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The Politics of Resource Bargaining, Social Relations and Institutional Development in Zimbabwe Since Independence

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This paper is part of a series of outputs from the research project on the Politics of Domestic Resource Mobilization for Social Development.

The project seeks to contribute to global debates on the political and institutional contexts that enable poor countries to mobilize domestic resources for social development. It examines the processes and mechanisms that connect the politics of resource mobilization and demands for social provision; changes in state-citizen and donor-recipient relations associated with resource mobilization and allocation; and governance reforms that can lead to improved and sustainable revenue yields and services. For further information on the project visit www.unrisd.org/pdrm.

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Acronyms

AAC	AIDS Action Committee
ASM	Artisanal and Small-Scale Mining
CIT	Corporate Income Tax
DRM	Domestic Resource Mobilization
ESAP	Economic Structural Adjustment Program
FDI	Foreign Direct Investment
FTLR	Fast Track Land Reform Programme
GDP	Gross Domestic Product
GNU	Government of National Unity
IEE	Indigenisation and Economic Empowerment Act
IMF	International Monetary Fund
KPCS	Kimberley Process Certification Scheme
MDC	Movement for Democratic Change
MOHCW	Ministry of Health and Child Welfare
NAC	National AIDS Council
NATF	National AIDS Trust Fund
NSSA	National Social Security Authority
ODA	Official Development Assistance
PIT	Personal Income Tax
RBZ	Reserve Bank of Zimbabwe
SML	Special Mining Lease
SOE	State Owned Enterprise
SWF	Sovereign Wealth Fund
TNF	Tripartite Negotiating Forum
VAT	Value Added Tax
ZANU-PF	Zimbabwe African National Union (Patriotic Front)
ZIM ASSET	Zimbabwe Agenda for Sustainable Socio-Economic Transformation
ZIMRA	Zimbabwe Revenue Authority
ZIMCORD	Zimbabwe Conference on Reconstruction and Development
ZIMPREST	Zimbabwe Programme for Economic and Social Transformation
ZINARA	Zimbabwe National Road Authority

Summary

This paper examines evolving models and experiences of domestic resource mobilization in Zimbabwe since independence in 1980. Grounded in UNRISD's Politics of Domestic Resource Mobilization and Social Development project, the study explores key questions around the nature and dynamics of resource bargaining over revenue mobilization and allocation; the changes in relationships among key actors; and the forms and outcomes of institutional development surrounding resource bargaining processes. It adopts a historical-comparative approach to explore the evolving balance of forces among actors and emerging institutional constraints that are seen as catalyzing the formulation of successive resource mobilization strategies and associated development outcomes. Three case studies of divergent resource mobilization innovations underscore the complexity of challenges faced by governments whose actions are shaped by uneven state capacity and policy autonomy; a weak formal sector in which established business actors wield significant power and influence; and growing contestation over legitimacy and participation by political and social actors. The Zimbabwean case underscores the critical importance of political undercurrents and contesting interests in resource bargaining and the shaping of development policy. It also highlights the uneven nature of social actors' access to and influence in bargaining processes; and of the state itself, in the wake of neoliberal austerity, state capture and intra-elite competition. At the same, the study finds, evidence from Zimbabwe points to the benefits of more transparent, inclusive and capacitated forms of revenue mobilization involving a wider array of social actors.

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Introduction

In recent years domestic resource mobilization (DRM) has attracted increasing attention as a source of finance for social and development spending by governments in the Global South. In a period of unsteady and unpredictable aid flows, rising national demands for fiscal accountability and greater policy ownership and direction in the social sector, DRM has been seen by researchers and policy makers as an important alternative and complement to donor-derived development finance (Bhushan and Samy 2014). But while DRM's political and developmental benefits have been suggested by researchers, evidence concerning the dynamics, opportunities and limitations of DRM in practice remains weak. The translation of bargaining processes into enduring practices; mechanisms for ensuring effective inclusion of disparate social constituencies; and innovations enabling required institutional capacity to manage and adapt DRM frameworks; require further investigation to ascertain the modalities and outcomes of DRM initiatives (Prichard 2015; Moore 2013).

This paper examines DRM in Zimbabwe, a country with an historically diversified economy that since independence in 1980 has been shaped by successive distinct development models and resource mobilization strategies. The paper's findings are grounded in research carried out under UNRISD's project on the Politics of Domestic Resource Mobilization, which explores the importance of state-citizen relations in shaping resource mobilization strategies that result in strengthened domestic revenues flows, more equitable distribution of revenues, and transformed, ecologically sustainable production processes (UNRISD 2016). The UNRISD project compares DRM experiences in case study countries with regard to three key themes: the nature and dynamics of resource bargaining over revenue mobilization and allocation; the changes in relationships among key actors in DRM and social policy; and the forms and outcomes of institutional development surrounding DRM bargaining processes (UNRISD 2013).

The Zimbabwe study uses a comparative historical approach to assess the nature, dynamics and outcomes of DRM strategies under successive development models. It argues that the shifting capacity and autonomy of state institutions, along with leading business actors' economic power and policy leverage during periods of fiscal crisis, were key factors in shaping successive DRM frameworks in Zimbabwe since 1980. In some ways Zimbabwe reflects the challenges seen more widely in sub-Saharan African countries, where limited state capacity, elite domination of policy making and extensive clientelist and patronage networks heavily influenced DRM strategies and outcomes. In other ways, however, Zimbabwe's overall *anti*-developmental DRM trajectory is atypical: having commenced independence with a diversified formal economy, strengthened state institutions and a consensus around tax-driven redistribution, the basis for a social consensus around an expansive DRM strategy was increasingly undermined by economic and political liberalisation. Neoliberal reforms in the 1990s resulted in economic contraction and informalization, declining livelihoods, growing social discontent and political mobilization, which unleashed the mutually-reinforcing dynamics of state capture, elite clientelism and deepening fiscal crisis. Contrasting DRM innovations in this period reflected both the political and fiscal limits of revenue mobilization in a time of crisis, and the potential benefits of developing new revenue mechanisms in transparent, inclusive ways.

The Zimbabwean case raises critical questions about the relative impact of institutional capacity and autonomy, bargaining relationships among key actors and the role of wider

political processes in the shaping of DRM strategies and outcomes. In this sense, the paper expands the scope of inquiry beyond questions of elite-focused 'political settlements.'[1] It recognises the important contributions of significant other interests active in Zimbabwean public debates, such as business associations, labour movement organisations, social movements, and civil society groups and donors, among others; and is sensitive to the impact of institutional fragmentation, economic shocks and instability stemming from elite interventions. It underscores the negative repercussions of state capture and weakened bureaucratic policy autonomy for resource bargaining, sustained revenue mobilization and social spending outcomes; at the same time, in contrast, the paper highlights the potential benefits accruing from more open, transparent and inclusive forms of revenue mobilization involving a wider array of social and economic actors. Evidence of the complex relationship between politics and DRM suggests the need to assess DRM strategies and outcomes from the wider perspective of fragmented and contradictory institutions and elites, unevenly empowered stakeholders, and differently-scaled focal points of revenue mobilization and spending.

The discussion proceeds by first mapping the evolving political and economic context of DRM in Zimbabwe. Setting the scene for its historical comparison of shifting politics, development strategies and DRM approaches, the first section introduces key players and successive development frameworks since 1980, and points to their respective political and economic implications for revenue generation and allocation. The next section provides an overview of development finance resources and the taxation instruments established by government as it adapted to a changing fiscal and macroeconomic environment. A historical account of DRM innovation under four successive development frameworks follows. These include the broadly welfarist phase of post-independence recovery and reconstruction in the 1980s; a period of neoliberal reform under adjustment in the 1990s; the unwinding of market reforms and lapse into macroeconomic crisis in the early 2000s culminating in a hyperinflation crisis in 2008; and political stabilization and gradual recovery after 2009. For each phase the political-economic dynamics around resource bargaining and DRM outcomes are highlighted. The main analytical focus falls on the two most recent periods, which witnessed a rapid growth of DRM experimentation in response to the sharply rising need for domestic resources by the state. The challenges and opportunities confronting DRM strategies in the 2000s are explored more closely through three case studies of DRM innovation and bargaining which illuminate the complex and contradictory dynamics of resource bargaining in a time of crisis.

The paper draws on the findings of three UNRISD working papers and unpublished research commissioned for the Zimbabwe study.[2] Key sources for this research include official policy documents, budget statements, blue books and reports and regulations of relevant state institutions such as the Parliament of Zimbabwe, Reserve Bank, Revenue Authority and statutory institutions established to collect and manage new revenue flows. The report also draws on secondary data pertaining to governance, fiscal policy and taxation reform produced by business and civil society organisations, donor institutions, media and academic researchers. Interviews conducted for the working papers in 2013-16 with government officials, business representatives, civil society actors and researchers, informed key case study analyses. The paper also benefited from original research shared with the UNRISD Zimbabwe project team by external researchers.

[1] For example, Bebbington et al. 2018; Whitfield et al. 2015; Khan 2010.
[2] Saunders 2017; Saunders 2018; Mate 2018.

Political and Economic Context of DRM in Zimbabwe

Since 1980, shifting coalitions of interests inside and outside of the government and Zimbabwe African National Union (Patriotic Front) (ZANU-PF) party have contributed heavily to the changing undercurrents which have shaped Zimbabwe's successive development frameworks and resource mobilization strategies. This section traces the evolution of these coalitions over four decades, the resulting policy prescriptions guiding government in different periods, and successive rounds of state-society engagement and contestation.

1980-1990: Reconstruction and redistribution

After independence in 1980, the new ZANU-PF government led by Robert Mugabe established a development policy framework based on the notion of 'Growth with Equity', winning the broad support of key social stakeholders and international donors.[3] In important ways, this redistributive approach echoed ideological and policy principles developed by the nationalist liberation movements during the armed struggle against Rhodesian white minority rule. The rapid expansion and reorientation of the state towards meeting the urgent needs of the black majority (notably in the areas of education and health for the bulk of the population living in the sorely neglected rural areas), and the undertaking of large-scale land redistribution and resettlement benefiting peasants displaced by white settler colonialism, were key ideological pillars of African nationalism in Zimbabwe in the decades leading up to independence. Another was a broadly 'socialist' orientation, which aligned leading wings of the liberation movements to the ideologies of their Soviet and Chinese backers. At the same time, Zimbabwe had joined the International Monetary Fund (IMF) and World Bank to qualify for balance of payment support and concessionary loans sought to finance expansionary development programmes.

Once in power, ZANU-PF de-emphasized the more radical components of the liberation movements' proposed reforms as it spearheaded a policy consensus which prioritized reconstruction and development funded by private sector expansion and donor support. The first ZANU-PF administration, which briefly included members of the main opposition parties in a 'unity' government, proved mostly adept at weaving together disparate social interests under its redistributive regime.[4] There were impressive advances in education, health and land resettlement as a result of expanded state investment. However, a severe drought in the early 1980s, deteriorating terms of trade and shortages of foreign currency, compounded by other economic and political factors including skills shortages, ageing capital stock and regional security concerns, resulted in growth which was both erratic and dominated by the public sector.[5] These conditions imposed sharp constraints on government's redistributive model and underpinned the growing influence of donors on the state policy. Business demanded corporate tax relief, production

[3] From 1980 to 1987, Robert Mugabe served as Prime Minister and head of government. In 1987 constitutional reforms established the position of executive President, which was occupied continuously by Mugabe until late 2017.

[4] An important exception to ZANU-PF's leading role in formulating a governing consensus was its hostile and destructive relationship with its erstwhile nationalist partner in the struggle for independence, the Zimbabwe African People's Union led by Joshua Nkomo. From the early 1980s through to the awkward merger of Nkomo's party with ZANU-PF in 1987, the ZANU-PF government prosecuted a low-intensity war against the opposition party and its supporters, accusing it of sponsoring armed dissidents in their resistance to the new government; unknown thousands were killed and brutalised as a result (CCJP and LRF 1997).

[5] For example, average growth in education in this period was about 13 per cent, against just 4 percent in manufacturing sector.

subsidies and incentives for exporters. In contrast, important gains won by labour in the first years of independence were rapidly undercut by the evolving market-centric orientation of government, and the state's relations with popular groups became more strained and often antagonistic as formal employment and real incomes for poorer Zimbabweans stagnated and fell. In the second half of the 1980s there were growing constraints on state expenditure on land resettlement, social services and capital investment.

As Mate (2018) observed, government's delicate balancing act in growing revenue to match rising social spending needs and expectations was increasingly destabilized by the late 1980s, as reflected in the contradictory outcomes of social service spending. While impressive expansion in education produced impressive gains in literacy rates and the number of school leavers, rising unemployment meant there were insufficient employment opportunities to absorb new skills, many of which were ill-suited to the needs of local industry and commerce. High enrolments failed to translate into high pass rates at secondary level, resulting in relatively poor returns on investment for government and families in upper levels of education, and a strong gender bias against female students persisted in drop-out rates. In health care, large gains from early investments in primary health care – including expanded immunization, lowered infant and maternal mortality rates, and vastly improved access to safe water by poorer households – would be jeopardised by budget cuts, uneven management of decentralized health administration, and the slowness of government to meet its investment targets for rural health provisioning. The consolidation of neoliberal reforms with the launch of an official structural adjustment development framework in the 1990s exacerbated these emerging tendencies in social service provisioning, as education and health indicators began an extended period of decline.

1990-2000: Adjustment and market-led development

In the late 1980s government policy shifted further towards market liberalisation; initially with trade liberalisation and investment reforms, and then more decisively in 1991 with the adoption of the Economic Structural Adjustment Programme (ESAP), an IFI-supported approach encapsulated in government's *Framework for Economic Reform* (we 1991). ESAP confirmed the transition to a market-friendly, export-oriented strategy aiming to grow through competitive industrialization backed by strengthened commodity exports and improved inter-sectoral linkages.[6] It also underpinned a shift in the centre of gravity of policy influence and target beneficiaries, and marked a profound rupture of the post-independence redistributive social consensus. Donors and business came to exert greater influence, and social and economic policies were increasingly tailored to the needs of capital, particularly foreign interests. New players emerged in the local business sector, including 'indigenous' business empowerment associations which lobbied for preferential support by government, donors and private sector players. With strong connections to ZANU-PF, indigenous businesspeople became prominent supporters of the party's neoliberal turn. Conversely, labour as a social partner came under attack, and popular social constituencies previously allied with the ruling party steadily distanced themselves from government's declining social services commitments (Bond and Saunders 2005). The labour movement led criticisms of ESAP, empowered by a wave of

[6] ESAP included several standard components of adjustment, including: trade and currency de-regulation, rapid movement towards high real interest rates, relaxation of price controls and most basic consumer subsidies and slashing of social expenditure and removal of consumer subsidies. Government accepted in principle the recommendations of World Bank and IMF consultations concerning deficit reduction, civil service reform and the shedding of public enterprises. Donor assistance included provision of several large loans and credit facilities for balance of payment support.

labour militancy in the public and private sector in the wake of labour market liberalisation (Dansereau 1997). More broadly, civil society witnessed a rapid growth in local non-governmental organizations and grassroots initiatives focused increasingly on issues of poverty, social and economic rights, social justice, and public sector accountability (Saunders 2000).

ESAP's extensive policy and regulatory restructuring was challenged not just by social critics but by economic constraints. ESAP's success rested on an optimistic target of 5 percent annual GDP growth that assumed a rapid expansion of manufacturing production through infrastructural renewal, a liberalized regulatory environment and substantial new investment. Foreign Direct Investment (FDI) was expected to be an important source of development finance for upstream and downstream linkages, and foreign currency earnings. Yet in most regards the outcomes fell far short of expectations. Manufacturing, beleaguered by a surge of competitive imports, rising input costs, high real interest rates, shrinking domestic markets, and spiralling private and public debt, slumped precariously towards deindustrialisation.[7] Import competition and rising import costs due to currency devaluation undercut the prospects of the new growth model, and many smaller and debt-exposed indigenous entrepreneurs failed (Kanyenze et al. 2011). Compounding these problems, a spiralling government deficit crisis was generated by large unbudgeted expenditures prompted by political calculations. The Zimbabwe Programme for Economic and Social Transformation (ZIMPREST), the policy framework for 1996-2000 aimed at consolidating ESAP reforms, was substantially derailed. An aid boycott by donors initiated in 2000 catalysed a dramatic worsening of foreign currency shortages and placed new constraints on credit, investment and growth.

Coupled with falling real incomes for most Zimbabweans and the decline of underfunded social services, soaring debt and foreign currency shortages led to a spiralling social and economic crisis in the late 1990s. Social 'safety nets' supported by donors and designed to mitigate the impact of ESAP on the most vulnerable proved largely ineffective, as they failed to protect livelihoods from the decline of the formal sector, amid rising costs of access to social services through the imposition of various 'user fees' for health, education and other services (Mate 2018). Declining real spending by government on education and health in the context of deepening poverty contributed directly to worsening social sector outcomes. Primary school enrolments fell sharply in the first half of the 1990s, disproportionately affecting female students, and access to learning materials, good infrastructure and skilled educators also declined. Austerity's impact in the health sector amid rising need associated with the HIV/AIDS pandemic led to plummeting staff morale, poor maintenance of infrastructure and increasing reliance on expensive private health services. Under these conditions, key health indicators like immunization coverage, infant and maternal mortality rates and access to safe water declined precipitously. They would only recover in the 2010s, during a period of economic stabilization, fiscal recovery and the return of significant donor funding (Mate 2018).

[7] The shock of initial adjustment policies on industry were exacerbated by the severe drought of the early 1990s - the worst in decades. By 1993 the economy had contracted by at least 7.5 percent, with all sectors in Zimbabwe's agriculture-based productive sector affected. Particularly affected were new and established indigenous entrepreneurs, a key ESAP target for industrial and commercial expansion funded by loans and incentives, who were buffeted by intense competition, large start-up costs and high real interest rates.

Table 1: Selected Health Indicators (1980-2015)

Indicator	1980	1988	1994	2010	2015
Immunization coverage %	25 (1982)	80	80	65	87
Under-5 child mortality rate per 1000 births	130	71	77	84	89
Maternal mortality rate per 100,000 births	127	n/a	283	612	470
Access to safe water - % of households	33 (rural)	84	77	About 30 (urban 2008)	74 (2012)

Source: Mate 2018, derived from multiple data sources.

2000-2008: Crisis, political challenge, state capture

The collapse of the neoliberal consensus in the late 1990s established the foundations for a new set of political and economic arrangements characterized by severe tensions, economic decline and state restructuring. Rising contestation by a re-energised national labour movement and civil society, and an explosive deficit crisis in 1997, had pushed government to concede to business and labour demands involving the scaling back of a new suite of stop-gap taxes, and agree to the establishment of an informal Tripartite Negotiating Forum (TNF) in 1998. However, stakeholder consultation via the TNF around income and pricing regulations, development policy, social services and other issues proved to be erratic, as government's willingness to engage was shaped by the dynamics of shifting political undercurrents (Kanyenze 2017). As the economic and political crisis deepened in the early 2000s, government's relations with stakeholders were destabilized and its capacity for coherent policy formulation weakened. Efforts within the TNF aimed at consolidating a social contract approach to policy making resulted in all-stakeholder agreements on the way forward, only to be derailed by ZANU-PF as it faced strong opposition electoral challenges in the early 2000s, and tripartite partners were portrayed as hostile to the ruling party and targeted for attack by interests allied to the political elite. The terrain of social and economic bargaining remained highly polarised and toxic for nearly a decade.

