012-2013 agriculture season, Cabinet adopted on 18 September 2012, the following programme:

- The payment of all dues to farmers to enable them to finance their own inputs;
- The payment of all debt to seed and fertilizer suppliers;
- The obligation of seed and fertilizer suppliers to deliver and make available seed and fertilizer to every farming corner of Zimbabwe;
- The expedition of work on the 99 year long lease;
- The provision of a US$10 million livestock fund;
- The provision by Agribank of a line of credit to farmers; and
- The obligation on the rest of the financial services sector of providing affordable funding to agriculture.

334. Pursuant to this, Government has since paid the sum of US$31.4 million to farmers in respect of 117 000 tons delivered under the 2011 grain intake. A further US$22.9 million has been paid in respect of 77 635 tons under the 2012 grain intake.

335. The US$54.3 million in the hands of farmers should capacitate their preparedness for the 2012-2013 summer cropping season.

336. As of 1 November 2012, Government had paid off US$28 million to seed houses and fertilizer companies, leaving outstanding an amount of US$30 million. Treasury is treating this debt as priority.

337. This intervention has also assisted in capacitating the input suppliers in supporting the 2012/2013 summer cropping season.

338. Mr Speaker Sir, I propose the following allocations with respect to interventions towards agriculture and food security.

Proposed Allocations for Agriculture & Food Security

Intervention	Allocation (Us$)
Animal disease control and management	5,900,000
Extension services	7,060,000
Training and research services	6,400,000
Title surveys	2,000,000
Strategic Grain Reserve	30,000,000
Livestock Loan Scheme	3,000,000
Irrigation development	9,790,000
Agriculture Input Schemes - Vulnerable Groups	5,000,000
Total	**69,150,000**

339. Mr Speaker Sir, it will be noted that with an overall proposed allocation of US$159.4 million for agricultural development we

are at 4% of the proposed 2013 Budget which regrettably is below the Maputo Declaration target of 10%.

340. Mr Speaker Sir, agriculture development, however, stands to also benefit from funding from the banking sector. Already, the banking sector has confirmed some progress in mobilising resources in support of the coming season through the following initiatives and facilities:

- Agribank US$15 million Commercial Credit Facility;
- CBZ US$20 million Agriculture Credit Facility;
- US$25 million AMA Bills;
- GMB - Agribank US$5 million Facility;
- Agribank - IDC US$10 million Facility; and
- Other Banks - US$140 million cash crops Facility.

Support towards the Vulnerable and Disadvantaged Households

341. Government, in partnership with cooperating partners, has made a commitment to avail US$24.3 million in support of the coming crop and livestock production season.

342. Of this amount, Government will avail US$5 million, with the balance of US$19.3 million coming from cooperating partners.

343. The cooperating partners' contribution of US$19.3 million is set to benefit a total of 77 800 disadvantaged households in 24 districts.

344. Each household is entitled to an input package costing US$160 for which the farmer is required to contribute US$32 with the donor providing the balance of US$128.

345. With respect to the Government component, the support targets to assist 60 000 vulnerable households with a free input hand package comprising 1x10 kgs maize or 1x5kgs of small grain seed, 1x50kgs of compound D and 1x50 kgs of Ammonium Nitrate.

Livestock Rebuilding & Drought Mitigation

346. In view of the drought that affected some parts of the country, Government instituted drought mitigation strategies for affected households as well as livestock.

347. For 2013, I propose to allocate US$3 million for the re-building of the national herd. I am pleased to also disclose that Old Mutual has committed funding to the tune of US$7 million for the same purpose, critical for avoiding livestock losses.

348. The above livestock support interventions are additional to the US$3 million availed this year to procure supplementary feeds and vaccines for the four affected provinces.

Irrigation Development

349. Given the immense potential of irrigation in improving agriculture production, support amounting to US$3.5 million was extended in 2012 and this will be further topped up in 2013 as part of upgrading and expanding our irrigation development programme.

Other Land Development Programmes

350. Other essential programmes on land development, which will be supported in 2013, include:

- Title surveys, with some estimates indicating that about US$4 000 is required for the survey of a single farm unit;
- Compensation for some immovable farm improvements once the farms have been inspected and valued;
- Land Information Management System, targeting procurement of equipment for provincial offices; and
- National Assessment for Productivity and Land Utilisation

on the three land categories of model of resettlement in Zimbabwe.

Title Survey

351. Ensuring that farmers have security of tenure on Model A2 land holdings through the issuance of 99-year leases was emphasised in previous national budgets and the Medium Term Plan as a way of unlocking investment and bank financing.

352. It is, however, imperative that the land be title surveyed before the lease registration process can take place.

353. The target is to survey at least 105 units per month (1 260 units per annum), requiring about US$5 million.

354. However, with the current budgetary limitations, Government is inviting the private sector and beneficiary farmers to augment efforts for the speedy implementation of this exercise.

Compensation for Immovable Farm Improvements

355. The Constitution of Zimbabwe, Land Acquisition Act: Chapter 20:10 and the Acquisition of Equipment and Materials Act: Chapter 18:23 obligate Government to pay compensation

for farm improvements, equipment and materials to outgoing farmers without going through the Court process.

356. Mr Speaker Sir, this is only possible once the farms have been inspected and valued. Ownership of land can only be transferred to new farmers after payment of full said compensation to the outgoing farmer.

357. Currently, there are several pending cases where Government has been taken to Court for compensation and such cases are on the increase.

358. To date, only 215 farmers were fully compensated out of a total of 6 214 farms that were gazetted. In this regard, the 2013 National Budget, mindful of its limitations, is setting aside resources for compensation.

Land Information Management System

359. Government, through the Ministry of Lands, established a Land Information Management Systems (LIMS) to provide one central referral point for all land information to support informed decision making for the Land Reform Programme.

360. LIMS is mandated to devise a comprehensive land information system for Zimbabwe, i.e. a one stop shop for land information.

361. The existing databases, the Watermark Imaging Database and the Land Transaction System which houses attribute data were set up more than 10 years ago. The increase in land information that needs capturing, and the technological advancements in the field of computer hardware and software, has meant that the current systems need upgrading.

362. In 2013, the target is to install Local Area Networks at four Provincial offices (Mash East, Mash Central, Matabeleland North and Midlands), implement the Wide Area Network on the four Provinces and link-up with the Harare Office, and acquisition of appropriate Hardware and Software for Head Office and Provincial offices.

363. Land information provided by LIMS will facilitate easy collection of lease fees and levies from farmers, and generation of substantial revenue as a cost recovery measure. This will, therefore, ensure that the system is sustainable over the long term.

364. The Budget will, therefore, support this programme for procurement of equipment targeted for the four provincial offices in 2013.

National Assessment for Productivity and Land Utilisation

365. In 2013, The Ministry of Lands and Rural Resettlement, in conjunction with the Ministry of Agriculture Mechanisation and Irrigation Development will carry out a National Assessment for Productivity and Land Utilisation on three land categories of model of Resettlement in Zimbabwe (Old Resettlement Scheme, A1 and A2 Resettlement Models).

366. These assessments will help Government build vital information on land administration and performance of agriculture.

Social and Pro-Poor Services

367. Mr Speaker Sir, Government is cognisant of the need to give priority to spending on social and pro-poor services. Accordingly, I propose to make allocations under this area as per the following Table.

Proposed Allocation for Social & Pro-Poor Services

Intervention	Allocation (Us$)
Education	
Teaching and learning materials	13,600,000
Students support	15,300,000
Support to tertiary institutions	11,300,000
School supervision and quality assurance	2,300,000
Rehabilitation and upgrading of primary and secondary schools	17,200,000
Upgrading of tertiary education infrastructure	35,590,000
Sub total	**95,290,000**
Health	
Medicare services	32,700,000
Martenal health and child care services	6,000,000
Preventive health programmes	4,700,000
Medical supplies - ARV and TB drugs	2,300,000
Revitalisation of district hospitals	15,600,000
Feasibility study for construction of Harare & Bulawayo district hospitals	2,000,000
Rehabilitation of other health institutions	15,100,000
Procurement of health equipment	96,900,000
Sub total	**175,300,000**
Water and sanitation	
Water & sewer infrastructure for local authorities	22,725,000
Water supply infrastructure for small towns & growth points	3,200,000
Rehabilitation and drilling of boreholes	6,300,000
Dam construction	65,000,000
Sub total	**97,225,000**
Empowerment & employment creation	
Women's Development Fund	2,500,000
Youth Development Fund	2,000,000
National Indeginisation and Economic Empowerment Fund	2,200,000
Mining Industry Loand Fund	1,000,000
SMEs onlending and infrastructure services	5,800,000
Sub total	**13,500,000**
Social protection	
Basic Education Assistance Module (BEAM)	15,000,000
Support to vulnerable groups	10,700,000
Sub total	**25,700,000**
Total	**407,015,000**

368. In arriving at the above, consideration has been given to regional and international benchmarks adopted in respective areas.

Education

369. In total, the 2013 National Budget proposed allocation under the education sector amounts to US$1 billion, representing 27% of the total Budget. This, therefore, is well above the Dakar Declaration which places a threshold of 20%.

370. Mr Speaker Sir, this position is in response to the strong message gathered from the pre-Budget Consultations which placed education at the top of priorities.

371. The above proposed allocation ensures that attention is given to the quality of services through improving pupil per capita grants and adequately funding programmes for vulnerable children such as the BEAM.

372. Under the capital Budget, due priority will be given in the areas of rehabilitation of schools' infrastructure.

Healthcare

373. While the share of health in the overall Budget had started showing a decreasing trend over the years, with current per

capita investment in health by Government of US$18 falling below the US$34 recommended by the National Health Strategy (2009 – 2013), the 2013 Budget proposes an allocation of US$381 million.

374. This is towards revitalisation of health service delivery focussing on primary and preventive health care. The level of funding represents 10% of total expenditure, which is an improvement of 2% towards achievement of the Abuja Declaration target of 15%.

375. Using the limited available fiscal space, Government will improve funding for dealing with communicable, maternal, perinatal, nutritional conditions to achieve better health outcomes given that the burden of disease comes from these conditions.

376. The 2013 Budget strives to support purchase of the much needed medical equipment which will be augmented by an external loan amounting to US$98 million. Furthermore, I am proposing to allocate resources towards rehabilitation of existing district hospitals as well as construction of new ones in districts where none exist.

377. Mr Speaker Sir, work will commence towards feasibility studies for construction of Provincial hospitals in the case of Bulawayo and Harare.

Social Protection

378. The country has made some remarkable progress in expanding social safety nets in the aftermath of the economic crisis of 2000 – 2008. However, of late, timeous disbursements have been a major challenge.

379. Hence, the 2013 National Budget proposes an allocation of US$25.7 million towards areas that include BEAM (US$15 million) in the context of implementing the National Action Plan II, targeting assistance to orphans, child-headed families, the disabled, elderly, and chronically ill.

Public Works

380. In 2013, public works programmes will be prioritised and scaled up by extending the pilot programme to more districts. This is a viable strategy for creating jobs, facilitating income transfers to communities and, therefore, demand for goods and services. This is also an opportunity for converting our dilapidated schools, roads, dams and other rural infrastructure into instruments for economic turn-around.

381. Furthermore, synchronisation of local government taxes and rates or revenue systems with Budget priorities will also allow local authority budgets to focus on public works programmes.

Towards a Green Economy

382. The Medium Term Plan and the 2012 National Budget Statement recognise the sustainable use of natural resources and conservation of biodiversity as key to sustainable economic development.

383. Major environmental challenges for Zimbabwe include loss of biodiversity, pollution of water bodies, land degradation, deforestation, waste generation and disposal, veld fires and climate change.

384. The National Trade Policy (2012-2016) recognises trade as an engine for economic growth and development. In this regard, to grow our trade volumes with the rest of the world, it is pertinent for industry to embrace green economy and environmentally friendly production processes.

385. Government, therefore, needs to support initiatives by the Environmental Management Agency (EMA) and the Forestry

Commission in enforcing compliance on industrial pollution, water and solid waste management, environmental degradation and veld fires.

386. Accordingly, I propose to allocate resources to EMA and the Forestry Commission to enhance their effectiveness.

387. The provision of US$20 million towards the rehabilitation of water and sewer reticulation across our Local Authorities is another intervention towards protecting the ecosystem.

Small and Medium Enterprises

388. Mr Speaker Sir, Small and Medium Enterprises (SMEs) development remains a major driver of economic growth in many developing economies.

389. By virtue of SMEs being flexible and innovative, they can play an important role in economic development, job creation and poverty alleviation, given the low capacity utilisation of major industries in the economy.

390. In Zimbabwe, the sector employs more than 60% of the country's workforce and contributes about 50% of the country's domestic

product. SMEs also help broaden the tax base and are also a major driver of rural development.

391. However, the sector requires support in resolving challenges on access to and high cost of financing, lack of appropriate infrastructure and technology, limited marketing and business management skills as well as stringent regulations.

392. Government will continue to mobilise resources through the Budget as well as lines of credit to assist the sector.

393. Already, resources worth US$15 million under the Micro-Finance Revolving Facility were mobilised during 2012 with contributions of US$5 million each from BADEA, Government of Zimbabwe and CBZ Bank Limited.

SME Fund

394. Next year, Mr Speaker Sir, both CABS and Old Mutual have agreed to avail a total of US$10 million, i.e. US$5 million each, towards an SME Fund. I am pleased to also announce that CBZ is contributing an additional US$10 million to the Fund.

395. The 2013 Budget has a further allocation for on-lending to the sector. Government support can, however, only be efficient

and effective if the SMEs sector is more organised and structured.

Designated Cluster Zones

396. The Ministry of SMEs will, therefore, be undertaking a massive re-organisation exercise of SMEs countrywide, guided by information from the registration study which was carried out in 2012.

397. The re-organisation into clusters will be based along line of operations and products e.g. Furniture, Metal Fabrication, Household Goods, Clothing, Electronics, among others.

398. These clusters will be allocated specific Designated Cluster Zones for their operations. The advantage of this model is that it formalises the sector, allows shared training, equipment use and easier loans recovery.

399. In support of this programme, the 2013 National Budget is allocating resources towards the construction of appropriate structures.

400. The implementation of the industrial cluster programme will involve other line Ministries such as Local Government, Energy, Water as well as Local Authorities for its success.

SEDCO Restructuring and Capitalisation

401. SEDCO, consistent with its mandate of capitalising small businesses, is well placed to support the cluster zones programme. However, the institution is currently paralysed with meagre resources to meet the huge demand from prospective enterprises.

402. The 2013 Budget will, therefore, recapitalise SEDCO through an allocation which will particularly target those formalised businesses under the cluster zone programme.

Incubation Centres

403. The Government of Zimbabwe, in partnership with the Government of India are promoting transfer of technology to SMEs through establishment of incubation centres.

404. These incubation centres are meant to nurture and provide working spaces, equipment, necessary technologies as well as mentors who provide technical assistance to SMEs in order for them to grow into larger enterprises.

405. Under the programme, the Government of Zimbabwe will identify appropriate premises which will be refurbished in accordance

with project specifications. The Indian Government will provide equipment and machinery to the value of US$1 million.

406. To date, eight incubators have been completed, and Government will support the establishment of the remaining six in the 2013 National Budget.

Youth Empowerment

407. Mr Speaker Sir, the Inclusive Government has already recognised the need to enhance the participation of previously disadvantaged groups in mainstream wealth creating economic activities.

408. Hence, the establishment of a policy and Act on economic empowerment of indigenous Zimbabweans.

409. Implementation of this policy is on-going and incorporates a number of projects and programmes which include:

- Completion of sector specific indigenisation and empowerment implementation frameworks;

- Development of an empowerment charter;

- Facilitation of community share ownership schemes;

- Setting up of employee share ownership programmes (ESOPS); and

- Impacting of skills to the youth through various vocational training programmes, also capacitated through the Budget.

Youth Unemployment

410. Mr Speaker Sir, a key consideration in Empowerment is the recognition by the Inclusive Government that up to 70% of Zimbabwe's population are youths, that is to say people under the age of 35 years.

411. The majority of these persons are unemployed, with youth unemployment in Zimbabwe being four times higher than that of adults.

412. Regrettably, youth unemployment is no longer just an economic issue. Unemployed educated youths have become a hot bed of social movements, resistance and implosion as has been witnessed during the "Arab Spring".

413. Getting youths employed or involved in meaningful economic activities has become a paramount imperator of all developing

economies. This is why we still have the plethora of International Protocols and Conventions which include:

- The UN Millennium Declaration of September 2000;
- UN Resolution on Promoting Youth Employment of December 2002;
- UN Resolution Concerning Policies and Programmes involving the Youth of January 2004;
- Ouagadougou Declaration of the Heads of State and Government of Africa of September 2004;
- Resolutions of the 93rd International Labour Conference of June 2005 concerning youth employment;
- Resolutions of the ILO Tripartite Meeting on Youth Employment;
- The Conclusions of the Southern Africa Sub-Regional Conference on Youth Employment;
- The implementation of the Global Employment Agenda (GEA); and
- The 'Vision Document' prepared by the ILO in March 2006.

414. To get youths employed and engaged in meaningful programmes of empowerment requires a number of solutions which include:

- A growing economy that is producing jobs;
- An economy able to generate savings and foreign direct investment to assist those venturing into entrepreneurship; and
- An education system that recognises the importance of vocational and technical training.

415. Placing resources in post primary education that focuses on skills training and in particular emphasis on developmental disciplines such as engineering, business, IT and agriculture is critical.

416. The difference between countries which have respected this policy and those who have continued to lay emphasis on a Westminster humanities curriculum is huge and is well captured in the 2011 African Youth Report.

