WHAT HAS TAX GOT TO DO WITH DEVELOPMENT

A critical look at Zimbabwe's Tax System

AFRODAD

African Forum and Network on Debt and Development

About AFRODAD

Vision

AFRODAD aspires for an equitable and sustainable development process leading to a prosperous Africa.

Mission

To secure policies that will redress the African debt crisis based on a human rights value system.

Objectives include the following:

1 To enhance efficient and effective management and use of resources by African governments,
2 To secure a paradigm shift in the international socio-economic and political world order to a development process that addresses the needs and aspirations of the majority of people in the world,
3 To facilitate dialogue between civil society and governments on issues related to Debt and development in Africa and elsewhere.

From the vision and the mission statements and from our objectives, it is clear that the Debt crisis, apart from being apolitical, economic and structural issue, has an intrinsic link to human rights. This forms the guiding philosophy for our work on Debt and the need to have African external debts cancelled for poverty eradication and attainment of social and economic justice. Furthermore, the principle of equity must of necessity apply and in this regard, responsibility of creditors and debtors in the debt crisis should be acknowledged and assumed by the parties. When this is not done, it is a reflection of failure of governance mechanisms at the global level that protect the interests of the weaker nations. The Transparent Arbitration mechanism proposed by AFRODAD as one way of dealing with the debt crisis finds a fundamental basis in this respect.

AFRODAD aspires for an African and global society that is just (equal access to and fair distribution of resources),respects human rights and promotes popular participation as a fundamental right of citizens (Arusha Declaration of1980). In this light, African society should have the space in the global development arena to generate its own solutions, uphold good values that ensure that its development process is owned and driven by its people and not dominated by markets/profits and international financial institutions.

AFRODAD is governed by a Board of seven people from the five regions of Africa, namely East, Central, West, Southern and the North. The Board meets twice a year. The Secretariat, based in Harare, Zimbabwe, has a staff compliment of Seven programme and five support staff.

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Acronyms

AU	African Union
BOOT	Build Operate Own and Transfer
BOT	Build Operate and Transfer
COMESA	Common Market for East and Southern Africa
CSO	Central Statistical Office
CSO	Civil Society Organisation
CZI	Confederation of Zimbabwe Industries
GAP	Generally Accepted Accounting Practice
GDP	Gross Domestic Product
ICBTs	Informal Cross Border Traders
IG	Inclusive Government
MDC	Movement for Democratic Change
MDG	Millennium Development Goals
MMCZ	Minerals Marketing Cooperation Zimbabwe
NGO	Non-Governmental Organisation
OCHA	Office for the Co-ordination of Humanitarian affairs
ODA	Overseas Development Assistance
OECD	Organisation for Economic Cooperation and Development
PVO	Private Voluntary Organisation
REPA	Regional Export Promotion Agency
TCPL	Total Consumption Poverty Line
VAT	Value Added tax
ZANU	Zimbabwe African National Union
ZCIEA	Zimbabwe Chamber of Informal Economy Association
ZCTU	Zimbabwe Congress of Trade Unions
ZIA	Zimbabwe Investment Agency
ZIMRA	Zimbabwe Revenue Authority

Preface

Mobilising domestic resources as a means to financing development has become an important development issue. In the past the emphasis on financing development focused on scaling aid and external borrowing. For a long time mobilising domestic revenue has been neglected, despite being a better long-term option. The reasons for this included the inherent pessimism about raising revenue, a prevalent 'small-state' ideology and a preference for foreign aid-led solutions.

Taxation is a major tenet of any domestic resource mobilisation tools at the disposal of developing countries. Taxation also plays an important role in shaping the distribution of benefits from higher income citizens to those most in need in a country. Another less discussed importance of taxation is its centrality to good governance, as it allows the government more policy space and capacity to be responsive and accountable to national objectives that are not tainted by the conditionalities of foreign aid. Taxation is at the heart of administration of government and provides the foundation for the provision of public goods and the implementation of effective regulation and acts as a vehicle for transporting public demands for responsiveness and accountability from their elected leaders. A "correctly" applied and "fair" tax system for African countries also offers the advantage of stability in comparison with traditional development financing mechanisms like aid and loans.

The link between development and taxation has come up in various fora as development practitioners and activists discussed methods of mobilization of domestic resources for financing development in the South especially the need to finance the Millennium Development Goals (MDGs). Tax revenues are, on average, lower in developing countries than in rich countries; the average revenue in African countries was approximately 15% of GDP in 2008. Hence the argument that if developing countries were able to collect sufficient tax revenues, they might be able to increase their independence, the provision of social protection, infrastructure and basic services such as education and health care which are crucial for development.

Despite the importance of taxation in African development, public participation in debates about taxation has been particularly limited despite major issues of public interest related to tax system equity, tax avoidance and evasion and the broader drive for improved governance.It is with this background that AFRODAD believes that taxation acts as a stimulus to economic independence. This research forms part of AFRODAD's efforts to ensure tax justice and expand public participation in debates about taxation in order to improve development outcomes.

The report takes a closer look at the relationship between taxation and development in Zimbabwe by examining the various complexities surrounding taxation as a development finance mechanism in Zimbabwe including the current tax framework, the amount and extent of tax evasion and more specifically tax incentives and governance in various sectors of the Zimbabwean economy. The report proffers actionable policy and institutional recommendations to the government of Zimbabwe, its tax arm ZIMRA and civil society for the betterment of the tax system in Zimbabwe. AFRODAD hopes that the Zimbabwean government and other civil society organizations will take seriously matters arising in this report.

Collins Magalasi
Executive Director
AFRODAD

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We would also like to thank the reviewer Dr. Attiya Waris, a Law Lecturer at the University of Nairobi. This report benefited greatly from the tireless work of the AFRODAD Secretariat; Dr. Fanwell Kenala Bokosi the Policy Advisor who gave advice and incisive comments, Fiona Chipunza the Programme Officer for coordinating and facilitating the research and to Jonathan Zinyandu and Chipo Mbawu for proof reading the report. AFRODAD will forever be indebted to them for their valuable contributions. We also thank other colleagues not mentioned but whose input into the final product remains vital.

1 Executive Summary

The research looked at the Zimbabwe tax system and tax reforms in relation to revenue collection and made a comparison with tax systems in the region. The study looked at weaknesses in the policy and in tax collection in relation to tax evasion and avoidance. This was linked to the informal sector activities, including informal cross border trade. The research also analysed government expenditure to determine the support to social services.

1.1 Key Findings

The study found that revenue collection in Zimbabwe is poor. This was attributed to weaknesses in policies and to the Zimbabwe Revenue Authority (ZIMRA)'s failure to effectively monitor business transactions. It was also noted that the Government lacks the expertise to monitor mining operations. The government is aware of the short-comings and has proposed some reforms in the legislation to increase revenue collection. Similarly, the Government introduced new legislation in 2010 to improve the management of public funds - the new Acts on Public Fund Management (PFM) and Audit. While the Government has a reasonably strong regulatory framework in the form of statutes on PFM, enforcement has often lagged behind.

Incidences of bribery of ZIMRA officials remain high resulting in the loss of revenue from non-payment of taxes. There have been suggestions to introduce flat tax rates and to lower the rates, which have been known to reduce tax evasion and avoidance. This would also reduce the cost of tax collection. But Zimbabwe tax rates are generally comparable to the region.

While it is acknowledged that the informal sector should be brought into the tax net, not much progress has been made on this although the use of local authorities to collect taxes for the government and keep 10 percent for themselves, which was proposed in the 2011 budget, could make a difference. Strategies which could be used to encourage small businesses to pay tax include offering amnesty for past non-payment of tax. Awareness raising on the importance of paying tax could also be a strategy to develop a culture of paying tax in the nation.

In addition to the revision of the Income Tax Act to expand the tax base, the government has introduced measures to limit losses in (Value-Added Tax) VAT collection, which include the introduction of the fiscalised cash registers. VAT is the major contributor to tax revenue followed by (Pay-As-You-Earn) PAYE. Corporate tax remains low as industry continues to operate below capacity. It is more desirable for the redistributive tax (PAYE) to contribute more to tax revenue as this improves equity of the tax system.

The study found that overall, the interaction between the Government and the business sector and other sectors through budget consultations is considered very effective. The appointment of the Tax Steering Committee, on which the Ministry of Finance, ZIMRA and the private sector are represented, was a big step in the right direction. But dialogue with the informal sector has lagged behind and there has been calls to give more attention to this sector, which accounts for 60% of all business.

Zimbabwe is a signatory to the Common Market for East and Southern Africa (COMESA) and Southern African Development Community (SADC) trade protocols, but because of the slow recovery of industry, the country is not benefiting as it has trade deficits with most countries in the region.

Despite the coming in of the inclusive government, very little Foreign Direct Investment (FDI) is coming into the country. The failure to attract (significant) investment has been attributed to the continued political instability in the country. The Indigenisation and Empowerment Act, which seeks to ensure that at least 51% of all companies are owned by indigenous Zimbabweans[1] is thought to also have kept investors away. The policy also impacted on the Manufacturing Sector with some companies adopting a 'wait-and-see' attitude.

1.2 Recommendations

1. The government has acknowledged that not much progress has been made to bring the informal sector into the tax net. Taxation of the informal sector is a challenge faced by many

1 Statutory Instrument 21 of 2010, Indigenisation & Economic Empowerment (General) Regulations,2010

countries in the region. As the government develops a strategy to tax the informal sector, it should consider the following:

- Initially engage the informal sector through civic society organisations and associations which represent them,
- Enforce the registration of all small and medium businesses and follow them up on payment of tax,
- Offer amnesty for past tax debts and invite the small and medium businesses to come forward and pay taxes, and
- Keep (or introduce) lower tax rates for the informal sector.

2. There is need to educate the nation to develop a culture of paying taxes. The many incidences of bribery of ZIMRA officials and under declaring of goods to reduce customs duty and the challenge faced to effectively tax the informal sector all point to this need.

3. Zimbabwe Revenue Authority failure to effectively monitor business transactions and mining operations is a major weakness in revenue collection. Government and ZIMRA need to address weaknesses in monitoring e.g. by sourcing the expertise externally.

