Zimbabwe Economic Policy Analysis and Research Unit

ZEPARU

FISCAL PERFORMANCE AND TRANSPARENCY IN THE BUDGET FORMULATION AND IMPLEMENTATION PROCESS IN ZIMBABWE

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Fiscal Performance and Transparency in the Budget Formulation and Implementation Process in Zimbabwe

ZEPARU Discussion Paper

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List of Acronyms

COFOG	Classification of Functions of Government
GDP	Gross Domestic Product
GFSM	Government Finance Statistics Manual
GFSY	Government Finance Statistics Yearbook
IMF	International Monetary Fund
MoFED	Ministry of Finance and Economic Development
PFMA	Public Finance Management System
SADC	Southern African Development Community
TSP	Transitional Stabilisation Programme
ZIMASSET	Zimbabwe Agenda for Sustainable Socio-Economic Transformation

Executive Summary

The International Monetary Fund (IMF)'s Fiscal Transparency Code of 2014 and/or the Fiscal Transparency Handbook of 2018 are regarded as the international standard for disclosure of information about public finances. The Code comprises of a set of principles built around four pillars which include fiscal reporting; fiscal forecasting and budgeting; fiscal risk analysis and management; and resource revenue management. On fiscal reporting the code requires that reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance. The Ministry of Finance and Economic Development produces periodic reports on revenue and expenditure outturn. However, the reports coverage is limited to central government.

On fiscal forecasting and budgeting the code requires that national budgets and their underlying fiscal forecasts should provide a clear statement of the government's budgetary objectives, policy intentions and finances. The government of Zimbabwe follows a sound budget formulation process guided by the Constitution of Zimbabwe and Public Finance Management Act (Chapter 22:19). The budget incorporates estimates of gross tax and non-tax revenues, expenditures and other financing requirements covering two periods ahead. The disclosure of fiscal risks is very limited in the budget implementation process as there is no reporting of consolidated contingent liabilities or other fiscal risks for the central government. Generally, most parastatals submit their financial statements for audit on time but most local authorities have not been submitting their financial statements to the Office of the Auditor General on time which poses a risk of limited disclosure of financial records.

The Public Financial Management Act has enhanced the country's performance under the requirements of the IMF Fiscal Transparency Code as Zimbabwe satisfies the basic principles of the Fiscal Transparency Code. To further enhance the coverage, quality, integrity of fiscal reports and to cover for fiscal risks, the government should consider to undertake the following:

- Need to improve coverage of institutions, timeliness of reporting and reporting of stocks including nonfinancial assets and liabilities relating to government balance sheet position.
  - o Need to expand coverage of fiscal reporting to include local governments and state-owned entities;
  - o Provide a summary of in-year changes to expenditure and revenue plans by vote;
  - o To expand the coverage of fiscal reports to include other public sector entities and local governments as well for them to adopt fiscal reporting standards in accordance with the requirements of the Government Finance Statistics Manual (GFSM) (2014);
  - o Incorporate government balance sheet data into fiscal reporting to highlight government's financial position with regards to its assets and liabilities; and
  - o Could improve integrity by publishing reconciliations between stocks and flows, and improving the comparability of statistics that are provided in various fiscal reports.
- Enhance the publication of fiscal reports on tax expenditures and the annual financial statements through other media platforms.
- Need reporting and analysis of near-term fiscal risks and forecasts of longer-term fiscal pressures.
- External risk such as the volatility of commodity prices should be taken into account given that the bulk of Zimbabwe's exports are dominated by agriculture and mineral products.
- Estimate, explain, and publish in budget documents the underlying factors, including new policy decisions, changes between successive fiscal forecasts.
- Institutionalize the review of government policies and plans i.e. mid-year and end of policy period to inform the public of what the policy achieved or failed to achieve. The review should also interrogate factors that led to the achievement or failure to achieve the policy target as well as remedial action that need to be implemented as we develop a new policy.
- Institutionalize broad stakeholder policy dialogue on major economic policy issues of the moment and institute independent evaluations of government economic forecast as

well as the underlying assumptions to enhance credibility of fiscal forecast and budgets.

- The reporting of specific fiscal risks in Zimbabwe is currently limited. Hence, there is need to improve the disclosure and analysis of fiscal risks. External risk such as the volatility of commodity prices should be taken into account given that the bulk of Zimbabwe's exports are dominated by agriculture and mineral products.

1. Introduction

This discussion paper seeks to tease out issues that concern stakeholders with regards to fiscal transparency and accountability. Section 298 of the National Constitution of Zimbabwe and the Public Finance Management Act (Chapter 22:19) highlight the need to secure transparency, accountability and sound management of revenue, expenditure, assets and liability of Government Ministries, designated corporate bodies and public entities, constitutional entities and statutory funds.

Fiscal transparency refers to the publication of information on how governments raise, spend, and manage public resources. More specifically, it means publication of high quality information on how governments raise taxes, borrow, spend, invest, and manage public assets and liabilities. Fiscal transparency is a critical element of fiscal management and accountability. It ensures that governments have an accurate picture of their fiscal position and prospects, the long-term costs and benefits of any policy changes, and the potential fiscal risks that may blow them off course. It also provides legislatures, markets, and citizens with the information they need to hold governments accountable (International Monetary Fund (IMF), 2018).

Fiscal transparency and accountability is supposed to enhance sustainable social economic transformation. Fiscal transparency refers to the information available to the public about the government's fiscal policymaking process; clarity, reliability, frequency, timeliness, relevance and information content of public fiscal reports. Sound fiscal regimes facilitate balance in the allocation of resources for recurrent and capital expenditures; social sectors (i.e. health and education) and productive sectors including rehabilitation and expansion of infrastructure that underpins sustainable socio-economic transformation.

Transparency and accountability in fostering socio-economic transformation in the economy can be enhanced through inculcating a culture of consultations; monitoring and evaluation;

increased stakeholder ownership of the policies; projects and programmes; effective and timely communication of government programmes. For example, the success of the implementation of Transitional Stabilisation Programme (TSP) is dependent on clarity of roles in the implementation process; understanding of policy objectives and expected socio-economic development outcomes by a broad spectrum of stakeholders; clarity on the country's fiscal position and prospects; perspectives on long-term costs and benefits of proposed policy changes; funding mechanisms and the potential risks to public finances among other issues.