417. It is thus, important in the 2013 Budget to ring-fence resources to education, including vocational education. Our revenue measures should address this.

418. Furthermore, Government is vigorously executing the recently adopted National Youth Policy in order to systematically integrate youth issues into all levels and within all sectors, and at both public and private institutions.

419. The Zimbabwe Youth Council is also being decentralised in order to build and strengthen its capacity and structures at local levels so as to improve its effectiveness and quality of service delivery.

420. In addition, Government will be supporting the establishment of youth associations, exchange programmes, interact and information centres for facilitating sharing of information for youth development.

421. Furthermore, Government is prioritising financing and capacitating of vocational training centres which are the pillars for skills building. In that regard, establishment of a Fund will be proposed.

Women Empowerment

422. Mr Speaker Sir, the Medium Term Plan prioritises women empowerment as an integral part of the whole development agenda. This is more so in view of the fact that 80% of women live in communal areas where they constitute more than 60% of our farmers.

423. Hence, Government recognises women as essential to the realisation of food security, as well as formal labour across various industries.

424. As such, the 2013 National Budget will give priority to those policies and programmes which advance women in development as well as achieving gender balance in economic activity.

425. Targeted intervention programmes include:

- Women Empowerment through support for the Women's Development Fund, implementation of the Broad Based Women Economic Empowerment Framework launched by His Excellency the President in 2012, and legislation of the Women's Council Bill;

- Implementing the National Gender Policy through mainstreaming Gender Budgeting, reconstitution of Gender Focal Persons, capacity strengthening, and dealing with Gender Based Violence through strengthening of requisite institutions;

- Promotion of Community Development through various income generating programmes aimed at eradicating poverty, particularly in rural communities.

Infrastructure

426. Government continues to prioritise investment for rehabilitation and development of infrastructure, necessary for supporting

and attracting investment, driving the economy and enhancing efficiency of the productive sectors.

427. The AfDB estimated infrastructure rehabilitation needs in the medium term at US$14 billion while the World Bank estimates that infrastructural investment needs, over the next two decades will total about US$33 billion, mostly in transportation, energy and communications.

428. This is substantially higher than most of its comparator economies, with the exception of Angola, Zambia and South Africa. During 2013, about US$500 million (13% of the total budget) will be set aside for the capital development Budget.

429. This amount clearly falls far short of the actual requirements given that the larger share of the total budget remains directed to current expenditures.

430. Furthermore, pressure from expenditures related to the Referendum and Elections, as well as uncertainties shrouding diamond revenues, pose threats for possible and further reduction of the capital development Budget.

431. Hence, the 2013 Budget will once again ring-fence and protect the capital development Budget, as the only viable option for

gradually re-orienting the Budget towards meeting development programme needs as espoused in previous budgets and the Medium Term Plan.

432. Emphasis will continue to be placed on investments in economic enablers such as energy, transport, water and sanitation and ICT, focusing on completing the rehabilitation and maintenance programme.

433. Investments in new capacity will be put in place, drawing from private sector resources.

434. Further improvements in electricity supply will be pursued focusing on completion of the rehabilitation programme for Hwange and Kariba power plants, establishment of new generation capacity as well as minimising the transmission and distribution bottlenecks.

435. The Budget, with the support from development partners, private sector and other public institutions like ZINARA, will also continue to mobilise resources to deal with water supply, sanitation, housing and transport challenges facing urban settlements in order to meet requirements of the modern built environment.

436. The Budget will also strive to close the rural-urban divide by improving the supply of critical community infrastructure such as boreholes, rural electrification, health, education and roads.

437. Mr Speaker Sir, based on our macro-economic position, I propose to direct US$565 million towards the 2013 Capital Budget. This is against the US$2.478 billion submitted by Line Ministries for their capital requirements.

Infrastructure Financing

438. I, therefore, propose that some of the critical enablers be funded through a mix of budget revenues and issuance of paper. Doing so will enable us to channel more resources towards the social sectors without compromising the key enablers.

Prescribed Asset Paper

439. Mr Speaker Sir, you will recall that in 2010, I announced the following prescribed asset ratios:—

Type of Entity	Ratio
Short term insurance	5%
Long term insurance	7.5%
Pensions	10%

440. However, I note with concern that in spite of the availability of such instruments on the market as agro and AMA bills, compliance with the prescribed asset requirements is very low, averaging 1% across the industry as indicated below:

Category	Compliance Rate
Life Assurers	0.25%
Non life Insurance	1.46%
Life Reinsurers	0%
Non-Life Reinsurers	0%
Funeral Assurers	0.56%
Pension Funds	1%

441. Compliance with the prescribed asset requirement would have yielded US$199.9 million, on the basis of the industry's August 2012 total assets.

442. To facilitate compliance, Government will underwrite the issuance of 3 to 5 year Infrastructure paper instruments targeting to raise over US$150 million in support of the following areas among others:

Power generation	US$60 million
Power transmission	US$60 million
ICT	US$25 million
Other Infrastructure	US$15 million

Infrastructure Bonds

443. Pursuant to the above, Government, through the IDBZ, has already begun tapping longer term savings in the financial sector through the structuring of Infrastructure bonds.

444. In this regard, the IDBZ is floating bonds to tune of US$30 million in support of ZESA's pre-paid meter programmes.

Public Private Partnerships

445. In addition, part of the long-term financing needs require the development of stronger linkages with global finance.

446. Global trends in financing infrastructure point toward greater involvement by the private sector, typically in the form of public-private partnerships (PPPs) bundling long-term fixed capital investment with service provision.

447. Progress in promotion of PPPs has been slow in the absence of dedicated institutional arrangements for their promotion. Treasury will, therefore, establish a PPP Unit during 2013 to spearhead the PPP process at a faster pace.

Public Sector Investment Programme (PSIP)

448. Mr Speaker Sir, under the PSIP, I propose to make allocations for some of the priority areas as indicated in the following Table:

Proposed Allocations for Infrastructure

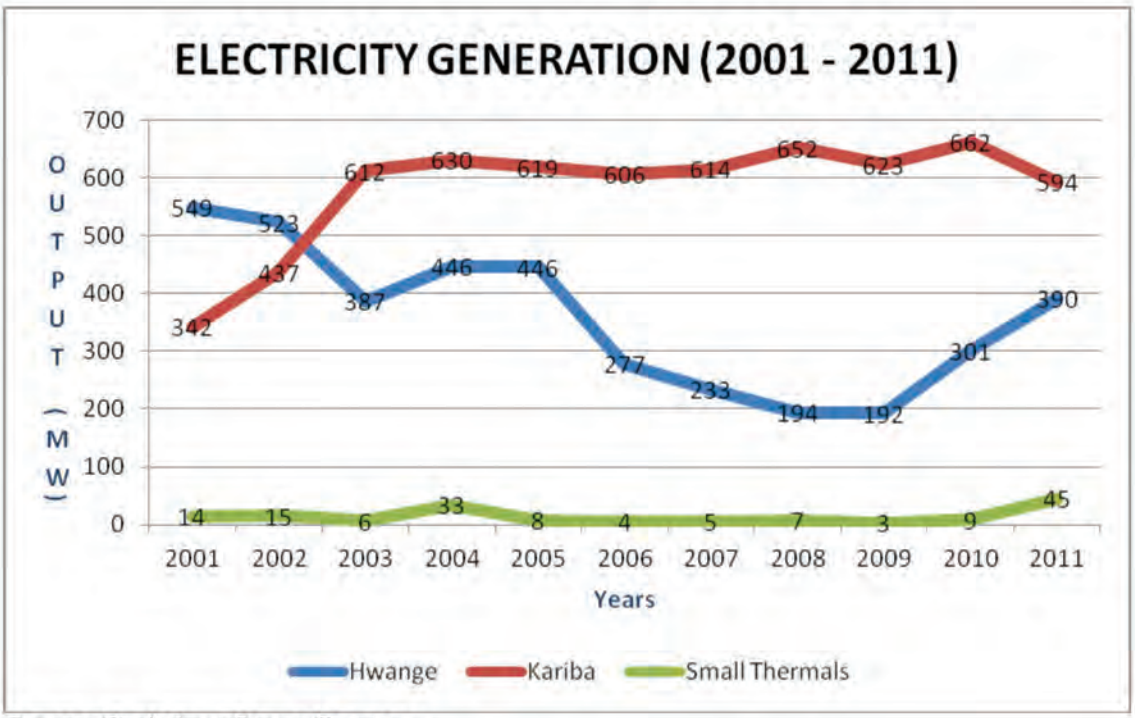
Intervention	Allocation (Us$)
Energy	
Rehabilitation of Hwange Thermal Power station	10,000,000
Rural electrification programme	3,000,000
Rehabilitation of transmission and distribution network	5,000,000
Sub total	**18,000,000**
Transport	
Rehabilitation of rail infrastructure	9,000,000
Upgrading of airports	5,100,000
Construction and rehabilitation of the road network	47,300,000
Sub total	**61,400,000**
Housing	
Institutional accommodation	52,853,000
Housing development	13,220,000
Sub total	**66,073,000**
ICT	
Fibre optic backbone infrastructure	4,000,000
Broadcasting transmission infrastructure	2,500,000
E-Government programme	20,710,000
Sub total	**27,210,000**
Rural Development	
Constituency Development Fund	5,000,000
Rural electrification	3,000,000
Rehabilitation and drilling of boreholes	6,300,000
Sub total	14,300,000
Total	**186,983,000**

Power Supply

449. Mr Speaker Sir, the 2013 National Budget proposes to prioritise power supply programmes, including Hwange and Kariba power stations, transmission and distribution network rehabilitation as well as rural electrification.

450. Furthermore, development partners, through Zimfund will also be supporting the rehabilitation of the Ash Dam at Hwange Thermal Power Station.

451. The objective is to close the supply/demand gap currently at 900 MW as only 1 300 MW are being produced against demand of 2 200 MW.



Source: Zimbabwe Power Company

Medium Term Projects

452. Mr Speaker Sir, arresting the electricity generation shortfalls would, in the medium term, require private sector participation and investment supported by demand side management measures which include installation of pre-paid meters to enhance revenue collection, necessary for guaranteeing working capital requirements.

453. Expansion of capacity through new investments would generate at Kariba South, 300 MW; Hwange, 600 MW; and Batoka, 800 MW.

454. Execution of the projects will start with Kariba South Hydro-Power Station early 2013, followed by Hwange and Batoka and will ensure the country meets its energy needs by 2016 as indicated in the Table below.

	2011	2012	2013	2014	2015	2016	2017
Electricity Demand	2100	2,150	2,200	2,300	2,585	2810	3030
Net Imports	100	100	100	100	100	0	0
Demand Side Mangt Savings	0	100	220	255	255	255	255
Generation Capacity	1200	1400	1720	1855	2455	2710	3010
Shortfall / Surplus	900	750	480	445	130	100	

Source: ZESA Holdings

Pre-Paid Meters

455. ZESA will continue with the implementation of the Pre-paid Metering Project, aimed at improving the parastatal's revenue generation capacity by ensuring that electricity consumed is paid for.

456. The project, which targets 516 188 customers will allow the parastatal to receive revenue upfront as well as recover the debt owed by consumers.

Independent Power Producers

457. The Energy Act 2011 as well as the National Energy Policy 2012 allows for the participation of Independent Power Producers as well as multiple buyers of electricity in the country.

458. In this regard, the private sector is encouraged to support the various opportunities in the energy sector through public private partnerships to ensure the country meets its energy needs by 2016.

Water

459. Improved water resources management is critical for the stability and security required for sustained strong economic growth, given the year to year variations in rainfall in the country.

460. With increased urbanisation and sustained economic growth, most urban centres face water supply challenges, mainly arising from inadequate investment in infrastructure.

461. This is exacerbated by the low capacity of local authorities to collect billed amounts from residents that can be channelled towards water infrastructure.

462. Closing the gap between water demand and supply will require investments in rehabilitation of existing facilities and new water storage infrastructure.

463. To date, Government, has funded water supply infrastructure such as Mtshabezi, Wenimbi and Ruwa Pipeline as well as Beitbridge and Lupane water uprating projects.

464. In 2013, Government will focus on completion of on-going water projects such as Tokwe Mukorsi Dam as well as Mtange Dam.

465. In the medium to long term, however, there will be need to plan for the execution of all projects that were stalled during the last decade on account of financial constraints taking account of water challenges being faced in some communities.

466. In this regard, such projects as Kunzvi Dam, Gwayi Shangani and Semwa dams will be prioritised.

Support from ZIMFUND

467. Development partners have been supportive by providing resources towards rehabilitation of water production and distribution infrastructure in some urban local authorities.

468. This support will be extended into 2013 as collaborative efforts between Government and development partners on improving water and sanitation in the country.

Housing

469. The approval of the Revised National Housing Policy in 2012, offers greater scope in the provision of housing and social amenities. The revised policy views shelter as the right for all citizens to live in a secure environment characterised by harmony, peace and dignity.

470. The priority is now to operationalise the policy through a time-framed national action plan or a new housing delivery programme starting from 2013.

471. In that regard, the 2012 Census results will be important in the formulation of the action plan. In addition, a Land Developers Bill will be enacted to bring sanity among all the multiple players in land development.

472. Main programmes to be supported under this Budget include:

- Civil Service Housing Programmes;
- Maintenance of Government Housing and Infrastructure; and
- National Housing Development Loan Facility Projects.

Civil Service Housing Programmes

473. Civil service housing remains a challenge requiring prioritisation. For years, civil service housing programmes have not been adequately resourced owing to budgetary constraints.

474. The Civil Service housing shortage is particularly acute in new districts and small centres where there is also lack of private investment in housing. This has made it difficult for Ministries to deploy and transfer officers to such remote stations.

475. The 2013 National Budget will, therefore, prioritise this programme, targeting quick win on-going and stalled housing projects such as those in Beitbridge and Lupane, as well

as increasing Government housing stock by extending the programme to the new districts of Mbire, Bulilima and Nembudziya, just to mention a few.

476. I am, therefore, glad to acknowledge the funding of US$10 million which CBZ will be establishing in 2013 to provide housing for civil servants without accommodation. Government will match this contribution to facilitate the creation of a US$20 million Housing Fund for civil servants.

Maintenance of Government Housing and Infrastructure

477. Over the years, there has been little investment in the maintenance of Government housing stock. Hence, most existing Government housing stock and infrastructure requires urgent and regular maintenance to preserve their value and improve the working conditions of user civil servants.

478. There were instances in previous years, where Government avoided maintaining dilapidated structures, particularly houses and ended up disposing them. This decision, however, caused the current acute accommodation challenges for civil servants.

479. Furthermore, Government continues to collect rentals on some dilapidated structures, which are not being maintained. This

is morally wrong on the part of the sitting tenants paying such rentals. Therefore, Government will prioritise maintenance before embarking on building new housing stock.

National Housing Development Loan Facility Projects

480. For the past two years National Housing Development Loan Facility projects, managed jointly with the Infrastructure Development Bank of Zimbabwe (IDBZ), have provided strategic win-win partnerships with local authorities, financial and private sectors.

481. In view of the efficacy of this mode of housing delivery, Government, in partnership with the IDZ will pursue on-going and newly identified projects in Checheche (Chipinge), Dzivarasekwa and Marimba (Harare), Cherutombo (Marondera), Tshovani (Chiredzi), Nemanwa in Masvingo. The scope of works entails provision of off-site and on-site infrastructure with a potential of unlocking more housing stands in the identified project.

482. The facility will also be further supported through additional resources from the Sinking Fund to the sum of US$6 million, in 2013.

483. As a matter of policy, this facility will also benefit rural housing programmes and 10% of resources allocated to the Fund shall be channelled to these.

Resource Mobilisation to Fund Housing Activities

484. The Government's accession to International Finance Institutions protocols is beginning to pay dividends as evidenced by the ministry's membership to Shelter Afrique which has managed to unlock resources to the financial sector, in the sum of US$30 million.

485. Mechanisms, and support measures, are being pursued to mobilise all the housing sector players, including pension funds, to increase Government subscriptions and shares in Shelter Afrique with a view of leveraging more resources in future.

Adoption and Adaptation of New Building Technologies

486. In 2012, the Ministry of Public Works and National Housing had an opportunity to sample new technologies for housing development.

487. Some of the technology found appropriate will be adopted and adapted to our requirements for housing development in 2013 and beyond.

488. The objective is to attain the millennium development goals especially target 7 (D) for the housing sector.

Rural Development

489. Sound investments in community infrastructure remains critical in order to address the rural urban divide which has resulted in economic activity and access to resources largely concentrated in urban cities.

490. The rural population on the other hand continue to enjoy limited access to public services such as clean water, health, electricity and sanitation.

491. Improving the quality of life of all citizens therefore, requires that public resources are deployed in a manner that achieves balanced development across all communities as well as all sections of the citizenry.

Health Services

492. The main thrust of the 2009-2013 National Health Strategy is to ensure immediate resuscitation of the health sector as well as ensure the country is back on track towards achieving the Millennium Development Goals.

493. Government also recognises the critical role being played by Mission hospitals in the provision of health care services hence the continued support through the targeted approach.

494. In this regard, the National Budget will, over the medium term seek to revitalise the health delivery system with emphasis on strengthening primary health care and the referral system through provision of drugs, equipment and rehabilitation of health infrastructure.

495. The targeted Approach Programme adopted in 2009 will be cascaded to other health institutions in 2013. Allocations will focus on rehabilitation and upgrading of infrastructure as well as provision of diagnostic equipment. Part of the equipment requirements for institutions will be drawn from the US$89 million facility that has already been extended by China.

496. Whilst support from development partners has focused on supporting procurement of equipment, other requirements such as ambulances and heath infrastructure are also critical and require support in order to improve and sustain health services provision.