After 2000, key aspects of the productive sector were substantially restructured; most notably commercial agriculture. The Fast Track Land Reform Programme (FTLR), launched in 2000 via a succession of state-encouraged occupations of white-owned commercial farms, rapidly escalated and resulted in the comprehensive restructuring of commercial agriculture through state-mediated resettlement.[8] The accompanying political and economic disruptions catalysed the realignment of state institutions, undermining the integrity of state bureaucratic structures and their decision-making processes. Government bureaucrats, judicial system officials and other state personnel and institutions were at the centre of these changes. Key decision-making authority was increasingly displaced from the realm of bureaucratic management structures into a parallel space dominated by senior ruling party officials, underpinned by the

[8] See Hammar et al (2003) , Moyo (2011), Scoones et al (2010), and Rutherford (2012).

organizational and coercive capacity of the security agencies. Some observers referred to the rise of a 'securocrat state' and the parallel deprofessionalisation of public sector administration (Mandaza 2015). This restructuring was uneven and complex: as competing factional interests *within* the ruling party sought to embed themselves in different branches of the state, new forms of institutional competition and policy conflict emerged. At the same time, popular demands for increased social participation led to the formation in 1999 of a new opposition political party, the Movement for Democratic Change (MDC), in advance of national elections in 2000.

Meanwhile, growing pressures from established business, empowerment activists, foreign companies and development partners squeezed government's room for manoeuvre. Paradoxically, the worsening economic situation led to government's more intensive dependence on a narrower set of business actors for fiscal resources, employment and foreign exchange earnings; for example state revenues relied increasingly on the foreign-dominated mining sector for foreign exchange earnings and GDP growth. Amid foreign currency shortages and rising production costs, GDP contracted more than 7 percent, initiating eight consecutive years of contraction and worsening macroeconomic indicators. By 2008 the economy had nearly halved in size, culminating in a ruinous period of hyperinflation in 2007-2008, as government addressed rampant inflation by an erratic combination of price controls, massive expansions of money supply and successive currency revaluations.[9] The consequences for the social sector were unprecedented: more than a fifth of the population fell into extreme poverty and social services all but collapsed.[10] High drop-out rates among primary and secondary school leavers outpaced stop-gap interventions to cushion the impact of the economic crisis on poor households' access to education, and health indicators fell precipitously, reversing key gains since independence (Mate 2018). Government announced a succession of short term 'development plans' aimed at achieving macroeconomic stabilization and the return of donors; none were implemented meaningfully, and all signally failed to alleviate the escalating crisis.[11]

2009-2018: Stabilization and recovery

The situation required a political solution. National elections in 2008 saw a critical change in governance with the integration of the opposition MDC into government executive structures. In 2009, a Government of National Unity (GNU) brokered by the international community and led by ZANU-PF and the MDC, saw immediate economic stabilization measures and steps towards reducing political tensions (Raftopoulos 2013a).[12] This period also saw the active re-engagement of development partners by government, and greater openness of consultations between the state and domestic business and social stakeholders. Acknowledging the political transition, donors reopened consultations with government on short-term stabilization assistance and longer-term development planning,

[9] Inflation rose close to 600 percent by the end of 2005 before exploding in late 2007, reaching approximately 230 million percent before official calculations were suspended (RBZ 2008).

[10] More than 70 percent of the population was classified as poor and Zimbabwe's Human Development Index slid to 173 out of 187 countries by 2011 (World Bank 2018).

[11] These included, the Millennium Economic Recovery Plan (2001), the National Economic Recovery Plan (2002-2004), Macroeconomic Policy Framework (2005-2006) and National Economic Development Priority Programme (2005-2008).

[12] Under the GNU arrangements, ministerial portfolios where divided among the signatory parties, Robert Mugabe remained in place as President, and MDC leader Morgan Tsvangirai was appointed to the post of Prime Minister. In practice, power in the GNU was distributed and wielded unevenly. The finance and social service ministries came under the control of MDC ministers, but key security related ministries and the strategically critical mining, agriculture and indigenization departments remained firmly in ZANU-PF hands (Matyszak and Reeler 2011).

and became critical players in the first years of the GNU. Donors facilitated credit and opened discussions around debt management, provided technical support to government and supported policy engagements with social stakeholders. The ruinous period of hyperinflation was brought to an end in early 2009 as the new government adopted a multi-currency regime dominated by the US Dollar. Sector reform and recovery studies were undertaken with the support of multilateral and bilateral assistance, and strong social sector gains emerged in the wake of strengthened links between donors and key social ministries under MDC ministerial direction (Chinyoka and Seekings 2016).

In this reconfigured and contradictory mix of actors and objectives, the MDCs' interests often aligned with those of donors, while ZANU-PF both welcomed donor support and bristled at the policy and governance concessions required to obtain it. Other stakeholders for whom the GNU seemed initially to present opportunities for inclusion in policy making proved less effective in the longer term in pressing their claims. Rights-focused civil society organizations, a labour movement diminished by the economic crisis, small business and others initially gained greater access to the state via political interests in it with which they were aligned or allied. But their claims would become increasingly vulnerable (and sometimes too easily amenable) to mediation at the hands of dominant players in government, especially as the MDC's influence in government decision making waned in the face of ZANU-PF's skilled navigation of GNU structures and promotion of a populist indigenization and empowerment programme (Alexander and McGregor 2013; Raftopoulos 2013b). ZANU-PF's reassertion of administrative power within government was reflected in national elections in 2013 when ZANU-PF regained a substantial majority in parliament and President Mugabe was handily re-elected albeit under contested circumstances. The GNU power sharing agreement ended and the MDC left government.

ZIM ASSET, the new government's development framework for 2013-2018 which was modelled on ZANU-PF's 2013 campaign platform, became the foundation for government's interactions with donors, business and civil society. Its core objectives involved strengthening domestic resource mobilization with the aim of expanding crucial social protection and economic programmes, and to do this by enabling growth, heightened investment and fiscal stability (Government of Zimbabwe 2013b). Unencumbered by political competition, ZANU-PF showed signs of openness to engaging with business, civil society and donors. Government moved to revive tripartite interactions through the TNF, and budget consultations with stakeholders became a regular feature of budget processes. The IMF, World Bank and other development partners reengaged with government and wider recovery was reflected in good rates of growth after dollarization. But expansion soon cooled amid lower mineral prices and government's return to deficit budgeting. In the context of hesitant FDI and the decimation of domestic savings and finance by hyperinflation, government's revenue efforts increasingly focused on tax innovation and intensification.

This remained the case after the unexpected removal of President Robert Mugabe from power in November 2017, following the intervention of the Zimbabwe Defence Forces in response to intense factional conflicts at the highest levels of the ruling party leadership. The new President and leader of ZANU-PF, former Vice President Emmerson Mnangagwa, explicitly promised a new era of government transparency and accommodation of diverse interests. His government reasserted a commitment to liberalisation and actively sought increased foreign investment. However, early missteps in consolidating political legitimacy through flawed national elections in July 2018, which narrowly affirmed President Mnangagwa in power; and in tackling the vexing

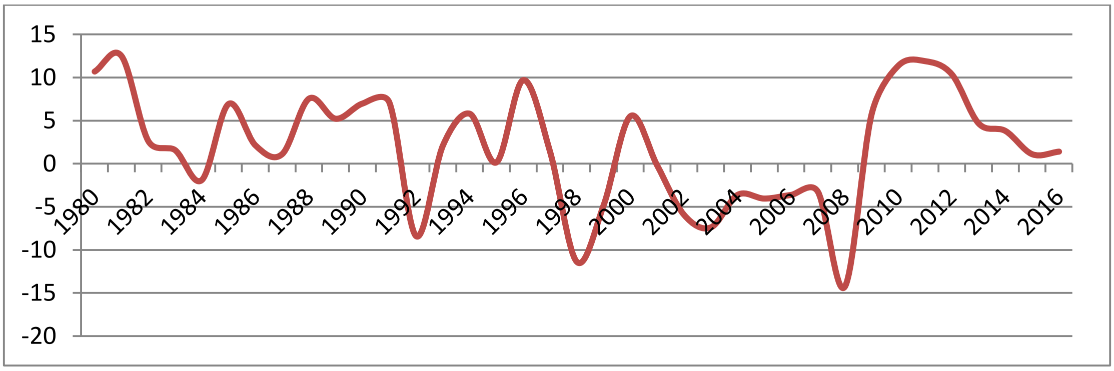
problem of high state expenditure and deficits amid high taxation efforts; severely undercut the goodwill and air of openness displayed in the first months of the post-Mugabe era. Investors, donors, civil society and key stakeholders expressed increasing scepticism about the 'newness' of the new order.

Overview of DRM and Taxation Trends

Since 1980 the context of revenue mobilisation has changed dramatically in the wake of fluctuating economic performance, contraction of the formal economy and domestic savings, changes in levels of official development assistance (ODA), foreign direct investment, international commodity prices and outflows of external capital. This section describes the evolution of these resources and their impact on revenue mobilization efforts and tax reform. It demonstrates that shifts in the quantum and kind of domestic resources led to a series of DRM innovations that increasingly forced the recalibration of critical state-society relationships.

Wide variations in Zimbabwe's economic growth have been the result of periodic droughts, changes in export commodity prices, episodic uncertainty by domestic and foreign investors and shifting relations with donors. Political and policy uncertainty has also played an important role in destabilizing growth by exacerbating the concerns of business and investors (foreign and domestic) and accentuating the large and often precarious role of the state as an economic player and consumer of domestic finance. Since the first decade of independence, GDP growth rates have fluctuated sharply, with downturns worsening in their depth and longevity as a result of fiscal crises in the late 1990s and 2000s and the long-term contraction of the formal economy, underscored by the restructuring of the large scale commercial farming sector beginning in the early 2000s and manufacturing sector's decimation during and after neoliberal reforms in the 1990s (see Figure 1).

Figure 1: Real GDP Growth Rate (1980-2016)



Source: ZIMSTAT

These successive cycles of state expansion and deficit financing, productive sector restructuring and contraction, and intensifying informalization of the economy in 2000s, reshaped the fiscal underpinnings of the state, leaving it precariously balanced between very high debt loads, continuing fiscal indiscipline challenges in the public sector and limited room for revenue mobilization growth through tax innovation.

In the first years of independence, the rapid expansion of expenditure in the context of large reconstruction and development needs and new social spending was partly covered by new tax efforts. Higher tax rates and wider coverage, and greater dependence on import tariffs (instead of quotas), saw revenues surge from 25 percent of GDP in 1979-80 to 34

percent of GDP by mid decade (Kanyenze 2014). Revenues averaged 29 percent of GDP for the 1980s, a ratio which outperformed that of most neighbouring states over an extended period (Table 2). [13] As Kanyenze notes, revenue growth was mostly due to increases of tax (as opposed to non-tax) income, which saw taxes' contribution to revenue rising from 22.6 percent in 1980 to 30.4 percent and 1982, averaging 27.3 percent for the 1980s. In the 1990s and after, taxes' proportional contribution to revenue trended downward as multiple constraints imposed themselves on tax base expansion, and the limits of tax rate hikes and new tax instruments were reached; notably in 2008, when the hyperinflationary crisis saw the revenue-to-GDP ratio crash to 4.3 percent.

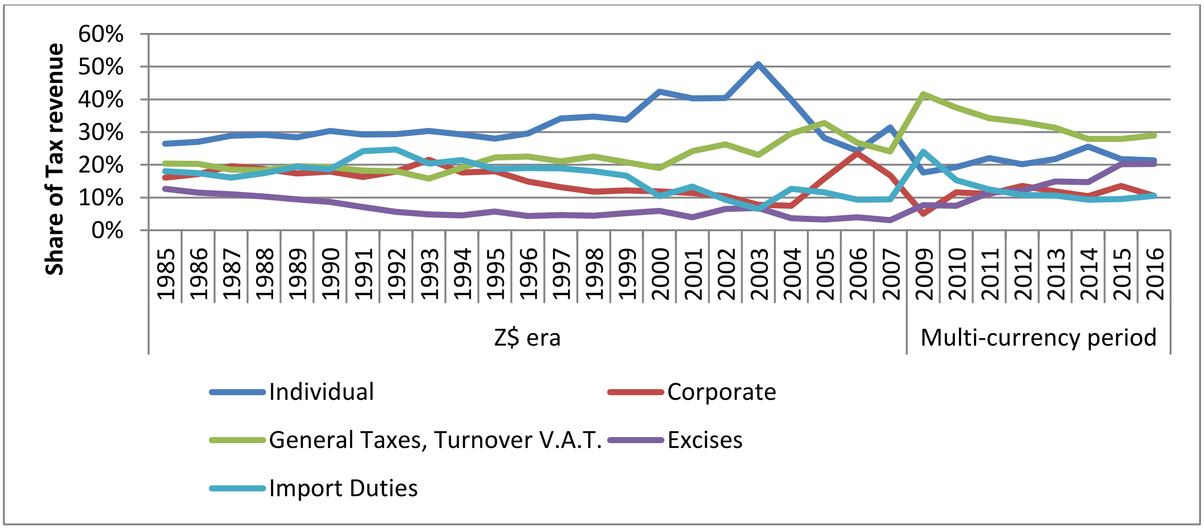
Table 2: Summary: Revenues and Expenditures as a Percentage of GDP (1980-2013) (%)

	1980-89	1990-99	2000-2008	2009-13
Revenues/GDP	29	27.5	19.7	23.2
Expenditures/GDP	40.8	33.3	27.3	24.9

Source: Kanyenze 2014, calculated from unpublished ZIMSTAT and Ministry of Finance and Economic Development data.

In general, Zimbabwe compares favourably to sub-Saharan African countries in terms of its relative revenue outcomes, diversification of tax instruments, and tax effort.[14] Since 1980, however, economic restructuring, shifting priorities around tax bargaining, and new tax and non-tax revenue strategies, have led to critical changes in approaches to revenue mobilization. The introduction of new direct and indirect tax measures in the early 1980s was initially key in diversifying and raising revenues. In the 1990s, tax recalibration under ESAP saw corporate tax concessions which marked revenue gains in some sectors, particularly mining, affected for an extended period, and a greater reliance on personal income taxes at a time when the formal economy and employment was contracting (See Figure 2).

Figure 2: Performance and Contributions of Revenue Heads



Source: Government of Zimbabwe, Ministry of Finance and Economic Development (data for years indicated)

[13] Zimbabwe's Revenue/GDP ratio was significantly higher than the 21.2 percent average for sub-Saharan Africa over the period 1997-2002 (UNDP 2008). As Kanyenze (2014) noted, Zimbabwe also enjoyed a similarly high ratio of tax/GDP at 22.7 percent, compared to the sub-Saharan Africa average of 16.5 percent.

[14] Tax effort is a measure of tax collection efficiency. The ratio is derived by dividing the actual tax share by an estimate of how much revenue could be collected given the structural characteristics of an economy.

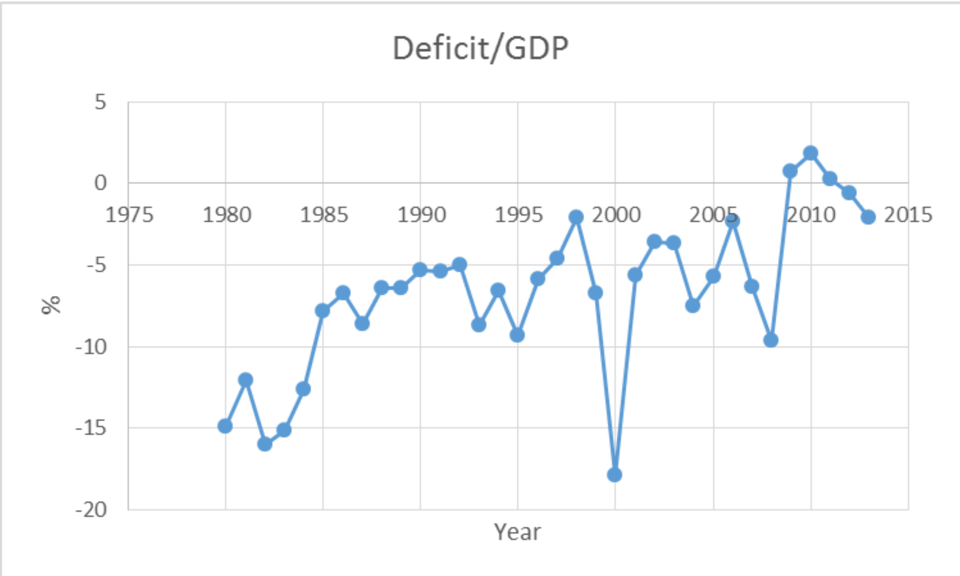
Table 3: Summary of Contributions by Direct and Indirect Taxation

	1980-1989	1990-1999	2000-2008	2009-2013
Direct Taxation	41.6	42.1	51.8	28.6
Indirect Taxation	42.5	40.6	35.5	56.8

Source: Kanyenze 2014, calculated from unpublished Zimstat and Ministry of Finance and Economic Development data.

A closer focus on tax efficiency in the late 1990s, which resulted in the switch from Sales Tax to Value Added Tax (VAT) in 2001 and the establishment of a unified tax authority, led to the rapid expansion of indirect tax revenues. With the further introduction of numerous additional indirect taxes in the 2000s in response to a growing fiscal emergency and shrinking base of personal and corporate taxpayers, indirect taxation surpassed other sources of revenue mobilization by the early 2000s (see Table 3). Having contributed just 35 percent of revenue at independence in 1980, indirect taxes comprised 56.8 percent of revenues by the 2010s (Kanyenze 2014). In the 2010s, as formal sector income continued to stagnate or decline, excises taxes increased in prominence and alongside additional taxes raised what business and consumers saw as an increasingly unmanageable tax burden. By 2014, a Zimbabwean company was expected to make an average of 49 tax payments per year (World Bank 2014). High levels of tax default, totalling more than USD 4 billion in arrears to ZIMRA in 2018, reflected the weakening capacity and willingness of businesses and individuals to pay.