Consultative policy making; participatory planning and accessibility of high quality information on governments revenues, expenditures; investments; borrowings, projects and programmes will provide citizens, civil society organisations and business membership organisations; legislators and markets with the information they need to assess and evaluate performance of government policies, projects and programmes. Effective monitoring and evaluation of the 2019 budgetary performance and the implementation of strategies outlined in TSP is critical for the achievement of set policy targets in particular growth targets. Adequate resourcing of policies and projects within TSP and timely disbursements of allocated budgets are equally critical for the achievement of the policy objectives. Completion of projects and programmes designed to spur economic growth is also a pre-requisite for sustainable poverty reduction. The IMF (2015) noted that the degree of fiscal transparency is associated with a country's fiscal sustainability and market perceptions of fiscal solvency.[1]

Zimbabwe is grappling with a huge external debt overhang of US$7.7 billion coupled with the growing domestic debt to the tune of US$9.6 billion which translates to US$17.3 billion in total debt as at end of September 2018. Of the external debt, interest arrears and penalties constituted about US$5.9 billion, which translates to about 76.6 percent of external debt. The growing domestic debt is mainly driven by huge and unsustainable fiscal deficit of more than 25% of gross domestic product (GDP) in 2017. Financing of the deficit through

1. www.imf.org/external/np/fad/trans/fiscal.pdf

issuance of Treasury Bills or borrowing from the domestic banking sector crowds out/increases credit constraints for the private sector. Binding credit constraints in particular lack of adequate long term capital is undermining capacity utilisation within the manufacturing sector and the re-industrialisation agenda that is key for economic recovery and transformation. Furthermore, macroeconomic instability caused by unsustainable fiscal deficits have adverse implications on the welfare of citizens and other social indicators that are of interest to civil society organisations. Transparency in public expenditure management and adherence to fiscal rules/guidelines are key pillars of fiscal discipline which promotes fiscal solvency[2] and sustainability and provides a firm foundation for social and economic transformation.

The Open Budget Survey of 2017, the world's independent comparative measure of central government budget transparency rated Zimbabwe's fiscal transparency at 23 out of 100. This implies that the government provides the public with minimal budget information. The score for 2017 is lower than that of 2015 which recorded 35, despite a positive move from 20, a score which was recorded in 2012. This may suggest that Zimbabwe's fiscal transparency is retrogressing. The 2017 Open Budget Survey rated Zimbabwe's public participation in national budgeting with a score of 9 out of 100 against a global average of 12 out of 100, indicating that the country provides few opportunities for the public to engage in the budget process.

The score for Zimbabwe is lower than its Southern African Development Community (SADC) counterparts such as South Africa which had a score of 24 whereas Botswana, Malawi and Zambia had a score of 15 out of 100 each. The extent to which the Legislature provides budget oversight had a score of 42 out of 100 whereas the Executive and the Supreme audit institution had a score of 53 and 50

2. Fiscal solvency is the requirement the present values of total government revenues equals the outlays. If it is, the observed debt-output ratio is commonly referred to as "sustainable." If it is not, the fiscal position is judged to be unsustainable and in need of policy correction. In short, the goal of public debt sustainability analysis is to determine whether the government is living "within its means" and to facilitate the assessment of corrective policy measures when this is not the case (Mendoza. E. G and P. M. Oviedo 2004)

out of 100, respectively which shows relatively limited budget oversight. The survey also noted that the legislature provides limited oversight during the budget cycle, with weak oversight during the planning stage of the budget cycle and limited oversight during the implementation stage of the budget cycle. These observations raise question with regards to the technical capacity of portfolio committees in particular the Parliamentary Public Accounts Committee (PAC).

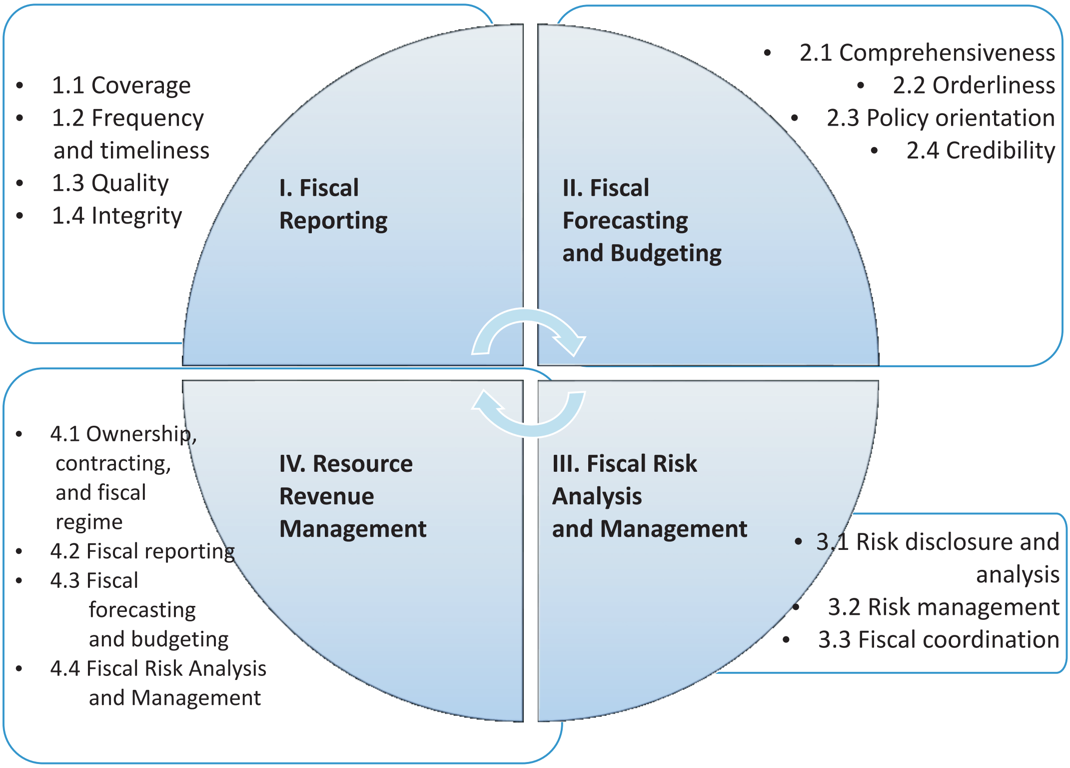
The Ministry of Finance and Economic Development has been routinely undertaking budget consultation with a broad spectrum of stakeholders. The same process was undertaken for the 2019 National Budget and guided the Budget Strategy paper published in October 2018 which set out the policy priorities. Post budget seminars are held by different stakeholder's particular organised business membership and civil society organisations seeking expert opinions on the implications of the budget to the operations of their members and the prospective impact on the economy in general. However, this momentum of analysing and engaging with the process fades as the budget is being implemented with the exception of the mid-term review of the budget by the Ministry.

The 2019 National Budget Statement which was presented on 22 November 2018 is the first budget in the implementation of the new economic blue print the Transitional Stabilisation Programme (October 2018 to December 2018). This is a short-term stabilisation programme that will be superseded by two five-year development plans. These policy frameworks are expected to guide the transformation of the country and achievement of the 2030 vision of Zimbabwe being an upper middle-income country. Historically, weaknesses in policy implementation have been a key challenge in the achievement of policy objectives and targets in Zimbabwe. In this regard there is need for a laser focus on the implementation of the 2019 National Budget and the TSP that are setting the stage for the achievement of the 2030 Vision. Within this context, fiscal transparency will be key to enabling a broader spectrum of stakeholders/citizenry to monitor and evaluate progress during the policy implementation phase. Effective monitoring and evaluation of the implementation of government programmes with timely feedback to policy makers will improve economic governance which is critical for the country to achieve social economic transformation.