4. The intention to put measures in place to reduce tax evasion came out in the 2010 mid term statement by the Minister of Finance in which he proposed a review of ZIMRA. The reforms of ZIMRA as suggested in the mid term statement should be expedited.

5. It has been argued that in most cases tax incentives given by developing countries to attract investment bring limited benefits and that the tax incentives are effectively a loss to these countries. For instance, a company reported to have benefitted under the Zimbabwe export processing tax incentive for manufacturers is not a manufacturer. An analysis of the benefits of tax incentives to the country could not be undertaken as ZIMRA and the Zimbabwe Investment Agency ZIA refused to disclose relevant information.

6. In line with the logic of bringing the informal sector into the tax net through lowering of rates, there is need to offer a special rate of customs duty to the informal cross border traders to reduce incidences of under-declaring.

7. In line with measures to reduce tax evasion through simplification of systems and under declaring of goods being brought into the country, it is generally agreed that a one stop border post at Beit Bridge would reduce loss of customs duties.

8. Openness with Ministry of Finance budgets and documents and line ministry allocations is encouraged to enable budget tracking. Currently CSOs involved in budget tracking have failed to go beyond analysis of the budget proposals as the final allocations to Ministries are classified documents. Transparency would enable CSOs to demand accountability.

9. To improve VAT collection, the government has made the use of fiscalised electronic registers mandatory, but has shifted the effective date several times. The electronic registers can be introduced gradually starting with the big operators, as the Final Deduction system for VAT was introduced. VAT collection could also be increased by increasing the threshold for VAT registration as an operator.

10. Although the government has put budget constraints on parastatals it is recommended that it should go beyond the restructuring of commercial parastatals and levy a tax on their profits. This has been successfully done in some countries.

11. AFRODAD, together with its national affiliates should consider joining the Civil Society Budget Coalition which is coordinated by the National Association of Non Governmental Organisations (NANGO) to address issues of tax justice. It should also consider partnering the Zimbabwe Chamber of Informal Economy Association, which has successfully engaged ZIMRA and undertaken various advocacy activities for the informal sector.

2 Introduction

Taxation is central to development and provides governments with the funding they require to finance economic development and growth. Taxation creates an environment in which business is carried on and plays a role in shaping the way in which the activities of government are carried out. Taxation has the following functions which this report will address:

- finances social and physical infrastructural needs,
- provides a stable and predictable fiscal environment to promote growth, and
- ensures that the costs and benefits of development are fairly shared (redistributive).

Taxation, therefore, plays a key role in helping African countries to meet their Millennium Development Goal (MDGs) commitments[2]. By reducing tax avoidance and tax evasion by companies and individuals, making tax systems more supportive of development, and improving revenue collection, governments are able to advance MDGs Goal 8 and enhance financing for other MDGs. The Millennium Development Goals aim to encourage development by improving social and economic conditions in the world's poorest countries. There are eight goals and MDG8's aim is to develop a global partnership for development, which includes a commitment to good governance, development and poverty reduction.

High taxation rates coupled with poor enforcement and corruption have encouraged tax avoidance and evasion, which is very high in Zimbabwe. Given Zimbabwe's desperate financial needs, it is critical that the government finds ways not only for more effective revenue collection, but also of broadening the tax base. But the Zimbabwe government suffers from a crisis of legitimacy. Because of rampant corruption in the government, many people feel that their taxes are just enriching corrupt government officials. There are also many who feel that the current government is not politically legitimate and hence they should not pay taxes to support an illegitimate regime. Thus, along with measures to improve revenue collection and widen the tax base, a parallel strategy should be to democratize institutions of governance and to make them more accountable to the people. Increased legitimacy of those institutions will foster a culture of responsibility among the citizenry, including a greater acceptance of their tax responsibilities. Taxation is believed to play a key role in ensuring good governance by promoting the relationship between government and citizens and ensuring that the government is accountable to the people[3].

2 OECD, Focus on Africa

When the Inclusive Government (IG) came to power at the beginning of 2009, Zimbabwe was in the unenviable position where its tax and revenue base was shrinking at the same time as were resources from donors resulting in a severe cash crunch which affected the government's capacity to deliver basic services. The IG has been implementing tax reforms to expand the tax and revenue base and make the tax collection system more efficient.

2.1 Purpose of the Research

The purpose of the research is to contribute to poverty reduction and sustainable development, advance the MDG 8 and enhance financing for other MDGs by making national tax systems more supportive of development and reducing aggressive tax avoidance and tax evasion by companies and individuals. The study looked at the Zimbabwean tax system: the policy and the revenue collection as well as at the expenditures to support social services.

2.2 Methodology

The methodology for the study included both literature review and field work. Literature reviewed included government documents from the Ministry of Finance, budget statements, tax laws, literature on local government, investment brochures and investment guidelines. The researcher reviewed other relevant documents and websites including COMESA regional trade protocols that specify duty exemptions for goods manufactured in the region, OECD and other publications for the regional perspective.

3 OECD, Focus on Africa

Interviews were held with a cross section of people from Industry and Commerce, from the Drug Manufacturing Association, chartered accountants, the retail sector, tax consultants, CSO and informal sector representatives, health practitioners, local government authorities as well as ordinary men and women.

3 Situational Analysis

Since 2000 Zimbabwe has been experiencing a severe economic crisis which peaked in 2007 and 2008. During the period, severe foreign currency shortages were experienced, capacity utilisation in industry fell to below 10% by January 2009 and the economy became increasingly informalised. GDP is estimated to have contracted by a cumulative 50% and the official inflation rate was 231 million percent in July 2008. The Zimbabwe economy has traditionally been agriculture based, but the sector declined from 2000 onwards with the collapse of commercial agriculture. Severe food shortages were experienced and poverty remained widespread. The infrastructure became dilapidated and the country failed to service its debts. The Bretton Woods Institutions stopped funding the country which also faced sanctions from some western countries. Most donors have withdrawn development although they continue to provide humanitarian assistance, mostly through NGOs and UN agencies. Elections held in March 2008 did not produce a clear presidential winner and a re-run was held in June 2008. The period before and after the June elections was characterised by interparty violence, which resulted in worldwide reservations on the outcome of the election[4].

The African Union facilitated the formation of an Inclusive Government (IG) of the three major political parties, ZANU (PF), MDC-T and MDC-M. The IG assumed office in February 2009 adopting the multicurrency system and soon after, scrapping the Zimbabwe dollar. Since then, the economy has stabilised. GDP grew by 5.7% in 2009[5], and the year-on-year inflation as at December 2009 was negative at -7.7%. Industrial capacity utilization had risen to between 35% and 60% by December 2009[6]. The IG made macro-economic changes, including price liberalisation, removal of exchange restrictions, removal of surrender requirements on export proceeds, imposition of budget constraints on parastatals, the stopping of quasi-fiscal expenditure by the Reserve Bank of Zimbabwe as well as some tax reforms to improve revenue collection[7].

Prior to the formation of the IG, Zimbabwe had become increasingly reliant on humanitarian assistance for the provision of basic social services. The provision and quality of education was affected by the exodus of teachers, by strikes by teachers and lack of teaching materials, poor facilities and equipment. While most schools have reopened, industrial relations problems continue to be experienced with teachers demanding higher salaries[8].

The provision of health had declined due to poor facilities and equipment, rising costs and staff shortages resulting in most major government hospitals closing down altogether. Water supply and sanitation problems led to an outbreak of cholera which resulted in 4 288 deaths (OCHA, 2009). With donor assistance, the health sector was revived in 2009 with all referral hospitals in urban centres reopening and rehabilitation work on infrastructure starting and a skills retention scheme being established.

Zimbabwe, however, continues to suffer from suppressed economic growth due to low productivity and capacity utilization, liquidity constraints limiting access to finance. The financial sector remains grossly undercapitalised due to the inability to tap external resources. Low revenues and investment have resulted in savings of less than 5% of GDP[9]. The low capacity utilization by companies has also been attributed to the high cost and unreliable infrastructure services including water and electricity[10].

4 Country Analysis Report for Zimbabwe, Final Draft, Government of Zimbabwe/United Nations Country Team, Aug 2010
5 Confederation of Zimbabwe Industries, Manufacturing Sector Survey, 2010
6 Ministry of Finance, Fourth Quarter 2009 Treasury Bulletin, October - December 2009
7 Country Analysis Report for Zimbabwe, Final Draft, Government of Zimbabwe/United Nations Country Team, Aug 2010
8 Country Analysis Report for Zimbabwe, Final Draft, Government of Zimbabwe/United Nations Country Team, Aug 2010
9 Country Analysis Report for Zimbabwe, Final Draft, Government of Zimbabwe/United Nations Country Team, Aug 2010
10 Statement of the 2009 Budget Presented to the Parliament of Zimbabwe by the Minister of Finance Hon. T. Biti, MP on 17 March, 2009

The poverty situation in Zimbabwe has worsened over the years and currently the majority of the population lives below the poverty datum line[11]. In 1995, 55% of the population lived below the poverty datum line compared to 72% in 2003[12]. It is estimated that unemployment figures are at more than 70% and that 60% of business have moved into the informal sector[13]. A situation of a big informal sector, although it cushions people from poverty is not desirable, as it indicates failed economic development. It reflects a serious economic growth and employment creation challenge[14].

Food security has worsened over the years mainly due to poor access to inputs exacerbated by recurring droughts. The 2009 Zimbabwe Vulnerability Assessment Survey (Zim Vac) indicated deteriorating poverty conditions, food insecurity and vulnerability to diseases and epidemics in both urban and rural areas[15].

Economic recovery in Zimbabwe has been slow and the IG is struggling to attract investors. Since the 2000 Land Reform Programme, Zimbabwe has been largely ostracized internationally as an investment destination. The failure to attract (significant) investment has been attributed to the continued political instability in the country. The proposed Indigenisation and Empowerment Act which seeks to ensure that at least 51% of all companies are owned by indigenous Zimbabweans[16] is thought to also have kept investors away. Currently up to a 100% foreign ownership is permitted in mining and manufacturing but is limited in other sectors and up to 70% foreign shareholding is allowed in the service sectors and 35% in reserved sectors[17].