Figure 3: Trends in the Budget Deficit as a Percentage of GDP (1980-2014)

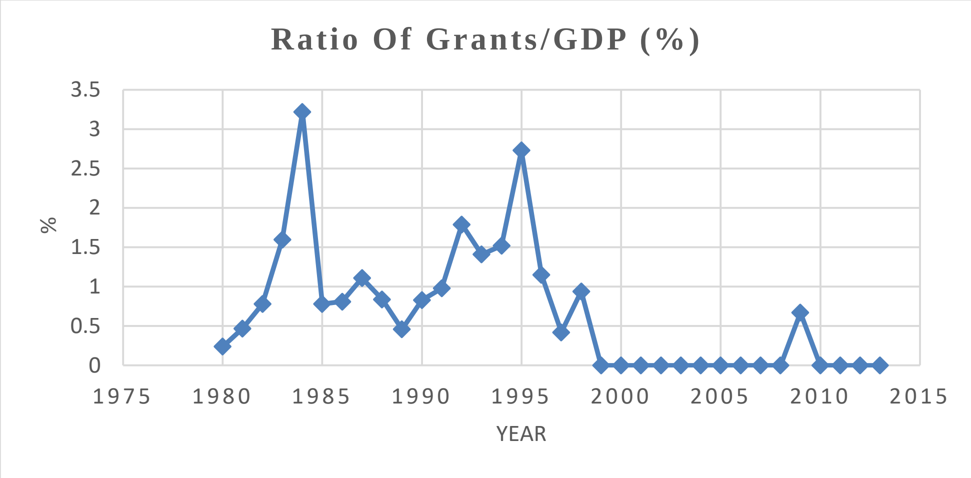


Source: Kanyenze 2014, using unpublished data from Zimstat and Ministry of Finance and Economic Development.

As Figure 3 indicates, despite strong tax effort government revenues chronically have lagged behind expenditures since the early 1980, with few exceptions. The challenges of financing the resulting resource shortfalls were compounded by weaknesses regarding other sources of finance which might have helped to fill resource gaps. Disappointing donor delivery of pledged ODA and low foreign direct investment (FDI) flows in the context of business wariness, constrained options for alternative external capital support (see Figure 4 and Figure 5). These forms of finance all but dried up in the early 2000s, as donors initiated a boycott over government's continued fiscal indiscipline and debt payment defaults, and large scale FDI was chilled by the macroeconomic crisis and new indigenization and black empowerment regulations. While FDI later modestly recovered

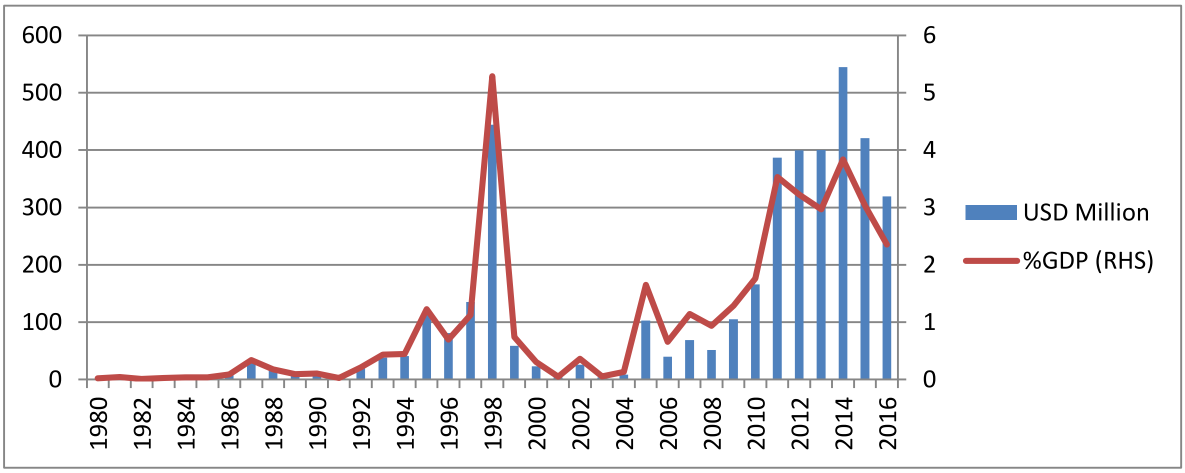
to average $400 million annually (about three percent of GDP) during 2010-2015, Zimbabwe still lagged behind comparable countries in the region that had experienced up to $2 billion in inflows.[15] Moreover, the nature of new FDI raised questions about not only the weak volume but also the transactional transparency and narrow sector focus in minerals and energy.[16]

Figure 4: Trends in Grants-to-GDP Ratio (1980-2014)



Source: Kanyenze 2014, using unpublished data from ZimStat.

Figure 5: Foreign Direct Investment in Zimbabwe (1980-2016)



Source: compiled from data from UNCTAD (1980-2016) and Government of Zimbabwe, Ministry of Finance and Economic Development (1980-2016).

Domestic savings also proved an unreliable source of finance. Financial sector reforms in the 1990s aimed to boost domestic savings by liberalising credit and capital controls, easing financial sector entry constraints, and liberalizing the foreign exchange market. Savings rates improved for a brief period, but weak supervision, rent-seeking behaviour

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[15] According to Richard Mbaiwa, Chief Executive Officer of the Zimbabwe Investment Authority, Zimbabwe ranked lowest in Southern Africa as an investment protector in 2015 (Financial Gazette 2015b).

[16] For business, labour and civil society stakeholders, the likely industrial linkages, employment and revenue benefits were unclear, and South African and Chinese mining projects in the 2000s raised alarms about long-term revenue shortfalls due to poor accountability and concessionary tax regimes. (Saunders 2017, 2018; Saunders and Nyamunda 2016).

by new players and policy reversals injected volatility into local finance markets. The donor aid boycott in the early 2000s and plummeting credit ratings saw savings contract further until they were wiped out by hyperinflation in 2008. Domestic finance markets remained weakened by capacity challenges, inefficiencies and relatively low market penetration rates into the next decade (ZEPARU 2015). Meanwhile, contracted savings primarily organised through the National Social Security Authority and other pension schemes were severely weakened by the shrinkage of the formal sector and diminished regular contributions. In a stark reflection of the catastrophic impact of hyperinflation and chronically weak economic performance on domestic savings, diaspora remittances surged to surpass FDI in importance in the 2010s, prompting new efforts by government to capture these flows through formalized remittance incentives set up under the Reserve Bank of Zimbabwe (RBZ) (ZEPARU 2015; Financial Gazette 2014).

As consequence of domestic and external financing options, government relied increasingly on borrowing to finance budget deficits. This included foreign and domestic sources, until the financial crisis and donor boycott of the 2000scut government off from foreign lenders. Since stabilization in 2009, government's deficit has been exclusively and increasingly financed by domestic borrowing. This practice has further compounded existing weaknesses in local finance markets, squeezing out private sector investment, adding to already dangerous levels of public debt, and limiting the deployment of fiscal policy to encourage new savings and revenue mobilization. After nearly four decades of independence, the willingness and capacity of the political leadership and state sector to contain expenditure – increasingly, recurrent expenditure on wages and emoluments – and refocus on social spending, remains the critical challenge facing any longer-term DRM strategy.

Historical Comparisons of DRM in Practice

1980s: Independence and the unsteady foundations of a new DRM model

In 1980, the new Zimbabwe government was faced with the daunting task of mobilizing resources to fund post-war recovery. This entailed large expenditures in a number of critical areas, including the rehabilitation of war ravaged infrastructure; resettling of large numbers of war-displaced people; extension of social services to a previously under-served majority population; and provision of funding for an ambitious land resettlement and rural development programme, a hallmark of the new government's development agenda. The significant short and long term expenditure needs implied by these programmes and associated institutional investments were met by a variety of means under conditions constrained by the priorities of international donors, the fragile foundations of the post-war Zimbabwean economy and the capacity of the state to raise and administer new revenue. The resulting clash of development objectives and resource mobilization realities produced mixed outcomes which were increasingly (albeit unevenly) shaped by the influence of donors and business on government's development programme.

Donors initially played a central role in the provision of development resources. In 1980 Zimbabwe joined the International Monetary Fund (IMF) and World Bank to qualify for balance of payment support and concessionary loans for financing development programmes. Balance of payments support was critical, given substantial outflows of foreign currency due to development-related imports, and business and pension

remittances guaranteed as part of the terms of the independence settlement.[17] Substantial additional foreign support for government's development programme was sought via a 1981 donor conference, the Zimbabwe Conference on Reconstruction and Development (ZIMCORD), which saw 31 countries and 26 international organisations pledging USD 2.2 billion (approximately 59.7 percent of identified requirements), to be disbursed over three years (World Bank 1985). However, ZIMCORD funds were slow to materialise and fell far short of the 1981 pledges. The impact of these shortfalls was exacerbated by a severe drought in 1981-1983 that led to a sharp downturn in growth amid rising government recovery and drought-related expenditures (Kanyenze 2014). In response, the new government tightened exchange control regulations, slowed or suspended remittance schemes, and introduced a 'drought levy' on income tax in 1984-1985 with the aim of funding short term emergency expenditure and establishing a drought insurance scheme (Government of Zimbabwe, Ministry of Finance 1984).[18] Pressured by stringent conditions attached to IMF loans in 1981 and 1983, government moved to contain spending on social programmes and divert funds to support export incentives (Mate 2018). Social sector financing was increasingly restructured in ways that reflected a contradictory approach. In primary education, for example, the provision of universal free access was compromised by indirect costs including school levies, building funds and other capital and infrastructure investments which were demanded of local communities and donors. In health, while 90 percent of Zimbabweans qualified for free access to public health services, the red tape involved in acquiring access stood as a practical barrier for most, and under-funding, inadequate stocks of drugs and supplies and poor staff moral diminished the quality of service (Mate 2018).

The bulk of new development funding in the 1980s relied on longer-term DRM efforts. Specific earmarked taxes and fees were also established to fill funding gaps. These were limited in number, largely applied to commercial income and wage bills, and saw government engaging with business to administer them, frequently result in conflict over the quantum and objectives of the new tax instruments. New taxes mostly targeted specific industry needs, such as skills training and quality control of goods and services.[19] But despite strong revenue gains in the early 1980s, structural and conjunctural factors weighed against continuing DRM growth. Tax and non-tax revenues performed well in 1980-1985, rising from 25 percent in 1980 to 34 percent in 1984 as a result of the initial post-war boom, an expanded tax base and government's greater reliance on tariffs (instead of import quotas). But limits to revenue growth soon emerged in the wake of the drought, the global recession and deteriorating export commodity prices, and continuing shortfalls of skills, infrastructural investment and foreign exchange. The tepid business climate dampened local business confidence, and currency devaluations demanded by donors along with foreign exchange rationing, imperilled key mining and manufacturing players. In this context, tax resistance mounted, particularly by local businesses. Under threat of business crashes and urged by donors, government chose to forego short term revenue expansion and support the productive sector through a variety of measures, including export incentives, reduced tax rates, grants, soft loans and other means.

[17] By late 1983, for example, external payments for foreign debt, pensions, profits and dividends, freight and other remittances totalled more than USD 500 million.
[18] The levy was set at 5 percent of income payable by individuals and 10 percent for companies.
[19] For example, the Zimbabwe Manpower Development Fund was established in 1984 to fill skills gaps by financing the training of critical skills. It was funded by a 1 percent training levy on companies' gross wage bill. A Standards Development Fund was created in 1987, with funding from a 0.5 percent levy on companies' quarterly gross wage bill.

Although such interventions helped to stabilize the productive sector and growth returned by mid-decade, they also contributed to deepening imbalances in government's revenues and expenditure. These imbalances were further compounded by services-dominated nature of growth in the 1980s. The bulk of economic growth came in the service sectors led by education, health and public administration. But growth in services was not matched in the leading sectors of agriculture, manufacturing and mining; whereas the annual average growth in education was approximately 13 percent in the 1980s it was just 4 percent in manufacturing. This placed increasing revenue burdens on the private sector at a time when government itself was under pressure to deliver on its redistributive independence agenda. These tensions were exacerbated by government's commitment to debt servicing and maintaining subsidies for rural and poor communities, against the backdrop of rising recurrent expenditures and sluggish growth in the private sector. By 1984 the Minister of Finance warned that unchecked recurrent expenditure was increasingly forcing government to borrow in order to finance much of its recurrent expenditure in addition to all of its development spending. This pre-empted government's capacity to use the budget as an instrument to mobilize domestic savings for development purposes, for example through budget surpluses (Government of Zimbabwe 1984).

In 1986 government established a commission of enquiry into taxation to explore the fiscal system's objectives, weaknesses and imbalances, and recommend strategies for improving sustainability, equity, revenue growth and tax compliance (Government of Zimbabwe, Commission of Inquiry into Taxation 1986). Its findings underscored the critical need to restructure the tax system's core objectives away from the inherited model, to one which met the needs of the majority population. At the same time, the commission noted that the limitations of Zimbabwe's resource base hindered the use of the tax system to transform the existing inequitable economic system; and argued in favour of a strategy to widen the tax base that featured lower tax rates and the reduction of pro-poor consumer subsidies and tax exemptions.

These recommendations served as the basis of tax policy reforms and DRM strategies into the next decade and were consolidated with government's adoption of a neoliberal development program, ESAP, in 1991. The emerging DRM approach was strongly backed by national business and donors but was viewed with increasing reticence by the national labour movement and civil society welfarist organisations. It focused more directly on the need for both greater incentives for private sector growth (such as the waiving of import duties and sales tax on capital goods for new projects), and relative reductions in government expenditures targeting poorer Zimbabweans. As a consequence, the new social policy model destabilized the developmental consensus established in the first years of independence and led to growing tension between government and social stakeholders in the 1990s.

1990s: DRM innovations and neoliberal reform

With the formal turn to neoliberalism with ESAP in 1991 government identified deficit reduction, the strengthening of tax efficiency and promotion of private sector growth as key pillars of a market-led DRM model. These mutually-reinforcing factors required the substantial realignment of government spending, restructuring of state institutions, and close collaboration with the foreign and domestic business sector with the objective of tailoring fiscal and monetary policies to support new investment and growth. However, in each case government's actions called into question its commitment to reform. As a result, its relations with key stakeholders and donors was destabilized and business confidence and performance was undermined. While external factors including a severe drought in the early 1990s played a role in derailing DRM under the ESAP program,

uneven policy implementation by a political elite and state institutions increasingly divided over the path of reform was the primary obstacle to establishing a new model of development finance. As cuts in social services and public investment generated negative social consequence and political criticism, and budget deficits continued alongside production and financing challenges for local business, the neoliberal development consensus quickly frayed amid tensions among the state and core stakeholders.

At the outset ESAP projected government's deficit could be cut from 10.4 percent in 1990-91 to 5 percent by the end of the programme in 1995 by a collection of austerity, restructuring and revenue raising measures. In practice, fiscal reforms lagged dramatically behind other aspects of liberalisation including capital controls, monetary policy and foreign exchange regulations, accentuating fiscal imbalances and growing challenges involving finance and debt. Reduction of the civil service failed to produce lower public sector wage bills, the reform and privatisation of state-owned enterprises proceeded slowly as the debt associated with these bodies skyrocketed, and fiscal indiscipline in line ministries worsened due to inadequate expenditure control mechanisms (Pamacheche 1996). Rising budget deficits, currency devaluations and higher interest rates saw government debt increase from 13.6 percent in 1990 to 25 percent five years later. As GDP growth slowed and revenue targets were not met, government moved to the brink of debt trap (Government of Zimbabwe 1998).

Tax reforms and tax system weaknesses contributed to the sharp decline of revenue from 33.9 percent of GDP in 1991 to 28.5 percent by mid-decade. Under ESAP, the marginal tax rate was dramatically reduced for individuals and companies, resulting in higher dependence on individual taxation amid lower revenue gains overall due to declining formal sector participation as a result of the challenging business climate.[20] But tax resistance grew against the backdrop of increasing hardship, cutbacks in state services and the expansion of user and license fees, and the gain from business taxes was eroded by the shift of resources and activity into the informal sector, where tax collection was more difficult. Special tax concessions introduced to attract investors, including Special Mining Leases for large-scale investors and a fiscal regime for Export Processing Zones, further restricted opportunities for fiscal flows in the medium term, and led to greater dependence on the unsteady revenues derived from import and export duties.

Weak tax administration also contributed to revenue collection shortfalls. Liberalisation of trade and finance regulations led to an exodus of skills from the public sector to private companies, and low morale; low investment in technology eroded tax collection efficiency; and the downloading of fee collection responsibilities to ministries without the accompanying right of revenue retention led to weak collection outcomes (Pamacheche 1996). Tax reform aimed at greater efficiency, equity and expansion of the tax base were a recurring point of government engagement with stakeholders. The 1994 Budget Statement called for the streamlining and simplification of the tax structure, including the removal of a range of deductions, exemptions and other concessions, and recalibrating differential rates in line with considerations of equity. Further stakeholder and donor engagement into the late 1990s focused on improvements to the institutional arrangements for tax collection and administration, reducing the burden on taxpayers faced with complex and overlapping taxes and administrative processes. A key outcome of these interactions was the establishment of the Zimbabwe Revenue Authority (ZIMRA) in 2000, as the central government authority for a broad range of tax collection,

[20] The marginal rate of personal income tax was cut from 60 percent to 40 percent; company tax fell from 50 percent to 37.5 percent.

administration and monitoring.[21] To underpin the thrust towards efficiency, accountability and greater tax compliance, significant new investments were made in training and salaries, technology and infrastructure, and ZIMRA made efforts to include stakeholders via public education and information campaigns, publishing data regularly and vigorously pursuing tax delinquency and corruption within tax administration.

Another DRM innovation involved efforts to boost domestic savings through contracted savings schemes and liberalisation of the finance sector. A critical intervention here was the establishment in 1993 of the National Social Security Authority (NSSA), a body created to manage the national pension scheme. The pension fund was financed by mandatory contributions from employers and employees.[22] Supported by and involving the participation of national business and labour associations, NSSA was seen by the state as a critical source of resources for government programs. But as constraints on NSSA's growth emerged as a result of the formal sector's contraction and government's finance needs expanded, contestation among stakeholders grew over the performance and allocation of NSSA funds alongside questions concerning its management's transparency and accountability.

Liberalisation of domestic finance markets also provided opportunities for accessing resources by inducing the deepening of the financial sector via the establishment of new financial institutions, products and services, seen in the rapid expansion of branch banks and networks and special finance vehicles. Yet their rapid rise too was plagued by problems of administrative oversight and weak capital underpinnings, and government's growing reliance on domestic markets to finance the budget deficit. Policy reversals beginning in 1997 with government's large unbudgeted payouts to ruling party allies resulted in a currency crisis, deepened government's debt and rendered private finance markets increasingly fragile, limiting their use as source of new development finance. Short term levies and other taxes to cover the ballooning deficit were scaled back in the face of unprecedented public protests, and demands by stakeholders for participation via the TNF opened new fronts of contestation. Under these converging conditions the impact of successive DRM innovations in the 1990s were progressively blunted.