Feedback from the monitoring and evaluation of state institutions mandated to perform this function and the broader spectrum of stakeholders will inform policy makers of areas that need fine tuning to remain on course. This may necessitate revision of the macro-economic frameworks and adjustment of the policy priorities which will further inform the re-allocation of resources particularly during the mid-term review of the budget and TSP. Investing in building capacity for stakeholders to monitor and evaluate progress in policy implementation will also incentivise government to improve levels of transparency and accountability in its operations.

The IMF's Fiscal Transparency Code of 2014 (the Code) and/or the Fiscal Transparency Handbook of 2018 is regarded as the international standard for disclosure of information about public finances. The Code comprises of a set of principles built around four pillars which include fiscal reporting; fiscal forecasting and budgeting; fiscal risk analysis and management; and resource revenue management (Figure 1). This discussion paper only focuses on the first three pillars by teasing out the salient issues on fiscal transparency practices in Zimbabwe against for example the standards set by the IMF Code.

Figure 1: Fiscal Transparency Code's 4 Pillars



Source: IMF Fiscal Transparency Code 2014 and IMF Fiscal Transparency Handbook, 2018

The TSP provides an array of fiscal reforms that the government intends to implement to promote economic stability, instil fiscal discipline that should translate into enhanced fiscal performance and transparency. The reforms include adoption and implementation of prudent fiscal policy underpinned by adherence to fiscal rules as enunciated in the Public Finance Management Act together with financial rules. In particular government intends to control the prolonged fiscal deficits which have perpetuated the growth of domestic government debt and presents challenges with regards to fiscal solvency and sustainability. The Fiscal and Financial Stabilisation Committee which comprises of representatives from the Ministry of Finance and Economic Development and the Reserve Bank of Zimbabwe will coordinate and monitor Government's adherence to the fiscal and monetary targets outlined by the Transitional Stabilisation Programme. The Committee will set clearly defined, credible and enforceable fiscal and financial rules, borrowing plans and performance targets, against targeted macro-economic aggregates which include monetary policy targets that complement the fiscal consolidation thrust. The TSP also reprioritises capital expenditure through commitment to increase the Budget on capital expenditures from the current 16% of total budget expenditures to over 25% for 2019 and 2020, a positive development which is recommended as the ideal capital expenditure for low income countries.

The IMF Code of Good Practices on Fiscal Transparency (2007) also states that a country's national budget process should follow an established timetable and be guided by well-defined macroeconomic and fiscal policy objectives. It also states that there should be clear mechanisms for the coordination and management of budgetary and extra budgetary activities within the overall fiscal policy framework. Hence, fiscal transparency may create space for a better-informed engagement between the policymakers and the public in the implementation of the TSP and subsequent economic policy blue prints.

Policymakers often work in the dark, as they try to make real impact on people's lives. If they don't have good data (data transparency) and access to, quality research output, it can be hard to know whether policy initiatives are truly making a difference. Stakeholder engagements need to be informed by robust research that generate information and knowledge that will nurture a culture of evidence based decision making and policy dialogues. The Ministry of Finance and Economic Development (MoFED) will benefit immensely in their work from the intense engagement with a broad spectrum of stakeholders in the policy implementation process. For example, the South African Treasury is benefiting from diverse research studies being undertaken following the partnership between the National Treasury and United Nations University World Institute for Development Economics Research (UNU-WIDER), to anonymize tax data and avail it to the wider academic research community to analyse. Opening up this existing data to researchers has resulted in generating robust research findings based on firm level data and is expected to improve macroeconomic policy formulation. A long-term aim of the project is to not only evaluate and improve policy, but to build capacity, both within the research community in South Africa and within the policy departments of the South African government[3]. Zimbabwe can draw lessons from this experience.

Fiscal reforms that government intends to implement require to be supported by evidence informed stakeholder dialogues on what has worked and under what context as evidence from other country experiences is abound. Such fiscal reforms are key in enhancing the easy of doing business environment; competitiveness of the Zimbabwean economy and mobilisation of resources to finance social programs. There also need to assess fiscal risks arising from none or partial implementation of the reform measures and strategies highlighted in the TSP. The changing socio-economic dynamics demand agility in policy response and high levels of transparency in the policy formulation and implementation processes to remove policy uncertainty and improve policy credibility. Swift fiscal policy response to changing socio-economic conditions will reduce the incidence and severity of emerging economic and social challenges.

The degree of fiscal transparency can also help provide a sense of a country's fiscal credibility and play a role in how financial markets view the country's fiscal track record. However, Zimbabwe still requires a lot to be done to enhance fiscal performance and transparency to speed up economic recovery and transformation. This discussion paper and the policy dialogue are expected to initiate a robust program for strengthening economic governance in the country in line with international best practices. The dialogue is also expected to highlight capacity gaps that need to be addressed to guarantee success in the implementation of TSP.

The IMF has noted that the degree of fiscal transparency is an important predictor of a country's fiscal credibility and performance. They stressed that evidence from literature points to a positive relationship between the degree of fiscal transparency and measures

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[3] See https://unu.edu/publications/articles/opening-the-vault.html- Opening the Vault: Data, Research, and Improved Policymaking in South Africa

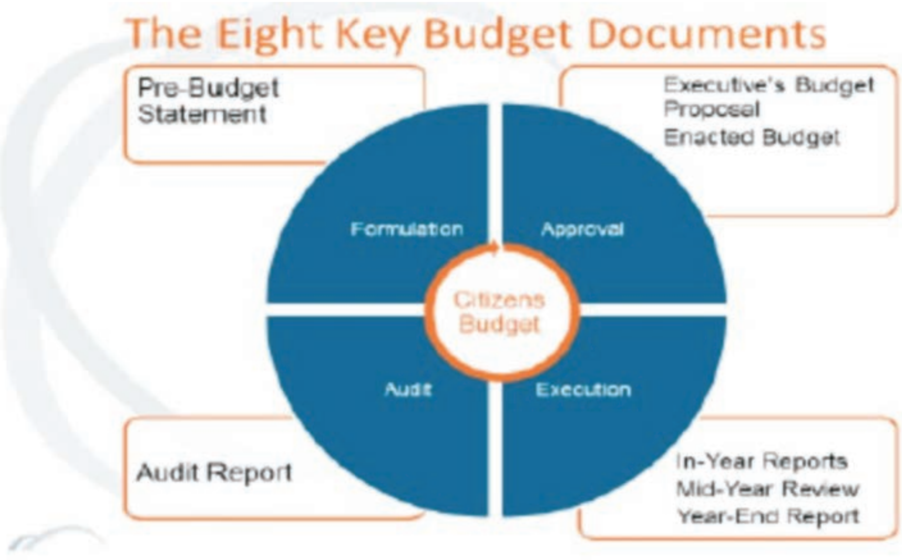
of fiscal sustainability (such as government deficits and debts).According to the 2017 Open Budget Survey Zimbabwe scores 23/100 on the Open Budget Transparency Index an indication that the government is not providing enough information with regards to its expenditure and revenue by including expenditure by functional classification and individual sources of tax and non-tax revenue.[4]

4. https://www.internationalbudget.org/wp-content/uploads/zimbabwe-open-budget-survey-2017-summary.pdf

2. Assessment of the Fiscal Transparency Pillars

2.1 Fiscal Reporting

This section seeks to assess the quality of fiscal reporting in Zimbabwe against the principles of the Fiscal Transparency Code. It assesses fiscal statistics, financial statements, and in-year and end-of-year budget-execution reports. The Fiscal Transparency Code requires that fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance. According to the Open Budget Survey, the following key documents should be made public in order to enhance fiscal transparency. These key documents are as follows, the pre-budget strategy paper, the executive and enacted budgets, periodic fiscal performance reports and the annual audit report.