Public Private Partnerships (PPP) for infrastructure development have had limited success due to the economic conditions prevailing in the country. The guidelines for the partnerships were issued in 2004 and the IG Short Term Recovery Program (STERP) recognises the need for PPP arrangements to finance infrastructural development. However, not much has taken place.

To attract investment the government has gone all out to offer tax incentives to the few foreign companies willing to invest in the country. In the mining sector, the government gave tax concessions under special mining licences.

Official Development Assistance (ODA) to Zimbabwe falls far short of what was anticipated and the government is saddled with a salaries and wages bill for civil servants and has been struggling to mobilise revenue for infrastructure development and for the provision of social services. Because of the continued strained relations with donors, Zimbabwe relies on taxation as the main revenue source. The IG has been implementing tax reforms to expand the tax and revenue base and to make the tax collection system more efficient. But there have been calls for greater gains from mining to help the government to finance social needs and move the country to recovery. But years of operating a parallel economy due to the high inflation rate that prevailed over the past decade has also sharpened the skills of companies to externalize foreign exchange to protect themselves against possible expropriation of their earnings by the Reserve Bank and also as a hedge against inflation by keeping their money in more stable currencies. As the economy has stabilized with the introduction of multiple currencies, it is not clear whether the companies have stopped these practices.

11 Zimstats has resumed collecting data but employment statistics were still being analysed
12 United Nations Secretariat, Department of Economic & Social Affairs statistics Division, Poverty Measurement and Gender: Zimbabwe Experience, ESA/STAT/AC.122/14.2, December 2006
13 J Robertson, The Zimbabwe Economy: Third Quarter2010 Economic Indicators & Trends, September 2010
14 United Nations Secretariat, Department of Economic & Social Affairs statistics Division, Poverty Measurement and Gender: Zimbabwe Experience, ESA/STAT/AC.122/14.2, December 2006
15 Zimbabwe Vulnerability Assessment Survey, 2009
16 Statutory Instrument 21 of 2010, Indigenisation & Economic Empowerment (General) Regulations, 2010
17 Deloitte, Doing Business in Zimbabwe, September 2010

4 Tax system and allocation of tax burden

The statutory acts for the main revenue collection from tax are the Income Tax Act (Chapter 23:06), the Capital Gains Act (Chapter 23:01), the Finance Act (Chapter 23:04), the Value Added Tax Act (Chapter 23:12), the Estate Duties Act (Chapter 23:03) and the Customs and Excise Act (Chapter 23:02). The Income Tax Act covers the income taxes of individuals, companies, trusts as well as withholding taxes. The other tax acts cover specific issues, for example the Value Added Tax Act covers VAT issues. For anything not covered in the specific Act reference has to be made to the Income Tax Act. The Finance Act specifies periodic changes to the tax acts and covers changes in tax rates. The Customs and Excise Act covers customs and excise duties and is read with the Statutory Instruments on the rates of the duties. The Mines and Minerals Act gives rise to royalties.

The tax acts are based on the objectives of the fiscal policy of the Ministry of Finance (MoF). The policy framework for the drafting of the various Acts is formulated by the MoF. The policy framework is given to the Zimbabwe Revenue Authority team to craft into legal form. Once crafted the legal form is handed over to the Attorney General (AG)'s office for final drafting. The AG's office will send the final version for review and approval by ZIMRA before passing onto Parliament for consideration. The budget statements made by the Minister of Finance feed into the Finance Act and Statutory Instruments.

The Urban Councils Act (Chapter 29:15) and the Rural District Councils Act (Chapter 29:13) provide for the establishment and operation of local authorities. Financing of operations and maintenance in local authorities is done through taxes levied as rates, water tariffs, levies and fines. The local authorities get grants from central government for health, water and sanitation and for capital expenditure, partly as a result of cholera outbreak in 2008-2009 due to poor water and sanitation.

The Zimbabwe Revenue Authority (ZIMRA) is the statutory body that was established in 2001 to improve efficiency in revenue administration and thereby enhance revenue collection and trade facilitation. ZIMRA is responsible for assessing, collecting and accounting for revenue on behalf of the State (through the Ministry of Finance) in terms of the Revenue Authority Act [Chapter 23:11]. ZIMRA has an advisory role in the development of sound fiscal policies and therefore also in the formulation of the budget. The Authority is also responsible for facilitating trade and travel through the country's points of entry and is entrusted to come up with measures to curb smuggling and any form of international trade crime. ZIMRA responsibilities extend to enforcing import, export and trade controls.

In terms of the Constitution of Zimbabwe (Sections 101 and 102) all fees, taxes and other public revenues are paid into the Consolidated Revenue Fund. Fiscal management in Central Government revolve around the Ministry of Finance, Parliament and relevant committees. The latter are Public Accounts Committee; Comptroller and Auditor General; Treasury; Accounting Officers; Internal Audit; Tender Board; Public Service Commission; Central Payments Office and the National Development Fund. The Audit and Exchequer Act (Chapter 22:03) provides for the appointment, powers and duties of the Comptroller and Auditor-General and of his staff to provide for the examination and audit of public accounts and the raising of surcharges and makes provision for the management and control of public moneys and State property and the protection and recovery thereof. Although the Government of Zimbabwe has a reasonably strong regulatory framework in the form of statutes, enforcement and implementation has often lagged behind[18]. However, the new Acts on PFM and Audit (enacted into law in April 2010), contain many useful improvements.

18 Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), Public Finance Management System for the Government of Zimbabwe, prepared by DAIMA Associates Limited, May 2009

Under the current Income Tax Act, income is taxed on the basis of origin with tax levied on sources within Zimbabwe. Parastatals, government ministries, companies wholly owned by the government and those wholly owned by the Reserve Bank of Zimbabwe, statutory corporations (eg National Oil Company of Zimbabwe (Noczim), Minerals Marketing Cooperation Zimbabwe (MMCZ)) are exempt from tax. The current Income Tax Act exempts more than 100 categories of products not necessarily cushioning vulnerable groups[19]. The VAT Act and the other statutes for levying tax have many exemptions. Tax incentives have been given to attract investment in sectors such as mining and tourism and to promote exports.

There have been calls from all sectors for simplification of the tax system including removing some exemptions. It has been argued that simplifying the tax system would reduce the cost of collection as ZIMRA would not need the size of staff it has now[20].

The biggest source of revenue in Zimbabwe historically has been Pay As You Earn (PAYE) contributing nearly 40% of the tax revenue. Sales tax and VAT (which replaced VAT) was in the second position contributing an average 24% to the total tax revenue between 1996 and 2004[21].

Since 2009, VAT has become the major contributor to total revenue collected as shown in Table 1. Of the total revenue collected from January to December 2009, US$930 655 559.7, 96.5% was from taxation.

Table 1: Revenue Contribution in 2009 and 2010

Tax	% Contribution in 2009	% Contribution 2010
VAT	39	39
PAYE	15	19
Customs Duty	26	16
Corporate Tax	4	10
Excise Duty	7	7
Other Taxes	3	3

Source: 2011 Budget Statement

In the second quarter of 2010, VAT contributed 35.5% of the $519.1 million total revenues collected. Table 2 shows that PAYE was in the second position, contributing 19.2%[22]. PAYE has remained lower than its historical level. The situation where a redistributive tax contributes less than one which is not distributive means that overall the tax system achievement of equity is limited.

Table 2: Revenue Contribution in the Second Quarter of 2010

Tax	% contribution
VAT	35.5
PAYE	19.2
Customs duty	13.3
Corporate Tax	11.1
Exercise Duty	8.2
Other	12.7

Source: Fiscal Revenue Developments, Second Quarter 2010, Treasury Bulletin

Value Added Tax (VAT) was adopted in January 2004 and replaced such taxes as sales tax, betting tax, gaining tax and import tax. VAT is levied on transactions rather than persons, therefore the liability to charge the tax arises every time a transaction is carried out by registered operators, and will not depend on the profitability of the business. It is an indirect tax that is levied on the supply and importation of goods and services. VAT is payable on the value of goods imported into the country but some exemptions are allowed.

The Value Added Tax is distinctly different from the sales tax levied on exchanges. The Value Added Tax is a form of indirect tax that is imposed at different stages of production on goods and services. Sales tax, as compared to VAT, is the percentage of revenue imposed on the retail sale of goods. Unlike VAT, sales tax is levied on the total value of goods and services purchased. The value added tax system, unlike the conventional sales tax system, efficiently addresses the problems of cascading and input tax credit that causes an automatic hike in the consumer price level. The incidence of cascading is avoided in VAT as the tax is imposed on the value addition at every stage of production. The final consumers are the ultimate bearers of the burden. The transparent and neutral nature of taxation has prompted VAT to emerge as one of the robust revenue raisers.

19 ZEPARU, Enhancing Zimbabwe Fiscal Space, presentation by G Chigumira, September 2010

20 J Legat, Investor relations issues in Africa, African Investor Relations, 1 October 2010

21 Statement on the 2009 Budget Presented to the Parliament of Zimbabwe by the Minister of Finance Hon. T. Biti, MP on 17 March, 2009

22 Fiscal Revenue Developments, Second Quarter 2010, Treasury Bulletin

VAT is one of the newest instruments of the global economy and is widely accepted and implemented in most countries[23].

The system of taxation under VAT is also successful in reducing tax evasion that is frequent in sales tax. Sales tax is often evaded by consumers who buy at wholesale facilities or through an employer and this was prevalent in Zimbabwe. The introduction of VAT has been successful in improving revenue collection in Zimbabwe.

With the lowering of the VAT rate on cellular telecommunications to 15% with the introduction of the multi-currency operation on 1 February 2009, the standard rate for VAT for goods and services has become 15%[24].

For 2010, any person or business with taxable supplies exceeding US$ 60 000 per year can be registered for VAT while, however, there is an option of voluntary registration if the total value of taxable supplies is less than US$ 60 000 per year[25].