The erratic and destabilizing interventions of a political leadership increasingly influenced by geopolitical and legitimacy considerations figured centrally in this unfolding crisis of exploding debt and shrinking financing options. By the end of the decade the ruling ZANU-PF had abandoned neoliberal reforms and embarked on a path characterised by short-term crisis management which lasted far into the next decade. In the late 1990s, business confidence plummeted, formal sector employment fell to pre-independence levels, and leading social constituencies came together in a new political party to challenge ZANU-PF. Foreign donors also withdrew their support and launched a punishing aid boycott in the wake of government's repeated failure to address high budget deficits and ensure policy and regulatory stability. Under the weight of economic and financial crisis and the government leadership's prevarications and political vulnerabilities around expenditure cuts, the expansion of revenue mobilization through

[21] ZIMRA was established under the Revenue Authority Act [Chapter 23:11] passed on February 11, 2000, and began operations in January 2001. It succeeded and replaced the Department of Taxes and the Department of Customs and Excise.

[22] The scheme involves compulsory 50/50 contributions from employers and full and part-time employees, with ceiling pegs on contributions and tight restrictions on spending that force the effective locking-up of funds until retirement.

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tax reform wilted, and collection rates for most taxes were in steep decline by the end of the decade.

2000-2009: Fiscal crisis and strategic responses

After 2000, the deteriorating macroeconomic climate prompted a shift of government's DRM approach to focus on intensifying and unifying tax effort under a new statutory authority, while introducing new taxes to support services in critically underfunded areas. In the first instance, the Zimbabwe Revenue Authority (ZIMRA) was established in January 2001 as a successor organisation to the Department of Taxes and Department of Customs and Excise; [23] in the second, a succession of earmarked levies, fees and other taxes were introduced, including notably the AIDS Levy (2000) and Rural Electrification Levy (2002). To underpin these moves to expand the fiscal space, in 2004 government replaced sales taxes, in place since 1976, with a Value Added Tax (VAT) of 15 percent. It also sought to capture, at first with limited success, a growing tide of remittances from expatriate Zimbabweans as the economic crisis mounted in the mid-2000s.[24]

Driven by the urgency of fiscal crisis, these two tax strategies nonetheless differed significantly in terms of their engagement of stakeholders during both their development and implementation. In the case of ZIMRA, the need for a centralised agency for the professional, efficient administration of central government taxation had been agreed by leading social actors and donors during the neoliberal period in the 1990s. By the early 2000s, stagnant revenue growth due to tax leakages and falling rates of compliance pressed the need for a more unified tax effort. The result would place increasing burdens of compliance on companies via more intensified monitoring and reporting mechanisms, the collection of employee income tax (PAYE) by companies, and later, the 'fiscalisation' of taxable sales transactions through the introduction of digital devices. [25]

While trends in revenue collection improved with ZIMRA's 2001 launch after several years of decline in the 1990s, the increasing complexity and onerous nature of tax reporting – along with the introduction of new or expanded tax instruments in the 2000s – met with resistance from an economically beleaguered business community. Demands for tax relief in the crisis years of the early 2000s resulted in the scaling back of corporate income tax (CIT) rates from 35 percent to 30 in 2001, and to 25 percent by 2010. But with the exception of large scale platinum mining investors who benefited from tax breaks under Special Mining Leases introduced in the 1990s, the arc of overall business taxation stayed at moderate levels during a decade marked by crisis and contraction in the business sector. Consequently, when the economic situation dramatically worsened in 2005-2008, tax compliance by companies and individuals plummeted to historic lows, dropping below five percent of GDP in the period of hyperinflation. From this period moving forward, the challenges of tax arrears, payment defaults and tax avoidance would feature centrally in government's efforts to boost revenues by improving collection of CIT, whose overall contribution to tax revenues would hover around 11 percent into the 2010s.

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[23] ZIMRA was established under the Revenue Authority Act [Chapter 23:11] of February 2000.

[24] While the amount of remittances was difficult to quantify due to under-reporting and informal transfers, these funds represented significant opportunities in government's view. In 2005 the RBZ established Homelink (Pvt) Limited in an effort to mobilise remittances from the Diaspora. Most observers agreed the results were disappointing as the bulk of remittances were made through informal channels (ZEPARU 2015); also see: homelinkzim.com.

[25] 'Fiscalisation' signifies the use of electronic devices to record relevant tax information at point of sale. Introduced in 2010 and designed to enable the closer monitoring and recovery of VAT revenues, new rules required all businesses with a defined annual turnover operating under specified VAT categories to register sales using instruments approved, inspected and audited by ZIMRA.

Similar obstacles were encountered with personal income tax (PIT) in the early 2000s. Having been the leading source of tax revenue into the 2000s, peaking at more than 50 percent of tax revenues in 2003, PIT's contributions fell below 20 percent of tax receipts by 2009 due to economic contraction and rapid shrinkage of the formal economy, employment and household incomes. Government's response to stakeholder calls to reduce the tax obligations of poorer individuals were seemingly contradictory: on the one hand, it raised the tax-exempt baseline on income levels to eliminate or reduce tax obligations for poorer households and introduced phased exemptions for vulnerable groups like elderly persons; on the other hand, it introduced an entirely new fiscal instrument in 2005, a 'presumptive tax', designed to broaden the tax base by raising revenue from the growing numbers of Zimbabweans working in the informal sector – many of whom were likely beneficiaries of the easing of PIT bands and tax rates (ZIMCODD 2014).

The move to capture the informal economy under a specially tailored fiscal instrument presented new opportunities to close a widening fiscal gap. But it also posed new challenges, including high collection costs, low returns and taxpayer resistance.[26] The timing of the presumptive tax's introduction – at the beginning of a precipitous slip towards hyperinflation and deepening poverty – raised questions about government's commitment to easing tax burdens on the poorest sections of its citizenry. Such questions were amplified in 2011 when government broadened the informal sector tax base by expanding the scope of tax liability.[27] Yet in the absence of consultation with informal sector players around the design and intent of the new taxes, and the perceived weak links between tax contributions and resulting benefits, compliance remained low amid strong tax resistance. Allegations emerged that presumptive tax codes were being imposed unsystematically, unevenly, and sometimes corruptly, with little clear benefit to informal sector taxpayers.[28] With comparatively high administrative costs of collection, poor compliance and weak economic performance, the revenue gains from presumptive taxation proved to be below expectations and insubstantial (Dube 2014; ZEPARU 2015).

The fiscal hole created by declining PIT and CIT revenues was filled primarily by VAT, a tax instrument both intensely enforced and highly regressive in its equity implications. VAT consisted of 15 percent consumption tax on domestic sales and imports.[29] From 2009, it was the leading contributor to overall tax revenue, typically accounting for 28-30 percent of total tax receipts and about ten percent of GDP; close to double the VAT/GDP ratio in neighbouring countries like Botswana and Zambia. VAT was an especially strong performer in terms of its 'tax productivity' (Government of Zimbabwe and World Bank 2017).[30] The fiscal importance of this indirect tax and its regressive implications for poorer Zimbabweans at a time of social and economic crisis placed VAT at the centre of public contestation over tax reform.

From the outset, VAT was criticised by both business and civil society organisations for the disproportionate burden it placed on lower income consumers, and the complex

[26] By 2012, some estimated that the micro and small to medium enterprise sector employed at least 5.7 million people with a turnover of $7.4 billion. Eighty-five percent of sector activity was comprised of informal production units (ZEPARU 2015).

[27] By 2011, informal sector businesses falling under presumptive tax rules included small transport operators, hairdressing salons, informal traders and vendors, cross-border traders, bottle-stores and informal restaurants, among others (ZEPARU 2015).

[28] See ZIMCODD (2014); Dube (2014); Onias et al. (2014); and Utaumire et al (2013).

[29] For a brief period in 2005 VAT was increased to 17.5 percent, at a time of fiscal emergency.

[30] 'Tax productivity' refers to the revenue-generating capacity of a tax from revenue opportunities at the prevailing tax rate.

responsibilities of collection, accounting and payment placed on VAT-qualifying businesses. There was extensive debate about the lack of transparency and evenness surrounding VAT's collection and the state's distribution of VAT revenues. In response to complaints about VAT's tax inequities government recalibrated tax thresholds of PIT in order to ease the tax burden on poorer groups, and made basic commodities (including foodstuffs like mealie-meal, sugar, meat and vegetables) and small-scale capital goods (for example, farming equipment and inputs) VAT-exempt. However, such modifications failed to address the wider systemic problem of VAT's regressive nature, and effectively subsidized wealthier Zimbabweans by foregoing VAT revenues on exempted goods. Resistance to VAT among medium scale business was widespread. Some evaded VAT registration by leveraging political influence to avoid compliance, thereby boosting their competitive edge in a crowded field of producers. More broadly, small and medium businesses increasingly cited poor government services and low state transparency around revenue distribution in justifying rising tax resistance. Business perceptions of punitive 'double-taxation' or 'multiple-taxation' became widespread amid the accumulation of taxes and levies for fuel, electricity, water and other production inputs. A 'culture of non-compliance' emerged across the sector, imposing serious constraints on revenue growth via CIT, Presumptive Taxes and medium scale business contributions to VAT (ZIMCODD 2014).

Other tax instruments introduced in the 2000s adopted a different strategy to raising revenues by linking compliance to the delivery of benefits directly to taxpayers. Earmarked taxes such as the AIDS levy (2000)[31] and Rural Electrification levy (2002)[32] were emblematic of this new approach, which came at a time of declining public trust in the tax system, deteriorating compliance rates and chronic fiscal shortfalls in funding requirements for social services and infrastructure. While levies had previously been used to fund urgent requirements such as drought relief expenditures, they had typically been deployed to meet short term needs and were not structured into regular government budgeted expenditure. However, in the 2000s and the following decade, levies increasingly were designed to address chronic social services and infrastructure needs, and were incorporated into government revenue structures. Administrative authority over levy revenues were devolved to newly established agencies, many of which featured diverse stakeholder participation and greater public accountability. In several cases these new instruments became vital sources of finance for social and infrastructural spending. Evidence suggested that success was grounded in the convergence of several key factors, including institutional reform leading to the establishment of an agency with autonomy and sufficient authority to administer received funds; transparent and accountable processes concerning the management of funds; and the inclusion of mandated stakeholders in the management of the agency (SADC 2008, ZEPARU 2015). Researchers also noted the important role of public education and civil society participation in strengthening tax compliance by establishing links between earmarked taxes and the delivery of benefits to taxpayers (ZIMCODD 2014). In the important case of the AIDS levy, for example, stakeholder involvement in the mandated statutory

[31] The AIDS levy (officially, the Zimbabwe National AIDS Trust Fund), established under the National AIDS Council Act of 1999, is a 3 percent tax on all personal and commercial income tax.

[32] The Rural Electrification Fund Levy was established by The Rural Electrification Fund Act in 2002. The levy is a 6 percent tax on all electricity consumption, and since its inception has provided the bulk of funding for the Rural Electrification Authority. The Authority was tasked with leading the "rapid and equitable electrification of rural areas", and by 2018 claimed to have enabled the electrification of "more than 5000 rural institutions, farms, villages, borehole, dam points and irrigation schemes" (Government of Zimbabwe, Ministry of Energy and Power Development 2018).

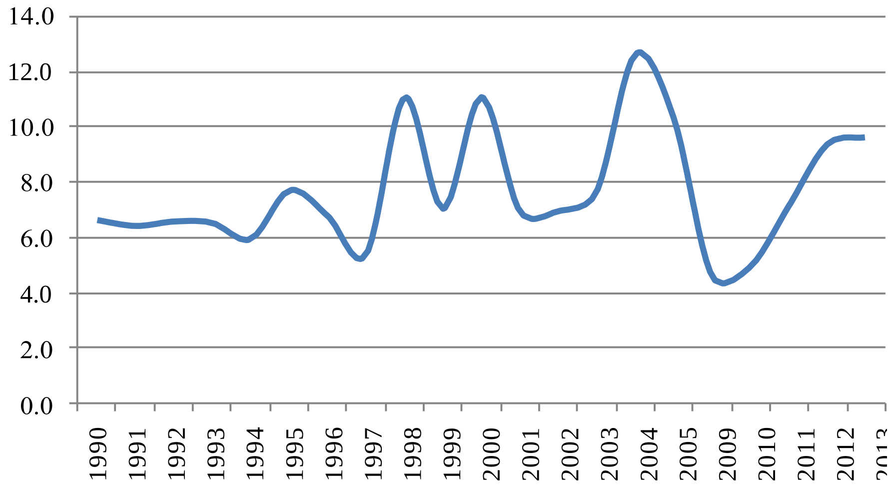
authority was critical in establishing good levels of public trust and the body's political autonomy (see case study below).[33]

Yet despite such innovative pockets of institutional and revenue efficiency which emerged amid a deepening fiscal crisis, the broader terrain of DRM in Zimbabwe in the 2000s was highly uneven and prone to instability. New levies and associated institutions were often successful in addressing urgent social and infrastructural needs, and provided benefits directly to some of the most marginal and under-serviced sections of the citizenry. But there were sharp limits to the impact and institutional spillover effects of such advances in the context of deeper fiscal challenges, and the consequences of state capture and political expediency soon eclipsed opportunities for a wider strategy for DRM-led development. The combined impacts of land reform, heightened political contestation and dramatic economic contraction led to a calamitous period of hyperinflation in 2007-2008. As a consequence, government's main sources of revenue, its established tax heads dominated by VAT, PIT and CIT, were dramatically eroded. At the same time, important new sources of revenue, including world-class deposits of diamonds and platinum which came onstream in the 2000s, were largely lost to elite predation, criminalised trading and institutional corruption enabled by state capture; see the mining case study below (Saunders 2017, 2018).

The key building blocks of a more enduring and coherent DRM strategy were disrupted, therefore, by the impact of a rising fiscal crisis driven by the problematic political-economic legacy of adjustment, heightened partisan contestation and in response, creeping state capture, the distortion of policy making, and a resulting donor and investor boycott. At the heart of the state crisis in the 2000s was a political-military-business elite which reshaped the state and state-stakeholder relations in the first years of the decade. This political leadership's unwillingness to control explosive state expenditure; to ensure the greater mobilization and management of revenues by transparent means; and to meaningfully include stakeholders in the design and implementation of broad development strategies; together sharply diminished the prospects for a transformative DRM strategy. Amidst the chaotic institutional practices and emergency economic planning which characterised the 2000s, successful DRM innovations like the AIDS Levy stood out as exceptions to the rule. More broadly, the developmental outcomes of government's DRM efforts pointed to troubling trends against the backdrop of a chronic fiscal crisis.

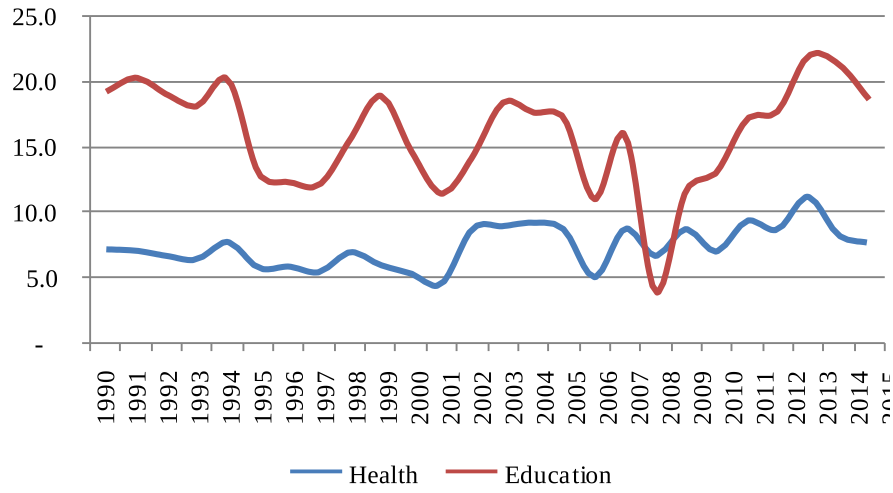
[33] See Section 4 below for a case study on the AIDS Levy.

Figure 6: Total Spending on Health and Education as % of GDP (1990-2013)



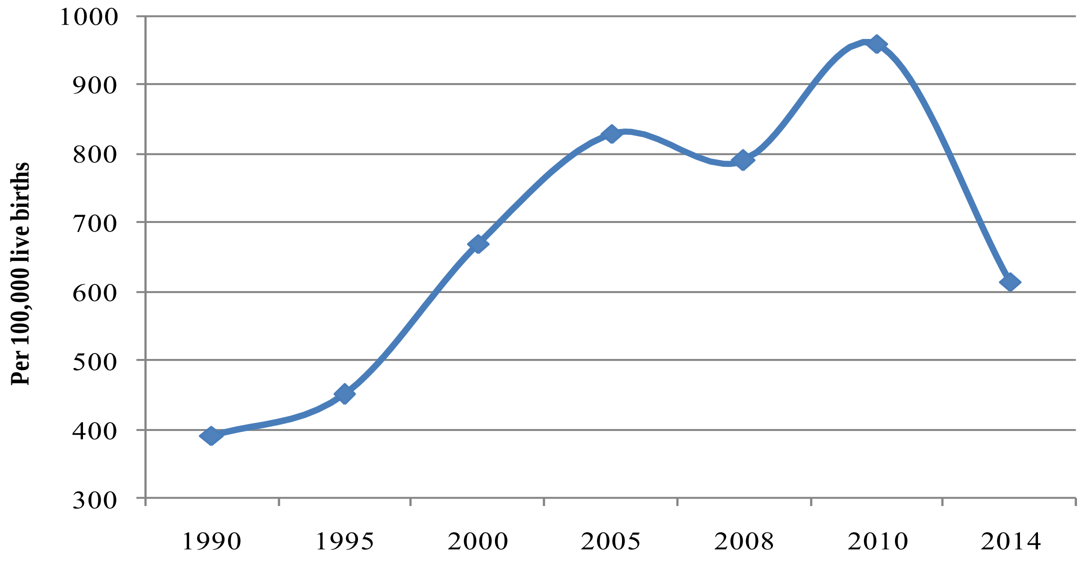
Source: ZEPARU 2015, compiled from data from Ministry of Finance and Economic Development Budget Statements and ZIMSTAT

Figure 7: Expenditure on Health and Education as a % of Expenditure (1990-2015)



Source: ZEPARU 2015, calculated from Ministry of Finance and Economic Development Budget Statements

Figure 8: Trends in Maternal Mortality (1990-2014)



Source: ZEPARU 2015, compiled from UNICEF data

Inconsistent expenditure on the social sector, punctuated by sharp falls in the crisis years of 2007-2009 and dramatic increases in the wage component of spending, produced multiple negative outcomes. The effective shuttering of many public health facilities in both urban and rural areas and drying up of capital spending pushed many patients to rely more heavily on private facilities, paid for out of pocket. These changes helped to fuel rapid deterioration in health outcomes. Per capita health spending, already in decline in the early 2000s compared to a decade earlier, fell further following growing budget constraints and rising need.[34] Rates of maternal mortality climbed steeply, rising by close to 50 percent between 2000 and 2010. Similar trends affected education, where basic capital investments were deferred as budgets shrank, costs expanded and budgets were increasingly consumed by recurrent expenditure on wages. Student school attendance and learning results decline amid the crumbling of educational infrastructure and decline of teaching capacity. In response to a surging crisis in health and education, donor off-budget contributions to non-salary expenditures became a mainstay of capital and emergency spending in the social sector into the 2010s, with the role of multi-donor trust funds becoming increasingly prominent, especially in the health sector (Toonen et al. 2015).