Sanitation & Hygiene

497. The challenge for sanitation services is to rebuild infrastructure and strengthen local government capacities for service delivery.

498. The cost of rehabilitation and replacement of sanitation infrastructure has been estimated at US$400 million covering rehabilitation of sewage systems (US$280 million) with the balance being for replacement of latrines in the rural areas.

499. The provision of the above facilities will be shared among Government, cooperating development partners and the beneficiaries themselves.

500. Already, Government and development partners are making their respective contributions through the Multi-Donor Trust Fund.

501. To this effect, the 2013 Budget has a provision targeting ongoing projects in urban local authorities. The resources will be augmented by resources from development partners through ZIMFUND.

502. The next phase of the programme, amounting to US$8.25 million will target Ruwa, Redcliff, Harare and Chitungwiza.

Education

503. The education sector continues to show signs of improvement, with no major disruptions being experienced during the past few years.

504. The right of access for all eligible students to education will remain central to our intervention. Government will continue to broaden the scope of fiscal interventions by strengthening the education delivery system through improvements in quality of services, provision of text-books and teaching materials as well as retention of staff.

Rural Water Supply

505. Boreholes, dip wells and small water supply schemes are the mainstay for water supply to rural communities. Water and development are intrinsically linked; communities cannot achieve development and improve their living conditions without water.

506. A key objective is to rehabilitate all rural water points by 2015 and extend coverage to all un-serviced settlements by 2020 in order to improve living conditions and quality of life.

507. The 2013 Budget provision targets rehabilitation of boreholes and construction of additional ones.

508. Additional resources have been allocated to the National Action Committee for water mapping in 19 districts, aimed at developing reliable up to date information on the status of water points. The information will be critical in guiding Government intervention in this critical sector.

Rural Electrification

509. Rural electrification is an important tool for improving the living conditions of rural households through improved economic activity and better health as well as education services.

510. The programme will, therefore, be prioritised under the 2013 Budget.

Transport

511. Mr Speaker Sir, Government interventions in transport since 2009 have targeted enhancing accessibility to centres of economic, social and recreational activities, as well as promoting regional and international trade and investment across the various sub-sectors of the economy.

Roads

512. Focus would be on clearing maintenance backlog in trunk and feeder road networks under the three road authorities namely the Department of Roads, District Development Fund and local authorities.

513. A key intervention will be capacitation of road authorities to rehabilitate the roads by availing road equipment.

514. Decongestion of the main roads will be pursued through the upgrading and dualisation of the network in order to take account of the traffic volumes.

515. The 2013 Budget will ensure that works continue on ongoing projects whilst building capacity for private sector investment in key regional and trunk roads such as the Beitbridge – Harare – Chirundu Road.

516. The Budget will provide for procurement of road equipment to be distributed to all road agencies including local authorities. This will be over and above the support road authorities are receiving from ZINARA.

517. Local authorities will also need to invest in new road infrastructure if we are to decongest traffic during peak hours.

Rail

518. The railway system faces a number of challenges including theft of operating equipment, poor track conditions, low locomotive and wagon availability which have disabled services.

519. Rehabilitation and rebuilding of services offered by NRZ are major priorities for the country. In this regard, fiscal resources have been channelled towards removal of cautions, installation of signalling and telecommunication equipment as well as replacement of worn out slippers.

520. However, there is also need to expand the network to reduce cost of transporting bulk goods through opening of new lines such as the Lions Den – Kafue Line and the Nandi – Mutare Line.

521. Critical in achieving the above is the need for institutional reforms that will separate railway operations from infrastructure.

Information Communication Technology

522. Mr Speaker Sir, the Inclusive Government acknowledges that access to information communication technology (ICT) has become an indispensable part of the world economy, providing vast opportunities for every citizen to participate in socio-economic activities as well as improve access to markets, jobs, business, education and training.

523. With better ICT infrastructure, the potential for innovation, economic development and better public service delivery in the country become possible.

524. Hence, interventions since 2009 have also targeted accessibility as well as affordability of ICTs in our rural areas.

525. The main interventions in ICT have been the following:

Fibre Optic Backbone Infrastructure

526. Mr Speaker Sir, connectivity to the submarine cable is critical in achieving seamless transmission of voice, text, data, and video communications traffic.

527. Such infrastructure also enables the country to develop a robust, competitive and vibrant information communication technology industry that is responsive to the diverse needs of commerce and industry as well as support socio-economic development.

528. In this regard, Government and the private sector have invested towards the development of a fibre optic backbone infrastructure in the country with the fiscus having covered Harare – Mutare and Harare – Bulawayo areas.

529. Additional investments are required to cover Bulawayo – Beitbridge, Bulawayo – Victoria Falls and Harare – Kariba.

530. The 2013 Budget provision, supplemented by Tel-One's own resources will target completion of Bulawayo – Beitbridge and Bulawayo – Victoria Falls infrastructure.

Mobile Tele-Density

531. Mr Speaker Sir, investments by the private sector have also improved the mobile footprint in the country with penetration rates of around 80% in 2012.

532. Further improvements will require installation of additional base stations in remote areas as well as completion of the national fibre optic backbone project and implementation of the last mile roll-out programme.

533. However, the Posts and Telecommunications Regulatory Authority (POTRAZ) will need to address the issue of parallel infrastructure (base stations and fibre optic lines) to ensure optimal use of resources and better coverage.

Broadcasting Transmission Infrastructure

534. Broadcasting infrastructure is still predominantly analogue with most rural and border areas without radio and television transmission.

535. Since 2010, Transmedia has been upgrading the infrastructure from analogue to digital as well as extending coverage through rehabilitation and construction of additional stations. This is in line with meeting the SADC Broadcast Digitalisation target by 2015.

536. In 2013, Transmedia will extend transmission in the country by establishing new sites.

ICT for Education

537. ICTs are a powerful tool for improving the quality of education as well as extending opportunities, both formal and non-formal to previously underserved constituencies.

538. The e-learning programme that Government launched at Chogugudza Primary School in March 28, 2012 is expected to provide students with the appropriate skills so as to give them a competitive edge in a highly competitive job market as well as bridge the digital divide between urban and rural areas.

539. Government will provide 41 computers and accessories, internet connectivity, e-learning software as well as training of staff for both primary and secondary schools.

540. The thrust in 2013 is to continue rolling out the e-learning programme targeting 80 schools countrywide.

541. Government will also promote existing potential in the development of localised e-learning software relevant for our children.

E-Government Applications

542. The E-Government programme will improve efficiency in the delivery of public services, increase revenue generation to the fiscus as well as stimulate economic activity through client friendly online applications.

543. Some of the e-applications targeted for implementation include the following:—

- Online visa applications;
- Online passport applications;
- Online application for registration of companies, trademarks, patents and industrial designs; and
- E-administration.

544. The initial cost of the project has been estimated at US$26 million and a phased approach will be adopted beginning 2013.

Industrialisation

545. To go beyond the enclave, industrialisation is a condition *sine qua non*. Industrialisation creates employment and is a fulcrum for both poverty liquidation and development. This

is fundamentally recognised in the country's Industrialisation Policy that was launched in September 2011.

546. In addressing the issue of industrialisation the following issues need to be addressed:

- Revival of manufacturing;
- Rebuilding domestic value chains;
- Cluster initiatives;
- Affordable lines of credit;
- South – South Co-operation

FDI and Trade Competitiveness

547. Sustaining the economic rebound experienced during 2009 – 2011 and the growth prospects in the medium term will hinge on mobilising domestic resources, attracting international capital flows and promoting international trade.

548. The key to attracting foreign investment is the ability to compete in global markets, both at home and abroad, and to build competitive advantage in key sectors. In fact, the need to innovate constantly in order to achieve and sustain a competitive position is the central challenge for private and public sectors.

Enhancing Competitiveness

549. Building a competitive environment characterised a favourable and stable overall macro-economic environment is central for attracting the requisite foreign direct investment required for this country to go beyond the enclave.

550. Currently, Zimbabwe has been lowly-ranked at 171 out of 183 countries by the World Bank Global Competitiveness Report of 2011. This is against better scores by countries such as South Africa being ranked number 35, Botswana – 54, Zambia – 84, Swaziland – 124 and Malawi – 145.

551. The country's low-ranking reflects serious underlying challenges which range from policy to regulatory and operational issues. These include policy uncertainties and inconsistencies, licencing, getting credit, connected to electricity, trading across borders, service delivery to companies (electricity, water), and infrastructure.

552. For example, starting a new business in Zimbabwe takes very long (144 days) when compared to international, regional and country norms of say 8 days in Rwanda.

Ease of Doing Business: Selected Southern African Countries in 2011

Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Mauritius	23	15	53	44	67	78	13	11	21	61	79
South Africa	35	44	31	124	76	1	10	44	144	81	77
Rwanda	45	8	84	50	61	8	29	19	155	39	165
Botswana	54	90	132	91	50	48	46	22	150	65	28
Zambia	84	69	148	118	96	8	79	47	153	85	96
Swaziland	124	161	47	158	128	48	122	60	148	171	69
Malawi	145	139	167	177	95	126	79	23	164	121	132
Zimbabwe	171	144	166	167	85	126	122	127	172	112	153

Source: World Bank 2012

553. Therefore, in order to enhance Zimbabwe's competitiveness, strong and credible policies and institutions will be important to support the current prevailing political and economic stability.

554. Already, Government has undertaken to make far-reaching initiatives and reforms through the Medium Term Plan (2011 – 2015), the Industrial Development Policy (2012 – 2016) and the National Trade Policy (2012 – 2016) to make Zimbabwe an attractive investment destination.

555. However, the major challenge remains implementation of the well-intended policies in various policy frameworks. The specific areas include:

Economic Governance

556. Improving the quality of economic governance entails respecting private property, improving regulations and operational efficiency of institutions that offer essential services like licences, electricity, water, etc.

557. Fighting rent-seeking behaviour and corruption should also be prioritised.

Human Resources

558. Expanding, orienting and aligning Zimbabwe's education, technical vocational training, apprenticeship programmes, research and development towards industry's needs and international standards will also be prioritised as a way of linking the industry with the education system.

Energy

559. Out of a national demand of about 2 200 MW, the country can only produce around 1 237 MW, leaving a shortfall of about 44%. Part of the shortfall is covered by imports but this is not sustainable given the current financial constraints.

560. Hence, rehabilitation and expansion of national power stations (Hwange, Kariba, Harare, Bulawayo, Munyati), the national grid and transmission & distribution network are prioritised to improve energy supply to local firms.

Access to Finance

561. Loan opportunities for private firms are limited, mainly due to high interest rates (about 20 – 25% p.a.), charged by banks and other financial institutions.

562. Therefore, strengthening links with international institutions will be prioritised in order to secure cheaper loans. Government will also continue to pursue the re-engagement process in order to normalise its relations with the international community, including the IMF and the World Bank.

Lines of Credit

563. Improving competitiveness in the manufacturing industry will also require significant investments. In 2010, about 33% of the manufacturing sector is reported to have made some investments, accounting for about 1% of sales.

564. In order to improve investments into the sector, Government has already agreed on re-alignment of the Indigenisation Regulations to the ZIA Act which is a key imperator for investor confidence building.

565. This will be supported by further pursuing lines of credit including:

- R575 million rand facility with South Africa;
- US$50 million facility from Angola;

- 500 million pula facility with Botswana;
- US$100 million line of credit from India;
- Over US$2 billion worth investments from China; and
- Brazilian more Food for Africa initiatives, among others.

South – South Cooperation

566. Mr Speaker Sir, today's development cooperation architecture has evolved from the North-South paradigm as some developing nations and a number of emerging economies have become providers under the South-South Cooperation. Taking cognisance of this development the country will court other non-traditional financiers, including those from the Middle East, Asia, Africa and Latin America.

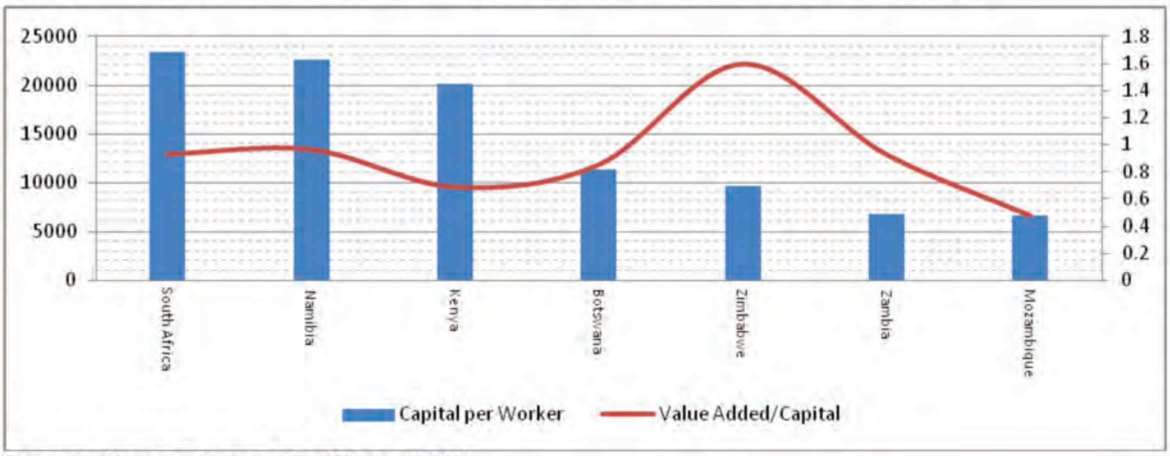
567. Furthermore, Government will also aggressively follow up on dormant facilities by identifying priority projects for implementation in 2013. These include facilities amounting to over US$40 million already signed with the Chinese Government.

568. Central to restoring the role of our manufacturing will be enhancing its competiveness in both the domestic and foreign markets.

569. Given the antiquated state of most companies' equipment and machinery, this will require massive investments in re-tooling and new technology in partnership with friendly foreign investors as some of the larger investment requirements can simply not be wholly underwritten domestically.

570. In addition, two other ratios indicating constrained investment levels of Zimbabwe's manufacturing sector are the capital/worker ratio, which is relatively low and the output/capital ratio which is relatively high reflecting run down equipment/capital, high input and finance costs, and power outages.

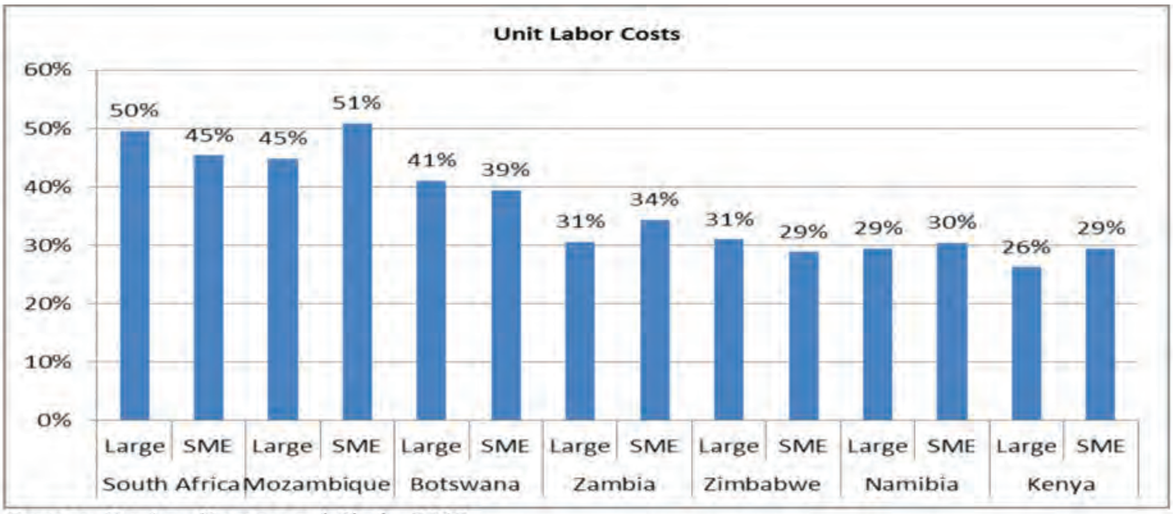
Capital per Worker and Value Added per Unit of Capital Stock



Source: Davies, Kumar and Shah, 2012.

571. However, the above shortcommings are outweghing the sector's competiveness in terms of factor-floor productivity and unit labour costs on the domestic and international markets as indicated below.

Unit Labour Costs



Source: Davies, Kumar and Shah, 2012.

572. Hence, companies' access to the requisite human resource skills, at wage pricing thresholds that remain competitive, will also be unavoidable under the prevailing international production and trading relations that are now so globalised.

573. Accordingly, addressing the following factors becomes essential in enhancing competiveness and capacity of Zimbabwe's manufacturing sector.

574. It will be necessary that inter-linkages with export markets be

re-established, especially against the background of globalised marketing strategies.

Realignment to the Changed Industrial Structure

575. After a decade long crisis, the old manufacturing sector has lost a lot of opportunities and time to cope with the rapidly changing global industrial environment.

576. The reality that the old manufacturing sector has to cope with the rapidly changing global industrial environment makes it highly improbable and infeasible for the domestic manufacturing sector to be restored under the same old models.

577. Therefore, the modern trends characterised by new global value chains, new regional market structures dictate the need to re-model and re-align the current manufacturing industry within the context of the changed and globalised marketing arrangements.

578. Hence, policy interventions will embrace a twin approach, also entailing:

- Support for forward looking re-industrialisation based on rebuilding domestic linkages with other sectors of the economy, including SMEs and entrepreneurs in the informal sector; and

- Fostering re-integration of the manufacturing sector to the new model aligned to the modern global and regional markets.