VAT is consumption based and is payable by everybody, although registered operators are entitled to a refund of VAT paid on supplies made to them. The VAT to be refunded or payable to ZIMRA at the end of the month is calculated by the registered operator, by subtracting the input tax from the output tax. The input tax is the VAT paid by the registered operator on purchase of goods or services. The output tax is the VAT charged by the registered operator on sales of taxable supplies.

VAT is not a redistributive tax as it is payable by everybody. While the VAT Act exempts certain supplies and also zero-rates others this does not contribute to equity as the exemptions benefit all consumers. It has, however, been argued that when the same tax rate is charged the person with the higher income, in this respect who makes more purchases, makes a higher contribution to the tax revenue![26].

Exempt supplies include donated goods, health services and transportation of passengers and their goods by public roads, fuel, domestic water and electricity which are basic needs and which would become less accessible to the poor if VAT was levied. Similarly zero rated supplies such as basic uncooked foodstuffs and medicines on prescription would become less accessible to the poor as well as fuel and tobacco. But agricultural inputs and animal feed as well as services provided to tourists which are zero rated, have the effect of subsidizing these businesses and reducing disposable income which could be directed to social services which are currently under-funded.

For Private Voluntary Organisations (PVO), exemption from payment of customs duty and VAT operates smoothly. ZIMRA requires that a PVO pays the taxes on the purchases first and then puts in a claim for the tax refund. ZIMRA deals case by case and final refund is left to the discretion of the officer handling the case. The PVO umbrella body, NANGO, has made presentations for a clearly laid down policy so that the decision is not left to the discretion of individual officers[27].

To improve VAT collection, the government has introduced legislation making the use of fiscalised electronic registers mandatory. The effective date for introducing the fiscalised registers has been moved from 1 October 2010 to 1 January 2011 and again to June 2011due to implementation problems. Comments from persons interviewed, including retailers and Zimbabwe National Chamber of commerce (ZNCC) representatives on the introduction of the fiscalised machines include the following:

- ZIMRA staff lack the skills to support implementation and cannot attend to problems raised by the registered operators,
- The fiscalised electronic registers are too expensive for the smaller operators. It is not clear how the two suppliers, who charge about $2 500 per machine, were identified. The cost of the registers is deductable from the VAT collected. But small operators have a lower turnover and are often owed a refund by ZIMRA when the end of the month reconciliation is made. It would take them much longer to recover the cost,
- Most registered operators are not ready for the implementation. The suppliers of the machines who have been identified take too long to deliver the fiscalised registers, and

23 Economy Watch Website: www.economywatch.com, 28 October 2010
24 KPMG (2009) The Zimbabwe 2009 Budget, Tax Summary
25 KPMG (2009) The Zimbabwe 2009 Budget, Tax Summary
26 Ministry of Finance, interview of C Mhini, November 2010
27 NANGO, M Ndhlokoyo, interview Nov 2010

- When there is a power cut, the fiscalised electronic register has to be reset by ZIMRA at a $15 fee. Until the register is set the retailer cannot make sales and considering the frequent power cuts experienced in the country, this would negatively affect business.

However some of the people interviewed said the resistance to fiscalised electronic registers was largely from operators who were under declaring VAT collected.

Table 3: Tax rates and Tax Bands per month, 2009 and 2010

2009			2010
Monthly band USD	Tax rate %	Tax band USD	Tax rate %
Up to 150	0	Up to 160	0
151-500	20	161-500	20
501-1000	25	501-1000	25
1001-1500	30	1001-1500	30
1501-3000	35	1501 and above	35
3001 and above	37.5		

Source: KPMG (2010) The Zimbabwe 2010 Budget Tax Summary

4.1 Pay As You Earn (PAYE)

Individual income from employment is taxed using tax bands, while income from trade or investment has been taxed at the same rate as that for corporates which was a flat rate 30% in 2009 and has gone down to 25% in 2010[28]. The tax free band for income from employment was set at US$150 a month when the economy was dollarized in 2009 and was increased marginally to US$160 a month initially and in 2010 was raised to US$175 a month. The maximum rate of tax was adjusted downwards in 2010. In 2009, it was 37.5% and was applicable to income above $3000 a month. In 2010 it was reduced to 35%, applicable to incomes above $1 500 a month, as shown in Table 3. Employment benefits are taxable while credits are offset against the PAYE payable: credits include medical expenses credit, incapacitated person credit and elderly person credit. PAYE is collected by the employer. Under the Final Deduction system which was introduced in 1997/98, the employer assumed the role of assessor with ZIMRA undertaking auditing. Individual returns are only submitted in the case of individuals with income from more than one source.

Tax bands are used on individual earnings in many countries including South Africa, Zambia and Botswana. The use of tax bands makes PAYE a progressive tax which is redistributive, hence the argument that the proportion of tax revenue from PAYE should be higher than that from the non progressive taxes such as VAT and customs duty. But for Zimbabwe it has been argued that a low flat rate may reduce the cost of collection and reduce evasion[29]. Zimbabwe tax rates are generally comparable to the region.

Table 4: Comparison of tax rates; 2010

Country	Maximum PAYE rate %	VAT %	Corporate rate %
Botswana	25	12	15 - 25
South Africa	40	14	28
Zambia	35	16%	15 - 45
Zimbabwe	35	15	30

Source; OECD, ZEPARU

The issue of the tax threshold has attracted much debate since the dollarization of the economy. The Total Consumption Poverty Line (TCPL) for an average family of five persons was $477 in August 2010[30]. The TCPL is the amount required to purchase food and non- food items for the family not to be deemed poor. The average of five persons used is based on the average size of the households as established by the 2002 Population Census.

It is generally agreed that the tax threshold should be related to poverty datum lines. The Zimbabwe Congress of Trade Unions (ZCTU) made presentations to the Minister of Finance for the 2011 budget which proposed to correct the situation. ZCTU's proposals included the following:

- Setting an income tax-free threshold which is at par with the Poverty Datum Line. As the PDL is approximately $500, those who earn less than $500 should not be taxed,

28 Government of Zimbabwe (2009) Budget Statement 2010

29 J Legat, Investor Relations issues in Africa, African Investor Relations, 1 October 2010

30 Central Statistical Office, Poverty Analysis September 2010

Mining Taxes

Although the tax rate for mining was increased from 20% to the same level as for other corporates, 25% in 2010, mining companies still enjoy better tax incentives:

- Miners are not allowed SIA or Wear and Tear, but are granted Capital Redemption Allowance (CRA) which can all be claimed in the first year. Because losses can be carried on indefinitely, the revenue from the tax is low. The difference between claiming CRA and SIA and W&T for ordinary companies is significant. Other corporates spread SIA and W&T expenses over three years and the period has been increased to four years,
- Mining losses are carried forward indefinitely but for other corporates, losses are carried for a maximum of 6 years,
- The cost of staff housing is not limited but for other companies it is limited to US$25000,
- Prior to 2010 miners could elect to spread income from the sale of mining claims over four years,
- Recoupment in mining is not taxed but is subject to tax in other companies,
- Miners are allowed a replacement allowance on renewal or replacement expenditure on equipment, buildings and works.

However the Mines and Minerals Act gives rise to royalties, which are significant because they are charged on gross revenue and are not dependent on whether the entity is making a profit. Royalties are charged because of the extractive nature of mining. For 2010 royalties were set at 4% (of gross revenue) and the proposed 2011 budget puts it up to 4.5% and 5% for gold and platinum.

- The minimum tax rate should be 20% and the maximum should be 30%,
- The individual tax rate should be below corporate rate. The 2010 corporate rate is 25% while the maximum rate for individuals is 35%[31].

However, in setting the tax threshold the Ministry of Finance had to balance between wanting to alleviate the plight of the poor and the need for government to raise revenue.

31 B Madzimure, ZCTU's proposals to Biti, The Worker, 27 October - 9 November

4.2 Corporate Tax

The general corporate tax rate, which was 35% before the dollarization of the economy was set at 30%, for 2009 and was reduced to 25% in 2010. The Income Tax Act allows deduction from income of expenses incurred in the earning of income and in the carrying on of trade. The expenses 'incurred from the carrying on of trade' have been dropped in the revised Income Tax Act to broaden the tax base.

4.3 Windfall Tax

Holders of special mining leases are taxed at a standard lower rate of 15%, however they may be subject to Additional Profits Tax (windfall taxes) which apply when the price of a commodity rises above a certain level. This tax is presently set at 31.176% of the first positive accumulated net cash position plus 27.78% of the second positive accumulated net cash position as defined in the legislation. For a holder of a special mining lease it has been argued that windfall tax in effect bridges the gap between the preferential tax in the lease agreement and the ordinary tax. But according to the Chamber of Mines, it is necessary to specify special conditions when windfall taxes apply.

The case of Australia

In Australia, a proposed 40% tax on super profits was targeting the very big producers . Under the proposed bill, after reaching a certain level, mining profits would be subject to the 40% tax, beginning 2012. The argument for the new tax was that all Australians should share the benefits of a prolonged mining boom caused by the high mineral demand. The government expects to raise $8.34 billion a year from the tax to help pay for the country's infrastructure spending and retirement funds The super tax, if imposed, is certain to have a big impact on the revenues of mining companies. Opposition to the super tax has been strong. Miners are reported to have spent $21 million to stop the tax.

Opponents to the bill argued that such a tax would drive investment and capital away. The biggest fear was that if Australia adopted such a big tax, other countries would follow . The new Australian Prime Minister has proposed to reach a consensus on the bill. Compromise is expected on the threshold rate at which the super profits tax apply as well as minimizing the application of the tax to existing projects and the level of the tax.

As the Zimbabwe government continues to look to mining for the recovery of the economy, it should monitor developments on the imposition of the mining super tax in Australia (see box). Just as the workers in Australia support the imposition of the super tax, the man in the street in Zimbabwe has high expectations from mining. But the Zimbabwe government will need to consult even more extensively than Australia has already, the state is failing to attract investment as well as donor funding. As suggested for Australia, Zimbabwe needs to consult both the big mines and the small scale miners, on mining taxes.

