International Monetary Fund
African Department

Zimbabwe Public Financial Management Reform Prioritization: Strengthening Budget Planning, Execution and Fiscal Reporting

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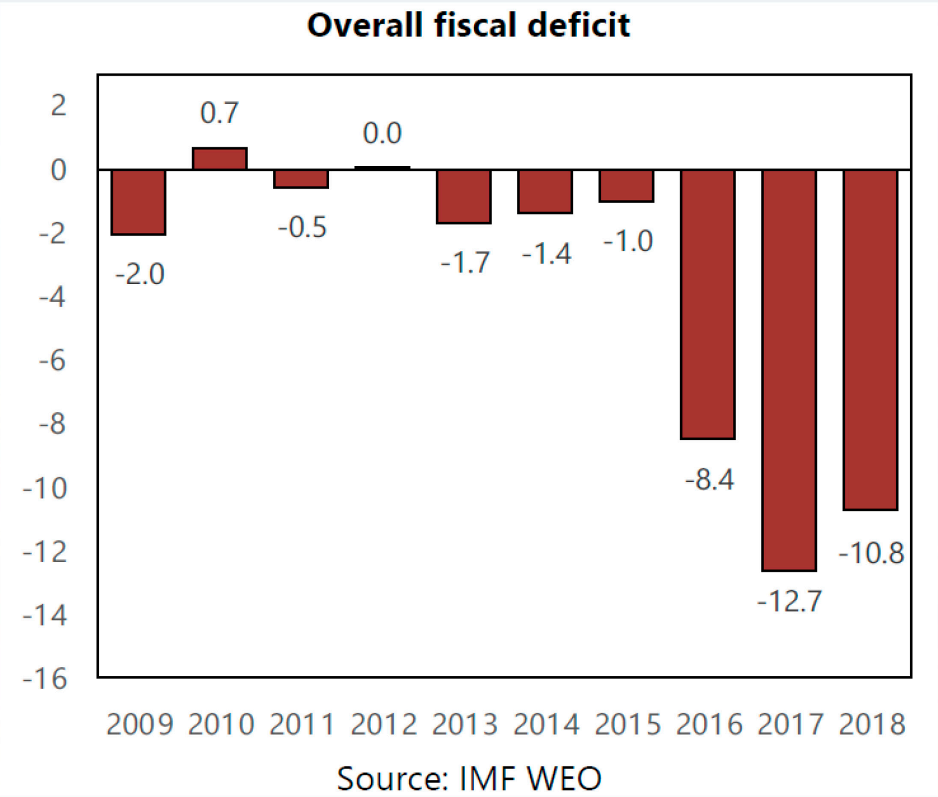
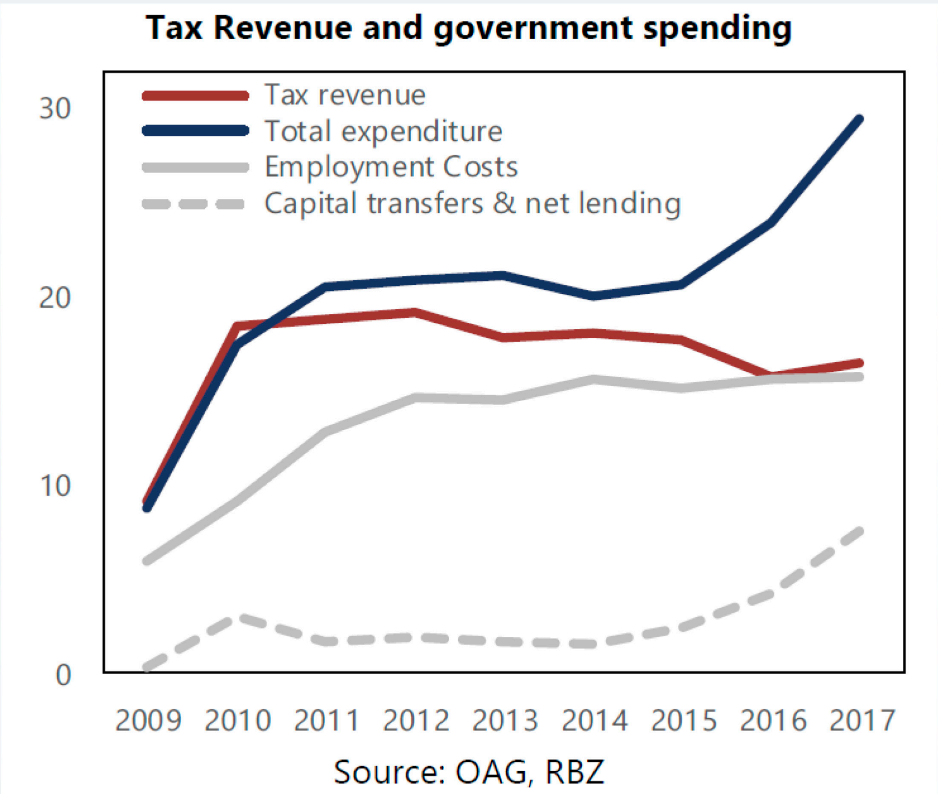
Context since 2017

