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News

# 'Reforms will hurt interest groups, but they are necessary'

The Q&A

Finance and Economic Development minister Mthuli Ncube is working on a reform programme that will see some parastatals and State owned enterprises (SOEs) merged, privatised or liquidated to reduce the burden on the fiscus. This comes at a time the bulk of the entities have become conduits for the looting of State resources. In an interview with *Business Times* (**BT**), IMF resident representative for Zimbabwe Patrick Imam (**PI**) says the reforms are a necessary to free resources for social services. Find excerpts below:

**BT**: Can you please explain why the International Monetary Fund exists, and what its role is?

**PI:** The historical context in which the IMF was created is very telling. It was created at the end of the Second World War. The intention of the founders was to avoid repeating the misguided economic policies that afflicted the world in the inter-war years and which led to the disintegration of the world economy. It was clear that the collapse of international cooperation, which led to competitive devaluations and protectionist policies, contributed to the breakdown of the international order.

With this in mind, the IMF's mission is to promote international monetary cooperation and promote global financial stability, which are necessary conditions to facilitate trade and to ensure sustainable growth and poverty reduction. The reduction in world poverty, particularly in Asia since the 1960s can for instance be attributed to this open and cooperative environment.

**BT**: What does the IMF do concretely?

**PI:** Concretely, there are three ways in which we carry out our function. First, we keep track of the global economy and the economies of member countries through bilateral and multilateral surveillance. There are certain obligations for IMF member countries, one of which is the annual Article IV consultation. What this basically means is that every member country, whether the US or China, or African countries such as South Africa or Zimbabwe, are obliged to go through an annual consultation process, which is akin to a macroeconomic and financial health check.

During these consultations, a team of IMF experts assesses the health of the economy, highlights the strengths and areas where progress was made, but also makes recommendations on where reforms would be advisable to address current or future challenges. These recommendations are based on analytical work and the cross-country experience of the IMF. And it is important to emphasize that there are no constraints attached to the Article IV recommendations. A country is not obliged to follow these recommendations. For Zimbabwe, we plan to hold an Article IV mission later in the year.

Second, and this is what the IMF is probably best known for, we provide lending to countries with balance of payments difficulties, for example like in Malawi or Ireland in recent years. In these cases, the Fund provides financial support, and attaches reform conditions to ensure that the country addresses its underlying vulnerabilities.

And finally, we provide practical support to members through technical assistance and capacity building. As an institution, the IMF has world class expertise in areas related to statistics, public finance and monetary and exchange rate issues. In the Zimbabwean context, we have over the years provided technical assistance in areas ranging from Public Finance Management to ensure an improvement in the quality of spending and transparency for instance, to enhancing banking supervision. In addition, the Fund also provides training to Ministry of Finance and RBZ staff, whether at our headquarters in Washington or in our regional centres.

Given our mandate and expertise, I would like to emphasise what we are not, for instance, a development agency like the World Bank. We do not finance projects such as roads and bridges or invest in domains such as education and health to reduce poverty. And it is also important to stress that even if a country has managed to restore macroeconomic stability, that this is a necessary, but not a sufficient condition to grow or improve the well-being of the population. Sustainable investment by the private sector, which is typically the engine of growth and job creation, requires stable and predictable institutions for instance.

**BT**: Government has been focusing on containing budgetary pressures.

Do you think this is the best focus cognisance of the fact that the economy would require stimulus that can only be possible through expenditure.

**PI:** I am not sure that it is factually correct to say that the government focuses only on the expenditure side. It raised revenues significantly in recent month by imposing taxes on fuel and on financial transactions. However, it is true that by sub-Saharan African standards, the revenues that the government collects were at least until recently higher than average. Therefore, the government in its reform effort is also putting emphasis on improving the composition and efficiency of public expenditures, in other words to do more with less. This implies that expenditures are being re-balanced in favour of priority spending on education, health, and infrastructure. But spending efficiently will also entail gradually reducing budgetary transfers to loss-making public enterprises by improving their oversight and restructuring them.

In addition, a well-articulated public financial management reform strategy will be essential to improving the effectiveness of public spending. The priorities are to improve expenditure prioritisation, improve transparency and enhancing public procurement. The government is also committed to be more effective in controlling the payroll to reduce ghost workers as well as to introduce stronger internal controls for instance.

**BT**: The government is determined to reform, particularly State-owned enterprises (SOEs). Will the political context allow the government to move forward?

**PI:** By definition, reforms are not easy to implement, otherwise they would already have taken place. And typically, reforms lead to short-term costs that fall disproportionately on one group that is well organised, while the longer longer-term benefits are diffused across society. Therefore, almost by definition, whenever the government reforms, it will virtually always hurt an interest group, that will try to push back on the reform, and put its interest ahead of the public. The current government, which has the mandate by the Zimbabwean people for the coming years, should ensure that the public interest prevail over private interests.

In the Zimbabwean context, not reforming inefficient SOEs could pose major challenges to the government coffers. But in the context of SOEs, we have to go beyond the short-term considerations of whether subsidising SOEs through government transfers is advisable. Keeping artificially alive companies through subsidies means that money is diverted from spending that is more productive, and that could have gone into education, health or infrastructure. In other words, in the current context, given the urgent social needs, maintaining subsidies to SOEs means compressing spending for essential public services that are not taking place.

**BT**: What is your view on the re-appointment of John Mangudya as Governor?

**PI:** We don't comment on the appointment of government officials. This is a sovereign decision, and we work with all of our counterparts in a very productive and collegiate way. What I can say is that our relationship with the Governor has always been excellent and I am confident it will continue in that manner.

**BT**: Does the IMF agree on the authority's decision to introduce a new currency?

**PI:** Let me first start by saying that there is a common understanding among all stakeholders that the country needs a stable currency to prosper. There are pros and cons of having a dollarised system in place or having one's own currency. The history of Zimbabwe has shown that a dollarised system can succeed as it did after the hyperinflation period, when the right conditions were in place, or that it can fail, as it did in the past two years when the pre-requisites are lacking. Similarly, Zimbabwe's history also illustrates that having one's own currency can work, as it did after Independence, or fail, as it did in 2008/09, depending on whether the macroeconomic conditions for stability are in place.

So, in other words, if the pre-requisites for currency stability are met, it doesn't matter which currency regime we have in place. But ultimately, the decision on whether to introduce a national currency is a sovereign decision.

The authorities took the decision to introduce the RTGS dollar in February. And by tackling the genesis of Zimbabwe's macroeconomic imbalance, namely financing the fiscal deficit by printing money but also by operationalising a new monetary targeting framework, the pre-conditions for a stable currency are in place.

Having said all this, strengthening the independence of the RBZ and improving its governance and controls will further help to gain confidence in the new currency. The financial autonomy of the central bank has been challenged in recent years, as it extended significant credit to the government through statutory advances. Thus, improving the governance and financial autonomy are prerequisites for a more independent central bank to conduct monetary policy, and will help further the stability of the new currency.

**BT**: What what is the IMF's comment on the quality of statistics considering that many observers don't trust the inflation numbers?

**PI:** We have no reason to believe that Zimstat manipulates in any way the inflation number. It's true that one may ave conceptual questions of how to calculate inflation in a multiple-currency system, or in a system with a large parallel rate. However, as the IMF, we have not provided any technical assistance on the Consumer Price Index for years, and therefore we are not in a position to confirm the numbers.

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