Source: IBP

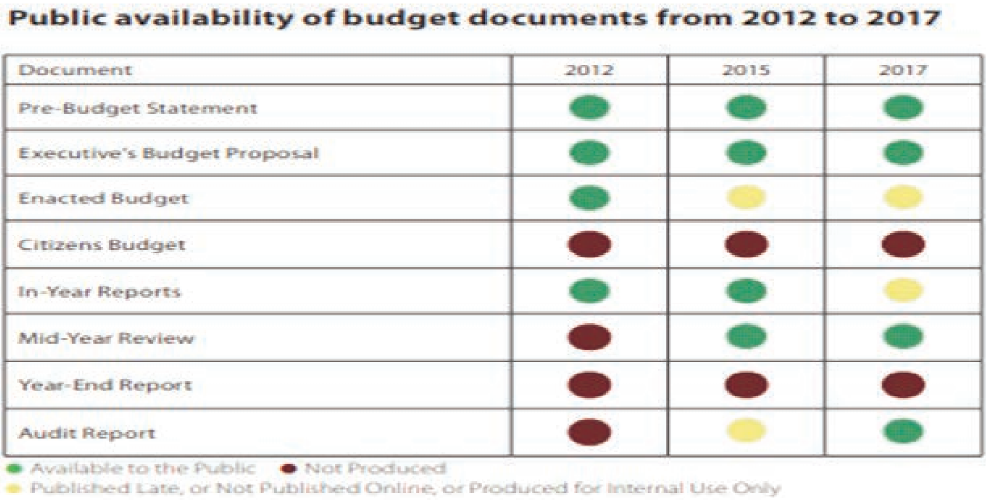
Best practices requires that the reports cover all institutional units engaged in fiscal activity for the entire public sector; record all assets and liabilities and all revenue, expenditure, financing, and other economic flows classified according to international standards and are published in a frequent and timely manner. Section 299 of the Constitution of Zimbabwe gives the Parliament of Zimbabwe powers of oversight over the management of public finances. This is supported by provisions of the Public Finance Management Act on fiscal reporting particularly Part IV on financial statements provide guidelines on the preparation and tabling of financial statements by central government and the general public sector related entities.

Fiscal reports are to be presented monthly, quarterly and annually and these describe trends in government revenue and expenditure and financing mainly by economic classification. Section 298 (1) (d) of the Constitution of Zimbabwe requires that public funds must be expended in a transparent, prudent and economically effective ways whilst subsection 298(1) (e) requires that financial management be responsible and fiscal reporting must be clear. However, this is contrary to practices on the ground as shown by the Office of the Auditor General's 2016 report which highlighted gross abuse of and mismanagement of public resources as well as failure to prepare and maintain up to date financial statements as a result an estimated US$222,791 was misappropriated from Appropriation/Ministry and Fund accounts.[5]

The Ministry of Finance and Economic Development produces the following reports; Treasury Quarterly Bulletin (Quarterly), Tax Revenue performance report (Quarterly), Consolidated Annual financial statement (Annually) and Consolidated Audit Report (Annually). According to the Open Budget Survey, the Ministry of Finance and Economic Development publishes revenue and expenditure outturn data by economic classification. The Quarterly Report on Expenditure does not track progressive releases for the year against the approved budget for government's administrative units or expenditure performance by vote.

[5] Office of the Auditor General; Report On Appropriation Accounts, Finance and Revenue Statements and Fund Accounts 2016; http://www.auditorgeneral.gov.zw/index.php/downloads/category/3-ministries-and-departments?download=22:oag-report-on-appropriation-accounts-finance-and-revenue-statements-and-fund-accounts-2016

The budget performance reports contain detailed information on financial and nonfinancial performance, but do not track in-year revisions to the budget. The reports coverage is however limited to the financial performance of central government and does not encompasses the general government functions. None of the fiscal reports provide complete information on the fiscal operations of extra-budgetary units and public corporations. Below is the list of available fiscal reports for Zimbabwe between 2012 and 2017 as highlighted in the Open Budget Survey. Important observations by the Open Budget Survey is that the country does not produces citizens budget and end of year reports highlighting the performance of public finances throughout the year. Furthermore they also highlighted that information pertaining to the Appropriation Act and that periodic reports are published late or only produced for internal use by the Ministry of Finance and Economic Development which undermine the attainment of the fiscal transparency and accountability objectives.



Public availability of budget documents from 2012 to 2017

Document	2012	2015	2017
Pre-Budget Statement	Available to the Public	Available to the Public	Available to the Public
Executive's Budget Proposal	Available to the Public	Available to the Public	Available to the Public
Enacted Budget	Available to the Public	Published Late, or Not Published Online, or Produced for Internal Use Only	Published Late, or Not Published Online, or Produced for Internal Use Only
Citizens Budget	Not Produced	Not Produced	Not Produced
In-Year Reports	Available to the Public	Available to the Public	Published Late, or Not Published Online, or Produced for Internal Use Only
Mid-Year Review	Not Produced	Available to the Public	Available to the Public
Year-End Report	Not Produced	Not Produced	Not Produced
Audit Report	Not Produced	Published Late, or Not Published Online, or Produced for Internal Use Only	Available to the Public

● Available to the Public ● Not Produced
● Published Late, or Not Published Online, or Produced for Internal Use Only

Source: Zimbabwe Open Budget Survey 2017

2.1.1 Coverage of Fiscal Reports

The IMF Fiscal Transparency Code requires that fiscal reports should provide a comprehensive overview of the fiscal activities of the public sector and its subsectors, according to international standards. Thus, in principle the fiscal reports should cover all entities engaged in public activities according to international standards. They should include balance sheet of public assets, liabilities and net worth, and also the flow of public revenues, expenditure and financing. In Zimbabwe the coverage of the fiscal reports is guided by section 36 of the Public Finance Management Act, which provides guidance on the content of financial statements to be prepared and presented before Parliament. Thus, it states that every financial statement shall state the following amounts and compare such amounts in each case with the corresponding budgeted amount in respect of the relevant period specifying the actual revenue, actual expenditure for each vote, distinguishing between capital and recurrent expenditure for that period.

With regards to the coverage of entities section 15 of the Public Finance Management Act states that every Minister shall lay before the House of Assembly the annual report and financial statements referred to in Part IV and the audit report on those statements. This should be done within one month after the accounting officer for the public entity or constitutional entity for which the Minister is responsible, receives the annual report and financial statements of the public entity or constitutional entity. The audit report on those statements, should be availed within six months after the end of the financial year to which those statements relate.