The patchwork model of DRM established in the early 2000s began to unravel by mid-decade under the weight of rising recurrent expenditure, ballooning government deficits, the monetization of debt under the RBZ, and shrinking fiscal space squeezed by the contraction of production, FDI and on-budget ODA. A growing social crisis amid widespread perceptions of public corruption, self-enrichment and elite predation, generated a new challenge to government led by the MDC. The establishment of the GNU in 2009 marked the beginning of new arrangements of power and relations among state, stakeholders and donors, and the further reform government's DRM agenda.

[34] Per capita health spending fell from $23.6 in 1991 to $14 in 2001.

2009-2018: Recovery, relapse and the limits of DRM

The political settlement of the GNU ushered in rapid stabilization of macroeconomic indicators after the destructive hyperinflationary period of 2007-2008. The success of power-sharing administration rested in part upon donor and business assurances of a new commitment to engaging government in pursuit of economic stability and the recovery of basic social services and infrastructure investment. With this came renewed leverage for donors, business and civil society in working with government to shape a sustainable framework for fiscal management and social expenditure. Government's accommodation of stakeholders and donors, which was mediated by the awkward and highly contested sharing of power by ZANU-PF and the MDC, would prove to be uneven and contradictory. The legacy of state capture and elite predation, confronted by political demands for greater transparency and inclusion, and the reality of financial vulnerability to donors and investors, led to a diverse set of DRM outcomes.

In the wake of the previous decimation of domestic savings and finance markets by hyperinflation, the expansion of revenue through taxation was critical. Government's high level engagements with donors focused on addressing fiscal space constraints and the stabilization of state finances, while urgently strengthening social service provision and rehabilitating key infrastructure. An arrears and debt clearance programme was implemented to address the large and growing debt overhang, a major obstacle in the way of future donor support. Donors responded by providing technical assistance and pooled resources under the multi-donor trust funds which provided off-budget support for government to address the deteriorating economic and social environment.[35] Earmarked pooled donor funds for health and education soon provided the bulk of financing for non-wage social service expenditure, and dependency on these problematic funding sources seemed likely to be long-lasting.[36] However, out-of-pocket contributions by health consumers rose in prominence as a source of health finance, particularly for poorer Zimbabweans facing unexpected health needs (Toonen et al. 2015).

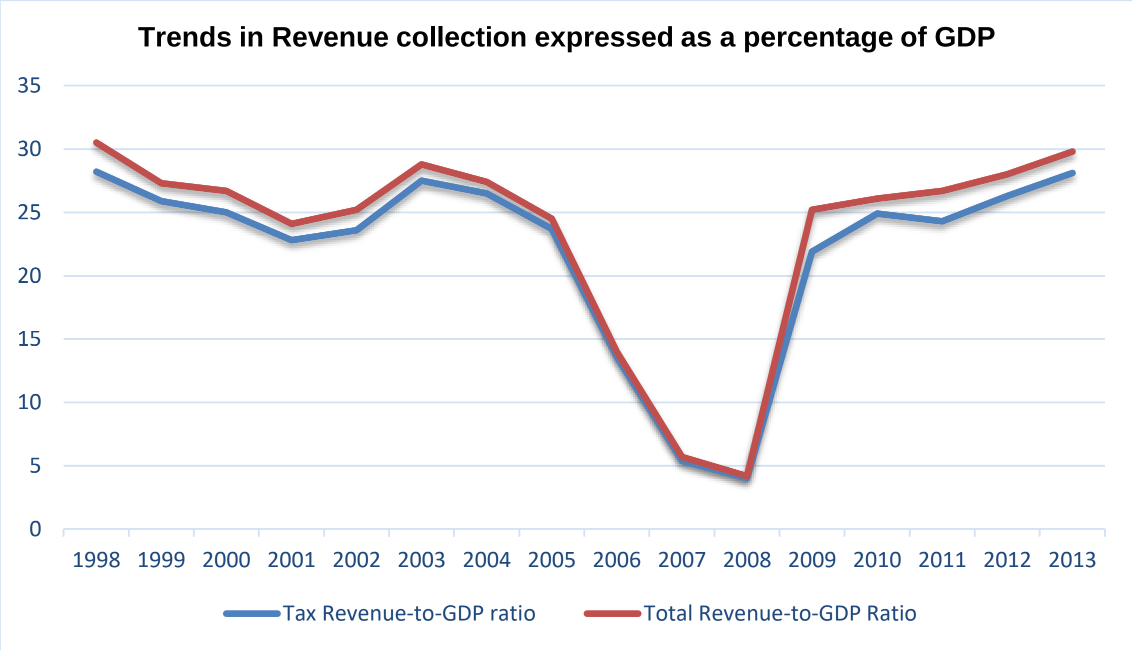
The main focus of government financing efforts in the 2010s was taxation. After 2013 when ZANU-PF returned to unilateral power, the state budget was entirely financed by domestic resources. In the first years of the GNU, intensified and expanded tax effort was reflected in the strengthening of central government revenue collection institutions like ZIMRA; the proliferation of decentralised revenue collection by local authorities, SOEs and government ministries; and the engagement of stakeholders leading to the establishment of new development finance vehicles, including a Sovereign Wealth Fund (SWF) and public-private partnership arrangements for infrastructural rehabilitation and operation. These parallel processes, while broadly supported by donors, business, social stakeholders and research initiatives, refracted the challenging political and institutional legacies of the previous decade in the new environment of shared government power, inclusion and accountability.

[35] The Zim-Fund, for example, was backed by a number of leading bilateral agencies including AusAID, CIDA, DANIDA, DIFD, NORAID and others. Its initial focus was urgent investment needs in water, sanitation and energy infrastructure.

[36] Examples of these pooled funds included the Health Transition Fund, supported the Ministry of Health and Child Welfare, and the Education Transition Fund focused on the provision of learning materials and capital investment under the Ministry of Education, Sport, Arts and Culture. In the health sector, research recognised that donor funding was critical in alleviating health financing gaps in the short term, while highlighting its negative implications; notably its unsustainability, displacement of government funds, earmarking of specific programmes rather than broader health spending, and its off-budget nature (Toonen et al. 2015).

At ZIMRA, the fiscalisation of VAT and upgrading of computerised customs clearing systems underscored recent investments in tax effort and efficiencies. [37] These initiatives rested in part on technical and policy support from donors and the participation of business, and contributed to the recovery of tax collection in the 2010s (see Figure 9).

Figure 9: Trends in Revenue Collection (1998-2013)



Source: IMF 2000-2014

More broadly, government restructured or introduced a number of new tax instruments to mobilise revenues, including levies, user fees and licensing charges targeting businesses, informal producers and traders, and individual consumers. Under provisions of the Public Finance Management Act (2009) and sector-specific regulations government decentralized control over such revenues.[38] Previously, they had been forwarded to central government's Consolidated Revenue Fund; starting in the 2000s, provisions were made to retain many at point of collection with the objective of funding specific services and administrative costs directly. Local Authorities, State Owned Enterprises (SOEs) and statutory bodies grew in prominence as sites of revenue generation, as incentives for local retention intensified amid waning transfers from central government. By 2011, central government accounted for less than 50 percent of revenue collection, with Local Authorities and SOEs making up the bulk (see Table 4). Five years later, at least 24 government departments and agencies were collecting and retaining these indirect taxes comprising 12 percent of state budget resources (Government of Zimbabwe and World Bank 2017). In 2017, 64 statutory and retention funds contributed about USD 713 million to government revenues (Financial Gazette 2017).

[37] 'Fiscalisation' involves the recording of VAT transactions using electronic devices linked directly to ZIMRA, which prevents the alteration of fiscal information at point of business transaction. Business operators were required to record all transactions using fiscalised devices under the Value Added Tax (Fiscalised Recording of Taxable Transactions) Regulations 2010, which came into effect in July of that year. In 2010 ZIMRA upgraded its electronic customs clearing systems with ASYCUDA software developed by UNCTAD, to improve the capture of receipts and ease the management of trade and migration (ZEPARU 2015).

[38] "Statutory Funds" are created by Acts of Parliament and other statutes. In addition, the Public Finance Management Act makes specific provisions (Section 18) for the collection and retention of user fees and other revenues by diverse public institutions.

Table 4: Public Sector Revenues (2011-2015)

	2011	2012	2013	2014	2015 (est)
Revenues (USD)	*6657*	*8017*	*7679*	*7933*	*n.a.*
Central Government	2921	3496	3741	3770	3738
Statutory Extra Budget Fund	n.a	n.a	n.a	n.a	542
Local Authorities	570	608	693	804	n.a.
State-Owned Enterprises	3462	4067	4325	4194	n.a.
Commercial	2616	2922	3043	2806	n.a.
Parastatal	846	1145	1282	1388	n.a.
Development Partner	1228	1682	1034	1104	1181
Resource mobilized & spent at source	675	746	811	772	807
Health	201	206	210	208	207
Education	474	540	601	564	600

Source: Government of Zimbabwe and World Bank 2017

Similar strategies were used to fund rural electrification, water development, the national road network and other infrastructure. Statutory institutions were established under responsible ministries and funded through new or expanded taxation, and other means. [39] This approach produced positive outcomes in several areas urgently in need of investment. For example, road tolls introduced in 2009 by the national road authority, ZINARA, provided substantial funding to the Department of Roads under the Ministry of Transport and enabled extensive rehabilitation works (see ZINARA case study below). The National Road Fund, funded primarily by tolls, became one of the state's largest pools of development finance. Nonetheless, the increasing prominence of decentralised taxation fostered heated stakeholder contestation over issues of corruption, poor planning and maladministration.

Critical delays in disbursements of funds by central government to local authorities and contractors sharply undermined development outcomes. More broadly, the decentralisation of management of levies and user fees enabled poor fiscal discipline across the broader public sector, leading to rising public complaints. Uneven institutional capacity, pockets of poor management and weak coordination contributed to the erosion of fiscal management (Government of Zimbabwe and World Bank 2017). Decentralized fiscal processes were not governed by the standard accounting rules used by central government. Data on locally administered revenues and expenditures were not systematically tracked or reported by central government until 2015, when controls expenditure were tightened with the encouragement of donors.[40] By then abuse was widespread and widely reported. Several high profile cases came to public attention involving fraudulent contracting practices for infrastructure investments and revenue

[39] For example, the Rural Electrification Agency was established by an Act of Parliament in 2002, and funded through the Rural Electrification Levy of 6 percent on electricity consumers (Ministry of Energy and Power Development 2018). Water development was placed under the management of the Zimbabwe National Water Authority (established 1998), the supervising agency for the National Water Fund, and primarily funded by the Water Levy. The rate of the levy varied according to the nature of the consumer, with industry allotted the highest per-use rates, and communal agriculturalists the lowest (Makurira and Viriri 2017).

[40] Beginning with the 2015 budget, central government accounts (the 'Bluebook') included these diverse revenues and expenditure under a consolidated statement of account (Government of Zimbabwe and World Bank 2017).

collection.[41] The diversion of revenues earmarked for infrastructure to pay public service salaries eroded public confidence in user fees and other service charges.[42] Meanwhile, the aggressive collection by state institutions incentivized by revenue retention rights fuelled popular criticism, as did inequity in the payment capacity and realised benefits experienced by poorer consumers of water, electricity and other services. [43]

At central government level, a key factor in fiscal indiscipline was political expediency. The political leadership's pursuit of partisan advantage with important constituencies in the public service and poorer communities directly challenged its earlier commitments to wage freezes and other measures to limit spending. The result was expanded levels of recurrent expenditure on the public service; notably in the sector of primary and secondary education, where the wage bill grew further amid poor overall performance. In the 2010s recurrent expenditure exploded, destabilizing the overall budget and limiting funds for capital and statutory investment. [44] In a period of heated political contestation in advance of new national elections in 2013, the public service wage bill grew rapidly along with social spending.[45] By 2015, recurrent expenditure constituted 92 percent of government revenues with 82 percent of the budget accounted for by wages and emoluments; in contrast, only 10 percent was allotted to capital spending and loan repayments (Ministry of Finance 2015). A budget deficit in 2012 signalled the beginning of a trend which lasted into the middle of the new decade, leading to further pressure for raising new revenues to fund expanding recurrent expenditure. To some extent, the innovation of decentralised revenue collection and the accompanying decline of central government's fiscal control turbo-charged the proliferation of both tax collection and fiscal indiscipline, underpinned by the leadership's pursuit of political loyalty.

In this context, initiatives to boost revenue by intensifying tax effort and expanding the repertoire of tax vehicles met with ambiguous fiscal outcomes. New measures to encourage government saving to fund priority projects faced significant obstacles; for example, the Sovereign Wealth Fund (SWF), established in 2015 and funded by 25 percent of mineral royalties collected. [46] While the design of the SWF followed best practices, the operating environment called into question its suitability as an effective DRM instrument. First, the productive sector's uneven economic performance signalled the diminished likelihood of regular savings; and second, government's thirst for finance

[41] A 2018 government budget strategy paper reported that up to USD 700 million in revenues was at risk annually due to corruption and misdirection of funds (Financial Gazette 2017); see also, PBO (2016).

[42] Only after pressure from development partners and stakeholder discussion were decisive changes made in 2015-2016 to shift allocation to capital expenditures (Government of Zimbabwe and World Bank 2017).

[43] For example, the intense enforcement of traffic fines by the Zimbabwe Republic Police was widely perceived (and disparaged) by the public as motivated by the need to finance salaries, not the protection of public safety. Taxpayer boycotts of electricity and rates in protest at poor delivery of services became commonplace.

[44] Underscoring the resource allocation imbalance associated with high public sector employment costs, one report noted that just two percent of the population employed in the public service consumed 20 percent of GDP through wages and emoluments. Wages accounted for 87 percent of total domestic revenues, 40 percent of Local Authorities spending, and more than 20 percent of SOE spending; see Chapter 3, "Managing the Public Sector Wage Bill," in Government of Zimbabwe and World Bank (2017).

[45] Government spending on the social sector rose from 36 percent of total budget expenditure in 2012 to 45 percent by 2015, while spending on the economic sector declined from 11 percent to 7 percent over the same period (Government of Zimbabwe and World Bank 2017: 34, calculated from Ministry of Finance and Economic Development data).

[46] The Sovereign Wealth Fund of Zimbabwe Act was enacted in law in November 2014, and the SWF was established with a board, but minimal start-up funding, the following year. The 2016 budget allocated US500,000 to run the Fund.

to fund its continuing deficit raised questions about the relevance of a savings-focused approach. A weak revenue stream compounded by government's gross mismanagement of diamond mining activities in which it was directly involved raised questions about the SWF's viability in the current environment (Hawkins 2014b). In addition, civil society observers argued that while the overall thrust of the SWF was welcome, its governance provisions created significant opportunities for political interference (Mutonhori 2014; Chikumbu 2013). The SWF therefore became a problematic emblem of a new 'culture of saving'.

More broadly, growing and mostly regressive tax loads fuelled friction between the state, business, labour and civil society stakeholders. Business criticized the complexity, cost and unpredictability of tax instruments; labour sought to link taxation to income, pricing and investment in employment; and civil society cautioned against their overall anti-poor, pro-business bias. A typical business was confronted with multiple, onerous and sometimes overlapping tax-related obligations (ZIMCODD 2014). Foreign investors faced the daunting prospect of dealing with a wide array of authorities and tax instruments on start up.[47] Even small businesses faced numerous costly steps for registration, leading to significant delays with red tape before operations could legally commence.[48] Civil society tax justice organisations, on their part, decried the regressive character of leading tax vehicles, notably VAT, and pointed to a chronic underlying corporate bias in government's tax strategy (ZIMCODD 2014). While welcoming increased tax effort in support of social spending, these groups disparaged government's contradictory stance of rewarding of companies and foreign investors with tax breaks while punishing poor Zimbabweans through the expansion of the tax burden on them. The strategic extension of consumption taxes only exacerbated the regressive structure of key tax heads, particularly at a time of worsening poverty.[49] Both business and civil society pointed to principles of public finance transparency and equity enshrined in the 2013 Constitution, in demanding greater institutional accountability and fairness from government.

However, government's contradictory needs pulled it in different policy directions, resulting in uneven and often unpredictable outcomes. Under ZIM ASSET, a primary objective was to mobilize additional domestic revenues from a growing economy to finance the expansion of government's economic programmes, protect social spending and create medium term fiscal buffers to help strengthen the capacity for debt servicing. However, the business-friendly conditions sought by producers to facilitate growth typically confronted the short-term fiscal needs of the state, particularly as revenue growth slowed. In the key mining sector, for example, contestation over the mining fiscal regime and indigenization policy reforms dampened investor interest but did little to blunt the tax concessions granted to leading foreign players (see the mining case study below). This resulted in disappointing levels of investor interest, FDI and mining tax revenues, and in government's continuing (and likely deepened) dependence on the foreign-

[47] New investors in mining, for example, were faced with the prospect of navigating a collection of regulatory bodies including, the Zimbabwe Investment Authority, Zimbabwe Mining Development Corporation, Environmental Management Agency, Minerals Marketing Corporation of Zimbabwe, National Social Security Authority, Zimbabwe Special Economic Zones Authority, in addition to ZIMRA, relevant government ministries, Local Authorities and Rural District Councils (Newsday 2018a).

[48] One report noted in 2014 that small businesses and traders could expect to wait 90 days and complete nine different processes to register as a business. Documentation and information required for registration was sometimes difficult to access, and the process represented a challenge for smaller operators with little capital and experience with the tax system (ZIMCODD 2014: 13).

[49] Evidence suggested that rates of extreme poverty increased significantly by mid-decade, rising from just over 3 million in 2012 to 3.36 million by 2016 (Government of Zimbabwe and World Bank 2017: 7).

dominated sector. Meanwhile, in the important state-controlled alluvial diamonds sector, poor governance and government hostility towards social stakeholders opened space for predation and the emergence of a significant criminalised trade. As a result, perhaps more than $2 billion in diamond earnings were unaccounted for by 2014, leaving a gaping hole in state revenues and derailing anticipated social and capital expenditures (Saunders 2018).

After 2013, the unpredictability and unevenness of taxation and DRM outcomes were hallmarks of state-business engagement against the backdrop of the policy consensus represented by ZIM ASSET. While business and social stakeholders acknowledged government's greater openness to consultation around innovative financing for social spending, many questioned government's capacity and willpower to follow through with broader, transparent implementation. The experience of the TNF, which was revived during the more open environment of the GNU, reflected government's contradictory approach. TNF partners explicitly recognised the need for greater inclusive governance, strengthened public institutions and policy follow-through, and improvements in the systemic redress of social and economic inequities. But government continued to drag its heels in negotiations towards the establishment of a formal social contract based on stakeholders' shared vision of a development framework and social policy (Kanyenze 2017). This contributed to scepticism about the state's commitment to fiscal and social reform.