- Amidst difficult economic conditions, Zimbabwe has undergone a major political transition over the past two years.
- A large and rising fiscal deficit, increasingly financed by monetary accommodation, resulted in a return to macroeconomic instability.
- Moderate deficits were maintained until 2015 but widened dramatically thereafter:
  - economic growth decelerated sharply after 2014
  - revenue fell moderately with the economic slowdown
  - widening deficit has been driven by a sharp rise in spending.
- Deficit financed through printing money

Fiscal Balance: Tax Revenue and Spending





Unbudgeted spending driven by …

- Unbudgeted expenditure for politically sensitive programs has driven expenditure growth.
  - Unbudgeted expenditures of USD2.8 billion (more than 10 percent of GDP) approximately equal to the fiscal deficit
- Over-spending relates to:
  - government wage bill
  - agricultural support programs,
  - capitalizations of state-owned companies,
  - infrastructure programs deployed prior to the national elections, particularly with respect of road building.

Problematic

- Government not fully complied with constitutional and legal requirements in respect of PFM and reporting
  - no steps taken to authorize unbudgeted expenditures through a supplementary appropriation as required by the Constitution and Public Finance Management Act.
  - Governments' overdraft at the Reserve Bank of Zimbabwe far exceeds limits set in the RBZ Act.
  - Public debt exceeds the limit set out in the Debt Management Act. The PFMA obligation to table audited consolidated financial statements in Parliament has not been met.
- Opaque financing and repeated spending in excess of appropriations have severely weakened budget credibility

Reform Map

- A renewed focus on PFM reforms is urgently required, limited to a narrower set of core reforms that yield the greatest impact (going “back to basics”):
  - Before accrual accounting is adopted, effective cash accounting and management is required.
  - Effective and accountable budget execution is an essential prerequisite for innovations in budget planning and preparation.
  - Authorities should identify a set of focused improvements, to ensure effective execution of the current legislative and institutional arrangements and be cautious about overloading their reform agenda.

Budget preparation

Observations:

- Formal budget calendar not followed consistently
- Congested budget cycle with most key activities during the last quarter
- Political interface with budget framework is limited and occurs too late in the process
- Separate ceilings for recurrent and capital costs may limit integrated planning of the budget