However, regularly produced reports by the Ministry of finance cover only the central government and do not provide information on other public sector entities with the exception of the annual audit reports which cover all public sector entities. The fiscal reports do not disclose the government's balance sheet that provides a complete picture of the government's financial position. The stock of non-financial assets, including fixed assets, inventories, non-produced assets, and valuables are not reported. Only the stock of debts is reported. Furthermore, in addition to Section 36, Section 38 of the Public Finance Management Act also stipulates that the contents of each financial report to be published in the government gazette requires accounting officers to state actual borrowing for the relevant period. In this regard coverage of these regular reports is not comprehensive and may in the process fail to satisfy the dictates of fiscal transparency and accountability.

2.1.2 Frequency and Timeliness of Fiscal Reporting

The IMF Fiscal transparency code requires that fiscal reports should be published in a frequent, regular, and timely manner. Thus in principle in-year fiscal reports should be published on a frequent and regular basis, with best practices dictating that these reports should be published on a quarterly basis, within a quarter. Furthermore, audited or final annual financial statements should be published in a timely manner especially within 12 months of the end of the financial year. However, the Auditor General noted with concern poor maintenance of accounting records with differences emerging between the Public Finance Management System (PFMA) and the Sub-Paymaster-Generals' accounts in various Ministries, with reconciliations and establishment of the source of the differences not being done[6].

In Zimbabwe, the Public Finance Management Act particularly Section 38 of the act deals with publishing of reports on financial statements by central government and other public entities The act requires that within 30 days after the end of each month, Treasury shall publish in the Government Gazette a statement of actual revenue and expenditure with regard to the Consolidated Revenue Fund. Furthermore, the act also requires that every line ministry shall submit to Treasury a statement of revenue and expenditure with regards to the Consolidated Revenue Fund, for publication in the Gazette.

2.1.3 Quality of Fiscal Reports

Information in fiscal reports should be relevant, internationally comparable, and internally and historically consistent i.e. Fiscal reports should classify information in ways that make clear on how public resources have been utilised and facilitate international comparisons as well as maintaining consistency in undertaking reconciliations between alternative measures of summary fiscal aggregates. Thus, Fiscal reports should be in the formats that include administrative and economic classifications consistent with international standards, where applicable.

[6] *Ibid*

Section 37 of the Public Finance Management Act requires that in preparation and presentation of financial statements and budgets these shall be prepared and comply with generally accepted accounting practice. Thus, the Accountant General's financial statements are prepared in accordance with the IMF Government Finance Statistics Manuals as well as international accounting standards. The administrative classification is based on the existing accountability and budget administration arrangements within government. The economic classification is broadly aligned with Government Finance Statistics Manual (GFSM) 2014. The functional analysis set out in the Classification of Functions of Government (COFOG). The fiscal reports are thus produced in consistency with the GFSM and COFOG standards. However, for local government and some units accounts are prepared in compliance with international accounting principles where applicable.

2.1.4 Integrity of Fiscal Reports

Fiscal statistics and financial statements should be reliable, subject to external scrutiny, and facilitate accountability. Thus, the IMF Fiscal Transparency code requires that Fiscal statistics are compiled and disseminated in accordance with international standards, whilst Annual financial statements should be subjected to a published audit by an independent supreme audit institution which validates their reliability. Part VIII of the Zimbabwean Public Finance Management Act, to ensure integrity of the fiscal reports allows for the appointment of auditors to monitor the financial administration and procedures of the ministry or reporting unit concerned to ensure that proper accounting standards are maintained in compliance with the country laws and international standards. Section 80 and 81 of the PFMA act allows for the appointment of internal and external auditors respectively and gives their job description in safeguarding public monies. Section 84 of the PFMA on the other hand, gives guidelines on the functions and composition of the audit committees in ensuring integrity of the Fiscal Reports.

Fiscal statistics are produced and disseminated in accordance with international Standards that is statistics are published by the Ministry of

Finance following the GFSM 2014 framework. These data are also submitted for publication in the IMF's Government Finance Statistics Yearbook (GFSY). The annual audit reports for the central government and local government are tabled before Parliament by the Auditor General before they are also posted on the auditor general's office website. The annual accounts of all public entities are independently audited by the Office of the Auditor General. The annual audit reports have been presented to Parliament as prescribed in the Public Finance Management Act (2008) within 6 months after the end of the fiscal year.

2.2 Fiscal Forecasting and Budgeting

This pillar of the IMF Fiscal Transparency Code seeks to assess the quality of fiscal forecasting and budgeting practices relative to standards set by the Code. It is required that Budgets and their underlying fiscal forecasts should provide a clear statement of the government's budgetary objectives policy intentions and finances. The pillar focuses on four main areas:

- Comprehensiveness of the budget and associated documentation;
- Orderliness and timeliness of the budget process;
- Policy orientation of budget documentation; and
- Credibility of the fiscal forecasts and budget proposals.

Section 305 of the Constitution of Zimbabwe supported by the Public Finance Management Act (Chapter 22:19) provides a legal framework for the presentation of estimates of expenditure by government, which the government prepares following a sound budget formulation process. The national Budget is the main implementation tool for Government policies and programs. Consequently, there is increased interest and anxiety among stakeholders. Budget preparation period commences until the budget is tabled before Parliament for approval. Part III of the Public Finance Management Act gives the Minister responsible for MoFED to develop and implement macroeconomic and fiscal policies for Zimbabwe through the allocation of public resources between ministries and other reporting units. Traditionally the call circular and more recently the pre-budget strategy papers produced by the

MoFED set out the formal budget framework to be followed in the preparation of budget proposals by line Ministries and Departments. These are followed by consultation of Parliament through the Parliament pre and post budget seminars to enhance Parliament's oversight role. In drafting the national budget the MoFED make use of a top-down approach to budgeting. In this case the line ministries are provided with expenditure ceilings to which they will have to adhere to in crafting their budgets. The budget, will incorporate estimates of gross tax and non-tax revenues, expenditures and other financing requirements for central government entities. These estimates of expenditure are usually accompanied by a medium-term macroeconomic outlook and fiscal forecasts based on a medium-term expenditure framework that incorporates revenue and expenditure projections as well as budget financing requirements for two periods ahead .

2.2.1 Comprehensiveness

In principle the budget is required to provide tax revenues, expenditures, and financing of all central government entities. The budget estimates should include nontax revenues collected by ministries, departments, and agencies. The minister responsible for finance presents to parliament his executive budget detailing how much is to be spent by each administrative function as well as economic classification. Section 28 of the Public Finance Management Act defines the timetable for budget preparation and approval, and the key content requirements of the budget documents. It states that the Minister shall lay before Parliament an annual budget for the forthcoming financial year, stating, estimates of the revenues, expenditure and financing requirements for the Government of Zimbabwe for that year and for each vote of expenditure a statement of the classes of outputs expected to be provided from that vote during the year and the performance criteria to be met in providing those outputs. Thereafter, the budget is debated in Parliament and if any issues arise that need adjustment these are taken into consideration by the MoFED. The budget is then approved through the Appropriation Act and Finance Act.