579. Furthermore, old protectionist measures alone will not be successful in taming the flow of the tide of globalised marketing onslaughts now increasingly from yester-year's developing economies, from both the South and the East.

Rebuilding Domestic Value Chains

580. Resuscitating and promoting inter-industry linkages within the local economy is central to the success of industrial revival in order to arrest the rapid increase of dependence on imported raw materials. Currently, more than half of manufacturing firms depend on imported raw materials, particularly for agro-processing.

581. Government will, therefore, pursue policies for restoring the broken industry linkages and promote local sourcing of raw materials, as greater efficiency and competitiveness will come from rebuilding domestic value chains linkages.

582. Already, ZEPARU and CZI are undertaking studies in this area.

Cluster Initiatives

583. The motive of adopting and implementing the Cluster Development Strategy is based on proven benefits in terms of economies of scale, enhanced value addition, competitiveness and development of comparative advantage through capitalising on proximity to production, procurement and marketing synergies.

584. This initiative, therefore, seeks to identify sectors with synergies and to promote them through a combination of either specific geographic or product area.

585. Already, some work has started in this area, focussing on projects such as in agro-processing, leather and textiles sub-sectors. Such projects will receive support in 2013 and beyond as part of implementing the National Industrial Policy.

586. Mr Speaker Sir, I propose to allocate an amount of US$2 million towards work to advance this initiative.

Financial Interventions

587. In addition to the above measures, in 2013, Government will also pursue various facilities in support of competitive industries through the following:

- The US$70 million Zimbabwe Economic Trade Revival Facility (ZETREF). From this Facility, approvals to date amount to US$53 million, whilst disbursements are US$27 million.
- The US$40 million Distressed Industries and Marginalised Areas Fund (DiMAF);
- The 575 million rand facility with South Africa;
- The US$50 million facility from Angola;
- The 500 million pula facility with Botswana;
- The US$100 line of credit from India;
- The Over US$2 billion worth investments from China; and
- The Brazilian more Food for Africa initiatives, among others.

Value Addition

588. This economy holds a lot of potential in value adding commodities, particularly from the mining and agricultural sectors, thereby

reducing dependency on fluctuating resource prices, generating diverse income, as well as tapping into local skills.

589. This is also a strategy for tackling the country's developmental challenges of unemployment and poverty, consistent with objectives of the National Industrialisation Policy and the Medium Term Plan.

590. Scope for value addition has already been identified in mining and agricultural commodities such as gold, diamonds, platinum, coal, granite, iron ore, tobacco, cotton and soya beans, among others.

591. In pursuance of the value addition and beneficiation strategy, the country can derive lessons from the 1980s, when the country used to have more manufacturing capability than most countries in Africa, as well as experiences from regional countries.

592. The objective is, therefore, to promote creative local partnership ventures with foreign investors with the requisite capital and technology supported by stable infrastructure.

593. This entails formulation of a clear value addition strategy which reviews some legislation and regulations related to investment, re-examines existing trade agreements and considers tax

incentives for supporting value addition and beneficiation initiatives under the ambit of the National Industrialisation Policy.

Research, Science and Technology

594. Research, science and technology are important for overall prosperity of any developing economy through translation of innovation and research outputs into practical application for various productive activities.

595. World-wide, studies indicate that investment in agricultural research can give about 30% or greater return. Hence, support and investment in research becomes paramount.

596. From our own experience, agricultural research and improved technologies have been the most-critical catalytic agents in promoting the agricultural sector, economic growth and sustainable development.

597. Zimbabwe has scope and potential to extend research capacity with the Research Council of Zimbabwe and other relevant institutions to promoting research outputs in productive areas such as agro-processing and value addition in other sectors such as mining.

598. However, research funding would be a critical component for such a process. Many developed nations invest at least 2% of their gross domestic product (GDP) in this area. The simple reason is that this investment gives a good return.

599. Therefore, the 2013 National Budget prioritises support for research as a strategy for advancing the value addition objectives.

Leveraging the Mining Sector

600. In the medium term, mining alongside agriculture will remain key drivers of Zimbabwe's economic growth. With regards to mining, the 2013 National Budget will continue to emphasise on the following policy areas:

Investment

601. World Bank studies indicate increased investment requirements in excess of US$12 billion into existing projects and known

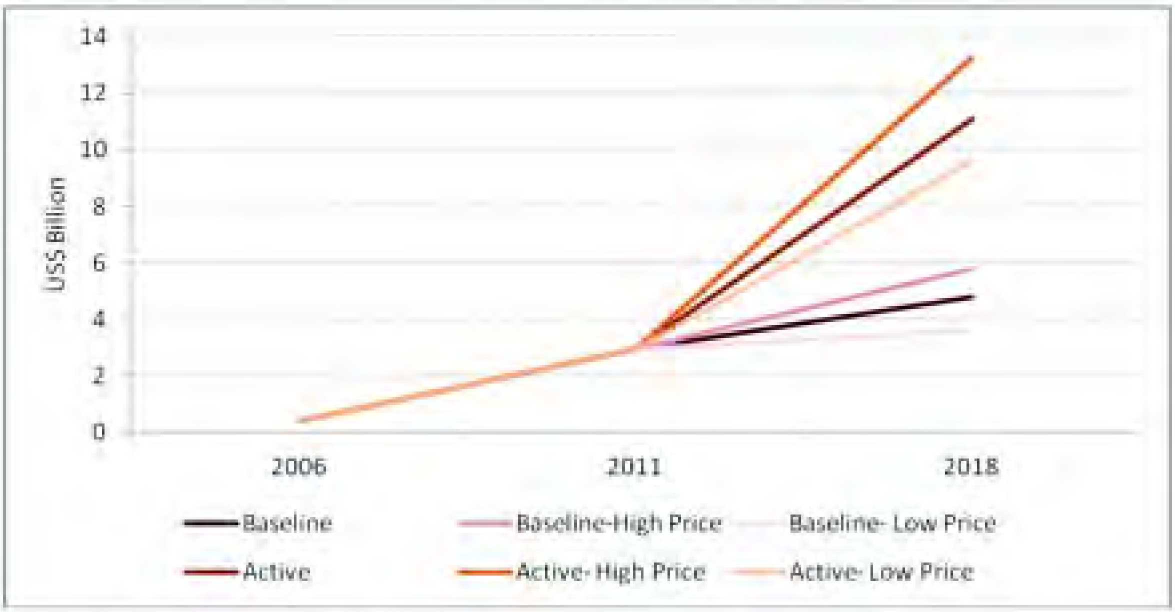
deposits. This has potential to generate over 56 000 jobs and significant growth in exports.

Survey of Mineral Potential of Existing Mineral Projects

	2011		2018 Baseline			2018 Active Policy		
	Production (000)	Employment	Production 000)	Employment	Investment	Production (000)	Employment	Investment
Gold (oz)	416	8600	845	15,200	420	2,510	27,600	420
PGM (oz)	670	8115	690	8200	816	995	10,300	815
Diamonds, kimberlite, (ct)	367	330	565	430	0	1,000	500	100
Diamonds, alluvial (ct)	9,000	1000	12,000	1000	0	15,200	1000	150
Coal (t)	4,564	3400	9,800	3750	3,000	40,000	6000	7,000
Chrome (t)	609		549		85	539		0
Ferro-Chrome (t)	161	2865 (incl. chrome)	306	3500 (incl. chrome)	0	447	7100 (incl. chrome)	340
Nickel (t)	–	–	19	870	62	29	1400	186
Iron Ore (t)						2,500	2000	600

Source: McMahon et al (2012)

2018 Mineral Export Potential (Baseline and Active Policy Scenarios), under different external environment conditions



Source: Volumes: McMahon et al. 2012. Prices: Global Economic Prospects, Staff Estimates.

Note: The price shocks were done only on gold and PGM prices. Assumptions: Baseline: July 2012 prices; Baseline-High: 50% price shock; Baseline low: -25% price shock; Active: Optimistic case; Active-High: Optimistic case with 50% price shock; Active-Low: Optimistic with -25% price shock

602. Hence, stronger investment and policy interventions in support of mining are essential for the sector's future growth.

Exploration

603. Mr. Speaker Sir, correctly understanding the known mineral potential is of strategic importance and central to the management of mineral resources.

604. This demands higher commitment on the part of Government with support from the private sector.

605. Currently, exploration activities remain subdued and this compromises discovery of new mineral reserves. On the other hand, knowledge of mineral reserves properly guides extraction rates, necessary for future sustainable development of the country.

606. In this regard, Government, in partnership with the private sector, will direct resources into exploration activities and operationalise the Mining Exploration Company.

607. Furthermore, Government will attend to current constraints limiting exploration activities, including rationalising taxation of mining and reviewing of exploration fees, among others.

Gold

608. Gold production has been on the increase since 2009, with expected production for 2013 at 17 000 tons.

609. The challenge, however, remains of a mismatch between output and its contribution to the fiscus and the generality of the economy. Another key issue is the massive environmental degradation being created by small scale miners and the social costs of young people dropping out of school early to engage in small scale gold mining.

610. The capitalisation of Fidelity Refinery through a joint venture with a strategic partner is long overdue. Currently, discussions are underway with a number of potential investors.

Platinum

611. Zimbabwe has platinum reserves that are only second to those of South Africa on the African continent, with the three mining operations at Zimplats, Mimosa and Unki.

612. In all cases, and regrettably so, the refining, processing and marketing operations are all done and controlled outside the country.

Zimplats' Investment

613. The biggest platinum mine in Zimbabwe is Zimplats, which took a bold decision to invest in Zimbabwe in 2001 at a time when other investors were shying the country.

614. Since then, Zimplats invested in processing facilities and related infrastructure at a total cost of US$1 billion.

615. At the present moment, the company is undertaking the Ngezi Phase Two Project at a cost of US$500 million. When completed this will result in a 50% increase in annual platinum production, from 180 000 ounces to 270 000 ounces and the creation of 1 100 new jobs.

616. The Ngezi Phase Two Expansion Project is also overseeing the construction of 2 000 employee houses at Turf growth point at a total cost of US$85 million. In addition, a 35 000 mega litre island dam is also being constructed on Munyati River at a total cost of US$20 million.

617. A feasibility study for Phase Three of the Project has been undertaken at a cost of US$30 million. Its implementation will cost US$1.5 billion, entailing a new mine, construction of a new concentrator plant, a new furnace and all related infrastructure, including houses.

618. When completed, this Phase will result in annual production increasing from 540 000 ounces to 720 000 ounces, whilst creating 1 000 new jobs.

619. Clearly, the Zimplats investment will be the biggest in the country since Independence. It is, therefore, important that this investment be promoted and safe guarded.

Zimplats' Contribution to the Fiscus

620. The Zimplats' contribution to the fiscus since 2009 to 2012 are as follows:

Zimplats Contribution to the Fiscus: 2009 to 2012 (US$)

Beneficiary	12 months to 30 June 2009	12 months to 30 June 2010	12 months to 30 June 2011	12 months to 30 June 2012	TOTAL
Corporate Tax	-	23,457,419	4,188,637	8,995,959	36,642,016
Paye	5,797,204	9,695,592	12,495,945	14,760,247	42,748,989
Withholding Tax on Fees	182,650	1,342,939	1,531,218	3,084,658	6,141,464
MMCZ Commission	981,149	3,360,427	4,381,288	4,230,192	12,953,056
Royalties	2,188,728	8,967,239	16,132,209	51,280,498	78,568,674
Custom Duties	3,874,688	6,653,162	9,417,480	8,775,648	28,720,978

Source: Zimbabwe Platinum Mines

621. Notwithstanding Zimplats' huge contribution in terms of overall development, there is scope for greater revenue to the Government through a mutual win-win fiscal regime.

622. Areas that require attention include:

- The construction of a platinum refinery so that PMGs are processed and refined locally that way ensuring that the country benefits fully from the platinum by-products;
- A re-look at the taxation and royalty regime;
- More and greater Corporate Social Responsibility (CSR) in areas discussed with the Government;

623. Mr Speaker Sir, the long and short of it is that Zimplats is an anchor investment for our economy.

Diamond Legal Framework

624. Zimbabwe is now the world's fifth largest producer of diamonds by volume after Russia, Botswana, Democratic Republic of Congo and Canada. This rank makes it necessary for Government to develop a Legal Framework to guide exploration, production and management of diamond proceeds in order to guarantee long term positive benefits to the country.

625. In this regard, Government through the Ministry of Mines and Mining Development will expedite the finalisation of the Diamond Legal Framework, already identified as one of the priorities on the agenda of the 7th Session of the Parliament of Zimbabwe.

626. Such a Legal Framework will strengthen measures currently being implemented by Government on enhancing transparency and accountability over extraction and marketing of diamond resources, minimising risks related to managing deposits/ reserves, encouraging investment in exploration and managing the environment.

627. Honourable Members will be aware that Zimbabwe is now the fifth largest producer of diamonds. Sadly, that revered position has not translated into a fiscal Eldorado. Despite diamonds exports of US$563 million by October of 2012, only a mere US$43 million in diamond dividend revenue has been remitted to Treasury this year.

628. Although United States sanctions exist against Marange Resources, they do not explain non-remittance of resources where sales and exports have taken place. The diamonds industry being exclusively a cash and deliver industry.

629. It is important that there is transparency around diamonds. We cannot afford to create an impression or insinuation that there is corruption or parallel fiscal activities connected with our diamonds. In this regard, urgent implementation of already agreed positions will be necessary.

630. These policies include:

- the enactment of the Diamond Act and the Minerals Exploration Act;
- enforcement of the 100% Government ownership of diamonds;
- immediate separation of diamonds mining from marketing activities; and
- promotion of value addition through issuance of a directive prohibiting exportation of unpolished or un-cut diamonds.

631. It will be critical that ZIMRA's role be enhanced in the entire value chain of diamond production from mining to marketing.

632. Lastly, the policy of ensuring that the ZMDC or any other future Government Diamonds Agency has 50% shareholding in existing diamond mining houses/companies, including in Anjin will be pursued.

Extractive Industries Transparency Initiative

633. Zimbabwe has already embraced the World Bank's Extractive Industries Transparency Initiative principle. This initiative is envisaged to enhance transparency, accountability and good governance in the mining sector.

634. Hence Government will purse studies and other country experiences on strategies for balancing benefits accruing to mining houses and those to the country through the fiscus.

Mining Linkages

635. The challenge with mining in Zimbabwe, as in most African countries, is that it tends to be high value and low impact.

636. The mining sector is a tiny enclave with little connectivity with the rest of the economy and, therefore, despite its high rentals, it has not been able to sustain growth or socio-economic development.

637. Most mining operations thus, remain little communities that extract high rentals and export them without any other synergies with the rest of the economy.

638. Clearly, a major re-think is required in respect of Zimbabwean mining in order to fulfil the African Mining Vision of the Africa Union over equitable and optimal exploitation of mineral resources to underpin broad-based sustainable growth and socio-economic development.

639. To make mining a catalyst and contributor of broad-based growth and development, linkages must be developed. These include:

- **Forward linkages** into mineral beneficiation and manufacturing. Outside of ferrochrome and tolling of nickel from outside the country, there is hardly any mineral beneficiation in this country. Diamonds, platinum, gold and other minerals are all being exported for little rent to the country.

    - Forward linkages are important for job creation. For manufacturing, Zimbabwe could produce steel, polymers, base metals. For energy, mining produces coal, radio-active minerals, natural gas and limestone. For infrastructure, mining produces steel, copper, cement. For agriculture, mining produces nitrogen, phosphate, potassium and conditioners such as limestone, dolomite and sulphite.

- **Horizontal linkages**, with mining industry procurement, should be an important leverage with mining industry capital goods production. Hence, procurement of mining goods and services locally should be made obligatory.

- **Backward linkages** into infrastructure (power, logistics, communications, water) and skills and technology development.

- **Spatial linkages**, beneficial partnerships between the State, the private sector, civil society, local communities and other stakeholders.

  - Strategic incorporation of mining into cluster development. A mining project, for instance iron ore mining in Mwanesi, should be the catalyst for development of trunk infrastructure, rail, power, gas, water and a corridor to Mozambique. There would also be a multiplier in other high impact sectors for instance manufacturing and agriculture.

XI. FINANCIAL SECTOR MEASURES

Savings Mobilisation

640. Mr Speaker Sir, there is no country that can develop, without a meaningful capacity for mobilisation of domestic savings which are at least 25% of GDP. Precisely, because of this point number six of our **15 Point Plan** makes savings mobilisation an imperator.

641. Notwithstanding an incontestable general health in the financial service sector there are a number of procedural, paradigmic and structural issues in the banking sector. These include:

- Under-capitalisation of some of the smaller banks;
- Corporate governance issues;
- Corrosively high interest rates;
- Absent or meaningless rate on deposits;
- High bank charges;
- Low rates of financial inclusion;
- Understated supervision and surveillance;
- Limited capitalisation of e-banking and ICT platforms;
- The complete absence of a developmental State mind set particularly amongst foreign owned banks;
- Absence of Central Bank's lender of last resort facility;
- Under-capitalised Central Bank with a captured balance sheet;
- Relatively high levels of non-performing loans in at least eight of the smaller banks;
- Limited access to off-shore lines by the sector; and
- An imperfect banking market dominated by four banking institutions with 80% of all the deposits.

642. Recognising the centrality of the financial sector in any capitalist economy, we have in the last three years let the status quo prevail but clearly the fundamental distortions in the financial services sector demand regulatory action, if we are to protect innocent depositors and the sector from its parochial short-termism and lack of strategic thinking. Where there is market failure, regulatory intervention is inevitable.