One outcome of this scepticism was a growing culture of tax 'non-compliance'. Rising rates of tax default led to shortfalls in CIT, PIT and Presumptive Tax revenues; in turn, government's diminished liquidity helped to undermine its capacity to pay its creditors – thereby further weakening companies' capacity to meet their tax obligations. A recurring point of engagement between government and stakeholders involved the elaboration of offsetting mechanisms to account for late, partial or non-payment of state obligations. Contradictory signals were sometimes transmitted by government, reflecting differences of approach within the state. In the 2010s, ZIMRA's invocation of penalties and stronger enforcement efforts in the context of flat corporate earnings pushed many companies to drop out of tax reporting systems altogether, prompting offers of tax amnesty for those who came forward with overdue payments. By 2018, ZIMRA was owed $4.2 billion in unpaid taxes and arrears, exceeding by nearly $300 million the total tax revenue for the previous year, and there were doubts by business and government officials that the full outstanding tax bill could ever be collected.[50] Nearly 80 percent of outstanding taxes were owed by business, an outcome compounded by the lowly 25 percent compliance rate for PIT among 300,000 registered payers (ZIMCODD 2018). Compounding these challenges of compliance were other forms of tax evasion, including cross-border smuggling, the non-registration of businesses eligible for VAT and notably, illicit external transfers, which undermined resource mobilization in the critical extractives sector (ZIMCODD 2014).

[50] According to ZIMRA officials, the outstanding sums due were comprised of principal payments worth $2.2 billion, penalties of $981 million and interest payments of $1.18 billion. Entreaties by manufacturing and commercial sector business groups were a critical factor in ZIMRA's offer of amnesty and deferred payment terms for outstanding accounts ("Zimra's US$4bn debt `uncollectable'", *Sunday Mail*, June 17, 2018).

As revenue growth failed to keep up with budget expansion in the mid-2010s government turned increasingly to domestic capital markets to finance the budget deficit. [51] In 2016 state borrowing on local markets provoked a liquidity crisis, cash shortages and fears of further economic instability. Growth in diaspora remittances, which surpassed FDI for much of the 2010s, prevented an even worse credit crunch on domestic financial markets.[52] The chronic and worsening fiscal crisis led all stakeholders to acknowledge the widening gap between budget expenditures and revenue growth, and the threat this posed to both the social sector and macroeconomic stability more broadly. A recurring issue of concern was the potential for setbacks in the social sector following the recovery and real gains made during and after the GNU. [53] The prominent role played by donors through transitional funding vehicles in the 2010s, through which donors provided up to 70 percent of non-wage expenditures in health and education, was being scaled back; this raised questions about social and fiscal stability. [54] Development partners and business, recognised as key to unlocking new resources, saw their leverage with government strengthen.

Government's strengthened policy inclusion of stakeholders was reflected in a number of structured engagements focused on DRM, institutional strengthening and fiscal policy reform. In 2015, for example, the Ministry of Finance in collaboration with UNICEF convened a multi-stakeholder workshop on fiscal space to discuss new research and work toward all-stakeholder agreement on a path forward. [55] A joint Government – World Bank review of public expenditure, the first since 1995, was undertaken to inform and help strengthen government's fiscal management (Government of Zimbabwe and World Bank 2017). A World Bank-supported 'Ease of Doing Business' initiative in 2016-2017 saw government work with a range of business organisations and leaders around regulatory reform, and tasked them with making concrete recommendations informing government interventions. Government also engaged the IMF and other multilateral donors around debt management and funding cooperation, amid Article IV consultations (IMF 2015, 2016, 2017). [56]

[51] In 2016, for example, the budget deficit exploded to 10 percent of GDP from 3 percent the previous year, due to expanding expenditures amid shrinking revenues (Government of Zimbabwe and World Bank 2017).

[52] In 2015, for example, diaspora remittances captured through formal channels reached $1.917 billion, nearly five times the FDI of $399 million for the same year (RBZ 2017). In 2016 government introduced a Diaspora Remittances Incentives scheme to boost formal remittances further amid a decline due to slow growth and exchange factors in countries like South Africa, which supplied the bulk of Zimbabwean remittances.

[53] By 2016 Zimbabwe's HDI ranking had recovered to 154 on the back of important gains in health and education. HIV prevalence rates fell to 15 percent (1998: 40 percent); life expectancy improved to 59 by 2015 (2003: 43); maternal mortality rates improved to 651 per 100,000 live births by 2015 (2010: 960); and under-five child mortality was halved since 2009 (World Bank 2018).

[54] Donor support for the Health Transition Fund and Education Transition Fund was scheduled to decline in the mid 2010s. While Ministry of Finance officials lamented donor dependence, they also recognised that other safety net provisions (for example BEAM - Basic Education Assistance Module covering school fees for poor children) had failed under the weight of financial need and low contributions (Government of Zimbabwe, Ministry of Finance and Economic Development 2015).

[55] The workshop report noted that the meeting "was attended by 120 stakeholders … including, Government, Development Partners and Diplomats, Multilateral Financial Institutions (IMF, World Bank and the AfDB), Private Sector, Academia and Civil Society representatives" (Government of Zimbabwe, Ministry of Finance and Economic Development 2015: ii).

[56] In 2014, for example, government adopted a debt resolution strategy and also promulgated the Public Debt Management Act. A Debt Management Office was established within the Ministry of Finance with assistance from the AfDB.

The core principles of a revised model of DRM emerged from these state-stakeholder consultations. First, there was wide agreement on the importance of fostering economic expansion in the wake of recent flat GDP growth. Investment promotion, incentives for domestic savings and the deepening of access to remittances were identified as key strategies to this end. Secondly, strengthened fiscal discipline was seen as critical. Here, imbalances and inefficiencies in state expenditure, including weak oversight of revenue and expenditure in SOEs and Local Authorities, were targeted as problem areas. Thirdly, the resolution of government's debt legacy, including new moves by government in 2015-2016 to clear arrears with the World Bank, IMF and African Development Bank, were understood as necessary for unlocking future access to credit (Government of Zimbabwe and World Bank 2017). Together, these recommendations implied the need for strengthening government's institutional capacities. In this regard, research suggested that even though instruments for public finance management were in place, regulatory rules had been insufficiently implemented, particularly at the level of SOEs and local authorities. Consequently, there was urgent need to consolidate the mechanisms for controlling expenditure in the wider public sector (Government of Zimbabwe and World Bank 2017). Finally, there was wide agreement that any viable DRM framework would need to grounded in all-stakeholder consultations led by government. DRM's modernization required both political willpower and public consensus: to win the support of taxpayers and the wider community of stakeholders, DRM policies would have to meaningfully reflect their interests and needs. Reliable mechanisms were therefore needed for enabling diverse stakeholder participation in the reform of fiscal frameworks and in the elaboration of strategies for the strengthening of social provisioning.

In practice, this approach to DRM unfolded unevenly, revealing both the influence of fiscal constraints on government's policy options, and the growing leverage of business and donors underpinned by government's renewed pursuit of economic growth and the urgency it faced in dealing with the debt crisis. Leading businesses secured notable gains through the Ease of Doing Business programme and other initiatives such as export incentives. For example, Statutory Instrument 64 of 2016, which discouraged imports of specified goods produced by domestic firms, effectively encouraged important substitution industry by re-establishing a protected market for local companies (Sibanda 2017). [57] This resulted in increased capacity utilisation and profitability for benefiting firms, but at the same time brought disadvantages and criticism from other players including downstream businesses which faced higher costs and input shortages; cross-border traders, who protested by demonstrating and attacking ZIMRA offices in the border town of Beitbridge; and Zimbabwe's regional trading partners, who accused the country of violating agreed low-tariff trade protocols and threatened retaliation (Murangwa and Njaya 2016).

However, other stakeholders, including the labour movement, the informal sector and civil society organisations active in areas of social protection, sometimes struggled to effectively shape the trajectory of policy reform. The overall prioritisation of business-led growth, production expansion and donor support represented potentially narrow parameters for such stakeholders with interests in equitable taxation burdens and redistributive strategies which targeted poor communities. An approach which prioritised the clearing of arrears and creation of attractive investment terrains through labour flexibility and other means, constrained the space for DRM strategies focused on social protection, the expansion of decent work and clamping down on tax evasion and illicit

[57] In 2017 the regulation was replaced by Statutory Instrument 122, which consolidated numerous other import and export restrictions while raising tax rates on small traders via import licensing fees (Sibanda 2017).

corporate transfers. The problematic revival of the Tripartite Negotiating Forum (TNF) in this period pointed to the limits of the popular sector's effective participation in policy engagement. This was underscored by government's slowness in bringing forward the enabling legislation needed to provide the TNF with a mandate and effective structure, despite its increasing public commitments to establishment of a 'social contract' with its tripartite partners. Although a draft TNF Bill was drafted by 2010 the legislative process remained stalled by 2017. While tripartite engagements continued through the TNF, they were irregular and frequently fuelled discord, not agreement, among partners (Financial Gazette 2015a). Beyond tripartite engagement with the state and business, popular constituencies were also sometimes disadvantaged by low technical capacity and diverse approaches to key issues. In contrast, larger business membership organisations were better funded, had greater research, advocacy and consultative capacities, and in leading instances, enjoyed statutory status and mandates.

Despite government's expanded interactions with stakeholders, questions remained about its willingness to accept and implement change. While government made commitments to improving fiscal management and expenditure reduction, the results in practice were ambiguous. A new round of domestic borrowing in 2017 to finance the budget deficit re-ignited domestic debt and credit worries. At the same time, there were weak efforts to solve high wage and employment costs in the public sector, and progress was slow in recalibrating the tax system to ensure more equitable balancing and distribution of the tax burden. Instead, new taxes, including a 5 percent 'health levy' on all mobile phone airtime and data consumption, were seen by commentators as deepening existing tax inequities. Moreover, and there were concerns – inside and outside of government – that without transparent administration and clear ring-fencing of earmarked revenues, new resources could be abused by the debt-stricken government. [58]

The sudden ouster of President Mugabe in November 2017 appeared to open the opportunity for new paths forward for government in its engagements with stakeholders. The administration of President Mnangagwa soon announced a shift in government's development framework. Claiming to adopt a market-friendly approach and declaring that Zimbabwe was 'open for business', the president committed government to clamping down on corruption, appointed a technocrat with international finance experience to run the finance ministry, and called for the deepening of engagement with local business and civil society (Ndimande and Moyo 2018; Dzirutwe 2018). While initially welcomed by a wide range of actors, the new regime raised doubts about the extent of change likely under the repackaged ZANU-PF government. A closely-fought election which led to disputed results and was followed by state violence against opposition supporters recalled the strong-arm politics tactics of the previous Mugabe government. More broadly, the administration's liberal economic policy shift provoked hostile responses from labour and civil society groups, which questioned the state's privileging of business' priorities over those of labour and social protection (Mahove 2018; Githahu 2018). If donors and business focused increasingly on issues of state reform, fiscal management and market liberalisation – themes reminiscent of the ESAP era – the priorities of civil society and government seemed to more closely involve matters of social provisioning and equity. In

[58] The Health Levy on mobile use, introduced the Finance Act of 2017 and enacted in February of that year, was justified by government as vital source of health finance, as reflected in its promotional tagline "Talk, surf and save a life". Yet soon after its establishment concerns about its structure and deployment were voiced by senior health ministry officials, who noted that unlike the AIDS Levy and other prominent earmarked taxes, the Health Levy remained under the management of the finance ministry. This threatened to undercut transparency around Levy's collection and especially its distribution; see Daily News (2017), Newsday (2017c, 2017d).

the spaces of contestation among differing visions of development, and in a period of heightened political competition and debate catalysed by the 2018 national elections, the framework for a new DRM seemed set to emerge. But if all stakeholders had accepted that "speedy, bold and tough decisions"[59] were needed in order to move forward, it was unclear if the new state leadership retained the political will and capacity for such action. In September 2018, it was reported that the TNF, the entity seen by some stakeholders as a key venue for state-society policy engagement and shared decision-making, had not formally met for two years (Newsday 2018b).

Case Studies of Domestic Resource Mobilization in the 2000s

In the 2000s government greatly expanded its resource mobilization efforts by introducing a series of statutory innovations, revenue generating instruments and administrative reforms focused on domestic sources of finance. These included indirect taxes in the form of levies, fees for services and consumption, new and recalibrated levels of direct taxation, and other vehicles for revenue mobilization at central and local government level. The rapid growth and decentralization of revenue mobilization efforts presented both new opportunities for the domestic funding of government services, and new challenges with regard to the supervision, management and enforcement of resource collection and distribution.

This section of the paper examines key DRM innovations and continuing challenges in the 2000s by means of three case studies which illustrate the complex terrain of resource bargaining in this period. In the case of the AIDS Levy, it is argued that government's inclusive and consultative approach was critical in building a consensus around an indirect tax needed to address an urgent targeted need. The challenges of resource mobilization under conditions in which leading business stakeholders are in a position to resist reform and state interventions are undermined by structural vulnerabilities and elite interference, are highlighted in the case of the mining sector. Finally, the opportunities and problems incumbent with decentralized revenue mobilization are explored in a case study of the National Road Fund, one of the largest new sources of finance established through tax innovation in the 2000s.

Together, these cases underscore government's contradictory approach to resource bargaining and revenue mobilization. They point to the importance of political inclusion in creating consensus and compliance around tax reform and highlight the critical role of accountability and transparency in institutional innovation. They also identify the risks of elite predation and institutional weakening in the context of state capture and dominant leadership. Conversely, the obstacles to DRM innovation represented by entrenched business interests and donor influence are reflected in the case of mining. This array of case study experiences suggests the need for analytical frameworks which disaggregate state, social and business interests, and recognise the multi-scale, hierarchical and often inequitable nature of resource bargaining in practice.

Case study - Inclusion and sustainability: The AIDS Levy

Since its first diagnosed case of AIDS in 1985, Zimbabwe has been one of Southern Africa's most-affected countries by the HIV/AIDS pandemic. By the late 1980s government had initiated a National AIDS Co-ordination Programme, and in the

[59] Ministry of Finance 2015: 10.

following decade its efforts intensified and became more diverse as the rates of infection, illness and mortality rose sharply (SADC 2008). Civil society and development organisations also responded to the rising health crisis, and by 1992 the Zimbabwe AIDS Network was formed as an umbrella body to share information, coordinate activities and lobby government alongside support groups working with HIV-positive people. In the mid 1990s and in response to growing stakeholder lobbying in the health sector, government undertook extensive consultations in the process of formulating a comprehensive National AIDS Policy, launched in 1999 (Government of Zimbabwe 1999). This resulted in the establishment of the National AIDS Council (NAC) to coordinate and administer the work of government, non-governmental organisations, the private sector, donors and other stakeholders around HIV/AIDS, following the policy principles laid out by government in the National AIDS Policy and subsequent National HIV and AIDS Framework (SADC 2008).

To fund the NAC and the state's main interventions to combat HIV/AIDS, government established the National AIDS Trust Fund, commonly known as the AIDS Levy, in 1999. Comprised of a 3 percent tax on personal and corporate income, the Levy was a unique innovation in a region dramatically affected by the HIV/AIDS pandemic. Its performance was closely watched in several neighbouring countries, and the Levy soon became recognised as a model for 'best practices' (Bhat et al 2016; SADC 2008). At a time when government was entering a severe fiscal crisis and state services were being sharply cut back, the relative success of the AIDS Levy provided several lessons for revenue mobilization strategies to fund social services. Key among them were the importance of building a relatively autonomous and capacitated institution to serve as the focal point for multi-stakeholder relations and bargaining; and the consolidation of stakeholder and taxpayer trust through efforts to enhance transparency, accountability and public education on the collection and distribution of revenue.

The process surrounding the Levy's formulation underscored the importance of stakeholder inclusion at an early stage. The establishment of the NAC and Levy were preceded by intense lobbying by civil society organisations, non-governmental service organisations and health professionals. Low, unstable and unpredictable flows of external support for the national response to HIV/AIDS disrupted intervention efforts in the late 1990s and early 2000s, and resulted in poor service provision to a growing HIV-positive population (NAC 2014). Through multiple means, including stakeholder consultations, public demonstrations, critical media reporting and supportive research interventions, a diversity of stakeholders engaged with government to situate the HIV/AIDS crisis as a national political-economic priority, not simply a health-sector issue.

This consultative process resulted in the embedding of governance principles and management structures in the NAC that evoked its multi-stakeholder origins. Established as a statutory body with an executive appointed by the President, the NAC was accorded considerable administrative autonomy and structured as an inclusive, publicly accountable body.[60] Diverse stakeholders participated actively in the national executive, and at the level of district and local authority AIDS Action Committee structures,[61] where significant data collection, drawing up of local action plans and

[60] The NAC was established by the National AIDS Council Act of 1999 [Chapter 15: 14], while the AIDS Levy was established under the Finance Act [Chapter 23: 04] the following year.

[61] Cementing the inclusive nature of the AIDS Action Committees at national, provincial, district, ward and village level, The Act stipulates that such structures should include representatives of relevant

disbursement of funds took place (SADC 2008). Guidelines stipulating the NAC's programme expenditure targets were clearly stipulated, and their implementation monitored and debated within and outside the organisation.[62] Crucially, the NAC was mandated to compile annual independently audited accounts, underscoring government's efforts to ensure the NAC's fiscal and administrative transparency.

Under these conditions, which were bolstered by public information interventions led by the NAC that strengthened transparency and created awareness around the specific benefits of the Levy, broad acceptance of the new tax was achieved. Robust debate within the NAC's administrative structures over programme strategies and spending targets, and continuing close engagement between the NAC and civil society including critical funding support to HIV-positive support groups, helped to consolidate the legitimacy of the body's policy and fiscal framework. In this regard, the reform of funding and administrative processes to create multi-scaled opportunities for obtaining project funding from the Levy was critical in both democratising access to finance for AIDS interventions, and substantially extending the reach, capacity and effectiveness of NAC activities (SADC 2008). The rich diversity of interventions at national and local level supported by the Levy – from support to local pharmaceutical companies for the domestic production of antiretrovirals, to the specialist training and employment of nurses, provision of food to AIDS-affected communities and payment of school fees, materials and uniforms for school-going AIDS orphans – was vital in consolidating a sense of community ownership in areas where project funding was distributed.

The significance of the AIDS Levy for Zimbabwe's national AIDS interventions are reflected in the NAC's accounts (Table 5). While the economic crisis and hyperinflation of the early 2000s sharply limited the impact of the income tax-based Levy, the post-2008 recovery period underscored its importance. In 2009-2013, the Levy's contribution to NAC's revenue exploded from 26.8 percent to 85.74 percent, alongside a sharp fall in donor support and dwindling government grant contributions over the same period.

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government ministries, traditional Chiefs and local government, HIV-positive people, non-governmental organizations and faith-based organisations and the business sector.