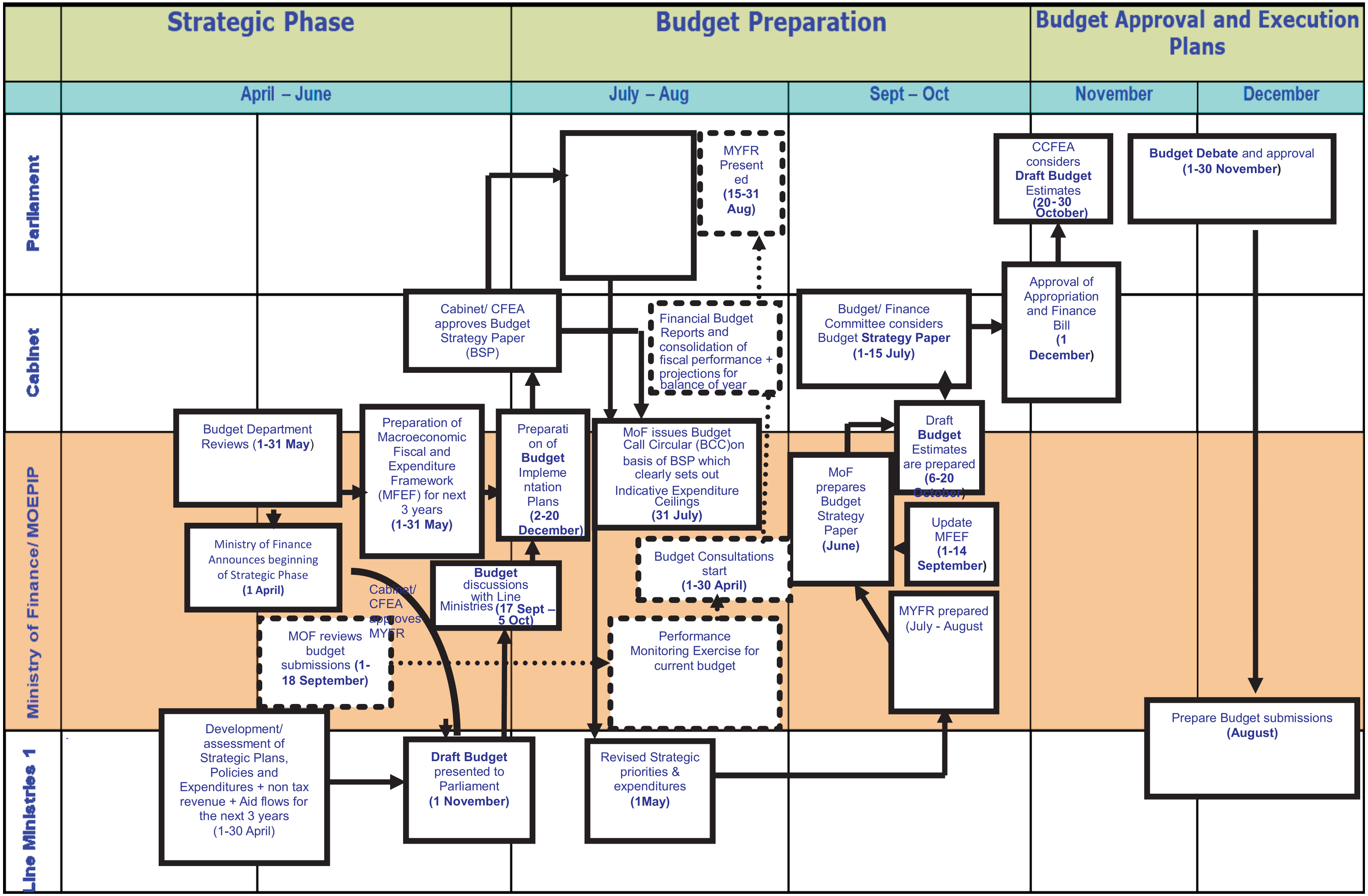
Furthermore, the budget statement provides forecasts of the main macroeconomic variables and describing the broad assumptions, justifications and outlook for the key macroeconomic variables such as GDP growth, inflation, fiscal policy, monetary policy, and external trade as well as the different sectoral growth drivers. The budget estimates also include fiscal outturns of the preceding year, the annual budget, and medium-term projections of aggregate revenues, expenditures, and financing based on three- fiscal years

2.2.2 Orderliness

Under this sub pillar the Transparency Code requires that powers and responsibilities of the executive and legislative branches of government in the budget process should be defined in law, and the budget should be presented, debated, and approved in a timely manner. Chapter 17 of the Constitution supported by Section 28 of the Public Finance Management Act sets out: the detailed roles and responsibilities of the Executive in the preparation and management of the budget; the calendar for the budget preparation and approval of the budget as well; as the content requirements for the Budget Statements and Budget Estimates.

Section 305 (2) of the Constitution of Zimbabwe supported by Section 28 of the Public Finance Management Act requires that the Minister responsible for finance to lay before Parliament the annual budget for the forthcoming financial year, not earlier than thirty days before or not later than thirty days after the start of the forthcoming financial year. The results-based budget cycle shown schematically in Figure 2 summarises the stages from the strategic phase to budget preparation and budget approval and execution plans.

Figure 2: Results Based Budget Cycle



2.2.3 Policy Orientation

The IMF Fiscal Transparency Code requires that fiscal forecasts and budgets should be presented in a way that facilitates policy analysis and accountability. Thus, governments must state and report on clear and measurable objectives for the public finances as well as providing citizens with a summary of the implications of budget policies and opportunities to participate in the budget process. Best practice requires that the government states and regularly reports on numerical objective for the main fiscal aggregates which are either precise or time bound. Thus, in this regard the government usually states in the national budget statements the targeted annual real growth rate, targeted revenue collection as well as the overall targeted fiscal deficit. This is done in compliance of Section 28 of the Public Finance Management Act which requires submission to Parliament of annual estimates of revenue and expenditure and a statement of the classes of outputs expected to be provided from each vote during the year and the performance criteria to be met in providing those outputs.

Recently the government adopted a Results Based Budgeting system which tries to link allocation and expected output and this also tries to strengthen the linkages between the government's development plan, and the budget structure.

The budget calendar provides for a platform for consultation with the public on fiscal and sector policy issues. Budget consultations are undertaken by government through the MoFED and the legislature through various parliamentary portfolio committees as outlined in Section 28 (5) which states that, “the Minister may, through the appropriate portfolio committee of Parliament, seek the views of Parliament in the preparation and formulation of the national annual budget, for which purpose the appropriate portfolio committee shall conduct public hearings to elicit the opinions of as many stakeholders in the national annual budget as possible”. Civil Society organisations also take part in these deliberations such as MoFED and Parliament pre and post budget consultations. However, the Open Budget Survey scores Zimbabwe 9 out 100 with regards to public participation and thus offers few opportunities for the public to engage in the budget process.

Furthermore, according to the Open Budget 2017 Survey for Zimbabwe, the country does not produce a Citizen Budget. A Citizen's Budget provides an accessible description of the recent fiscal performance and economic prospects, and highlights the important features of the annual budget for citizens, identifying the major revenue measures and sector spending priorities. The Citizen's Budget initiative is still at its infancy stage within the MoFED. This initiative will help support public participation and transparency by simplifying the budget and allow the public to scrutinize budget allocations.