643. In this regard, the following has already been done:

- An upward revision of capitalisation requirements;
- 70% repatriation into Zimbabwe of all Nostro Accounts;
- Enactment of a new Deposit Protection Act; and
- Crafting of detailed amendments to the Bank Use and Promotion of Anti Money Laundering Bill soon to be gazetted, to further combat money laundering and financial terrorism.

644. In addition, **major** Amendments to the Banking Act have been prepared and will be brought to Parliament soon that will among other things deal with the following:

- Corporate governance;
    - Limiting individual shareholding in a financial institution;

- Mandating the disclosure of bank's ultimate beneficial shareholders;
- Mandatory appointments of risk management and corporate governance committees;
- Mandatory appointments of compliance officers and internal auditors;

- Strengthening the Troubled Bank Resolution framework;
  - Increase in number of mandatory stress tests;
  - Increase in power of the Registrar of Banks;
- Further protection of the public through the establishment of a Banking Ombudsman;
- Creation of a mandatory committee and co-ordination framework of the four regulators in the financial system; and
- Establishment of a Credit Bureau.

Interest Rates

Memorandum of Understanding with Banks

645. Mr Speaker Sir, as indicated above, the large discrepancy between deposit and lending rates, as banks fail to award positive incentives for savings deposits mobilisation whilst

lending at sustainable rates, is clear demonstration of market failure.

646. Moral suasion efforts by both Treasury and Monetary authorities to have banks cultivate a savings culture among depositors and to price their loans and advances at sustainable rates have not yielded results.

647. Mr Speaker Sir, in this country, depositors actually lose money by depositing it as savings with financial institutions.

648. Serve for term deposits, savings accounts have virtually disappeared in our banking sector. The justification is the alleged short term nature of deposits. The net result is a form of voodoo banking where bank charges eat up any deposits held in an account.

649. As such, Government will be coming up with a Statutory Instrument informed by a Memorandum of Understanding between financial institutions and the Central Bank. The effective date of the Statutory Instrument will be January 1, 2013.

650. Mr. Speaker Sir, the Memorandum of Understanding between banks and the Reserve Bank will inform the thresholds of

applicable fees, charges and interest rates to be specified in the Statutory Instrument.

651. The following Principles should guide and facilitate speedy conclusion of the Memorandum of Understanding with banking institutions:

Fees and Charges

- Discouraging charges on positive bank account balances, savings accounts, as well as on any other instruments of a savings nature.
- Net application of the cash withdrawal fee, i.e. where the cash deposit is equivalent to a subsequent cash withdrawal, the fee becomes non-applicable.
- Discouraging charges on cash deposits.

Savings Accounts/Instruments

- Re-introduction of savings accounts and instruments at all financial institutions.

Deposit Rates

652. Following extensive consultations with the various stakeholders:

- No bank charges should be levied on deposits up to a maximum of US$800;
- Any term deposit of US$1 000 and above held over a period of at least 30 days and above should attract an interest of at least 4% per annum; and
- That a debit card be mandatorily issued in respect of all savings or current accounts held by individuals.

653. The above measures will be codified in a Statutory Instrument that will take effect on 1 January 2013.

654. Application of positive deposit rates will be irrespective of the deposit account multiple currency denomination, i.e. will apply on balances in either US dollar, Pound sterling, rand, etc.

Lending Interest Rates

- Relate lending rates to the money market as indicated by the 90 day Treasury bill rate, cost of funds as indicated by deposit rates, with ceilings on margins taking account of risk profiles.

- Lending rates will be subject to a maximum rate of not more than 10% above a bank's weighted average deposit rate, inclusive of all deposits.

Old Mutual and NSSA Lending Rates

655. Lendings from NSSA and the Old Mutual constitute more than 40% of bank lendings in our system. Self-evidently, these two institutions have a major say in directly and indirectly determining prevailing market rates of interests.

656. Mr Speaker Sir, pursuant to restoring sanity with regards to both deposit and lending rates of financial institutions, I am pleased with the progressive leadership being demonstrated by Old Mutual and NSSA who voluntarily are requiring that on-lending by banks of funds sourced from Old Mutual and NSSA.

657. In this regard, pension and social security resources originating from these two institutions for on-lending to the productive sectors will attract a maximum top lending rate not exceeding 10%. This is with effect from 1st January 2013. Needless to say, a tripartite framework agreement will be executed for then.

658. Mr Speaker, the above measure should have a serious effect in lowering interest charges in Zimbabwe. To ensure that this

move benefits our productive sectors strong monitoring will be required to ensure that on-lending financial institutions do not abuse this.

659. Treasury is also extending discussions to other corporates, parastatals, who generate massive amounts of cash in the economy with a view to persuading them to follow the Old Mutual /NSSA example.

Paid Up Permanent Shares (PUPS)

660. Paid-Up Permanent Shares (PUPS) were introduced in Zimbabwe through Statutory Instrument 308 of 1986 with a view to enable building societies to raise long term funding for periods up to two years. The PUPS were designed to mobilise private sector funds for housing by enhancing building societies' competitiveness in attracting deposits. The conditions precedent were that at the end of each financial year, each building society had to make up a quarter (25%) of the mobilised funds available for low-income housing.

661. Mr Speaker Sir, in order to inculcate the culture of savings, Treasury is amending Statutory Instrument 308 of 1986 in order to make it more responsive to our dollarized environment with a view to further attracting mortgage finance.

662. In addition SI 308 of 1986 is also being amended so that it covers any banking institutions offering mortgage finance.

663. We are thus reinstating the tax exemption status, as was the case in the past, from 2013.

Mortgage Finance

664. Mr Speaker Sir, the provision of housing and indeed mortgage financing for housing is critical in any economy. This Budget gives priority to this issue to save current generations from being generations of ‘lodgers’.

665. The current stock of mortgage finance available is based on ten years tenures at a weighted average rate of interest of 15%. In this regard, we very much acknowledge the huge disbursements to mortgages by CABS and CBZ Building Society (formerly Beverley Building Society).

666. Discussions are currently underway with all players in order to address the question of interest and tenure of the mortgage bonds. However, the following measures are being taken immediately:

Amendment of Income Tax Act in relation to Mortgage Financing

667. In terms of the current law, exemptions are provided to building societies from paying income tax, in order to encourage commercial banks to offer mortgage finance a similar exemption is being offered but only in relation to strict mortgage transactions.

Issuance of Treasury Bills

668. Honourable Members will be aware that Treasury re-introduced issuance of Treasury bills on 4 October 2012, four years after the last issue in 2008.

669. This was in response to requests by banks for a Treasury financial instrument to address the systemic liquidity challenges, the unequal distribution of liquidity and the shortage of appropriate instruments for use as collateral in inter-bank trading.

670. The Treasury bills were also going to be instrumental in determining the reference interest rate for the money market.

671. Mr Speaker Sir, to date there have been four issues as indicated in the Table below.

2012 Treasury Bills Issues

Auction Date	4 Oct 2012	24 Oct 2012	26 Oct 2012	6 Nov 2012
Type of Security	91 days	91 days	91 days	91 days
Announced Volume	US$ 15 million	US$ 15 million	US$ 15 million	US$30 million
Actual Amount Issued	Nil	Nil	US$9.8 million	Nil
Total Bids Received	US$ 7.7 million	$6.5 million	US$11.05 million	US$8.65 million
Number of Bidders	9	6	12	13
No. of Successful Bidders	Nil	Nil	11	Nil
Rate			8.51%	

Source: Reserve Bank of Zimbabwe

672. Mr Speaker Sir, the response by some of the major banks to the instrument which they advocated for has been a huge disappointment to both Treasury and the monetary authorities.

673. Uptake of Treasury bills has been low, ranging from 29% to 74%, with most interest rate offers clearly unacceptable.

674. The result has, hence, been only one successful issuance of Treasury bills of US$9.8 million at 8.51%.

675. In line with policy, future issuance of Treasury bills will be guided by the following:

Issuance Note

- Treasury Bills Issuance Committee, comprising Treasury and Reserve Bank officials, determines the amount to be raised, the tenor, timing and the cut off interest rate.

- The Accountant General issues the Treasury Bill Issuance Note to the Reserve Bank giving legal authorisation of issuance of Treasury bills.

Tendering Process

- The Reserve Bank invites tenders from financial institutions and the public, giving timelines for submission of bids.
- At the close of the tender, Central Bank and Treasury officials open bids and list the tenders and interest rates.
- Allotments to all participants in the tender will be based on the weighted average interest rate.
- Results of the tender will be submitted by the Reserve Bank to the Accountant General for counter-signing.
- The Committee shall determine, and then recommend the cut-off rates to the Minister for authorisation.
- Results are then announced, and Treasury bills issued.

Maturity

- A few days before maturity of the instruments, the Central Bank advises the Ministry of Finance on the need to have sufficient funds to cover the maturity value. The funds will be deposited into the designated Government account.

- The Ministry of Finance (Accountant General) will then issue instructions to the Central Bank to debit the designated Government account and pay-out the holders of the instruments.
- The Central Bank will pay the maturity value to the holder of the instrument on the maturity date as reflected in the Central Securities Depository (CSD) system.
- Where an institution is holding the instrument in custody on behalf of a client, it is incumbent upon the custodian to pass on the proceeds to the owner of the securities.

Deposit Protection Fund

676. Mr. Speaker Sir, hyper-inflation wiped out the value of resources that had been accumulated prior to 2009 in the Deposit Protection Fund established under the Banking Act, and administered by the then Deposit Protection Board.

677. Hence, following the enactment of the Deposit Corporation Act in March 2012, which established the Deposit Protection Corporation, there is need to recapitalise the Deposit Protection Fund.

Deposit Protection Premium

678. To quickly build the Deposit Protection Fund, effective January 1, 2013, the 0.3% premium calculated on prior end of year deposits and payable quarterly is maintained, while the upper cap of US$30 000 is removed.

679. Using projected end of year 2012 deposits of US$4 billion, this would cumulatively raise US$12 million for 2013 payable in quarterly instalments of US$3 million.

680. In terms of the current legislation, employment costs of the Deposit Protection Corporation will be capped at 30% of income. The 2012 Deposit Protection Corporation budget approved by Government is US$1.9 million.

681. Treasury will require that the administration costs be part of the 30%.

682. Hence, from the above example of US$12 million, the balance of US$8.4 million would remain available in support of Deposit the Protection Fund.

Supplementary Contributions

683. Mr. Speaker Sir, notwithstanding the 0.3% premium on total deposits payable to the Fund by banks quarterly, it is evident that the resources that will stand to the credit of the Fund are unlikely to provide sufficient cover for future liabilities.

684. That being so, Mr. Speaker Sir, I am proposing that the DPC raises a sum of U$7.6 million from contributing banks, in terms of its powers set out in section 31 of the Deposit Protection Corporation Act [*Chapter 24:29*].

685. The usual formula used to calculate contributions in respect of which the higher the deposit the higher the contribution will be applied.

686. Using end June 2012 total bank deposits, the bank with the lowest deposits would be liable to a payment of around US$30 000, while the one with the highest deposits would pay close to US$2 million.

687. Mr. Speaker Sir, in order to lessen the burden on banks, institutions will have 12 months, January–December 2013, to make the payments, though those with capacity will be urged to do so sooner.

Deposit Protection Cover

688. Mr Speaker Sir, currently, individual depositors are covered by the Deposit Protection Fund to the extent of only US$150 of their deposits in the event of bank failure.

689. I am pleased to report that the Fund proposes to review this threshold to US$500 per depositor, which threshold would be subject to review.

690. It is my belief that implementation of the measures I have outlined will enable the Deposit Protection Corporation to discharge its mandate of protecting depositors and enhance confidence in the banking sector.

Capitalisation of Insurance Companies

691. The current low underwriting capacity on the local market is resulting in externalisation of premiums where large risk is involved, for instance, risks associated with mining and aviation business.

692. In order to strengthen the underwriting capacity of the insurance industry and enhance the protection of policy holders in line with regional and international best practices, Government has reviewed the minimum Capital requirements, in consultation with IPEC[1] and the industry.

[1] Insurance and Pensions Commission

693. The new capital requirements for insurance companies and brokers is as follows:

New Minimum Capital Levels

Class Of Business	Current ($)	New Capital Requirements ($)
Life assurance company	500 000	2 000 000
Non-life insurance company	300 000	1 500 000
Composite insurance company	800 000	3 000 000
Non life reinsurance company	400 000	1 500 000
Life reinsurance company	400 000	1 500 000
Funeral assurance company	400 000	1 500 000

694. The capital requirements for insurance brokers are reviewed as follows:

	Current		Proposed	
Class of business	Prescribed Securities	Professional Indemnity	Prescribed Securities	Professional Indemnity
Insurance Broker	100,000	100,000	100,000	200,000
Reinsurance Broker	100,000	100,000	100,000	250,000

695. Mr. Speaker Sir, the above new capital requirements take effect as follows:

- 30 June 2013, 50% compliance;
- 30 June 2014, full compliance.

__Financial Sector Legislative Reforms__

696. Mr. Speaker Sir, recent experiences with some of the failing banking institutions confirm that poor corporate governance in the financial sector is threatening the soundness of a number of institutions and development of money and capital markets.

697. Government will, therefore, be proposing some legislative reforms, also meant to improve policy certainty, transparency over implementation of laws, and root out malpractices in the micro-finance sector.

Amendments to the Banking Act

698. Following recent bank failures in Zimbabwe, it has become necessary to amend the Banking Act to strengthen the Troubled and Insolvent Bank Framework.

699. The proposed amendments to the Banking Act will enhance good corporate governance within the banking sector, strengthen corrective measures by the Regulator and criminalise activities and actions that prejudice depositors.

700. The Banking Act will also be consolidated by incorporating provisions contained in subsidiary legislation such as

consolidated supervision, so that the Act contains comprehensive regulatory measures necessary for effective regulation of the banking sector.

701. The Banking Act Amendment Bill is expected to be enacted into law during the first half of 2013.

Enactment of the Microfinance Act

702. Mr. Speaker Sir, the role of Microfinance in promoting financial inclusion, SME development and pro-poor economic growth cannot be over emphasised. In this regard, Government is working on the formulation of a Microfinance Bill to provide for a supportive framework for Microfinance development.

703. The proposed Microfinance Act will enable bigger MFIs to accept deposits, thereby increasing funding opportunities for the sector. Regulation of MFIs will also promote good governance, transparency and disclosure for improved consumer protection.

704. The Microfinance Bill has been gazetted and is awaiting approval through the normal Parliamentary processes.

Amendments of the Securities Act

705. Mr. Speaker Sir, as you will recall that the Securities Act [*Chapter 24:25*] is being amended to update it in line with developments that have taken place in the securities sector since the Act was promulgated in 2004.The amendments to the Act will increase the Commission's effectiveness to protect investors.

706. The Securities Amendment Bill is currently under debate in Parliament.

NSSA and Occupational Pension Schemes

707. In 2011 Government, mandated the International Labour Organisation (ILO) to conduct an actuarial study to recommend a Framework for co-existence between NSSA and other Occupational Pension Schemes.

708. Following the ILO actuarial study, Government will be implementing the recommendations of the report during the 2013 financial year.

Foreign Shareholding Thresholds

709. Exchange Control Statutory Instrument 109 of 1996 allows an individual foreigner to own 10% of tradable shares of a listed company and 40% shareholding collectively.

710. Collective foreign ownership threshold of 40% stipulated in the same SI is lower than the 49% provided for under the Indigenisation Regulations. This has brought some confusion in the market as to the actual threshold of foreign participation on the stock market.

711. To this end, I propose amendment of Statutory Instrument 109 of 1996 to align the 40% threshold on collective foreign participation with 49% threshold in terms of the Indigenisation Regulations.

712. The proposed threshold of 49% collective foreign participation will undoubtedly improve the liquidity situation on the ZSE as foreign investors are currently accounting for more than 50% of trades on the ZSE.

XII. OTHER CRITICAL MEASURES

Wage Bill

713. Taking into account the anticipated macro-economic fundamentals for the period 2013, I propose to adjust the current civil services salary levels by 5.5 % in line with anticipated inflation level of 5%.

714. This intervention has the effect of increasing our overall wage bill for civil servants including grant aided institutions to US$2.645 billion, representing 68.7% of total expenditure. The increase is on account of costs related to promotions and re-grading as well as the need to cushion the public servants against inflation.

715. Furthermore, Government will continue to improve the welfare of the civil servants through scaling up the provision of non monetary rewards in the form of housing and transport among others.

716. The pension bill is projected to increase by US$15 million to US$417 million. The increase, however, does not take into account the decision already taken by Government to move

away from the current Defined Benefit Scheme to Defined Contribution Scheme with the view to ensure sustainability of pension payments.

Pension Reforms

717. Pension payments have become an important element in the Budget framework, accounting for a significant share of the total employment costs. This, in the medium term, is not sustainable, particularly when the number of workers supporting pensions declines due to a variety of factors.

718. Government has already taken a position to move away from the current Defined Benefit Scheme to a Defined Contribution Scheme meant to ensure sustainability of pension payments.

719. Government will, therefore, expedite consultations with all key stakeholders during the first half of 2013 and implementation of this programme will start later on through creation and operationalisation of the Civil Service Pension Fund.

Peace and State Building

720. Constitution Making, National Healing and Elections are key peace building processes which will be supported in 2013, consistent with provisions of the Global Political Agreement.

721. Successful execution of these processes will see Zimbabwe emerging as a strong democratic and promising state.

Referendum and Elections

722. In line with the provisions of the Global Political Agreement, adoption of the new constitution will lead to the conduct of the Harmonised general elections. In this regard, Treasury received the requirements amounting US$133.8m for the conduct of the Harmonized elections which the 2013 budget must provide for.