The Case of ZIMPLATS

An undertaking was given to Zimplats in 2001 by government that the Company would not be liable for payment of tax for additional profits. However the legislative changes to give effect to the exemption were never promulgated so ZIMRA went ahead and charged additional tax. The revenue authority dismissed the Company's objections and instituted recovery of the amount through withholding of VAT refunds due to the company. By the end of December 2009, ZIMRA had withheld a total of $9.2 million of VAT refunds. (Interfin Mechant Bank of Zimbabwe Limited, Feb 2010)

The Company is also owed $34.1 million by the Reserve Bank of Zimbabwe and is negotiating with the government to assume the debt. Civil Society Organisations (CSOs) through NANGO also made a presentation in the 2011 budget consultation forum for release of CSO funds lodged with the RBZ.

5 Tax Incentives

Several incentives for growth of businesses are in place, including tax incentives for exporting. The taxable income from a manufacturing company which exports 50% or more of its output is 20%. All exports (except chrome ore) are VAT zero rated. Table 5 shows further tax concessions in mining under a special mining lease, in industrial park development, in tourism and in Build Operate and Transfer (BOT) and Build Operate Own and Transfer (BOOT) arrangements.

The tax concessions for industrial park developers and tourist facilitators apply only to those who commenced operation prior to 1 January 2010. The tax holiday for a licenced investor applies only to those licenced under the repealed Export Processing Zones Act. The incentives are not available to licenced investors under the Zimbabwe Investment Authority Act. The five year tax holiday extends to taxable income in approved BOOT or BOT arrangements, an industrial park developer and an operator of a tourist resort in an approved tourist development zone. Currently (beginning of 2011) there is no BOOT or BOT arrangement. Under this arrangement the railway line between Beit Bridge and Bulawayo was built and has been transferred to the government and the bridge at Beit Bridge was built and will soon be transferred to the government.

The changes in the rates of tax from 2009 to 2010 (Table 5) reflect an attempt to level the playing field in the payment of tax.

According to the Zimbabwe Investment Centre (ZIA), the EPZ concept was successful and brought investors from countries such as the United Kingdom, South Africa and Malawi. Companies in Zimbabwe which benefited from EPZ include Cargill (the cotton exporting company, which did not manufacture but exported cotton), Cone Textiles, Floraline (export of horticulture products) and Banket Blender (fertilizer blending company). There have been cases of investors in EPZs who wound up business before the end of the five year tax holiday thereby avoiding payment of tax from the sixth year. But ZIA's position is that measures can be put in place to control such tax avoidance which has also been reported in Botswana.

Zimbabwe has been ranked low on the World Bank Doing Business 2010 - being placed 159 out of 183 in the rankings. Zimbabwe made only one reform that made it easy to do business, lowering the cost of transferring property by 15% of the value of the property[32]. Persons interviewed considered the delay by ZIA in setting up a one stop investment shop to reduce the time to set up business in Zimbabwe as "unfortunate". At the time of the study, ZIA was still working on renovations of its offices to accommodate the one stop shop.

5.1 Customs and exercise duties

Customs duties are charged on most imports with basic commodities attracting lower rates than luxury items. The duty for some items depends on weight and/or on the year of production. For motor vehicles customs duty for new cars and those within five years of production is lower than that for older, used cars. The engine capacity also counts; a car with an engine capacity of 1 600 cc, duty plus VAT is over 100% of cost including freight and handling charges. This means the burden of the duty falls on the poorer person who cannot afford a newer car. The 2011 budget has, however, reduced the customs duty on vehicles with a capacity of over 1600 cc from 60% to 40%.

Capital Gains tax is payable on the sale of immovable assets acquired after 1 February 2009 and marketable securities at a rate of 20% of the capital gains. Fees for government services, toll gate fees and dividends contribute to non tax revenue.

5.2 Toll gate fees

Toll gate fees contribute to non tax revenue. Toll gate fees were introduced by the IG to complement the limited budget resources for road maintenance. ZIMRA collects the fees for the roads authority (ZINARA). But there are inadequate controls in place

32 The World Bank & the International Finance Corporation, Doing Business 2010, Southern African Development Community

Table 5: Some Corporate Tax Rates

	2009	2010
General corporate tax rate	30%	25%
Licensed investor		
First 5 years	0%	0%
Thereafter	15%	25%
Taxable income of holder of special mining lease	15%	15%
Taxable income of person engaged in approved BOOT or BOT arrangement		
First 5 years of arrangement	0%	0%
Second 5 years of arrangements	15%	15%
Taxable income of industrial park developer		
First five years	0%	0%
Thereafter	15%	25%
Taxable income of operator of a tourist resort in an approved tourist development zone		
First 5 years	0%	0%
Thereafter	15%	25%
Taxable income of manufacturing company in a growth pt area	10%	25%
Taxable income from manufacturing co.exporting over 50% of output	20%	20%

and several cases of fraud have been reported. Although $15 million of the toll fees was directed towards road maintenance in the first half of 2010, there is a general feeling that there is not much to show on the use of the money.

5.3 Regional and International Trade Agreements

Zimbabwe is a signatory to the COMESA and SADC trade protocols and is also working on a trade agreement with the European Union[33]. The agreements encourage free trade between countries, by reducing or abolishing duty on goods produced within the group. The trade protocols do not affect excise duty, VAT and other taxes. The benefits from the increase in trade and resulting growth of the economy and the contribution to poverty reduction are supposed to compensate for the loss of revenue from the reduced tariffs. However, Zimbabwe has trade deficits with countries in COMESA, which could be attributed to low industrial production[34].

The trade deficits in effect mean that Zimbabwe is not benefiting as much from the duty exemptions under the SADC or COMESA protocols. If anything, they could be damaging to local companies as the removal of duties leaves local companies competing against cheaper imports.

It is estimated that ICBTs contribute between 30 to 40 percent to intra-SADC trade and SADC states cannot afford to ignore this significant contribution to regional integration[35]. A regional study on ICBTs carried out on Zimbabwe and Swaziland, between 2005 and 2008 showed that:

- ICBTs are small scale business people engaged in informal trade for survival and wealth creation under harsh economic conditions. They are mainly females (70% or more),
- In Zimbabwe most ICBTs entered the trade between 2001 and 2008 at the peak of the country's economic crisis,
- More than half of the ICBTs reported that there were incidences when they tried to evade duty payment,
- Few ICBTs in Southern Africa keep financial records. In Zimbabwe, about 55% of the ICBTs keep financial records,

33 ZIMTRADE, S Muchineuta interview, Nov 2010
34 Ministry of Finance, The 2010 Mid-Year Fiscal Policy Review, July 2010
35 UNIFEM-SRO, Women in Informal Cross Border Trade in Southern Africa, J Chipika, J Malaba, May 2009

- 75 percent of the Swaziland and 43 percent of Zimbabwean ICBTs said they would continue even if the economic situations in their countries improved showing that ICBT will remain in the region for some time to come.

The study recommended supportive import and export duty regimes and a reduction in the tariffs they pay as well as for recognition of the ICBTs. Similar calls have been made by CSOs such as Zimbabwe Chamber of Informal Economy Association (ZCIEA) and Regional Export Promotion Agency (REPA). Both these CSOs have participated in the promotion of the COMESA Simplified Trade Regime which seeks to overcome problems in proving that goods originate in a country and therefore are not subject to duty. It is designed for small consignments of US$500 or less.

6 Tax Evasion

Tax evasion is the deliberate non payment of tax. Tax avoidance, is when less tax is paid through analysis of the tax and is therefore legal. The Commissioner General can undo tax avoidance when it creates abnormal rights and request the person to pay more tax.

The extent of the tax evasion has not been measured but it has been estimated that ZIMRA is currently collecting 80% of the revenue it should be collecting[36]. But chartered accountants and tax consultants interviewed for the study was of the opinion that it is not possible to come up with an estimate of revenue lost due to evasion and avoidance. The Ministry of Finance has acknowledged that measures to bring the informal sector under the tax net have not been effective[37] and if 60% of business is in the informal sector, the loss could be higher than 20%. Taxation of the informal sector is a challenge for the region. Zambia has no effective mechanism for taxing the informal sector. South Africa introduced a micro-business tax in 2009 which has been slow to gain acceptance.

In Zimbabwe, presumptive tax was introduced to bring the informal sector into the tax net, but it is a stop gap measure[38]. There has however been minimal progress in terms of revenue generated due to non-compliance by most informal sector businesses. In terms of the law all persons with taxable income should register and submit returns and pay taxes and this is what ZIMRA should address. Not all operators in the informal sector are small or poor. At Mbare Market there are big operators with large quantities of stock who target people boarding buses for rural areas. There are transporters with three or four trucks. Many of the people who make furniture in the high density suburbs are not small.

The capacity of ZIMRA to follow up business operations is weak institutionally and in terms of the expertise and understanding of commercial transactions, therefore enforcement and monitoring of compliance is poor. The law is old. For instance, it does not define transfer pricing. The tax system generally does not keep up with changes in accounting rules and this is a weakness.

While it is difficult for big companies to cheat because of audit requirements and of the Stock Exchange regulations for listed companies, owner-run companies can omit some transactions to avoid paying taxes. According to a tax consultant, the first thing small businesses ask is how they can get around not paying tax. If they need a tax clearance certificate some say it is easier to pay a bribe to a ZIMRA official. Small companies can also evade payment of PAYE by paying benefits through the cash book.

While there is a strong focus on the large taxpayer, ZIMRA has not set up a suitable structure or system to tax small businesses. Tax collection is compromised because there is no strong fiscal court. There are also no judges well versed in Tax Law.

A company can create an off-shore structure legally and escape tax. By under-invoicing, the company transfers pricing to a country with lower tax. This tax avoidance is difficult to assess as it is generally difficult to understand the relationships between companies in a group. This, however, is being addressed in the new Income Tax Act by extending the source to residence basis.

Incidences of bribery of ZIMRA are high and while several are brought to court and appear in the press, many go unpunished. Reported cases include the 70 ZIMRA employees who were dismissed between October and December 2010[39]. Earlier in 2010 ZIMRA had dismissed other employees for corruption[40]. According to a ZIMRA officer, the Authority in mid 2010 dismissed 33 officers in connection with bribery related to customs payable on motor vehicles at Beit Bridge.