2.2.4 Credibility

Government's economic and fiscal forecasts and budgets need to be credible. The forecast should be subjected to independent evaluations that include comparisons of government's economic and fiscal projections against independent forecasters. In Zimbabwe economic and fiscal forecasts are not currently subjected to independent evaluations of the forecast to test the underlying assumptions or verify its credibility. However, Parliament through the Portfolio committees and supported by the Budget Office undertake post budget reviews to equip Parliamentarians when they scrutinize the revenue and expenditure projections including the adequacy of proposed allocations. Other stakeholders within the civil society and business communities also analyze the budget to access its implications to their constituency. Fiscal transparency will help these stakeholders to better interrogate the budget as well as monitor its implementation. Satisfaction by a broad spectrum of stakeholders with the budget proposal and the inclusiveness of the formulation process enhance the credibility of the budget.

Section 19 of the Public Finance Management Act states that if in respect of any financial year it is found that the amount appropriated by the Appropriation Act to any purpose is insufficient or that a need has arisen for expenditure for a purpose to which no amount had been appropriated by that Act, a supplementary estimate showing the sums required shall be laid before the House of Assembly. Furthermore, in instances where expenditure has already exceeded approved budget, the minister is expected to seek condonation from parliament for the excess expenditure within a stipulated timeframe. However, the Executive have not been following this provision and have violated this requirement. The Hansard of 9 October 2018, highlighted concerns by Honourable Members of Parliament that the Government borrowed US$2.3 billion from the Reserve Bank of Zimbabwe without the authority of the House or seeking condonation or tabling a supplementary budget to the effect[7].

2.3 Fiscal Risk Analysis and Management

2.3.1 Fiscal Risk Disclosure and Risk Management

The pillar assesses the adequacy of fiscal risk analysis and management practices in Zimbabwe. This indicator measures the extent to which fiscal risks to central government are reported. Hughes et al., (2014) argues that the risk can be assessed in terms of general arrangements for disclosure and analysis of macroeconomic and specific fiscal risks; risks emanating from specific sources such as government assets and liabilities, guarantees, other financial exposures, long-term contracts, and financial derivatives; and. coordination of fiscal decision-making between central government, social security system, local governments, and public corporations. World Bank (2018) also supported that fiscal risks can arise from adverse macroeconomic situations, financial positions of subnational governments or public corporations, and contingent liabilities from the central government's own programs and activities, including extra budgetary units. The risk can also arise from other implicit and external risks such as market failure and natural disasters.

Section 71-73 of the PFMA allows for disclosure of information concerning loans and guarantees by the Minister of Finance and Economic Development to the House of Assembly on any of the seven

[7]Tuesday, 9th October, 2018 parliamentary Debate, Hansard, Parliament of Zimbabwe https://www.parlzim.gov.zw/national-assembly-hansard/download/2418_47e07c72b755903e7332e44b9ebbddbf

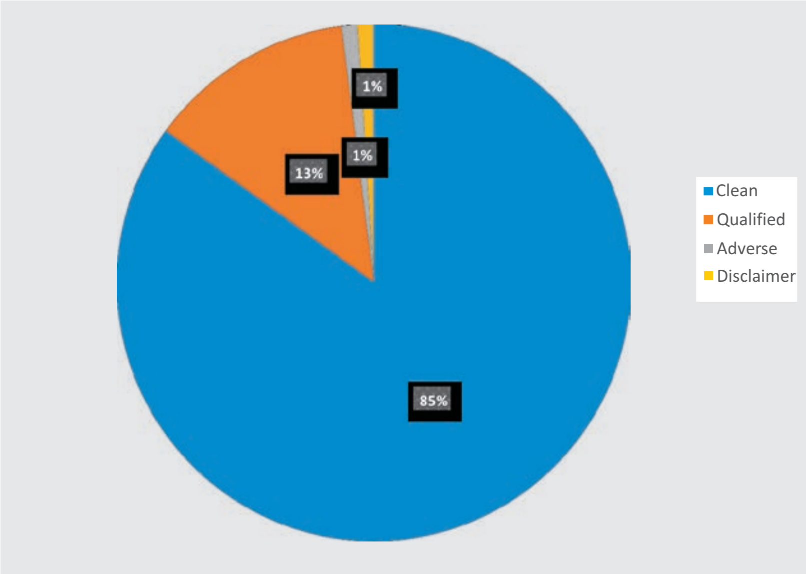
sittings after the guarantee is given. There should also be monthly, quarterly and annual reports on loans and guarantees and reports on interest and repayment of loans are also expected to be produced.

Generally, the disclosure of fiscal risks is very limited in the budget implementation process. No consolidated and quantified overview of risks to the budget exists (World Bank, 2018). Despite most state enterprises' submission of financial statements in time for audit and in many cases published, delays occur in the case for local authorities which did not publish their financial reports in the recent year (Ibid).

Zimbabwe's large state-owned enterprises are also a significant source of potential fiscal risk due to large budgetary requirements from the fiscus. Audited financial statements of state enterprises should be a reliable source of information on fiscal risk associated with state enterprises. The financial statements should contain full information on revenue, expenditure, assets, liabilities, guarantees and long-term obligations. State owned enterprises are therefore expected to be audited by the Auditor-General according to Section 81 of the PMFA.

Office of the Auditor-General of Zimbabwe (2018) reported that 34 state enterprises and parastatals did not submit accounts for audit in 2017. These companies are categorized between those that did not submit accounts for audit only in 2017 and those that did not accounts for other periods as from 2009. Of those that did not submit the financial statements for the 2017 financial year, about nine companies did not submit financial statement for 2016, whereas six, four and three did not submit for 2015, 2014 and 2012. Even for as far back as 2009, about two companies did not submit their accounts for audit which is a cause for concern in terms of fiscal transparency and accountability. For those that submitted the accounts for audit, 85% of the companies had clean audited financial statements with the remainder of 13%, 1% and 1% being audited financial statements with qualified, adverse and disclaimer reports, respectively (Figure 3).

Figure 3: State Enterprises and Parastatals Audit results for Financial Year 2017

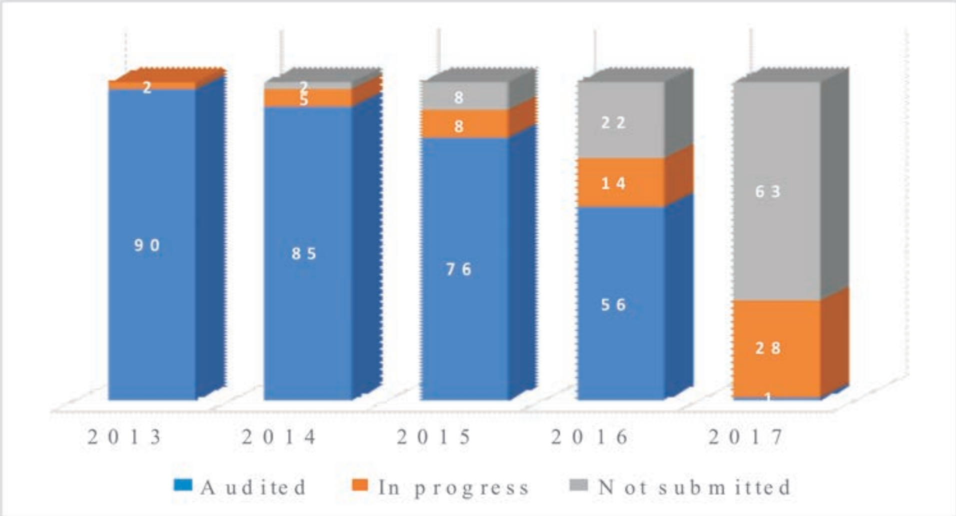


Source: Office of the Auditor-General of Zimbabwe, 2018

The World Bank (2018) argues that 10 state enterprises out 37 had audited financial reports for the 2016 financial year completed within five months of end of financial year. A further 15 state enterprises had submitted their financial reports for audit when the Auditor-General's 2018 report was produced, hence audit may have been in progress. This showed that just under half of the enterprises had publicized their financial statements.