723. Drawing from submissions by our institutions involved in these inescapable programmes, resources required exceed US$150 million, way above the proposed 2013 allocation of US$25 million.

724. There is, therefore, a funding gap, making it inescapable that Government calls on its friends and partners for assistance. In

light of this, it makes it even more imperative that our own mineral resources be banked upon to meet this funding gap.

Restructuring of Public Enterprises

725. Mr. Speaker Sir, the under-performance of most public enterprises continues to retard the momentum for the attainment of a contemporary, democratic and developmental state which must be anchored by efficient and effective state enterprises and parastatals.

726. This slow pace of implementing agreed reforms for these entities and the absence of an over-arching policy framework that applies to all state enterprises and parastatals are compounding this.

727. The restructuring exercise is a Government priority that anchors expected outputs and outcomes in the Medium Term Plan.

728. The programme has been ranked high on Zimbabwe's economic reform agenda, as a strategy geared at improving performance and efficiency of State enterprises in the production and delivery of public goods and services. These entities, when

operating efficiently, have the potential to contribute 40% of the Gross Domestic Product.

729. Furthermore, it offers new management mechanisms and new ownership structures that support more dynamic economic growth.

730. The restructuring helps to attract new investment, particularly foreign investment, new technology and management skills, that can help transform the fortunes of many of our State enterprises.

731. Hence, despite the disappointing performance in implementation of public enterprise restructuring in 2012, Government will continue to prioritise this exercise in 2013, as an ongoing economic transformation programme, through commercialisation, privatisation and implementation of other restructuring strategies such as joint ventures and public private partnerships in their variant forms.

732. The 2013 restructuring programme will concentrate on the eighteen public enterprises identified by Cabinet and are also in the Mid-Term Plan. These are indicated in the Table below:

Parastatals for Restructuring

Financial Services	Transport and Communications	Agriculture	Mining	Utility Providers	Manufacturing
Agribank	Air Zimbabwe Holdings Pvt Ltd	Agricultural and Rural Development Authority	ZMDC subsidiaries	Zimbabwe National Water Authority	IDC subsidiaries
POSB	National Railways of Zimbabwe	Allied Timbers		ZESA Holdings	
ZIMRE	Civil Aviation Authority of Zimbabwe	Grain Marketing Board		Zimbabwe Power Company	
	Net-One	Zimbabwe Grain Bag Ltd			
	Tel-One	Cold Storage Company			

733. In order to speed up the restructuring programme, Government will complete the necessary processes of establishing a legislative restructuring framework through the proposed State Enterprises Restructuring Agency Act.

Corporate Governance

734. Adequate compliance with good corporate governance practices is critical for attracting investment and also facilitating sustainable support for public enterprises.

735. Government will, therefore, require all state enterprises and parastatals to comply with the provisions of the 'Corporate Governance Framework for State Enterprises and Parastatals',

which will in turn be enhanced through the codification of certain provisions of the framework in line with the approved principles of the State Enterprises and Parastatals Management Bill.

Performance Contracts

736. The performance management system has proved an effective tool for enhancing performance of organisations in both the public and private sectors.

737. Accordingly, in 2013 Government will cascade the results based management system to all state enterprises and parastatals, in line with developments in the public service.

738. This will involve conclusion of performance agreements between the responsible Minister and the parastatal Boards, who in turn will establish performance contracts with Chief Executive Officers of public enterprises.

739. Structured training programmes will be put in place to ensure effective implementation of the result based management programme, while monitoring and evaluation of performance will be on a regular basis to minimise occurrences of unidentified risks.

State Enterprises and Parastatals Policy

740. Government is, also developing an overarching policy that will communicate the Government's vision on the role of public enterprises and also spell out strategies for their turn-around in order to maximise their performance and shareholder value.

Public Finance Management Regulations

741. Draft Public Finance Management (PFM) Regulations to fully operationalise the Public Finance Management Act have been developed in consultation with stakeholders and the support of external PFM experts.

742. A final round of consultations is under way to consider the revised draft Regulations before submission to the Attorney General's Office for refinement and the relevant structures of Government for approval.

743. The Regulations development exercise has identified some aspects of the principal Act that need to be strengthened and amendments will be proposed to deal with the identified gaps and enhance the financial management legal framework.

744. These include the need to beef up the enforcement arrangements, specify the fiscal responsibility principles to be taken into account in crafting and implementing macroeconomic and fiscal policy, requirements to prepare the annual Budget Strategy Paper and the attendant accountability arrangements.

Containment of Domestic Arrears

745. The continued growth in Government's indebtedness to various service providers which currently stands at US$205 million up from US$48 million in 2009 remains a big challenge for the fiscus.

746. Concerns have been raised from some quarters that the delay in clearance of domestic arrears to service providers has constrained service providers' capacity to provide an efficient service to our economy as well as ability to meet their statutory obligations.

747. In this regard, it is critical that some measures be instituted to reduce Government's current obligations and also contain further accumulation of arrears from service providers.

748. To clear Government's current obligations I propose to allocate US$65.5 million leaving a net arrear position of US$139.7 million.

749. In order to contain further accumulation of arrears I propose the following measures for implementation with effect from January 2013.

i. Advise Service providers to avail services in line with Ministries' resource provisions for utility services. This entail advising service providers upfront on the basis of monthly cash-flow requirements aligned to the budget of each Ministry;

ii. Institute national demand management measures for electricity by installing pre-paid meters to both Government Office and institutional accommodation;

iii. Make it mandatory for all Ministries to migrate from a contract to a pre-paid billing system for mobile telecommunication services a move with a great potential to restrain growth in arrears;

iv. Install E-Government network infrastructure to facilitate effective and affordable communication within and across Government;

v. Furthermore, Ministries are encouraged to invest in installation of call monitoring systems within and across Government departments;

vi. Facilitate installation of boreholes at public institutions such as the hospitals to augment local authority water supply; and

vii. Ministries align their current fleet demand from CMED to resources available in the Budget.

Projects Planning and Execution

750. In view of resource limitations, improved planning of capital budget expenditures can substantially improve execution and make savings. Therefore, the following institutional and operational improvements on PSIP will be undertaken from 2013:

- Introduction of a capital-spending plan as part of the budget process that links capital spending allocations to total estimated project cost;
- Establishment of a two step process for approval of capital investment projects with:

  E provisional approval following identification and screening; and

E final approval after detailed design and appraisal for inclusion in the budget;

- Rolling out of standards and procedures for project design, preparation and appraisal. Train staff in the new procedures;
- Formalisation of the system of commitment management to avoid running up liabilities that will not be covered by the cash budget; and
- Establishment of procurement committees in each procuring entity, as required by Part IV of the Public Procurement Act; further delegation in procurement management should be given to parastatals.

Performance Management

751. Government is strengthening prioritisation of public spending and improving value for money through ongoing implementation of efficiency measures which aim to link public spending more closely to outputs.

752. Better information on service delivery outputs shows how public money is being spent thereby assisting Government to direct resources where they are needed most in line with Government's service delivery priorities.

753. In this regard, Government introduced performance contracts for Heads of Ministries in 2011 aimed at ensuring accountability, transparency and focus on critical results that improve the social and material conditions of citizens they serve.

754. Therefore, Heads of Ministries should demonstrate a clear understanding of the mandates of their respective Ministries in order to focus on higher level priorities as enunciated in the Medium Term Plan rather than concerning themselves with inputs, activities and processes.

755. To achieve a holistic approach to service delivery improvements, there is need to mainstream performance management to the whole public service including state enterprises and parastatals, local authorities as well as other statutory bodies.

756. Therefore, with effect from 2013, Performance Contracts will also be signed between Ministries and Boards of State Enterprises and Parastatals as well as between the Boards and the respective Chief Executive Officers of the public entities concerned.

757. With regard to Local Authorities, the Ministry of Local Government, Urban and Rural Development is working on

modalities for the introduction of a performance contracting system for Local Authorities in light of the glaring service delivery deficits being faced in the sector.

758. Mr. Speaker Sir, performance contracting systems seek to buttress RBM in general and RBB in particular, which approaches Government has been practising since 2005.

759. The Government has already initiated steps towards migrating from line item based budgeting to Programme Based Budgeting which aims to improve the efficiency and effectiveness of public expenditure by linking the Budget to the results they deliver.

760. Under Programme Based Budgeting, expenditures are classified into groups of similar services with similar objectives, thereby helping budget decision makers compare the costs and benefits of expenditure options.

XIII. DEBT RELIEF

Debt Overhang

761. Mr. Speaker Sir, Zimbabwe's external debt is now estimated at more than US$10 billion and for more than a decade, the

country has been in default, with arrears now estimated at US$6.1 billion.

762. This has constrained development cooperation with external partners, particularly in the areas of long term infrastructure investment, official development assistance and in some selected instances, private investment.

763. Current infrastructure requirements stand at more than US$14 billion which cannot be raised from domestic sources alone.

ZAADS

764. It is in this regard that Government has been engaging multilateral financial institutions, the IMF, World Bank and AfDB, for debt resolution, including some debt relief under a recovery programme that would support sustainable stabilisation and boost the credibility of the country's reforms, that way catalysing cooperating partners' and creditors' support.

765. Honourable Members will be aware that, in order to make this process a success, Government developed in March 2012 the Zimbabwe Accelerated Arrears Clearance Debt Development

Strategy (ZAADS) to deepen engagement with both creditors and development partners.

ZAREP

766. This is being implemented through the Zimbabwe Accelerated Re-engagement Economic Programme (ZAREP), which Government is finalising. This programme will contain detailed policy measures to be agreed with the multi-lateral institutions.

767. Mr. Speaker Sir, as already indicated in the March 2012 ZAADS document, the above Programme will support and anchor arrears clearance and debt relief initiatives and mechanisms through:

- The establishment of a good track record of implementing sound macro-economic policies, that way giving scope for unlocking new financing;
- Containing and managing the public sector wage bill to sustainable levels; and
- Securing strong support from development partners for arrears clearance and debt relief, including closing the financing gap in support of sustained and inclusive economic growth.

768. Discussions over the above programme pillars are underway and the 2013 National Budget will, therefore, give impetus to finalisation of this programme for debt resolution, including some debt relief and unlocking of new financing.

Re-building Reserves

769. Mr. Speaker Sir, our foreign exchange reserves remain negligible and well below benchmarks of 3 months import cover, and hence, exposing the country to vulnerability to external shocks.

770. I, therefore, propose a programme for a modest and gradual re-building of reserves.

XIV. MOBILISING REVENUES

ZIMRA Reforms

771. A successful re-thinking of the State requires that every loophole in our revenue collection be closed and tightened. As of the end of October, our imports stood at US$6.5 billion, a 26% increase from 2011. Notwithstanding this, revenue from customs duty was a mere US$289.1 million, representing a mere 10.4% of total revenue collected.

772. Customs duty is thus a mere 4.8% of average duty collection notwithstanding the fact that legislated duty rates range from 5–40%.

773. Clearly, therefore, the year 2013 must see the actualisation of reform programmes within ZIMRA which must include:

- Automation of Beitbridge Border Post;
- Deepening of post clearance audit;
- Strengthening risk management measures;
- Curbing abuse of SADC Rules of Origin certificates;
- Implementation of standard valuation methods for second hand vehicles;

774. Needless to say, the long overdue re-construction of Beitbridge Border post must be implemented.

Diamond Revenues and Budget Shortfalls

775. Mr. Speaker Sir, total diamond exports up to October 2012 stood at US$563 561 495, up from US$233 741 247 for the same period in 2011.

776. While diamond exports are largely as a result of mining operations in Marange, there are also other producers as reflected below.

Diamond Exports to October 2012

Mining Company	Value (US$)	Contribution %
Marange Diamonds		
Mbada Diamonds	255 301 220	46.7
Anjil Investments	126 865 888	23.2
Diamond Mining Corporation	70 728 183	12.9
Marange Resources	53 008 564	9.7
Other Producers		
Murowa Diamonds	36 422 371	6.7
River Ranch	2 447 657	0.4
DTZ-OZGEO	1 201 990	0.2
Diamond Angel	113 111	0.0
Volksic Industries	151 178	0.0
Aurex Diamonds	88 116	0.0
Total	**546 328 278**	**100.00**

Source: Reserve Bank of Zimbabwe

777. Mr. Speaker Sir, Government is an equal shareholder in Mbada, Anjin, and Diamond Mining Corporation, while wholly owning Marange Resources.

778. Apart from being obliged to retain a 50% share in every gross sale, Government is entitled to normal tax dues in the form of corporate tax, PAYE, VAT and royalties.

779. Regrettably, as of October 2012, total dividend received by Treasury was a mere US$41 million. The same amount received in 2011.

780. It is important that Government, on behalf of the people of Zimbabwe, transparently gets what is due to the fiscus. In this regard, Cabinet has resolved that:

- The Diamond Bill be concluded soon, and must also define the revenue distribution matrix from diamonds;

- ZIMRA, the Reserve Bank and the Auditor General undertake a paper trail over diamond output, sales, exports and revenue streams for 2011 and 2012;

- Treasury must collect all overdue diamond revenue for Government;
- All forms of sanctions against the marketing of Zimbabwe diamonds be lifted.

781. Mr. Speaker Sir, there is clearly some increases in diamond output from the diamond companies. In sympathy to this, diamond dividend revenues and remittances to the fiscus therefrom should increase.

782. At our Cabinet meeting on 10 November 2012, there was unanimity that the issue of remittances to the fiscus or lack thereof be given serious attention.

783. On account of experiences to date whereby there is uncertainty and limited transparency on remittances to the fiscus, I am forced to identify projects whose funding will be dependent upon diamond revenues that should be duly remitted to the fiscus.

784. Based on the increasing production levels, my projections are that diamond revenues of at least US$400 million should be remitted for the financial year 2013.

785. Mr. Speaker Sir, the following Table presents the Budget areas that are earmarked for funding from diamond revenues. I will seek the necessary appropriation by Parliament for these areas in the 2013 Mid Year Fiscal Policy Review, consistent with actual receipts from diamond proceeds.

Projects to be funded from Diamond Proceeds

PROJECT	AMOUNT US$
Recurrent Expenditure	
Health Delivery Services	11,000,000
Basic Education Assistance Module (BEAM)	8,000,000
Domestic Arrears - Service providers	40,000,000
Referendum	55,000,000
Elections	75,000,000
UNWTO General Assembly	6,000,000
Sub – total	**195,000,000**
Capital Expenditure	
Road Construction Equipment	50,000,000
Water & Sanitation Facilities	40,000,000
Upgrading of State Universities Infrastructure	20,000,000
Irrigation Rehabilitation and Development	20,000,000
On-lending to SMEs	25,000,000
DIMAF	30,000,000
Housing	20,000,000
Sub – total	**205,000,000**
TOTAL	**400,000,000**

786. It will, therefore, be critical that responsible authorities ensure timeous remittances in order not to compromise the critical areas highlighted above.

Disposal of Country’s Silverware

787. Given the acute shortage of revenues, Government will also consider disposing some of its assets, especially in the telecommunications sector and a comprehensive proposal is being developed for consideration.

XV. REVENUE PROPOSALS

788. Mr. Speaker Sir, the revenue proposals that I am presenting before this August House seek to build on the existing measures that Government has already implemented in support of the productive sectors, enhance revenue, as well as provide relief to taxpayers.

789. I will also provide a review of progress made in the implementation of tax policies that have been adopted by Government.

Tariff Regime

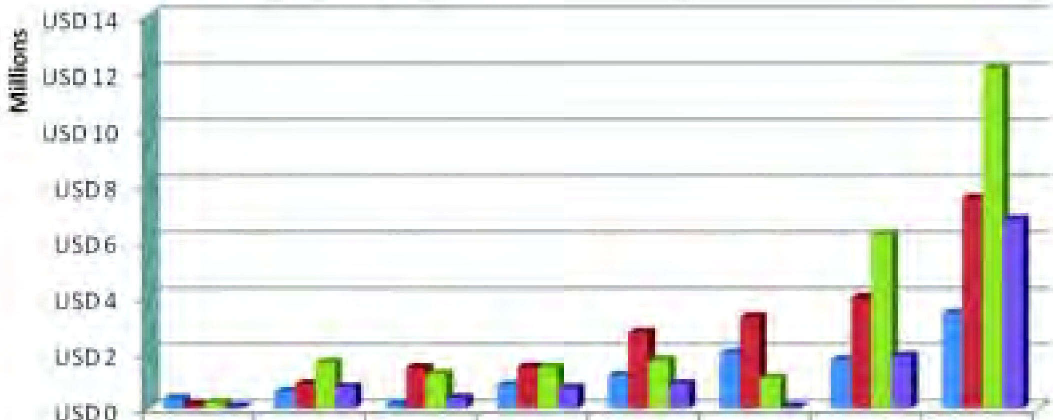
790. Honourable Members will recall that concerns have been raised over importation of finished goods, which now account for the bulk of our imports. The growing current account deficit demonstrates that clearly this is unsustainable.

791. Hence, Government has been implementing a tariff regime that balances the sustainability of our balance of payments and Zimbabwe's regional and multilateral trade obligations.

792. The graph below shows import volumes prior to and after introduction of modest protection.

793. Although the modest protection has gradually yielded positive results, particularly on goods which include vegetables and prepared foodstuffs, imported finished products, have, however, remained on an upward trend.