The administration of taxes could be simpler and tax evasion and avoidance lower if flat rates

36 G Chigumira. ZEPARU, interview, October 2010
37 Ibid
38 S Matoushaya, Tax Consultant and Member of Tax Steering Committee, Interview, Nov 2010
39 The Herald, ZIMRA dismisses 70 employees, 8 December 2010
40 The Zimbabwean, Corrupt ZIMRA officials arrested, 29 July 2010

were adopted and if some of the exemptions and allowances were dropped. This was the case in Mauritius and the new Eastern Europe bloc countries.

The Ministry of Finance and ZIMRA declined to comment on the extent of the tax evasion and avoidance. However the Ministry's intention to put measures in place to reduce tax evasion came out in the 2010 mid term statement. At the time of the research the new ZIMRA Board to replace the one which has been in place since ZIMRA was established in 2001, had not yet assumed office.

6.1 Measures to reduce tax evasion

The Minister of Finance proposed a review of ZIMRA in the 2010 mid term statement. "The review process involves implementation of reforms such as taxpayers' segmentation, setting up comprehensive valuation, origin and harmonised system tariff management, establishment of a risk based post clearance audit, streamlining cargo clearance procedures, upgrading information technology systems and enforcement of the management function through development of a national anti-smuggling strategy, among others," the Minister said. He also acknowledged the need for specialised skills in ZIMRA.

Already, several measures have been proposed to reduce tax evasion. These include the following:

- The use of fiscalised electronic devices for VAT collection, which is expected to address the loss of revenue as these devices cannot be tampered with. The compulsory use has been deferred from 1 October 2010 to 1 January 2011and again to June 2011,
- The adoption of Generally Accepted Accounting Practice (GAP) in accounting in the new Income Tax Act, if adopted by the small and medium businesses, could reduce the incidences of cheating on transactions,
- ZIMRA has reported success with its road patrols on its website. The success of other measures in place such as whistle blowing has however not been disclosed,
- ZIMRA has dismissed employees for corruption over the years.

Some incentives have been used successfully in other countries to bring in defaulting medium scale businesses and the informal sector into the tax system. These include the granting of amnesty to companies not paying tax so that penalties are not charged and questions are not asked. South Africa granted amnesty to tax defaulters to bring them into the tax net. The amnesty was however successful with larger tax payers but not with the small businesses.

A one stop border post for trade could reduce loss on the collection of duty and also reduce the time spent at the border following the example of Zambia which set up the one stop shop on the border between Zambia and Zimbabwe. A one stop shop between South Africa and Zimbabwe should be considered.

6.2 Reforming the Income Tax Act

One of the major challenges tax authorities in Zimbabwe face is how to broaden the tax base and at the same time simplify tax collection. Currently the Income Tax Act is being reviewed to address these problems. The Tax Steering Committee, which was set up soon after the IG came into office and which comprises representatives from the private sector, ZIMRA and Ministry of Finance, has made a significant contribution to the Draft Income Tax Act. Proposed measures to expand the tax base and simplify taxation include the following:

- Moving from a source based taxation to a residence based system. This pulls into the tax net income from all geographical zones,
- Limiting deductible expenses to those "incurred in the production of income" and disallowing the expenses "for the purpose of trade",
- Taxing capital gains as part of normal taxable income,
- Limiting the carrying forward of losses in mining to six years like for other corporates,
- Taxing miners at the same rates as other corporates, and
- Specifying Generally Accepted Accounting Practice as the basis of accounting.

Some analysts, however, still feel that the draft Act has not simplified the tax system enough as too many allowances and exemptions still remain; and that limiting deductible expenses to those 'incurred in the production of income' could mean that administration expenses, utility bills etc do not qualify for deduction.

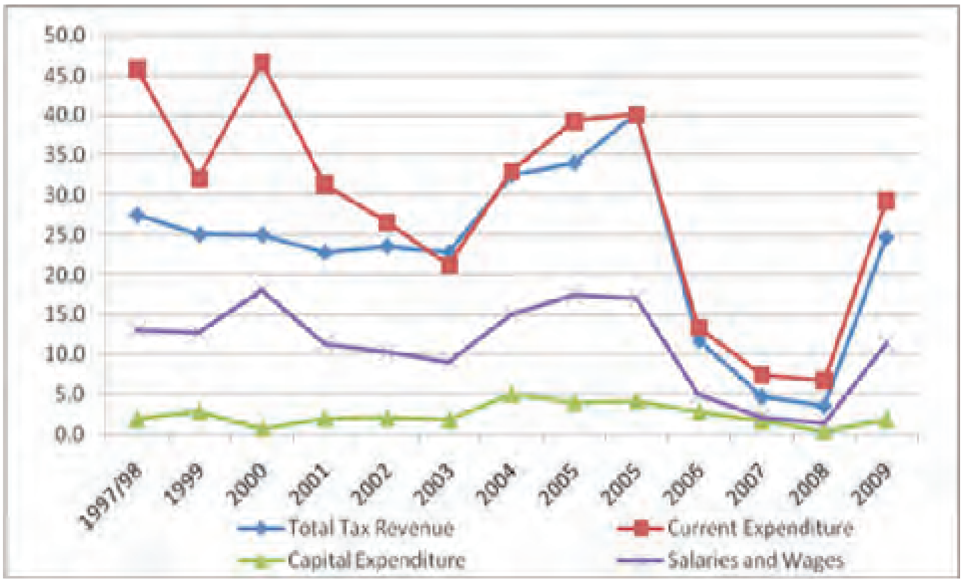
7 Expenditure and Budgets

The proportion of the national budget allocated to social services, including health and education, have gone up in 2011, slightly exceeding the recommended 20% of the total budget in the case of education. The allocation to education went up from $316 947 375 (13.8%) in 2010 to $469 367 000 (21%) in 2011. Health was allocated $256 198 000 (11.5%) in 2011 up from $173 826 600 (8%) in 2010[41]. The amounts however have fallen short and the government has acknowledged its failure to adequately finance social services and infrastructure development.

been 7.1% of GDP for Kenya, 7.2% for Uganda, 8.2% for Tanzania and 11.7% for Mozambique[43]. In the 2011 budget proposal, 20% of the $2.7 billion budget is directed to capital expenditure while 80% is to be applied to recurrent expenditure, as the government attempts to address the situation.

The Public Services wages bill constitutes the largest proportion of recurrent expenditure. For example, the wages bill for the second quarter of 2010 was slightly over 50% of recurrent expenditure as seen in Table 6. In 2009 the wage bill was 47% of the

Figure 1: Tax revenue, capital expenditure and recurrent expenditure as % of GDP



Source: ZEPARU presentation on Enhancing Zimbabwe Fiscal Space, 2010

Capital expenditure as a proportion to total expenditure has been small while recurrent expenditure has been exceeding tax revenue over the last decade[42] (see Figure 1 below) and this has remained so under the IG. Capital expenditure for the second Quarter 2010 was 4.1% of the total expenditure. As of the third quarter 2010, capital expenditure constituted only 1% of GDP much lower than in the rest of the region where it has

total budget and 9.2% of GDP and the estimates for 2010 are 54.5% and 15%, respectively. The government target is to reduce the public services wage bill to 45% of the total budget and 14.5% of of GDP in 2011[44].

41 Ministry of Finance, Blue Book: Budget Estimates 2011, presented to parliament on 25 Nov 2010

42 ZEPARU, Enhancing Zimbabwe Fiscal Space, presentation by G Chigumira, September 2010

43 ZEPARU, Enhancing Zimbabwe Fiscal Space, presentation by G Chigumira, September 2010

44 Ministry of Finance, 2011 National Budget Statement

Table 6: 2010 Quarter 2 breakdown of current expenditure

Category	Amount in USD	Percentage
Employment	179.9m	51.5
Goods and services	64.7m	18.5
Foreign travel	7.5m	2.1
Pensions	47m	13.5
Interest on foreign debt	8.4m	2.4
Other	41.8	12.0

Although wages constitute the highest expenditure item, the government is failing to pay civil servants living wages. The majority of civil servants earn less than \$200 a month, which is below the poverty datum line of \$500 a month for a family of five.

The Government has adopted the cash budget (spend what you have) and statistics on revenues for the second quarter of 2010 show that it is living within its means. Expenditure was \$431.5 million against a revenue collection of \$519.1 million. Of this \$349.3 million was directed to current expenditure and \$17.9 million to capital developments.

Measures which are known to increase the efficiency of revenue expenditure include matching the public sector wage bill to the capacity of the economy and prioritising growth enhancing sectors such as power, water, railway and construction. The Ministry of Finance has, within the confines of the revenue expected to be collected in 2011, given priority to enhancing power and water services.

7.1 Revenue Expenditure at Local Government Level

Local authorities finance operations and maintenance from local taxes levied as rates, water tariffs, levies and fines. The local authorities get grants from central government for health, water and sanitation and for capital expenditure, partly as a result of the cholera outbreak in 2008-2009.

But lack of finance as well as policy uncertainty, inadequacy of primary infrastructure and Government instability have affected the delivery of services by local authorities[45]. Service delivery by local authorities, which collapsed during the economic crisis leading to the formation of the IG, have remained poor two years after the IG came into power. With an estimated 2.1 million people without access to improved water supply, Zimbabwe was rated 136 out of 139 on the Global Competitive Index on water and sanitation in 2010[46]. There has been an outcry from residents and households have generally resisted paying service and water levies arguing that local authorities are not providing the services. A public accountant interviewed for the study said rural councils were also facing resistance in revenue collection partly due to failure to deliver services. The levies charged are considered too high in a dollarized economy where a majority of households live below the poverty datum line.

Business has also been affected and the mid term 2010 budget review attributed part of the slow industrial recovery to poor and high costs of services.