[62] NAC rules stipulate that 55 percent of AIDS Levy revenues be allocated to the purchase antiretroviral medication with other activities receiving lesser proportions while prevention; including, 25 percent for administration and capital costs, 11 percent for monitoring and evaluation, and 5 percent for evaluation and programme management. In practice, technical and capital support from donors including UNAIDS has helped to contain NAC's expenditure on administration to below the 25 percent ratio mandated (SADC 2008).

Table 5: Sources and Contribution of Funds to NAC (2009-2013) (USD millions)

	2009		2010		2011		2012		2013	
Total Funds for NAC	21,298	%	39,883	%	34,568	%	37,575	%	39,104	%
AIDS Levy	5,711	26.8	20,522	51.5	26,459	76.5	32,541	86.6	33,530	85.74
Government Grant	1,259	5.9	1,248	3.1	1,395	4.0	428	1.14	810	2.07
Development Partners	14,310	67.2	17,429	43.7	5,567	16.1	3,894	10.4	4,208	10.76
Investment Income	10	0.05	655	1.6	1,114	3.2	680	1.8	535	1.37
Profit on disposal of assets	6	0.03	14	0.04	15	0.04	12	0.03	0	0.00
Other Income	1	0.01	14	0.04	18	0.05	20	0.05	22	0.06

Source: NAC (2014) and ZEPARU (2015)

For some, the AIDS Levy emerged as a sustainable domestic resource mobilisation strategy for financing the National HIV and AIDS response (ZEPARU 2015). In the context of declining and unpredictable donor contributions and government's own limited budget resources, the Levy represented a more dependable long term finance mechanism for a chronic national health need. Underpinned by government's commitment to transparent and inclusive management of the fund, it also offered opportunities for strengthening the policy autonomy and inclusivity of diverse HIV/AIDS stakeholders and beneficiaries (AUC and GF 2016). However, the sustainability and long-term viability of the Levy was called into question by the underlying structure of the tax, which remained dependent on a weak formal sector. In contrast, the informal sector, seen by government and IFIs as a key driver of growth, was beyond the reach of the Levy. Poor tax compliance in the informal sector and the comparatively higher costs of collecting tax from it, raised doubts about the feasibility of extending the Levy to the informal economy. The basis of the Levy's early success – careful planning, stakeholder inclusion leading to support and demonstrable benefits for taxpayers – seemed unlikely to be easily replicable in the context of an informal sector which was both heavily taxed and more vulnerable to economic shocks and new revenue claims by the state.

Case study - Power and vulnerability in resource bargaining: The mining sector

Mining in Zimbabwe was largely dominated by foreign players until the 2000s, when important discoveries of diamonds and the greater participation of Artisanal and Small-Scale Mining (ASM) in the gold sector saw the state and local players take a more active role. Though a significant contributor to exports, mining only took on wider economic importance with the severe economic crisis of the 2000s and the sharp decline in commercial agriculture and industry. Booming commodities markets in 2001-2010 saw the minerals sector became the dominant contributor to exports and a key component of GDP, and a focus of government's efforts to raise revenues. Its DRM strategy for mining involved reform of the mining fiscal regime, initiatives to promote 'indigenisation and empowerment', and direct participation in diamond extraction. Contestation around these issues underscored the harmful impacts of state capture and weak institutional capacity,

and revealed the power of mining capital and foreign investors to resist state efforts to intensify taxation and restructure ownership control of the sector.[63]

Mining fiscal regime

Contestation over the mining fiscal regime in the 2000s involved wide-ranging consultations involving established large scale foreign operators, local miners and business, a large number of ASM players, civil society organisations active around social justice and environmental issues, and donors. During the 1980s and 1990s there had been few significant and lasting changes to the taxation regime inherited from colonial Rhodesia, the most important of which were statutory reforms associated with ESAP in the 1990s that involved the establishment of Special Mining Leases involving fiscal concessions for new large-scale players in the platinum sector. The rapid expansion of mining exploration leading to investment in the 1990s reflected in large part the more attractive investment and taxation environment in the sector. In the early 2000s, however, state-industry engagements around the fiscal regime turned sharply towards contestation and confrontation as the economic and political crisis deepened. Scrambling to raise revenue, government significantly and erratically increased royalties, fees and licenses, and sought to renegotiate mining agreements from the 1990s that had included concessions to large scale miners. Gold output plummeted as investment and production slowed, and new platinum investments were secured only by government's agreement to maintain tax and operational concessions to large investors.

These developments in the early 2000s set the stage for continuing conflict over the fiscal regime in the 2000s amid government's extensive consultations with industry players, donors and civil society. Contestation over taxation illuminated the contradiction at the core of government's DRM strategy for mining: on the one hand, the sector represented a primary source of revenue and foreign exchange growth for the cash-strapped state; on the other hand, it offered multiple potential developmental benefits involving forward and backward linkages, improved value-added in mineral exports (benefication) and local business participation. Government saw the fiscal strategies associated with these objectives as being contradictory, with the incentives and concessions demanded by the latter approach weakening the former's revenue-raising requirements in the short-term. This essential discordance among competing goals, strategies and state commitments to 'developmental' strategies increasingly shaped resource bargaining among mining stakeholders over the fiscal regime in the 2000s.

Government's short-term revenue needs repeatedly displaced the gains of wider efforts aimed at achieving stakeholder consensus, particularly after 2009 and the formation of the Government of National Unity. This period saw the resurgence of donor engagement with the state and strengthened government consultations with business, labour and civil society around economic recovery. There were intense consultations around the state's 'developmental' strategy for the fiscal regime between government and the Chamber of Mines in Zimbabwe (representing larger operators), other mining associations, and civil society organisations that had emerged in the new millennium to work on resource governance and tax justice issues. These interactions were informed by research and policy briefings, consultative outreach processes and regular dialogue at associational and public meetings involving a wide range of government, donor and civil society agencies.[64]

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[63] This case study is based substantially on two UNRISD PDRM Working Papers on the Zimbabwe minerals sector; see Saunders (2017; 2018).

[64] Stakeholder participation was reflected in numerous studies including, Government of Zimbabwe (2013a); McMahon et al (2012); Hawkins (2009); Jourdan et al (2012); Kanyenze et al (2011); and ZELA (2012).

These policy discussions were also influenced by external developments including the African Mining Vision (AMV) (2009), the mining regulatory framework adopted in 2009 by 54 member states of the African Union and endorsed by mining capital and International Financial Institutions.

In the 2010s, business and donors argued that the state should recognise mining's sensitivity to regulatory signals, particularly taxation, investment rules; and to ease of doing business indicators such as tax complexity, red tape and duplication. They insisted that reforms that were insensitive to these market demands would likely lead to a recovery that was slower, more narrowly focused and less beneficial to the wider economy.[65] While government indicated its commitment to engaging around the issues, its interventions were punctuated by unpredictable and uneven fiscal measures. In the 2010s the state repeatedly moved to secure fiscal quick fixes by rate hikes and 'windfall' measures, tax expansion and *ad hoc* threats. Together, these eroded investor confidence, endangered vulnerable operators and led to threats of retaliatory investment and production cut backs by important large scale platinum operators. New FDI underperformed and mineral revenues dropped in the wake of falling commodity prices. By 2015 mining's absolute and relative contribution to government revenues had declined.[66] Mining stakeholders continued to insist that government implement policy recommendations that emerged from state-society consultations and research in the 2010s, which stressed the need to support a developmental approach by incentivizing investment and community participation. Strategic fiscal concessions such as the flexible calibration of royalties and offering of tax breaks for local content sourcing were seen as practical means to achieve improved DRM outcomes in the minerals sector (Jourdan et al. 2012). Further supportive evidence for this perspective would come from the gold sector, where regulatory changes and fiscal reform in the 2010s led to a boom in ASM gold deliveries and resurgent production by established players.[67] Such changes were catalysed by pressing needs: concessions that led to higher official gold deliveries were designed to boost gold exports and relieve urgent foreign currency shortages, while specific incentives to ASM producers helped to consolidate political support among a growing constituency in advance of national elections in 2018. More broadly in the mining sector, however, there was little evidence of a parallel coordinated strategy of incentives and regulatory concessions, and new mining investment continued to underperform into the late 2010s.

Indigenisation and empowerment

Problems arising with the state's engagement with mining stakeholders around a DRM framework were severely compounded in the 2000s by ZANU-PF's moves to advance an 'indigenization' agenda after 2007. Once again, government's conflicting strategies for achieving economic recovery and political consolidation were reflected in its pursuit of development through local ownership of production. Mining was an important target of the new approach. Under the Indigenisation and Economic Empowerment Act (IEE) of 2008, government required the transfer of at least 51 percent of the equity in foreign held firms to indigenous Zimbabweans.[68] Regulations establishing the conditions for mining

[65] McMahon (2012); Hawkins (2014a); Mupamhadzi et al. (2014).

[66] Tax revenues from mining declined to USD 75.7 million (2.2 percent of all government revenue) in 2016, from USD 245.8 million (7 percent) in 2012; see Government of Zimbabwe (2017).

[67] Reforms by the state's monopoly gold-buyer included increases in purchase prices and partial payment in foreign exchange; a 'no-questions asked' approach to purchases from ASM sellers; and loans to ASM producers to facilitate capital investment.

[68] Under the IEE, 'indigenous' Zimbabweans were defined as, "any person who, before the 18th April, 1980, was disadvantaged by unfair discrimination on the grounds of his or her race, and any descendant of such person…" (Government of Zimbabwe 2007).

indigenization were introduced in 2011 (Government of Zimbabwe 2011). These called for an accelerated pace of share transfer of mining majority shareholdings to locals, with the indigenization ministry threatening the 'immediate seizure' of controlling stakes in non-compliant mining companies. The IEE brought to an abrupt conclusion longstanding state-business discussions around a phased programme of mining empowerment which had been promoted by donors and diverse mining sector players (Saunders 2017). For some observers, a critical factor in its timing and content was the erosion of ZANU-PF's political legitimacy following the economic crisis of the 2000s and a tightly-contested election in 2008 (Matyszak 2011).

For government, the redistribution of mining equity reflected a holistic approach to economic transformation. Indigenization would redress problems of foreign domination of the sector, including hesitant investment, transfer pricing and illicit trading; unlock new local investment, boosting production; and inject liquidity directly into the national economy, local communities and households. Economic control over a key sector would be localised, and future growth shared more equitably through various share ownership schemes mediated by the state. In response, the mining industry sought to engage government around what producers referred to as sustainable indigenization. The Chamber of Mines, the statutory body representing the mining industry, other business players and donors warned of the destructive mutually-reinforcing impacts of rapid free equity transfers. Indigenization, they agreed, needed to recognise the importance of foreign investors and finance, and the high costs of low investor confidence for future mining finance and FDI (BCZ 2011). Without sensitivity to miners' needs, it was argued, a decline in state mining revenues was likely given high capital investment requirements and the risk of more expensive offshore financing. Tax receipts also stood to fall, as the proportion of corporate tax declined and new local shareholders were taxed at a lower rate (Hawkins 2014a).

Other critics suggested that the IEE represented an exercise in rent-seeking and patronage whose timing was linked directly to Zimbabwe's electoral cycle (Matyszak 2011). In reality, the state's administrative commitment to IEE was weak. Public IEE institutions were underfunded, given ambiguous powers and beset by inter-institutional conflict. This created opportunities for mining companies endowed with strong technical and economic capacity to negotiate favourable indigenization deals. Such agreements conveyed the public impression of substantial shifts in control without delivering substantial change in material terms. Government and miners both saw gains: government claimed the localisation of majority shareholdings; foreign miners retained effective control and a preferential tax regime. Restructuring also gave companies opportunities to limit costs associated with corporate social responsibility by shifting liability for community projects to IEE-mandated share schemes (Mawowa 2013; Moyo and Hwenga 2010). Yet overall, IEE significantly dampened the mining investment climate, and had sharply negative implications for new mining FDI and the growth of mineral sector revenues. By the time most IEE provisions were suspended in 2018, only one foreign operation, the Canadian-owned Blanket Gold Mine, had fully complied with the IEE by divesting its majority stake to indigenous actors (Hubert 2016). However, the deal raised questions concerning its fiscal benefits, because the high costs of finance and restructured tax exposure of the new indigenous owners seemed likely to have undercut net tax revenues (Zamasiya and Dhlakama 2016; Hubert 2016).

Recognizing the costs implied by investment suppression, low tax gains and expensive foreign mining finance, the new government of President Mnangagwa substantially revised the IEE regulations in March 2018. The majority indigenous ownership

stipulations were removed for most mining sectors. The impact on the investment and production climate was nearly immediate. In August 2018 majority control of Blanket Mine was reacquired by its Canadian operator, which expressed interest in new follow-on gold investments in light of the new, more competitive investment environment.

State leadership and predation in the diamond sector

In 2006, the discovery of world-class deposits of alluvial diamonds in Marange District in eastern Zimbabwe offered important opportunities for the mobilization of significant revenues in a period of severe and worsening economic and social crisis. The new resources quickly became the subject of intense contestation involving the state and a variety of actors including the diamond industry, mining communities, civil society, and donors. Conflicts around Marange diamonds accentuated and deepened existing fault lines in state-society engagements around resources, and exposed the frailty of DRM policy frameworks in the context of weak state capacity, powerful executive authority and polarized political environments.

The Marange diamond strike offered a rare opportunity for rapid revenue mobilization. The alluvial deposits could be accessed at the surface with only modest capital investment, and were estimated to be worth up to USD 2 billion annually. Zimbabwe soon ranked among the world's leading diamond producers (Global Witness 2017). However, the diamonds' DRM potential was quickly undercut by elite domination of the extractive process, which was enabled by state capture in the early 2000s and fuelled by elite predation and rising partisan conflict with MDC opposition. State capture weakened the bureaucracy's administrative autonomy and injected partisanship into decision making. At the same time, the allure of enormous mineral wealth which was easily accessed and could be traded secretively incentivized irregular and predatory behaviour by state elites. This toxic mix of opportunity and adversity was further enabled by the international diamond trade, an industry notorious for the scale of unaccounted for revenues due to smuggling, corruption and undervaluation of stones—as much as USD 2 billion between 2008 and 2012 in Zimbabwe alone, according to conservative estimates (PAC 2012).

While the true value obtained from diamonds by government, miners and criminal elements involved in the Marange trade remains unknown, it is clear that the new resources contributed far less than anticipated to the national treasury via the state shareholding in mining companies, taxation and other fees (Saunders 2018).[69] According to most independent experts, the beneficiaries of the untold billions of dollars in lost diamond revenues were the political and business elite, including agencies linked to state security institutions (Global Witness 2017; Sibanda and Makore 2013). The extent of diamond revenue diversion was confirmed by Parliament's Portfolio Committee on Mines and Energy (Parliament of Zimbabwe, Committee on Mines and Energy 2013). The Committee documented widespread irregularities in the contracting and supervision of diamond mining under the Ministry of Mines, which reflected and were enabled by more widespread problems of weakened bureaucratic capacity and autonomy.

State capture reduced institutional accountability and fragmented administrative authority. Under these conditions, the tracking of tax instruments, compliance and resulting revenues was difficult; a situation compounded by poor enforcement of production and income reporting by companies linked to the ruling party, and lack of

[69] Some estimated that at least 25 percent of the value of stones was lost in the first years of mining due to undervaluation and transfer pricing. The estimated value of USD 60-80 per carat at point of sale differed sharply from the median average for all exports of USD 46 between 2008 and 2013; see KPCS statistics and interviews with KPCS participants, Tel Aviv, 21 June, 2010.

transparency around companies' mining contracts and profit-sharing agreements. Even simpler taxes like royalties were difficult to estimate given the lack of comprehensive production data. These factors were amplified by the complex arrangements for collecting taxes, which involved several state institutions with varying capacities and interests in inter-agency cooperation. Researchers later highlighted the role of institutional bottlenecks, inter-departmental communication and administrative irregularities that emerged in the diamond sector after 2009 to explain chronically weak fiscal outcomes (Sibanda and Makore 2013; Sibanda 2014).

The same institutional challenges opened pathways to elite predation and criminality, which took the form of illegal trading, tax evasion and the avoidance of other forms of fiscal and fiduciary obligations. In practice, tax evasion was structured in multiple ways with government's knowledge and tacit approval.[70] Tax avoidance was sometimes openly acknowledged and defended as being permitted under confidential licensing agreements; in other instances, companies reportedly irregularly paid government 'dividends' not specified by law or contract, coerced into providing funds during episodic shortages of cash as part of a 'gentleman's agreement' (PAC 2012).

The convergence of these institutional, political and administrative weaknesses produced poor revenues and low accountability concerning government's management of the Marange resources. This was reflected in enormous discrepancies between data on exports and sales from the Kimberley Process Certification Scheme (KPCS), the main international body monitoring diamond sales, and the Zimbabwe government. In 2017, Parliament's Public Accounts Committee reported that it had received no audited accounts since 2013 on state institutions in charge of mining and trading Marange diamonds, amid reports that the Office of the Auditor-General had been prevented from carrying out its work by 'a powerful clique from the ruling elite' (The Standard 2017).[71] The volatility of reported diamond revenues destabilized state economic planning and during the GNU pitted ministries against each other in partisan disputes over control of anticipated windfall revenues.[72] With the end of the GNU in 2013, systematic and comprehensive reporting of non-tax earnings from Marange effectively ended.

If the state's management of Marange was a 'litmus test' of DRM reforms, it produced disappointing results: rather than strengthening revenues and development opportunities, government's administration of alluvial diamonds promoted secretive and *ad hoc* regulation, and resulted in enormous losses to the state treasury through illicit trading and irregularly low returns on taxation and earnings by state mining ventures (Saunders 2018). There was decreasing confidence among non-state actors in the state's commitment to transparent engagement around strengthening and deepening mineral governance, and to recognizing and accepting the role of civil society, mining community and donor interests. Under these conditions, state-society relations grew fractious, with diamonds

[70] Several Marange companies were registered in offshore tax havens via shell companies (Global Witness 2012a; 2012b). Some, notably the Hong Kong-registered Queensway Group, were reported to have funneled large sums to Zimbabwe's state security agencies and ZANU-PF-linked interests (Mailey 2015).

[71] The report cited senior officials in the Auditor-General's office and parliament in faulting senior branches of the executive as the source of the secretive management, noting that "the exclusion of the OAG from playing an oversight role was part of an apparently deliberate scheme by the executive arm of government to keep information on diamond mining under a tight lid" (The Standard 2017).

[72] In one notable case, the finance ministry's projection of USD 600 million in diamond revenues in the 2012 Budget was soon followed by the announcement of a shortfall of USD 244 million (The Herald 2012).

playing a catalytic role in fomenting the destabilization of DRM engagements. Progress towards a shared understanding of resource governance was slow.