Volume of Imports of Selected Products



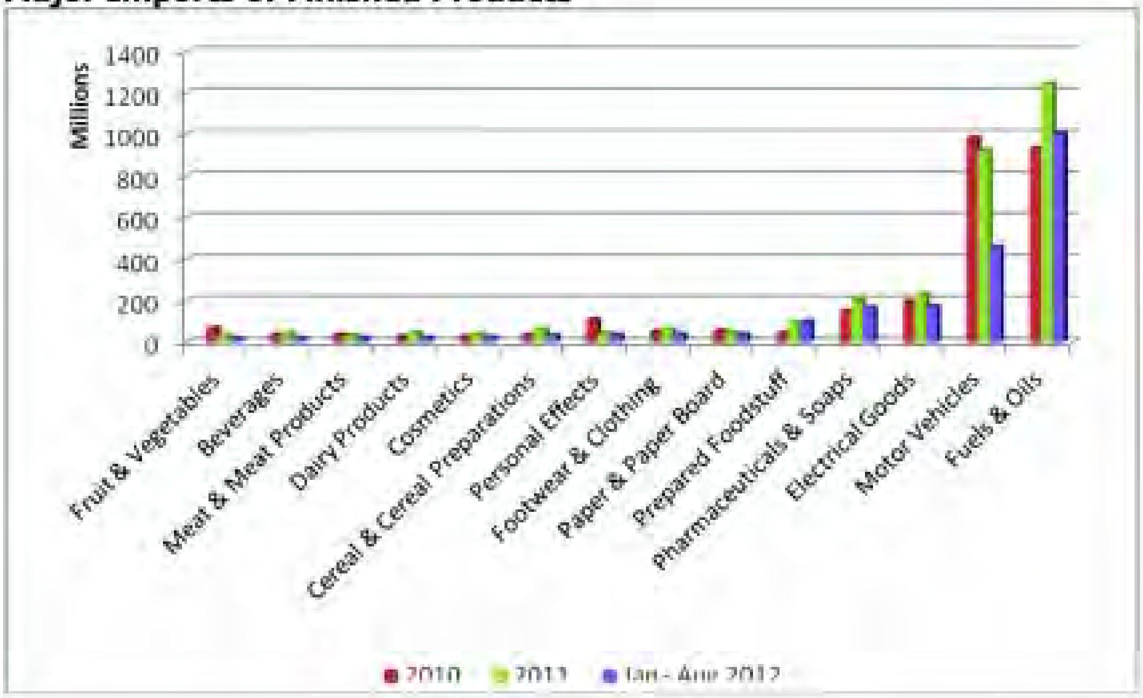
	Tinned Peas	Jam	Tomatoes & Carrots	Tomato Sauce	Onions	Fresh Potatoes	Baked Beans	Potato Crips
2009	361,671	605,576	159,001	848,500	1,193,48	1,980,87	1,747,54	3,393,05
2010	132,115	880,748	1,459,84	1,478,55	2,728,43	3,267,21	3,957,74	7,511,94
2011	212,165	1,639,77	1,239,16	1,452,63	1,720,05	1,099,22	6,214,88	12,108,3
Jan - Aug 2012	60,529	777,331	388,326	741,300	871,909	66,997	1,875,81	6,746,57

794. The table below shows the composition of imports during the periods January to September 2011 and January to August 2012.

Product	Share of Imports 2011 (%)	Share of Imports 2012 (%)
Raw Materials	5	12
Intermediate Goods	39	13
Capital Goods	14	25
Finished Products	42	50

795. The graph below analyses the major imports of finished goods during the years 2010, 2011 and January to August 2012 which include fuel, motor vehicles, prepared foodstuffs and dairy products.

Major Imports of Finished Products



796. The increasing volume of imports as reflected in the above graph substantiates the overwhelming cry for protection by business during the consultative process.

797. Some of the flooding of imported goods notwithstanding such control measures as protective duties and import permits might be indicative of leakages at our border posts.

798. While Government acknowledges concerns raised by business over flooding of imported finished goods, Government interventions need also to be within the context of our obligations with regards to bilateral and regional preferential trade arrangements.

799. The regional trade protocols are premised on a framework of trade cooperation among Member States based on equity, fair competition and mutual benefit.

800. Government is, however, cognisant of unfair trade practices used by some foreign companies to penetrate and secure the local market. These practices include use of fraudulent certificates of origin and undervaluation of goods.

801. Government remains committed to ensuring that the benefits of regional economic integration are equitably shared.

802. Measures to level the playing field between imported and locally produced goods will, thus, be continuously reviewed in order to promote industrial development.

Measures in Support of the Productive Sectors

Retail Prices of Imported Finished Products

803. Mr Speaker Sir, many cases have been cited of imported products retailing at significantly lower prices compared to locally produced products, notwithstanding the levying of protective tariffs.

804. I will, therefore, be proposing further review of the respective tariff levels in consultation with the respective industrial sub

sectors, Ministries of Industry & Commerce, Agriculture, Mechanisation & Irrigation Development, Health & Child Welfare, Competition & Tariff Commission, ZIMRA and other relevant arms of Government.

Manufacturers' Rebate: Pharmaceutical Industry

805. Mr. Speaker Sir, in the interests of public health, procurement of locally produced pharmaceutical products provides benefits such as security of supply, enforcement of quality and quick response to fluctuations in demand.

806. Production of pharmaceutical products also promotes value chain linkages through provision of inputs such as packaging, distribution and marketing of products. Other benefits to the economy include employment and revenue generation to the fiscus.

807. The pharmaceutical industry, though currently under distress due to unfair competition from imported cheaper products, has potential to recover and become competitive both in the region and internationally.

808. I, therefore, propose to grant a rebate of duty to approved pharmaceutical companies on essential imported raw materials

used in the manufacture of pharmaceutical products, with effect from 1 January 2013.

809. The list of eligible inputs will be gazetted in consultation with manufacturers in the pharmaceutical industry.

Suspension of Duty on Motor Vehicles Imported By Approved Safari Operators

810. Government re-introduced suspension of duty on motor vehicles imported by safari operators for a period of six months beginning 28 October 2011, in order to assist in the replacement of the ageing fleet.

811. The suspension of duty was closely monitored by the Ministry of Finance, the Zimbabwe Council of Tourism and Safari Operators Association of Zimbabwe, minimising cases of abuse.

812. In order to assist Safari operators to modernise their fleet, I propose to renew the facility for a further period of six months beginning 1 January 2013.

Current Account Deficit

813. Mr Speaker Sir, I have already alluded to the fact that Zimbabwe is increasingly transforming into an economy retailing imported goods.

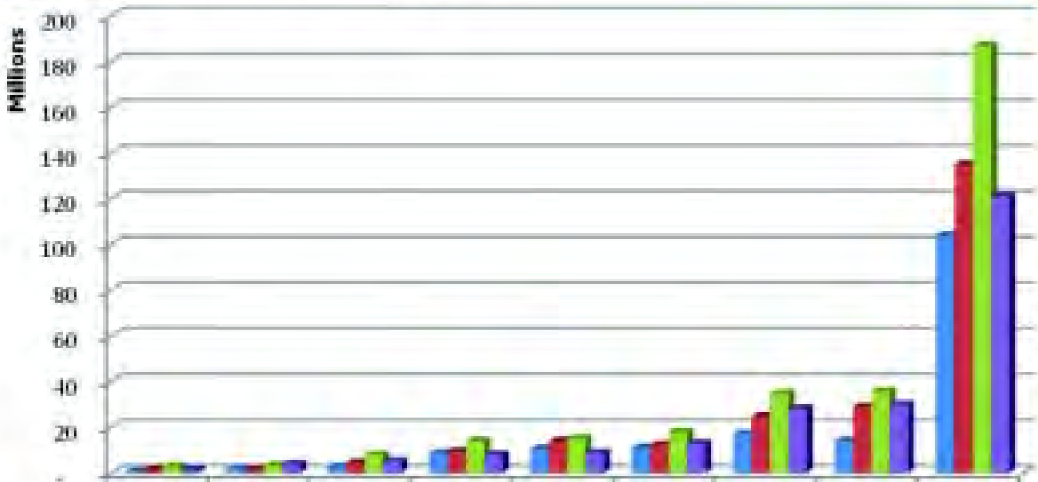
814. This is reflected by a negative trade balance during the period January to September 2012, where imports worth US$5.2 billion against exports of US$2.7 billion were recorded, representing a trade deficit of US$2.5 billion.

815. The high rate of consumption of imports against a sluggish growth of exports remains a challenge to the management of the current account and is not favourable for the recovery of the economy.

816. During the consultative process, stakeholders also acknowledged the high propensity for consumption of imports, some of which are competitively produced locally.

817. The graph below shows selected imported finished products for the period 2009 to August 2012.

Import Values for Selected Goods



	Meat & Meat Products	Vegetables	Prepared Cereals	Beverages	Margarine (excl. liquid)	Dairy Products	Soaps & Cosmetics	Prepared Foodstuffs	Cooking Oil
2009	760,895	1,720,459	2,736,675	8,742,113	10,587,35	11,060,38	17,130,21	14,147,13	103,896,0
2010	1,612,035	1,611,101	4,628,236	9,482,952	14,111,78	12,443,64	24,839,59	29,037,88	135,090,7
2011	2,839,080	3,364,688	8,056,190	14,036,77	15,069,92	17,952,45	34,800,85	35,872,17	186,989,8
Jan - Aug 2012	1,706,675	3,865,622	5,337,675	8,143,532	8,858,179	13,040,70	28,132,25	30,089,35	121,077,3

818. I have already alluded to the fact that consumption of finished goods continues to account for a disproportionate share of our imports to the detriment of the current account balance.

819. Furthermore, increased importation of goods, in particular, those that can be manufactured locally, inhibits the growth of the local industry. A deliberate policy to manage importation of finished goods, given the unsustainable current account deficit is, therefore, critical.

820. I, therefore, propose to introduce a surtax of 25% on selected imported finished products, with effect from 1 January 2013, as follows.

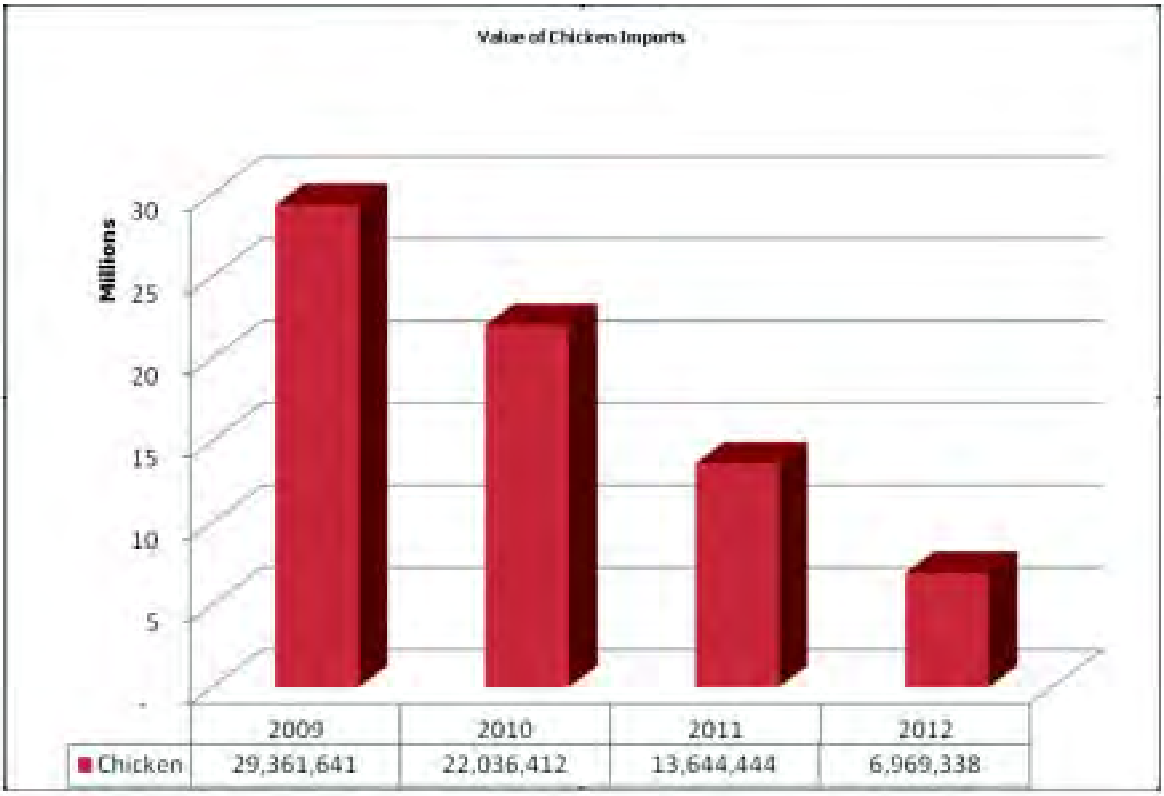
- Soaps
- Meat Products
- Beverages
- Dairy Products
- Cooking Oil

Customs Duty on Chicken Imports

821. The local poultry industry has heavily invested in production of poultry and day-old chicks since 2009. Production of day old chicks, chicken and table eggs has, thus, significantly increased over the three year period.

822. The poultry industry has become a source of livelihood for many households, including rural communities. The poultry industry, however, faces stiff competition from cheap imports of both day-old chicks and frozen chicken.

823. The graph below shows the value of chicken imports for the period February 2009 to August 2012.



824. Due to unfair competition from imports of chicken, local breeders are increasingly cancelling orders for day old chicks as they fail to secure customers for their chicken as imports from outside the SADC/COMESA region retail at prices significantly lower than locally produced chicken, notwithstanding the 40% duty levied on imported chicken.

825. Investigations indicate that chicken imports are either smuggled or are grossly undervalued for duty purposes.

826. In instances of smuggling, the necessary veterinary and health hazard permit controls are undermined.

827. In order to level the playing field between imported and locally produced chicken, I propose to review customs duty from 40% to $1.50 per kg or 40%, whichever is higher, with effect from 16 November 2012.

828. Government will, however, continue to monitor domestic prices of chicken to ensure sustenance of competitive pricing.

Customs Duty on Inputs

829. Honourable Members will be aware that since the introduction of the multi-currency regime in 2009, Government has made tremendous progress in reviewing customs duty on raw materials, intermediate, capital and finished products. This was aimed at reducing domestic costs of production.

830. These reviews benefit from stakeholder submissions. In this regard, stakeholders in the manufacturing and agricultural sectors have made further submissions for customs duty reduction on inputs that still attract higher rates of duty.

831. I, therefore, propose to further review customs duty on inputs as shown below.

Tariff Code	Product	MFN Duty (%)	SADC Duty (%) (%)	Proposed Duty Rate (%)
2523.9000	Other Hydraulic Cement	20	10	10
3004.9090	Other Medicaments	10	0	5
3004.3990	Medicaments Containing Hormones	10	0	5
4016.9330	Oil Seals	15	0	10
4807.0090	Other Paper Board	10	0	5
6903.9090	Other Refractory Ceramic Goods	25	0	10
7318.1500	Nuts, Bolts and Washers	15	0	10
7318.2200	Washers, nes	15	0	10
7411.2910	Bushing Materials	20	0	10
7605.1100	Aluminium Coils	10	0	5

832. This measure takes effect from 1 January 2013.

Promotion of Linkages between Mining and Manufacturing

833. Strong external demand for primary commodities, particularly platinum and gold has anchored higher production levels in the mining sector.

834. Mining has, thus, continued to account for a growing proportion of economic activity, accounting for 47% of total exports.

835. Growth of the mining has stimulated demand for raw materials, capital and intermediate goods used in the extraction of minerals. The bulk of these inputs, which used to be produced locally, are however, imported, regardless of the tremendous potential for local production.

836. Some local companies with capacity to supply inputs to the mining sector, have scaled down operations due to limited orders as mining houses increase their dependence on imported goods, citing reasons of competitive prices, higher quality and timeous delivery.

837. Mr. Speaker Sir, while sourcing of inputs from the domestic market supports local production, employment creation and saves on foreign currency, Government does not condone uncompetitive pricing, poor quality and untimely delivery.

838. Taking this into consideration, I propose to review the tariff regime on goods that can be sourced on the local market in order to resuscitate linkages between mining and manufacturing.

839. The list of goods that will attract additional duties will be gazetted in consultation with relevant stakeholders.

Rationalisation of Fees and Charges

840. During the consultative process, stakeholders raised concern over the multiplicity of fees and charges that are levied across all sectors of the economy. These fees and charges add to the cost of doing business, hence, reduce competitiveness.

841. In the case of mining, the fees levied include Unit Tax paid to Local Authorities, *Mining Fees & Charges* payable to the Ministry of Mines & Mining Development, and *Environmental Fees* payable to the Environmental Management Agency, among others.

842. In the case of agriculture, A2 farmers pay Unit Tax to Rural District Councils and Lease Rentals to the Ministry of Lands and Rural Resettlement.

843. Multiplicity of fees in tourism mean that operators pay *Liquor Licensing Fees, Operating Licences, Radio & Television Licences, Tourism Levy, Route Authority Fees and Hunting Fees.*

844. Mr. Speaker Sir, with respect to retailing of fuel, the fees include *Environmental Fees, Garage Registration Fees, Fuel Dispensing Pump Fees, Lubricating Oil Dispensers Fees and Calibration Fees*.

845. Government will strive to harmonise and, where possible, centralise collection of fees and charges through a single agency, in order to minimise the cost of doing business.

Revenue Enhancing Measures

Excise Duty on Clear Beer

846. Excise duty on clear beer is levied at a rate of 40%. The rate has not been reviewed since January 2004, in order to allow ample time for business to re-invest in new plant and equipment.

847. As a result, significant investment in bottling and ancillary plants has been injected since the adoption of the multicurrency regime in February 2009. Volumes of beer sales have, thus, grown by about 270% from 2009 to 2012.