> "The Local Government Sector is there to serve business through provision of critical services such as water, land, spatial planning and infrastructure development"[47].
> *Minister of Local Government, Rural and Urban Development, Dr. Ignatious Chombo, calling on local authorities to charge reasonable tax.*

The 2011 budget endorsed a Cabinet directive to all local authorities and public enterprises to adhere to a ratio of 70:30 with regard to operation and capital expenditure on the one hand and employment costs on the other. It is, however, difficult to see how central government can enforce this vis-a-vis the existing statutes. For instance, the Harare City Council ignored the directive and continued to direct the bulk of its revenues to salaries and allowances. In August 2010, the Council directed \$7.5 million to payment of salaries and wages against an average monthly \$10 million revenue collection[48].

Transparency in the pricing of services would encourage residents to pay rates and services to the local authorities. The study did not establish whether CSOs which analyse the national budget also analyse budgets of local authorities. Zimbabwe

45 Deputy Prime Minister, A Mutambara in the Herald, Water Woes: Government needs USD 434million, 5 October 2010

46 Deputy Prime Minister, A Mutambara in the Herald, Water Woes: Government needs USD 434million, 5 October 2010

47 Herald, Chombo urges local authorities to be flexible, 26 January 2011

48 Herald, Residents Blast City Bloated Salary Bill, 8 August 2010

Chamber of Informal Economy Association (ZCIEA) has however engaged some local authorities on issues affecting the informal sector businesses. The study did not establish whether residents' associations in the bigger towns like the Combined Residents Association and the Harare Residents Trust in Harare, which have actively pushed for the rights of the residents, were consulted on the budgets by the local authorities. It is recommended that AFRODAD engage residents' associations to understand issues in local government and map out its own interventions. One of the issues to be addressed is the corruption which is rife in some of the urban councils in relation to the issuing of trade licences.

The new Public Finance Management Act may address some of the shortcomings in revenue management, but the government is still working on the regulations and appropriate manuals.

7.2 Lack of donor support

Zimbabwe's dire economic situation is made worse by the reluctance of donors to fund the government. While expectations were that the Inclusive Government would bring in donor funding, this has not happened as donors are still not happy with the poor governance prevailing in the country. In his budget speech this year Finance Minister Tendai Biti said Zimbabwe could not rely on donors to partner the Government in long term development but would have to rely on its own resources. Out of the total budget of US$2.7 billion for 2011, donor support is estimated to be about $500 million although most of it will be channelled through NGOs and therefore the government will not be accounting for it.

7.3 Towards a pro-poor budget

Zimbabwe has one of the highest levels of inequalities in the world with 20 percent of the population controlling 65 percent of the total income. The inequalities have worsened from a Gini coefficient 0.53 in 1995 to 0.61 in 2003[49]. The inequality is a reflection of the gap between the rural and urban population and also between female-headed households and male-headed ones[50]. The proportion of rural households with access to safe water declined from 75 percent in 1999 to 68 percent in 2003 mainly due to inadequate investments and poor maintenance of water sources and a decline in donor funding.

To address these gross inequalities CSOs made presentations for a pro-poor budget, which would increase support to social services, in the 2011 budget consultations. Proposals made by different CSOs included:

- At least 20% of the national budget should go to education as in the Dakar Declaration[51],
- At least 15% of the national budget should go to health, as in the Abuja Declaration[52],
- Prioritise support of vulnerable groups and
- Capital expenditure should constitute a minimum of 50% of the total budget and at least 25% of the GDP.

CSOs who are involved in budget analysis and advocacy include NANGO, Zimbabwe Women's Resource Centre and Network (ZWRCN), Zimbabwe Congress of Trade Unions, Poverty Reduction Forum Trust and Community Working Group on Health.

7.4 CSO participation in the budget process

Consultations on the 2011 budget, which resumed in August 2010, were applauded by nearly all the persons interviewed. The Ministry of Finance wrote to umbrella bodies such as CZI, ZNCC and NANGO calling for inputs to the 2011 budget. Most CSOs were happy with the level of consultation on the budget. The Minister of Finance extended budget consultation to provinces, thereby reaching more levels of society.

In the 2011 budget proposal, some of the presentations made to the Ministry of Finance were taken on board although not to the extent requested and these included:

- The tax threshold for individuals was raised from US$175 to US$225 a month,
- There was an increase in support to education,
- Greater emphasis was put on the energy sector,

49 MPSLSM, in United Nations Secretariat, Department of Economic & Social Affairs Statistics Division, Poverty measurement and gender: Zimbabwe Experience, Dec 2006

50 MPSLSM, in United Nations Secretariat, Department of Economic & Social Affairs Statistics Division, Poverty measurement and gender: Zimbabwe Experience, Dec 2006

51 NANGO, The People's Budget, Key Civil Society Demands on the 2011 National Budget- A Consolidated Report on National Consultative Meetings, September- October 2010

52 NANGO, The People's Budget, Key Civil Society Demands on the 2011 National Budget- A Consolidated Report on National Consultative Meetings, September- October 2010

- In 2009 and 2010 the IG made improvements in water and sanitation services only in urban areas but proposes to include rural areas in 2010,
- There was a downward review of customs duty on selected finished goods including selected medical equipment,
- Scrapping and reducing customs duty on selected inputs, including packaging materials,
- Almost doubling of the civil service salaries and
- The suspension of customs duty on basic goods was extended by a further six months.

Most people interviewed agreed that there was need for a compromise between the demands made and the need to raise revenue for government expenditure.

The Tax Steering Committee on which the private sector, ZIMRA and the Ministry of Finance are represented has extended the scope of the private sector contribution. The Committee has been involved in the revision of the Income Tax Act and of tax rates to 'level the playing field' and remove or limit tax concessions[53].

7.4.1 Zimbabwe Congress of Trade Unions (ZCTU)

The Zimbabwe Congress of Trade Unions stands for the rights of workers. ZCTU played a significant role in negotiating wages and working conditions and organised labour protests including stay-aways even after these became illegal. ZCTU is no longer as powerful given that it represents formal sector employees who now constitute only 20 percent of the total workforce. However for the 2011 budget, ZCTU made presentations to the Ministry of Finance on the expansion of the tax threshold for payment of PAYE and on the reduction of individual tax rates.

ZCTU proposed a pro-poor budget, which takes account of vulnerable groups and criticised the 2010 budget for being consumption oriented. In the 2010 budget only 25% of GDP was reserved for capital expenditure. The ZCTU proposed that for a developing country like Zimbabwe capital expenditure should constitute a minimum of 50% of the total budget and at least 25% of the GDP[54].

7.4.2 Zimbabwe Chamber of Informal Economy Association (ZCIEA)

The Zimbabwe Chamber of Informal Economy Association, which was launched in 2004 through the initiative of ZCTU and which continues to enjoy technical support from ZCTU is recognised in Zimbabwe, regionally and internationally for pushing the informal sector agenda. It has a national structure with 15 chapters spread across the country, covering both urban and rural areas. It represents cross border and other traders, welders, vendors and other groups involved in informal sector activities. Its mandate is to 'alleviate poverty by transforming informal economic activities into mainstream activities'[55].

ZCIEA argues that if 60 percent of business in Zimbabwe is in the informal sector then the sector deserves recognition. The Constitution does not recognise the informal sector putting it under 'other'. ZCIEA is lobbying for an Act on the informal sector and has made presentations to the Ministry of SMEs. ZCIEA concerns include lack of access by small businesses to funding from the Ministry of Women Affairs, the level of tax levied on the informal sector and the tax rebate (duty rebate of $500 per month which they recommend should be raised to $1000)[56].

ZCIEA successfully engaged ZIMRA after their "inhuman" raid in 2009 of *Mpedzanhamo* Flea Market in Harare when they confiscated goods. ZIMRA returned some of the goods and now carry out spot checks for payment of customs duty in a better way. ZCIEA is pushing the police not to harass vendors or confiscate their goods. ZCIEA has held symposia advocating for working space, low income housing and proper treatment of the informal sector by the police and has engaged most of the urban councils, the police, Ministry of SME and some Rural District Councils. The Association has successfully engaged the Parliamentary Portfolio Committee on Indigenisation.

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53 S Matoushaya, Tax Consultant and Member of Tax Steering Committee, Interview, Nov 2010

54 B Madzimure, ZCTU's proposals to Biti, The Worker, 27 October - 9 November

55 B Mugijima & C Mandishona, Zimbabwe Chamber of Informal Economy Association, Interview, 19 November 2010

56 B Mugijima & C Mandishona, Zimbabwe Chamber of Informal Economy Association, Interview, 19 November 2010

7.4.3 The Regional Export Promotion Agency (REPA)

The Regional Export Promotion Agency is a Trust whose goal is to mainstream gender in trade. Over the years the organisation has represented women involved in cross border trade and has promoted the COMESA Simplified Trade Regime through training of trainers. To be exempted from customs duties, the law requires an exporter to obtain a certificate of origin to accompany her/his consignment. But in most COMESA countries, the certificate of origin is only obtainable in the cities. The governments have agreed on the list of products that do not require the certificate of origin for small consignments.

There is no policy covering cross border trade and yet Zimbabwean women in cross border trade contributed much during the economic crisis, particularly in 2007-2008 when the shops were empty. The women fed families, paid school fees and in some cases bought assets including houses from cross border trade. It is estimated that 80% of Zimbabwean women were engaged in cross border trade from 2005 to 2009 but that the numbers have since dropped by about 20%[57].

REPA has participated in the budget consultative meetings through Zimbabwe National Chamber of Commerce. REPA recommends that tax rates be lowered for the cross border trader and that the duty rebate be increased from $500 to $1 000 so that the cross border traders do not have to make so many trips a month as they are faced with welfare challenges due to long absences from home.

7.4.4 Zimbabwe Women Resource Centre and Network

ZWRCN initiated gender budgeting in 1999 but activities picked up after the adoption of a gender budgeting programme by the Ministry of Women's Affairs in 2006. Gender budgeting promotes more effective use of resources to achieve gender equity and transparency. ZWRCN works at central government level mainly building expertise in gender budgeting and hopes to cascade training to local authorities[58]. Their main achievement has been the engendering of the budget: the Ministry of Finance issues a directive on this every year as the call for submissions of the different ministries is made. But ZWRCN has failed to go beyond checking broad budget allocations as information on how the money is allocated to specific activities within the ministries is classified and not open to the public.