Budget preparation

Key issues

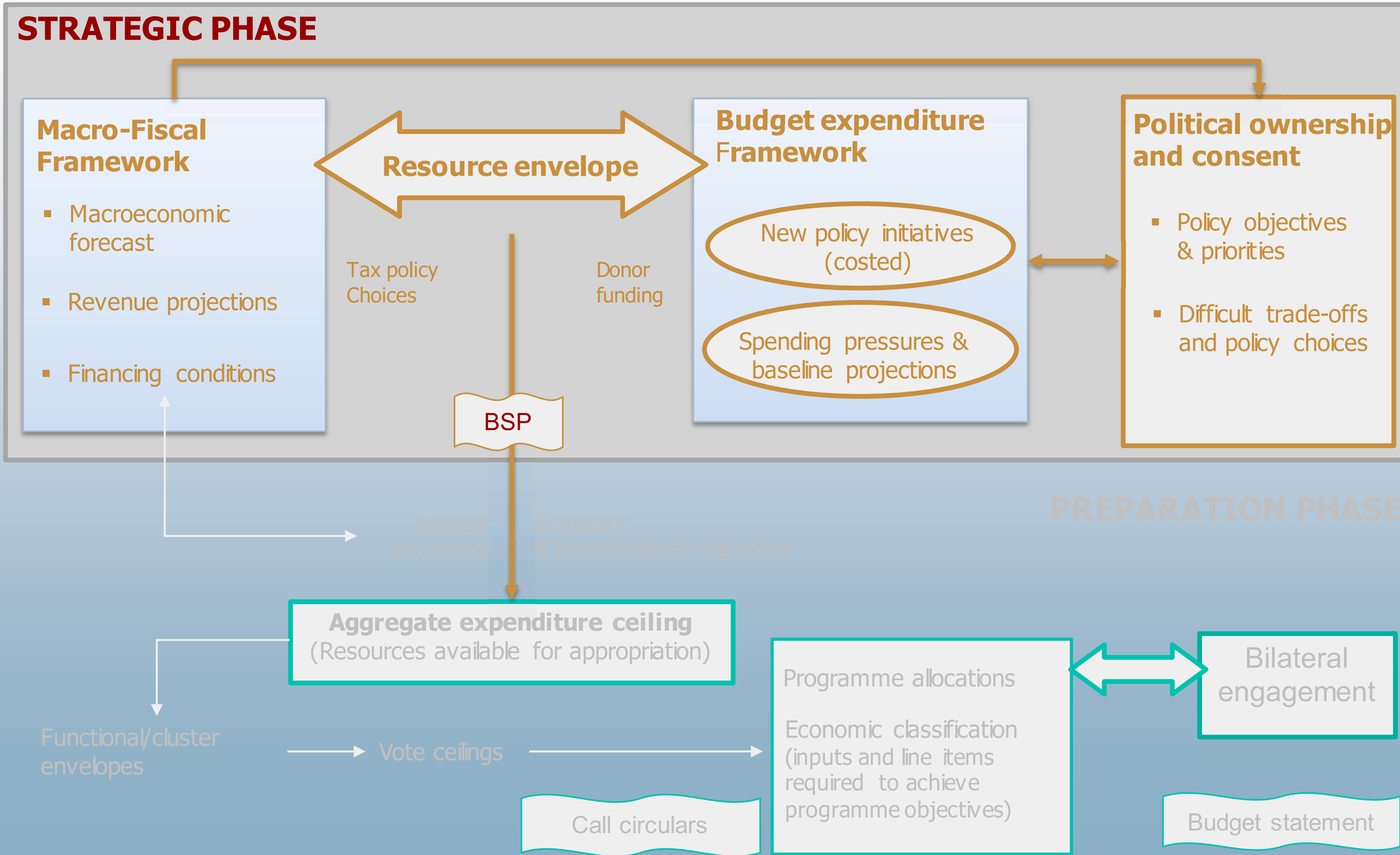
- As a result of the compressed calendar, Ministries, Departments and Agencies (MDAs) are not provided adequate time to develop estimates and allocations
- Baseline assessments produced by Budget Department (BD) to better inform allocation of resources within the ceilings as determined by the fiscal framework
- BD is not provided adequate time to analyze and query allocations based on prior baseline assessment
- Lack of political understanding of fiscal framework and ceilings with implied trade-offs, reduces necessary buy-in and support
- Separate ceilings for recurrent and capital does not encourage a holistic view of expenditure needs

Budget preparation

Principles

- Budget calendar consists 3 phases: strategic, preparation, parliamentary process
- The strategic phase of the budget should:
  - Take place earlier in the year (e.g. concluding in June)
  - Focus on key expenditure tradeoffs and choices, in addition to macro-fiscal projections
  - Aim to secure a clear mandate from the executive for budget preparation
- Ensure the President-Cabinet have adequate opportunity for consultation and formally adopt the macro-fiscal and budget expenditure framework
- Baseline costing and scenario planning for large programmes and key spending pressures should inform the budget framework and guide trade-offs in the strategic phase: employment costs, agricultural incentives and transfers to SOEs
- PFM reform agenda should be anchored on a smaller set of focused priorities