848. Mindful of the need not to undermine the industry, I propose to review upwards, the rate of excise duty from 40% to only 45%, with effect from 1 December 2012.

Levelling the Playing Field between Imported and Locally Produced Clear Beer

849. Excise duty on imported beer is levied on the landed price at the border, whereas it is based on the ex-factory price on the locally produced product.

850. The prevailing retail prices of imported beer indicate that the landed price of imported beer is lower than local producer prices. This trend suggests that either declared values are understated or the correct levels of duty are not being applied.

851. I, therefore, propose to levy a specific rate of excise duty of $0.45 per litre or 45%, whichever is higher, in order to level the playing field between imported and locally produced clear beer.

852. This measure takes effect from 1 December 2012.

Cigarettes

853. Global awareness on the effects of consuming hazardous substances has heightened, as pressure groups also participate in the advocacy to tighten laws that discourage the consumption of such products.

854. The SADC and COMESA regions have also embraced the global campaign to protect consumers through levying of higher rates of excise duty.

855. Given that Government plays a pivotal role in the provision of health delivery services to mitigate the social costs arising from consumption of hazardous substances, there is, therefore, need

to levy an excise duty that closely relates to the expenditure incurred in addressing the associated social costs.

856. Furthermore, local excise duty rates are lower compared to those prevailing in the region, resulting in smuggling of cigarettes to neighbouring countries where the market is more lucrative.

857. I, therefore, propose to increase excise duty on cigarettes from US$10 per 1,000 sticks to US$15 per 1,000 sticks, with effect from 1 December 2012.

Deferment of Collection of Value Added Tax (VAT) on Capital Goods

858. In order to support recapitalisation, Government granted a deferment of payment of VAT on capital goods imported for use in manufacturing, agriculture, mining, aviation transport and health sectors. The deferment is granted for a period not exceeding ninety days.

859. Significant investment has been registered in the manufacturing, mining and health sectors, hence the facility has greatly assisted in the reduction of costs, where companies would have borrowed in order to finance the VAT component.

860. Government defers revenue inflows in the form of VAT on capital equipment in the hope that the companies would also honour their obligations after the expiry of the deferment period.

861. However, it has been observed that a number of companies do not honour their commitments, compromising cash flows to the fiscus.

862. I, therefore, propose to introduce penalty provisions similar to those applicable on failure to pay tax when due, in order to enforce compliance to the deferment provisions.

863. This measure takes effect from 1 January 2013.

Efficiency in Tax Administration

Management of Border Posts

864. Endemic corruption at ports of entry, especially at Beitbridge Border Post, results in inefficient service delivery which is costly to business and also results in loss of potential revenue to the fiscus. It has become routine that lengthy transit periods are experienced as importers await clearance of their goods.

865. The delays experienced are at times a deliberate ploy to induce payment of "*push-money*" to ZIMRA officers by weary transport

couriers and travellers who end up opting to pay bribes than spending lengthy periods at ports of entry.

866. Cross border traders openly admitted during the consultative process that they pay bribes to ZIMRA officials in order to avoid payment of duty.

867. Some business persons also related nasty experiences whereby imported raw materials were classified under tariffs for finished goods which attract higher rates of duty. The wrong classification of goods is intended to create a platform for rent seeking activities by ZIMRA officers.

868. Although Government has put in place measures to curtail corrupt practices by both ZIMRA and taxpayers, these have not yielded the intended results. It is, however, imperative that Government deals with corruption across all Departments that manage ports of entry in order to safeguard revenue.

869. Furthermore, Government is in the process of upgrading infrastructure at Beitbridge Border Post, whose facilities are now overstretched, in order to ease congestion, thereby minimising rent seeking opportunities.

Publication of Departmental Practice Notes on the Administration of Penalties

870. Mr. Speaker Sir, during the 2010 Mid-Term Fiscal Policy Review Statement, I proposed the publication of Departmental Practice Notes on the administration of penalties with effect from 1 January 2011. The objective of the measure is to improve transparency in the administration of penalties so that similar offences attract the same penalty.

871. To date, a lot of ground has been covered, and drafting of the Departmental Practice Notes will be completed by the end of the year.

872. I, therefore, propose publication of the Departmental Practice Notes on the administration of penalties with effect from 1 January 2013.

873. This measure will improve transparency, encourage voluntary compliance and enhance a uniform application of the legal provisions relating to penalties and fines.

Dispute Resolution, Objections and Appeals

874. Honourable Members would recall that in the 2010 Mid-Term Fiscal Policy Review, I alluded to the need for an effective

dispute resolution process, critical for the integrity of the tax system. The establishment of a dispute resolution mechanism that is simple, efficient, effective, transparent and expeditious is, therefore, pertinent.

875. Treasury will, thus, work towards the amalgamation of the Fiscal Appeals Court and the Special Court for Income Tax Appeals into a Fiscal Appeals Court akin to the Labour Court, during the course of 2013.

Assistance in the Collection of Tax with other Revenue Authorities

876. Mr. Speaker Sir, agreements for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income, have been negotiated and concluded with a number of countries.

877. These Agreements, among other issues, allocate taxing rights to the Contracting States as well as determine the rates of tax applicable to residents of the Contracting States.

878. The Agreements also provide for the exchange of information, necessary in reducing incidences of tax evasion.

879. A critical component of modern Agreements is a provision for assistance in the recovery of tax. The SADC Model Tax Convention, which was negotiated by Member States, contains a provision for assistance in the recovery of tax. Assistance in the recovery of tax is now a prominent feature in an environment of increased cross border investment characterised by investors who are holders of multiple citizenships or residences.

880. The current Double Taxation Agreements that Zimbabwe has entered into with other countries do not provide for assistance in tax collection, since there is no supporting domestic legislation to provide for assistance in recovery of tax.

881. It is, thus, imperative that existing and proposed Agreements on the Avoidance of Double Taxation provide for assistance in tax collection, more so, as we prepare to move to a residence basis of taxation through the New Income Tax Act.

882. This will enable the Revenue Authority to reciprocate assistance on recovery of tax from defaulting taxpayers, regardless of their current location or domicile.

883. I, therefore, propose to amend the Income Tax Act to provide for assistance in the recovery of tax, with effect from 1 January 2013.

Double Taxation Agreement between Zimbabwe and Seychelles

884. Mr. Speaker Sir, negotiations for the Avoidance of Double Taxation Agreement between Zimbabwe and Seychelles were concluded in 2002.

885. The Agreement was approved by the Public Agreements Advisory Committee and now awaits clearance by the Cabinet Committee on Legislation.

886. Avoidance of Double Taxation Agreements are an instrument to promote foreign direct investment and cooperation in tax matters.

887. I will, therefore, ensure that processes to facilitate the tabling of the Agreement before this August House for ratification are completed by the first quarter of 2013.

Tax Relief Measures

Tax Exempt Bonus Threshold

888. Mr. Speaker Sir, bonus payments remain a critical component of household income that taxpayers depend on to participate in celebrations for the festive season, as well as educational expenses for the next academic year.

889. In support of this, I propose to increase the bonus or performance related awards exempt threshold from US$700 to US$1 000, with effect from 1 November 2012.

Taxation of Interest from Fixed-Term Deposits

890. Mr. Speaker Sir, I have already alluded to the fact that public and private investment in capital development is an essential imperator for economic growth. A fiscal stance that inculcates a culture of high savings and investment is, thus, necessary.

891. Due to the volatile nature of demand deposits, the ability of financial institutions to avail medium to long-term financing to productive sectors of the economy is limited.

892. Long term finance facilitates the spread of repayments over an extended time frame, thus, allowing business the opportunity to sustainably grow their operations with minimum risk of default.

893. It is, therefore, imperative that the tax system complements initiatives that have been put in place to attract fixed-term deposits.

894. I, therefore, propose to reduce tax on interest earned from fixed-term deposits with a tenure of 90 days and above from 15% to 5%, with effect from 1 January 2013.

895. Mr Speaker Sir, I call upon financial institutions to play their part with regards to the marketing of such instruments in support of increased savings mobilisation.

VAT Exemption

896. Mr. Speaker Sir, whereas meat products are zero rated for VAT, soya meal, a basic and essential vegetable protein feed ingredient for pig, poultry and fish industries is standard rated. Meat producers are, therefore, required to outlay VAT on the soya meal, which is ultimately refunded upon sale of the meat products.

897. Due to cash flow constraints, producers of soya meal may end up borrowing at punitive interest rates in order to finance the VAT component.

898. I, therefore, propose to exempt soya meal and live birds from VAT with effect from 1 January 2013.

Taxation of School Fees Benefits

899. Mr. Speaker Sir, the Income Tax Act provides for the taxation of an advantage or benefit with an ascertainable monetary value that accrues to taxpayers. Taxpayers' income is, thus, grossed in order to calculate the tax chargeable on the advantage or benefit.

900. The monetary value of the advantage or benefit accruing to the taxpayer is determined by the cost incurred by the employer in providing the benefit.

901. Whereas, the current legislation contains deeming provisions for the value derived by an employee from benefits such as personal loans and use of a company motor vehicle, this, however, is not the case with regards to the school fees benefit, hence leaves the employer with the discretion to determine what constitutes cost.

902. The absence of deeming provisions has resulted in differential treatment, particularly among schools providing the benefit to their employees. This violates the tax principle of equity, whereby similar income should be subjected to the same tax treatment.

903. In order to ensure uniformity in the taxation of the school fees benefit accruing to school staff members, I propose to peg the cost of the benefit at 50% of the cost of tuition and boarding fees up to a maximum of three children, with effect from 1 January 2013.

904. This measure will also minimise staff costs, thereby facilitating the retention of teachers.

Excise Duty on Second Hand Motor Vehicles

905. An excise duty of 5% is currently levied on transfer of second hand motor vehicles. Exemptions are, however, granted in incidences of transfer of ownership between spouses, parents and children, companies in the same group, on inheritance and to a private voluntary organisation.

906. However, motor vehicles and equipment donated to Government by international organisations upon completion of projects under technical cooperation Agreements are subject to excise duty.

907. In order to reduce costs of transferring motor vehicles to Government, I propose to exempt such motor vehicles from excise duty, with effect from 1 January 2013.

Rebate of Duty on Goods Imported for Religious Purposes

908. Government currently provides a rebate of duty on selected goods for use by religious organisations.

909. Religious organisations play a pivotal role in the provision of health and education especially in the rural areas through sourcing of donations in the form of drugs, educational and building materials from well wishers all over the world.

910. Most of the donated materials are dutiable, hence, religious organisations have to finance the duty obligations.

911. In order to complement efforts by religious organisations in the improvement of the welfare of citizens, I propose to broaden list of goods that are eligible for rebate of duty to include building materials, to the extent that such material is not locally produced.

912. This measure takes effect from 1 January 2013.

Progress in the Implementation of Tax Policies Adopted by Government

Redrafting of the Income Tax Act

913. Honourable Members would recall that during the Mid-Term Fiscal Policy Review, I reported that concerted effort had been channelled towards conclusion of the redrafting of the Income Tax Act and also advised that the Bill had already been approved by the Cabinet Committee on Legislation.

914. The Income Tax Bill is awaiting gazetting, hence will be presented to this August House during this current 5th Session of the Seventh Parliament.

VAT Fiscalised Recording of Taxable Transactions

915. Significant progress has been registered in the implementation of the fiscalisation project, which compels registered operators in categories A, B, C and D to use fiscalised devices. To date, 75% of registered operators in categories A, B, C and D have fully fiscalised their operations.

916. The implementation status is shown on the table below.

Region	Fully Fiscalised	Partially Fiscalised	Not Fiscalised	Total Registered Operators
1	2,114	114	616	2,844
2	443	88	74	605
3	349	5	53	407
Total	2,906 (75%)	207 (5%)	743 (20%)	3,856

917. ZIMRA will step up efforts to enforce compliance on registered operators who have not yet complied.

Platform for Receiving Fiscal Data

918. Honourable Members will recall that I have already emphasised the importance of setting up a platform to enable ZIMRA to receive data from fiscalised devices, in order to fully realise the benefits of the fiscalisation project.

919. Procurement of servers required to receive data is in progress, since existing servers do not have the capacity to store the expected volume of transactions.

920. ZIMRA will, however, continue to audit registered operators, using data from fiscalised devices, pending installation of equipment and software to upgrade ZIMRA servers to directly interface with data from fiscalised devices.

Offenses and Penalties

921. ZIMRA has raised penalties on registered operators who failed to fiscalise by the fixed date or within the extension of that date, in line with the VAT Fiscalised Recording of Taxable Transactions Regulations.

922. Registered operators have registered concern over the magnitude of penalties that ZIMRA raises for failure to fiscalise.

923. ZIMRA, however, has the discretion to waive the payment or refund the whole or part of any penalty, if it is satisfied that failure to fiscalise by the due date was not due to wilful default on the part of the registered operator.

924. The thrust of the fiscalisation project is to plug loopholes in the VAT system and also promote transparency and integrity among registered operators in the remittance of VAT to the fiscus. Penalties are intended to ensure taxpayer compliance, rather than punishing registered operators.

925. Registered operators who are not satisfied with the assessed penalties at regional levels, should, therefore, appeal to the Commissioner of Domestic Taxes, with the necessary proof that failure to fiscalise was not through wilful default.

Rebate of Duty on Spare Parts for Fiscalised Devices

926. In order to minimise the cost of acquiring fiscalised electronic tax registers and fiscal memory devices, Government granted a rebate of duty on fiscalised devices imported by approved suppliers.

927. This facility, however, has not been extended to cover spare parts, hence the cost of servicing fiscalised devices is high.

928. I, therefore, propose to extend the rebate of duty to include spare parts for fiscalised devices imported by approved suppliers with effect from 16 November 2012.

Other Representations Received During the Consultation Process

929. Mr. Speaker Sir, I have not been able to deal with all the representations made by stakeholders.

930. Some require further work and consultations, and necessitating that Treasury liaises with other stakeholders and agencies.

931. While this process is underway, allow me to acknowledge representations from the following stakeholders.

Physically Challenged Persons

932. Whereas existing legislation provides for a rebate of duty on motor vehicles imported by the physically challenged persons, there is, however, a requirement for beneficiaries to possess a driver's licence.

933. The challenge for some of the physically challenged persons is that they are not able to drive manual transmission vehicles.

934. Treasury will, thus, be considering their request in consultation with the Ministry of Transport, Communications and Infrastructure Development.

Charitable Organisations

935. Charitable Organisations source donations of clothing, motor vehicles and any other goods from well wishers all over the world.

936. The current legislation provides for a rebate of duty on new motor vehicles and used clothing. However, well wishers, in some instances are willing to donate second hand motor vehicles and new clothing which are not covered by the rebate.

937. Treasury will review the legislation, taking into consideration the likely adverse impact on the local industry.

Taxation of Small to Medium Enterprises

938. Mr. Speaker Sir, I acknowledge the request for a special tax regime for Small to Medium Enterprises (SMEs) that accords a tax-free threshold and, thereafter, apply progressive tax rates.

939. Government has already legislated for presumptive tax which provides for a preferential tax regime for SMEs. Small to Medium Enterprises should, thus, take advantage of this tax regime.

Mining Tax Regime

940. The mining sector proposed review of the mining tax regime in order to promote investment and facilitate exploitation of low grade ores.

941. Treasury will be undertaking a comprehensive review of the fiscal mining regime, with a view to ensure a balance between the viability of the mining industry and revenue inflows to the fiscus.

XVI. ACKNOWLEDGEMENTS

942. Before concluding, Mr. Speaker Sir, let me express my gratitude to the thousands of Zimbabweans who made inputs into this Budget throughout our countrywide Consultations.

943. There are some like Oliver Baloyi who reminded us in Masvingo that "Pasina nhokwe hapana majuru", Stephen Dube (Bulawayo), Rido Mpofu (Gwanda), and James Masango (Mhangura) who have now become regular furniture at these meetings. We appreciate this.

944. Policies that affect people must always be made by the people themselves.

XVII. CONCLUSION

945. Mr. Speaker Sir, in 2013, our electoral process and systems will, once again, be under global scrutiny and spotlight.

946. Those of us who have travelled the length and breadth of this country are well aware of the fatigue, despair and despondency that afflicts the majority of our people, many of whom fear the threat of electoral violence.

947. Mr. Speaker Sir, as our political Principals have said, it does not have to be like this.

948. Hence, the year 2013 should be the year our political systems and processes demonstrate the political maturity of Zimbabwe's leadership and people, drawing lessons from the harsh experiences of politics of destruction and discrimination.

949. Mr. Speaker Sir, 2013 can and should be the year in which we liquidate our cyclical politics and convert our predatory cycles of exclusion into virtuous circles of inclusion.

950. Furthermore, 2013 can and should be the year in which we complete our internal debt resolution through ZAADDS and be fully integrated into the international community that is desperate to see Zimbabwe succeed and regain its pride of place.

951. Also, the year 2013 can and should be the year in which we address our crisis of misalignment and subordinate our politics to the Development Agenda.

952. Since the Peace Conference organised by the Organ on National Healing on the 11th of November 2012, our political leadership has been clear and consistent in its message against

violence and the promotion of peace and the people's right to choose freely. Let us walk this talk.

953. Mr. Speaker Sir, Zimbabwe is a double digit potential growth economy, endowed with intelligent people, '*glossators*', '*epistemologists*', '*oncologists*', '*even rocket scientists*'. The capacity for cerebral engagement should, thus, be as obligatory as it is desirable.

954. I personally have hope. Great hope!

955. On that note, Mr. Speaker Sir, I commend the 2013 National Budget to this August House and lay the Estimates of Expenditure on the Table.

956. I thank you.

Hon. T. Biti (MP)

Minister of Finance