7.4.5 National Association of Non-Governmental Organisations

The National Association of Non-Governmental Organisations (NANGO) has played a crucial role in maintaining civil society-government dialogue, specifically to contribute to pro-poor policies, for the realisation of the MDGs. NANGO and the Civil Society Budget Coalition (CSBC), gathered input from civil society on the people' expectations in the 2011 budget. Recommendations included increased support to social services, accountability and transparency in resource use and release of civil society funds still lodged with the Reserve Bank since 2008. NANGO distributed copies of its presentations to Parliament on budget day. CSBC members are, the Evangelical Fellowship of Zimbabwe, National Association of Societies for the Care of the Handicapped, Catholic Commission for Justice and Peace, Poverty Reduction Forum Trust, Zimbabwe National Chamber of Commerce, Zimbabwe National Council for the Welfare of Children, Harare Residents Trust, Zimbabwe Women's Resource Centre and Network and Save the Children.

57 O Chikosha, Regional Export Promotion Agency, Interview, November, 2010
58 The Zimbabwe Gender Budgeting Experience, ZWRCN, 2009

8 Conclusion

Zimbabwe has failed to attract investment and official development assistance has been little. The country is also not benefiting from membership in regional trade agreements because of the slow recovery of industry; the country has trade deficits with most countries in the region. The country is therefore relying on taxes for revenue.

But revenue collection in Zimbabwe is poor. This has been attributed to weaknesses in the policies themselves and to ZIMRA's failure to effectively monitor business transactions. Government also lacks the expertise to monitor mining operations.

The government, however, is aware of the short-comings and has proposed some reforms in the legislation to increase revenue collection. Many of the reforms such as the draft Income Tax Act are not immediate as it still has to go through Parliament. It is however not clear how the lack of expertise in the Ministry of Finance and ZIMRA will be addressed.

Incidences of bribery of ZIMRA officials remain high resulting in the loss of revenue from non-payment of taxes. There have been suggestions to introduce flat rates and to lower the rates, which has been known to reduce evasion and avoidance. This would also reduce the cost of tax collection. It has been acknowledged that the informal sector should be brought into the tax net but not much progress has been made on this. The use of local authorities to collect taxes for the government and keep 10 percent for themselves, which was proposed in the 2010 budget, could make a difference. Strategies which could be used to encourage small businesses to pay tax include offering amnesty for past non-payment of tax. Awareness raising on the importance of paying tax could be used to develop a culture of paying tax in the nation.

Zimbabwe continues to look at mining for a higher contribution to the fiscus and has increased royalties on gold and platinum from 4% to 4.5% and 5% respectively. However mining has special tax concessions and therefore until reforms are made, will continue to contribute less in tax than other corporates. The Minister of Finance deferred the revision of capital allowances for mining to allow the sector to recapitalise[59].

In addition to the revision of the Income Tax Act to expand the tax base, the government has introduced measures to limit losses in VAT collection. VAT is the major contributor to tax revenue followed by PAYE. Corporate tax remains low as industry continues to operate below capacity.

Overall, the interaction between the Government and the business sector and other sectors through budget consultations is considered very effective. The appointment of the Tax Steering Committee on which the Ministry of Finance, ZIMRA and the private sector are represented, was a big step in the right direction. But dialogue with the informal sector has lagged behind and there have been calls to give more attention to this sector as 60% of the business is in the informal sector.

Poor service delivery, high pricing of services and poor revenue collection in local authorities have affected industry and all business. Overall individual residents continue to ignore the bills.

59 The 2011 budget proposal

9 Recommendations

9.1 Government and ZIMRA

1. The government has acknowledged that not much progress has been made to bring the informal sector into the tax net. Effective taxation of the informal sector is a challenge faced by many of the countries in the region. As the government develops a strategy to tax the informal sector, it should consider the following:

   - Initially engage the informal sector through civic society organisations and associations which represent them,
   - Enforce the registration of all small and medium businesses and follow them up on payment of tax,
   - Offer amnesty for past tax debts and invite the small and medium businesses to come forward and pay taxes, and
   - Keep (or introduce) lower tax rates for the informal sector.

2. Educate the nation to develop a culture of paying taxes. The many incidences of bribery of ZIMRA officials and under declaring of goods to reduce customs duty and the challenge faced to effectively tax the informal sector all point to this need.

3. Zimbabwe Revenue Authority failure to effectively monitor business transactions and mining operations is a major weakness in revenue collection. Government and ZIMRA need to address weaknesses in monitoring e.g. by sourcing the expertise externally.

4. The intention to put measures in place to reduce tax evasion came out in the 2010 mid term statement by the Minister of Finance in which he proposed a review of ZIMRA. There is need to expedite reforms of ZIMRA as suggested in the mid term statement.

5. It has been argued that in most cases tax incentives given by developing countries to attract investment bring limited benefits and that the tax incentives are effectively a loss to these countries. For instance, a company reported to have benefitted under the Zimbabwe export processing tax incentive for manufacturers is not a manufacturer. An analysis of the benefits of tax incentives to the country could not be undertaken as ZIMRA and ZIA refused to disclose relevant information. It is recommended that further studies be carried out to analyse the benefits of tax incentives to the country.

6. In line with the logic of bringing the informal sector into the tax net through lowering of rates, there is a need to offer special rate of customs duty to the informal cross border traders to reduce incidences of under-declaring.

7. To reduce tax evasion and under declaring of goods being brought into the country, it is generally agreed that a one stop border post at Beit Bridge would reduce loss of customs duties. Setting up of the one stop shop should be considered as measures to reduce tax evasion and tax avoidance.

8. To improve VAT collection, the government has made the use of fiscalised electronic registers mandatory, but has shifted the effective date several times. The electronic registers can be introduced gradually starting with the big operators, as the Final Deduction system for VAT was introduced. VAT collection could also be improved by increasing the threshold for VAT registration for operators.

9. The government has proposed the restructuring of parastatals. It is recommended that the restructuring should put in place measures to levy taxes on the profits of parastatals. This has been successfully done in some countries.

9.2 Recommendations to AFRODAD

1. AFRODAD (or its affiliate) should consider joining the Civil Society Budget Coalition which is coordinated by NANGO to address issues of tax justice. At the same time AFRODAD should consider partnering with the Zimbabwe Chamber of Informal Economy Association, which has successfully engaged ZIMRA and undertaken various advocacy activities for the informal sector.

2. There is need to educate the nation to develop a culture of paying taxes. The many incidences of bribery of ZIMRA officials and under declaring of goods to reduce customs duty and the challenge faced to effectively tax the informal sector all point to this need. AFRODAD should undertake education campaigns or find partners already in advocacy to push this activity.

3. It has been argued that in most cases tax incentives given by developing countries to attract investment bring limited benefits and that the tax incentives are effectively a loss to these countries. For instance, a company reported to have benefitted under the Zimbabwe Export Processing Tax incentive for manufacturers is not a manufacturer. An analysis of the benefits of tax incentives to the country could not be undertaken as ZIMRA and ZIA refused to disclose relevant information. It is recommended that AFRODAD find a way to obtain data and undertake some analysis of benefits/losses to the country from incentives given in the past.

4. Australia proposes to introduce a mining super tax so that all the people benefit from the mining boom. Zimbabweans have increasingly been looking at mining for the recovery of the economy. AFRODAD should monitor the outcome of the Australian bill so as to draw lessons for Zimbabwe.

9.3 Other CSOs

1. As an estimated 60% of the business is in the informal sector, CSOs should consider pushing the agenda for its recognition including for access to land and financing. Initially AFRODAD could undertake a study on best practices of handling this sector which may be the largest in the world.

2. It is recommended that all CSOs operating in trade including cross-border trade and in the informal sector should lobby government for a special rate of customs duty for the informal cross border traders to reduce incidences of under-declaring.

3. Currently CSOs involved in budget tracking have failed to go beyond analysis of the budget proposal as the final allocations to Ministries are classified documents. CSOs should lobby the Ministry of Finance for openness with budgets and documents and line ministry allocations. Budget tracking would enable CSOs to demand accountability.

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Annex 1

The 2010 revised macro-economic and budget framework

	2009 Actual	2010 projection
Real GDP growth	5.7%	5.4%
Annual average inflation	-7.7%	4.5%
Nominal GDP	$5.220 billion	$5.517 billion
Revenues	$0.973 billion	$1.750 billion
Revenues as % of GDP	18.6%	31%

Source: The 2010 Mid-Year Fiscal Policy Review, July 2010

Annex 2

List of people interviewed

Andrew Matiza	Consultant, Zimbabwe National Chamber of Commerce
Beauty Mugijima	Executive Director, Zimbabwe Chamber of Informal Economy Association, ZCIEA
C Mhini	Ministry of Finance
Charity Mandishona	Gender and Women Desk, ZCIEA
Chipiwa Chifamba	Gender Budgeting Officer, Zimbabwe Women's Resource Centre and Network
Chris Hokonya	Chief Executive Officer, The Chamber of Mines
Emmanuel Mujuru	Chairman, Pharmaceutical Manufacturers Association
Ennie Vudzijena	Professional woman and operator of a flea market stall
Gibson Chigumira	Executive Director, ZEPARU
Jocelyn Chaibva	Retail Pharmacist & Former President of the Pharmaceutical Association
Kipson Gundani	Economist, Zimbabwe National Chamber of Commerce
Leon Tafangombe	Registered Public Accountant
Moses Ndhlokoyo	Membership and Capacity Building Manager, NANGO
N M Abu-Basutu	Gwanda Management Services P/L & member of new ZIMRA Board
Nozipho M Muyambo	Business- woman, BNI member
Ottilia Chikosha	Executive Director, Regional Export Promotion Agency
Shylet Muchineuta	Market advisor, ZIMTRADE
Steven Matoushaya	Director, Tax Advisory Services, KPMG and member of the Tax Steering Committee
Roy Chimanikire	Finance Director, Econet Wireless
Ruth Kaseke	Executive Director, Health Services Board
Wisdom Mutero	Marketing Research, Zimbabwe Investment Authority

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