By 2018, new investigations by parliament's mining portfolio committee attempted to define the scope of losses from diamond mismanagement and identify the key responsible actors (Parliament of Zimbabwe, Committee on Mines and Energy 2018). Evidence suggested that at least USD 1.7 billion in taxes and earnings remained unaccounted for; however, the real extent of the loss was likely considerably greater. Underscoring state and elite culpability, the committee pointed to the Executive's interference and secrecy as enabling aberrant practices that prejudiced state revenues, including the irregular involvement in mining by state security agencies, and a widespread lack of transparency and financial accountability among diamond mining companies. Regularisation of production and revenues at Marange, the committee recommended, required a full forensic audit and holding to account of private companies, public institutions and officials; the strengthening of state administrative, oversight and security institutions; and greater scrutiny of executive decision making processes and officials.

Challenges for DRM in the mining sector

By the 2010s, institutional strengthening in the mining sector leading to greater policy coherence, stakeholder inclusion and administrative transparency, emerged as a key component of any new DRM minerals strategy moving forward. Diverse stakeholder engagements with government around the mining fiscal regime, indigenization restructuring and state management of alluvial diamonds underscored both the problem of weak institutional capacity and autonomy, and the resulting vulnerability of government's resource governance to short-term fiscal needs and elite predation. They also demonstrated the residual power of large-scale mining, backed by established miners' access to foreign finance and production technology, and threats of investment boycotts, to resist the state's imposition of unwelcome reforms such as indigenization, and limit government's capacity to unliterally restructure the fiscal regime. However, the ability of stakeholders to increase leverage with the state in resource bargaining remained uneven, with civil society and business monitoring groups often lacking the capacity and access to information which was needed to be fully included in policy engagements. State institutions, such as the Auditor General's Office, also required strengthening and political support in order to improve the regular provision of information and oversight for state and non-state use (USAID 2016). Without greater access to information and policy bargaining processes by a range of business and civil society stakeholders – including ASM operators, local mining suppliers and contractors, mining communities and non-governmental organisations working on the sector – a narrowed scope of state-society DRM interactions increasingly focused on state, large scale miner and donor concerns was the likely result.

Case study - Infrastructure crisis and DRM solutions: The Zimbabwe National Road Administration (ZINARA) and tollgate fees

In the 2000s, the deteriorating macroeconomic environment resulted in the rapid decline of public infrastructure. Constraints on government budgets, rising allocations to recurrent expenditure and declining investor confidence led to sharp falls in fixed capital investment. Hyper-inflation in the mid-2000s deeply exacerbated the problem. Severe road degradation, electricity blackouts, and failure of water and sewage systems were widespread and disproportionately affected rural and poor urban communities. In 2008 poor sanitation and water supply were a catalytic factor in a serious outbreak of cholera

which spread from the rural areas into low income urban communities. By 2013, one-quarter of people treated in hospitals for disabilities were reported to be road accident victims, with poor road conditions cited as a significant contributing factor (Phiri 2015). In response, government introduced a suite of indirect taxes including user fees, levies and consumption charges, to finance infrastructure needs. While helping to redress urgent development needs, the new taxes raised important questions around tax equity, sustainability and the institutional capacity of government to manage the evolving, complex terrain of decentralized revenue collection and redistribution. Beyond the success in raising revenue, therefore, the viability of decentralized indirect taxes would rest heavily on government's capacity to strengthen accountability around collection and expenditures, and incentivize public compliance through improved transparency and service delivery.

The experience of transport development was emblematic of the challenges facing infrastructure funding in the 2000s. Foremost among the problems confronted was the country's crumbling road network, which worsened dramatically in the 2000s. Due to sustained low maintenance and under-investment in the national road network, the condition of both local and trunk roads deteriorated sharply, with rehabilitation in the early 2000s relying increasingly on off-budget funds provided by development partners. By the mid-2010s, government estimated that at least USD 5 billion was needed to repair and rehabilitate Zimbabwe's roads over a ten-year period, a sum far beyond the capacity of government's capital budget (Phiri 2015).

The Ministry of Transport and Infrastructural Development emerged as one of the leading sites of collection, retention and disbursement of indirect taxes. [73] The Zimbabwe National Roads Authority (ZINARA) was established by an Act of Parliament in 2002 and given responsibility for managing the National Road Fund.[74] While the Fund was supported by some existing resources such as road access and vehicle licensing fees, a key innovation was the introduction of road tolls in 2009. The tolls followed a user-pay principle according to size of vehicle. ZINARA took control over toll collection in 2013 after a capacity building phase and subsequently expanded its tollgate network country-wide, leading to dramatic increases in revenues (ZINARA 2018). In 2012 toll receipts totalled USD 45 million from approximately 20 tollgates (ZIMCODD 2014). By 2016, amid the doubling of toll fees and the addition of tollgates, the Road Fund accumulated approximately USD 200 million annually, with tolls constituting the bulk of the revenue (Financial Gazette 2017). The Fund became one of the largest pools of capital in government's portfolio and illustrated the potential for earmarked DRM through new taxation. Its development benefits were underscored in the significant early improvement of some national trunk roads; including an innovative public-private partnership worth USD 206 million funded by South African loans and financed by toll fees.[75] Public information about ZINARA's responsibilities, funding targets and principles helped build public acceptance of the tollgate system. However, institutional weaknesses, reflected in

[73] The ministry was consistently ranked in the top five with respect to statutory and retained funds under its control; see Government of Zimbabwe and World Bank (2017). Other consistently high contributing ministries were Higher and Tertiary Education and Home Affairs.

[74] The Fund was tasked with supporting a diverse range of maintenance, project, administrative and capacity building activities; and for making disbursements to the Department of Roads under the Ministry of Transport, urban councils, rural district councils and the District Development Fund; see ZINARA (2018).

[75] The expansion of the Plumtree-Bulawayo-Mutare road involved a public-private partnership between ZINARA and Group Five International, the South African construction giant. The consortium entity, Infralink, obtained a loan from the Development Bank of South Africa to fund the project (Daily News 2018a). Tolls collected on the road were ring-fenced and allotted to repayment of the South African loan.

poor transparency and accountability, soon undermined ZINARA's capacity to deliver benefits identifiably linked to tolls and the Road Fund. As toll fees rose and development initiatives faltered, criticisms were raised around the handling of toll revenues, the Road Fund and the management of ZINARA more generally.

Pliable accounting standards, loose administrative regulations and opportunities for corruption through decentralized contracting enabled abuse. In 2014, the national Anti-Corruption Commission exposed senior ZINARA officials in a USD 2 million tender scam; the following year the Auditor General revealed the flouting of tender and emoluments rules by senior managers costing more than USD 11 million (Phiri 2015; Newsday 2017b). A forensic audit of the Road Fund in 2016 estimated the loss of more than USD 119 million due to fraud and corruption (Daily News 2018b). By 2017 several senior officials at ZINARA were under criminal indictment, prompting public outcry.[76] The situation was exacerbated by the slowness of ministry officials and police to take action against wrongdoers. Little initiative was taken to restructure and establish supervisory controls over the agency amid allegations of political interference and collusion (Bulawayo24 2018; Daily News 2018e).[77] These challenges underscored ZINARA's weak institutional accountability, which directly affected the organisation's delivery performance. Irregular project prioritisation and Road Fund disbursements to local authorities undermined maintenance in critical areas and provoked worsening conditions in high-need sectors.[78] The parlous state of road infrastructure was reflected in the rising toll of road accident injuries and spiralling transport costs due to unsafe roads (ZIMCODD 2014; Phiri 2015).

The Road Fund's uneven outcomes prompted debate about the experience of earmarked indirect taxes. While toll fees demonstrated government's capacity for raising substantial revenues via the collection of consumption levies, the Fund's record pointed to problems faced by the state in managing revenue distribution. Poor transparency and accountability, underscored by central government's weak institutional oversight and by local authorities' uneven access to the Fund, enabled the misallocation of resources. Coherent and accountable institutional expansion had not matched the more rapid growth of Road Fund revenues. To correct the accumulating missteps at ZINARA and the Fund, some observed, the focus needed to be placed on strengthening accountability and management efficiencies, rather than the further boosting of revenues by extension of the tollgate network and toll fees (ZIMCODD 2014). To facilitate this shift, donors and some central government officials argued, the reorganization of statutory and retained revenues like toll fees under the supervision and monitoring of central government was needed (PBO 2016). For social stakeholders, however, the prospect of effective recentralization of indirect revenues left unanswered the question of the inequitable burdens imposed on poorer Zimbabweans by these consumption taxes, and the continuing challenge of delivery new infrastructure investment to those communities most in need of it.

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[76] Numerous revelations in the national media provided evidence of corruption networks reaching in some instances from ZINARA down to rural district level (Daily News 2018c; Zimbabwe News 2016; Newsday 2017a)

[77] The responsible minister followed upon the forensic report by striking a committee in October 2017 to review allegations of wrongdoing at ZINARA. For some observers this represented an inexplicable delay in moving against well-documented cases of corruption and fraud (Daily News 2018b).

[78] Misplaced prioritisation of Harare projects saw nearly one-third of funding allocated to work on roads used by the presidential motorcade. Meanwhile, funding remained outstanding for the more than USD 55 million in Harare's Emergency Road Rehabilitation Programme, and delays in funds disbursements by ZINARA meant Harare contractors frequently went unpaid and projects were suspended while contractors waited for compensation; see Daily News (2018c; 2018d).

Conclusions

This paper has examined the objectives, dynamics and outcomes of reforms in fiscal and revenue institutions, and their impact on social services under successive economic and DRM frameworks over four decades. While Zimbabwe has typically enjoyed a high tax effort and performance relative to many of its neighbours, it has also experienced multiple obstacles which have hindered the effective translation of revenue growth into improved social services and protection. In seeking to understand these contradictory circumstances the study explored the evolution of the social contract between state and citizens, and found that the constructive state-citizen relationships in the first years of independence were soon eroded by a neoliberal development framework, and worsened sharply in the 2000s during a period of heightened political contestation, economic crisis and dramatically contracting fiscal space. As state transparency and accountability weakened in the context of elite state capture and increasing militarisation of the political space, governance and state-citizen relations frayed and sharply undermined resource bargaining. The collapse of social protection in the early 2000s provoked a fiscal and social emergency and set the stage for a new period of DRM innovation under a changing political dispensation.

However, the effectiveness and sustainability of government's revenue raising efforts were called into question by the unresolved problem of high recurrent expenditures involving the civil service and SOEs. With further revenue growth via new or expanded taxation measures unlikely to keep pace with government's spending increases, donor and stakeholder engagement with government in the 2010s focused more closely on issues of fiscal discipline and transparency, and strengthening the confidence of local business and investors amid continuing weak flows of new capital. In this context, tax bargaining processes remained constrained by the contradictory dynamics of the state's short-term financial needs, stakeholders' consensus-driven developmental ambitions and the faction-ridden political elite's concerns over political expediency and survival.

Zimbabwe's post-independence experiences with revenue mobilization also raise questions about the impact of institutional capacity on resource strategies and social delivery, and suggest the need for greater nuance in understanding the differentiated nature of stakeholders' capacity, access to and engagement with the state around resource bargaining processes. While state programmes were weakened by resource constraints in the 1980s, neoliberal austerity and state cutbacks in the 1990s and a full-blown economic crisis in the 2000s, the effectiveness of state institutions was also undermined by evolving elite domination. Initially this involved the emergence of a one party-dominant state under ZANU-PF as party structures and decision-making processes became deeply interwoven with those of the state. However, in the 2000s, in the face of a strong political challenge through electoral processes, ZANU-PF's political control of public institutions increasingly took the form of elite state capture, involving elements of militarisation, elite rent-seeking and administrative secrecy. In this context, the effective capacity of Zimbabwe's extensive state infrastructure built in the early post-independence period was unwound. Skills in the state were restricted and increasingly confined to fewer areas of state activity, resources were restricted and programmes were scaled back. But elite state capture also critically affected the policy and administrative autonomy of state institutions, which had severely negative impacts on revenue expansion.

In the mining sector, for example, significant revenue gains from new world-class projects in the 2000s were lost due to direct and irregular interference by the political elite in state management processes. Rent-seeking and elite management of patronage

networks could only flourish in the context of weakened oversight capacity by mandated state structures and democratic institutions like Parliament. In this context, the political elite's striking of special tax bargains with platinum miners and secretive management of alluvial diamond resources were exemplary. Both interventions required the diminished management autonomy of what had previously been relatively well-capacitated state institutions; indeed, the success of elite rent-seeking and patronage networks to some extent depended on it. As a result, key mining administrative structures, policy processes and managers were systematically subsumed, marginalised or excluded from decision-making around revenue mobilization. This situation was compounded by elite factionalism and competition, which exacerbated problems of institutional incoherence and policy unpredictability. Together, these developments weakened the professional management and democratic oversight of Zimbabwe's most important new opportunity for revenue growth in the 2000s, and raised important questions about government's broader commitment to transparency, accountability and stakeholder inclusion around resource mobilization.

More broadly, the critical importance of institutional autonomy was underscored repeatedly in evidence from state revenue innovations in the 2000s. In the cases of the AIDS Levy and tollgate fees, for example, the independence, inclusiveness and capacity of institutions established to manage earmarked revenues featured prominently in accounts of these schemes' success. Institutional autonomy and stakeholder participation were seen as enabling greater professionalism and accountability. But they were also perceived as being critical in winning the trust of taxpayers, leading to greater tax compliance and strengthened stakeholder participation in managing and adapting revenue collection and distribution. In instances where management autonomy was compromised, or where established practices of oversight and accountability were weakened, the revenue outcomes of tax schemes were undermined and levels of stakeholder trust and tax compliance fell. This would have important implications for government's wider approach to revenue generation and financing of services in the 2000s, which relied increasingly on the decentralisation of revenue collection and retention and spending of funds at source. While significantly boosting revenues and helping to finance a range of services, decentralization opened new paths to revenue mismanagement, corruption and duplication, and taxpayer resistance. The challenge of establishing mechanisms to strengthen transparency and accountability at all levels of revenue collection and distribution remained, and was confronted by the persistence of ZANU-PF's one-party domination of state institutions in the 2010s.

If the importance of the need for greater democratisation of state structures, policy and oversight processes emerged from recent revenue mobilizing innovations, the uneven and skewed nature of stakeholder participation also became clear. Since the 1980s, the privileged access of donors and sections of the private sector have repeatedly afforded these interests significant influence in the shaping of revenue strategies in practice, if not always in principle. In successive periods, government's fiscal challenges, the formal sector's fragility and the weakness of domestic finance markets have given donors and established business actors unusual leverage when engaging government around resource bargaining and social policy. Donors have launched aid boycotts and laid down stringent conditions for renewed funding, and business players have wielded threats to reduce exports, and suspend or withdraw investment, to win concessions around taxation, ownership, beneficiation and other demands by government. As a result, the impact of critical government policy innovations, such as indigenization and empowerment initiatives under the IEE Act, was substantially blunted. In contrast, government's relations with other stakeholders, including civil society, the labour movement, non-governmental organisation development partners and citizens, have tended to be

dominated by the political leadership. While legitimacy and patronage considerations have helped guide government's interactions with important social constituencies, the latter's capacity to meaningfully shape the agenda of resource bargaining in principle and practice has been episodic, and subject to abrupt shifts by the state. Repeatedly, citizen and civil society participation in consultative processes has been instrumentalized, notably in periods of intensified electoral politics. The origins and erratic trajectory of the TNF, and episodic efforts to formalise a 'social contract', reflect an enduring need – and opportunism – on the part of a political leadership to repackage and reconsolidate its political legitimacy. Evidence of the skewed outcomes of resource bargaining processes stemming from structural inequalities among stakeholders suggests there is need to better understand the variegated, differently-empowered forms of interaction between the state and stakeholders. This implies, as well, the need to identify forms of institutional engagement that support more inclusive, effective and enduring resource bargaining outcomes.

The findings suggest several mutually-reinforcing steps might be taken to strengthen DRM and improve social spending in Zimbabwe.

First, there is a critical need to address the lingering institutional impacts of state capture by strengthening bureaucratic capacity and autonomy, and facilitating greater coherence and integration of policy making and implementation at national and local level. The experiences of ZIMRA, ZINARA, AIDS Levy and other revenue collecting mechanisms point to the importance of capacity, autonomy and transparent administration in revenue gains and improved and effective social spending and development spending. As Zimbabwe moves beyond the Mugabe era amid questions over the state bureaucracy's policy independence, professionalism and transparency, government's ability to engage constructively with citizens around DRM will depend in part on citizens' trust in state institutions and the effectiveness of the state in delivering on commitments made in the course of renewed 'social contract' engagements.

Another critical challenge involves the state's fiscal discipline. While government expanded tax effort in the 2000s to meet rising domestic financing demands, it signally failed to contain expenditure in the same period. As a result, recurrent expenditure has consumed increasing portions of state revenues, leaving important components of social spending dependent on donor support. Demands by civil society, business and donors to address the problem of spirally expenditures on wages and emoluments need to be addressed by firm and verifiable commitments to control spending, while prioritising structural reallocation of funding to vulnerable social sectors from the central government budget. Without greater fiscal accountability and rationalisation of recurrent expenditure, the potential social benefits of Zimbabwe's expanded DRM efforts will remain in jeopardy.

A third priority emerging from the findings involves the need to improve tax equity by addressing the disproportionate tax burden borne by poorer Zimbabweans. This has led to problems of tax compliance, particularly in the informal sector; and to negative impacts on the livelihoods of poorer households and communities. As the relative contributions of CIT and PIT have declined, revenue has increasingly come from indirect taxation, with VAT becoming the leading contributor in the 2000s. This regressive tax, combined with a suite of new taxes on widely-used services like mobile phone communications, digital payments and road transport, directly and increasingly undermined the disposable income of poorer communities. Civil society tax justice organisations have demanded that government redress these inequities by revising the tax structure to ensure that companies and wealthier Zimbabweans provide greater relative contributions.

A further obstacle for DRM and social development in Zimbabwe revolves around the hierarchical patterns of resource bargaining which emerged in Zimbabwe in the 2000s. The findings suggest that the restructuring of state institutions through state capture, the continuing fiscal leverage of established business interests, and the political elite's recurring instrumentalization of civil society and popular constituencies in state-society policy engagements, have contributed to uneven stakeholder influence on DRM bargaining, and policy formulation and implementation. There were pockets of more equitable and beneficial engagements; for example, around the AIDS Levy, and tax innovations focused on rural electrification. But more broadly, power imbalances were more typical, with the chequered experience of the TNF suggesting clear limits to the effectiveness of civil society voices in social bargaining.

Finally, the challenge of balancing taxation with developmental outcomes remains a critical one for Zimbabwe moving forward. A recurring focus of government-business and government-civil society engagements since the period of stabilisation and recovery beginning with the GNU in 2009, has involved the questions of tax fairness, business transparency and social benefits of revenue bargains. While these concerns have broadly affected DRM discussions, they have been especially critical in the mining sector. Mining's large potential revenue was diminished in practice by weak and corrupt state administration; low transparency, special tax deals and tax-evading behaviour by companies; and the erratic and often partisan inclusion of mining community beneficiaries. Although there were examples of beneficial innovative incentives, such as with ASM gold producers, effective restructuring of the mining fiscal regime remained elusive, and the potential for linkages to expanded social spending underdeveloped.

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