Budget preparation



Budget preparation: Recommendations

- Extend the budget calendar by instituting a clearly defined strategic phase of budget preparation and allowing more time for preparation of and engagement on detailed expenditure estimates prepared by MDAs
- Consistently execute the annual reporting cycle:
  - Prepare and publish during the 1st quarter consolidated annual financial statements and expenditure outturn report and table in Parliament
  - Prepare and publish during the 1st quarter any condonation of unauthorized expenditure and table in Parliament
  - Prepare and publish during the 3rd quarter the current-year budget implementation and table in Parliament review, supplementary expenditure estimates and adjusted appropriation bill and table in Parliament
- Prepare no policy change baseline cost projections of selected major programs to improve the credibility of ceilings and strengthen budget challenge function. A standard methodology should be developed to ensure a consistent approach to program cost analysis.
- Reconsider the functional split between recurrent and capital spending as well as implementation monitoring and adopt a sectoral approach to formulation and monitoring of the budget.

Budget Execution

Observations:

- Delays in delivery of goods and services approved in the budget due to cash constraints
- Accumulation of arrears
- MDAs and Treasury not able to track arrears reliably
- Timing of budget releases is irregular
- Budget overruns
- Payment runs reversed at the end of the fiscal year
- Commitments incurred outside the PFMS (Public Financial Management Systems)

Budget Execution

Key Issues

Financial Controls

Controls over appropriations

- Budget overruns without a supplementary budget

Controls over commitments

- Budget releases not linked to the cash availability
- Commitments incurred the outside the PFMS without a payment order
- Continuous commitments are not in the system—only stock items have purchase orders (PO)
- No multi-annual commitments

Controls over payments

- No feedback from Pay-Net to PFMS—as a result no information about what is paid, what is outstanding in the PFMS

Budget Execution

Recommendations

Financial Controls—Short Term Measures

Controls over appropriations

- Table supplementary budget to effect spending above approved appropriation, as required by the Constitution

Controls over commitments

- Budget releases need to be linked to the cash availability
- Sanctions and penalties need to be strengthened for those officials committing expenditures outside the PFMS
- Continues commitments need to be entered into the PFMS
- Introduce multi-annual commitment functionality in PFMS (in the medium-term)

Controls over payments

- Strengthening of PFMS configuration and ensure that only authorized payments by AG with cash release are the only one paid in PayNet

Cash Management

Observations

- Extensive cash and liquidity constraints
- Fragmentation of government financial resources (retention funds)
- Overdraft above the legal limits
- No linkages between the cash forecasts and budget releases
  - Weak coordination between budget releases and available cash
  - Long delays between the budget releases and when cash is transferred to Sub-PMG accounts

Cash Management

Key Issues

- Fragmentation in government financial resources

  Many unlinked bank accounts, all funds including the retention funds, sinking funds

- Overdraft is calculated on the MEA (Main Exchequer Account)

- Effective cash management inhibited by the lack of financing options and the need to ration cash

- No dedicated staff only focusing on cash flow and balance forecasting

- Potential confusion between budget execution and cash management

Cash Management

RECOMMENDATIONS

Short Term Measures

- Close the fund accounts and transfer revenues to CRF (Consolidated Revenue Fund)
- Netting off Sub-PMG (Paymaster General) accounts in overdraft calculation
- Development of weekly cash flow forecasts
  - Developing an excel spreadsheet
  - Development of data sources
  - Projecting a period at least 3 months ahead
- Assignment of dedicated staff for cash forecasting

Medium Term Reforms

- Consolidating government financial resources, establishing a treasury single account (TSA)

  In phases:
  - Linking the CRF bank accounts in the RBZ,
  - Bringing the Funds into the TSA

Debt Management

Key Issues

- A large domestic public debt resulting from the debt issuances to address the government's obligations:

  recapitalization of the RBZ, financing of ZAMCO debt assumption of RBZ's debt, and financing of RBZ advances to the Grain Marketing Board

- Private placements for deficit financing —auctions planned in FY19 but the preparation needs to be improved

- No interface between DMFAS (Debt Management and Financial Analysis System) and PFMS

- No published data

- No debt management policy and implementation documents published

- PDMO (Public Debt Management Office) and two separate FOs

- Sinking Fund—another fund in the system?

Thank you