For local authorities, Office of the Auditor-General of Zimbabwe (2018) reported that there was only one local authority with audited financial statements for the financial year 2017 out of 92, auditing for 28 local authorities were in progress whereas 63 (68.5%) had not yet submitted their financial reports (Figure 4). A look at the trend of submission of financial statements for auditing since 2013 reveals that generally audit of local authorities' financial statements is done with a lag since most local authorities do not submit their financial statements on time. Some local authorities have not yet submitted their financial results even for previous years as evidenced by two, eight and 22 local authorities that did not submit their financial statements for financial year 2014, 2015 and 2016, respectively.

Figure 4: Audit Status of Local Authorities for Financial Year 2013 -2017



Source: Office of the Auditor-General of Zimbabwe, 2018

This is corroborated by the World Bank (2018) which argues only 22 out of 92 local authorities had submitted financial statements for fiscal year 2016 for audit by the end of May 2017. This translate to less than a quarter of local authorities that submitted their financial statements for audit in a timely manner. Of the 70 local authorities that had not submitted 2016 financial year statements, 35 had also failed to submit financial statements for 2015 financial year. The World Bank (2018) further argues that the Government does not prepare a consolidated report on the financial statements of local authorities. There is no evidence that any local authority has published its annual financial statements whether audited or unaudited for any recent year (Ibid). Hence, there is need for a paradigm shift to ensure that local authorities prioritise the transparency and accountability aspects to ensure a broader account to the public over the local authorities' delivery on their mandate and stewardship over resources they are entrusted with. The emerging trend of failure to submit financial statements on time need to be addressed to improve transparency and accountability at this level of government especially as the country implements devolution of provinces.

However, since the Transitional Stabilisation Programme (October 2018 – December 2020) announced closure of non-performing parastatals and restructuring of those with potential. These reforms need to be accompanied by a policy shift to increased transparency and accountability at all levels of government and state owned enterprises. Improving transparency and accountability of State owned enterprises is expected to play a critical role in enhancing service delivery and provision of infrastructure. Infrastructure development within the local authorities' jurisdiction is critical for spurring economic growth and transformation in line with the country's vision to become an upper middle-income country by 2030. This will enable more per capita resources to be availed to a broader spectrum of citizens thus reducing poverty levels.

On contingent liabilities and other fiscal risks, there is no reporting of consolidated contingent liabilities or other fiscal risks for central government with quantification of the risks and likely implications for the budget estimates. The '2017 National Budget Statement' includes a section on 'Contingent Liabilities' and mentions the called for government guarantees which amounted to 15.8% of total external debt (World Bank, 2018). However, no details are provided on the guarantees, the specific amounts involved, reasons for being called or implications for the budget estimates. There have not been any significant changes for the 2018 and 2019 National Budget Statements. Debt service arrears and arrears to suppliers of goods and services are also commented upon, but only debt service arrears to multilateral development banks have been quantified and the likely implications for the annual and medium-term budget estimates are not discussed (Ibid). The Budget Strategy Paper included even less information on fiscal risks (Ibid).

The Transitional Stabilisation Programme announced stern measures to curb ballooning fiscal deficit through adherence to fiscal rules as enunciated in the Public Finance Management Act and the Public Debt Management Act (Chapter 22:21). The 2019 Budget Statement also reduced the fiscal deficit to only 5% of GDP down from around 11.7% of GDP in 2018. This may imply a firm control over key sources of fiscal risks. However, the government may establish annual limits on the issuance of debt, credit, and guarantees by the government as in the case of Russia (Hughes, et al., 2014). For instance, the Federal and sub-national borrowing is authorized by law and the Government's debt management strategy is set out in the Ministry of Finance's Public Debt Management Report. The budget law for the year ahead and the two-year planning period thereafter sets ceilings on domestic and foreign debts, as well as programs for domestic and foreign borrowings. The Public Debt Management Report, which is released annually, includes analysis of the federal government's domestic and external liabilities, as well as state guarantees and sub-national debt. The Public Debt Management Report also includes some analysis of the risks around the government's liabilities though this is mainly qualitative in nature. The Ministry of Finance of Russia also releases monthly and quarterly data on foreign and domestic debt and guarantees, and information on the debt of regional and municipal governments aggregated by region.

Botswana also has fiscal rules for investment and drawdown of the Pula Fund. Fiscal rules are contained in the national development plans, some of which include the fact that all mineral revenue should be used for investment rather than consumption and the country should not borrow more than 40% of its GDP. There are no rules on what is spent or saved although there are rules for recurrent and capital expenditure. The government expenditure should not exceed 40% of GDP (70% recurrent of total budget and 30% capital expenditure) and reserves should be equivalent to 6 months import cover. The rules under the public finance act were developed even before Botswana had too much surpluses. On how much should be invested in the Pula Fund, the country puts aside foreign reserves that are equal to six months import cover and any excess is invested in the Pula Fund. However, the parliament has power to approve a budget that can draw on all reserves, which is a weakness of the Pula Fund. There are no rules about draw downs. Of the government reserves there is no demarcation of how much can be spend on current spending, stabilisation or a drawdown on savings for future generations. This is despite the fact that it is critical to earmark a proportion required for the current budget, stabilisation buffer and the long-term savings for future generations.

The announcement of restructuring of parastatals through privatisation, mergers and in some instances closure of loss-making entities is meant to allocate national resources efficiently to benefit infrastructure and social services. Reporting and analysis of near-term fiscal risks and forecasts of longer-term fiscal pressures should be published to show the extent of fiscal risk up to 2030, the period which the country hopes to become an upper middle-income country.

External risk such as the volatility of commodity prices should be taken into account given that the bulk of Zimbabwe's exports are dominated by agriculture and mineral products which are exported in raw form. A basic level of macroeconomic risk analysis could be published to support fiscal policymaking. The MoFED publishes its central official forecasts of the macroeconomic framework, this is a positive development but an optimistic and pessimistic macroeconomic scenario based on alternative assumptions for key variables such as the international oil price, the US dollar/rand exchange rate, and regional and global economic developments on government revenues, balance and debt could also be considered. An analysis of the implications of these will provide a fully quantified set of alternative fiscal outcomes or forecasts.

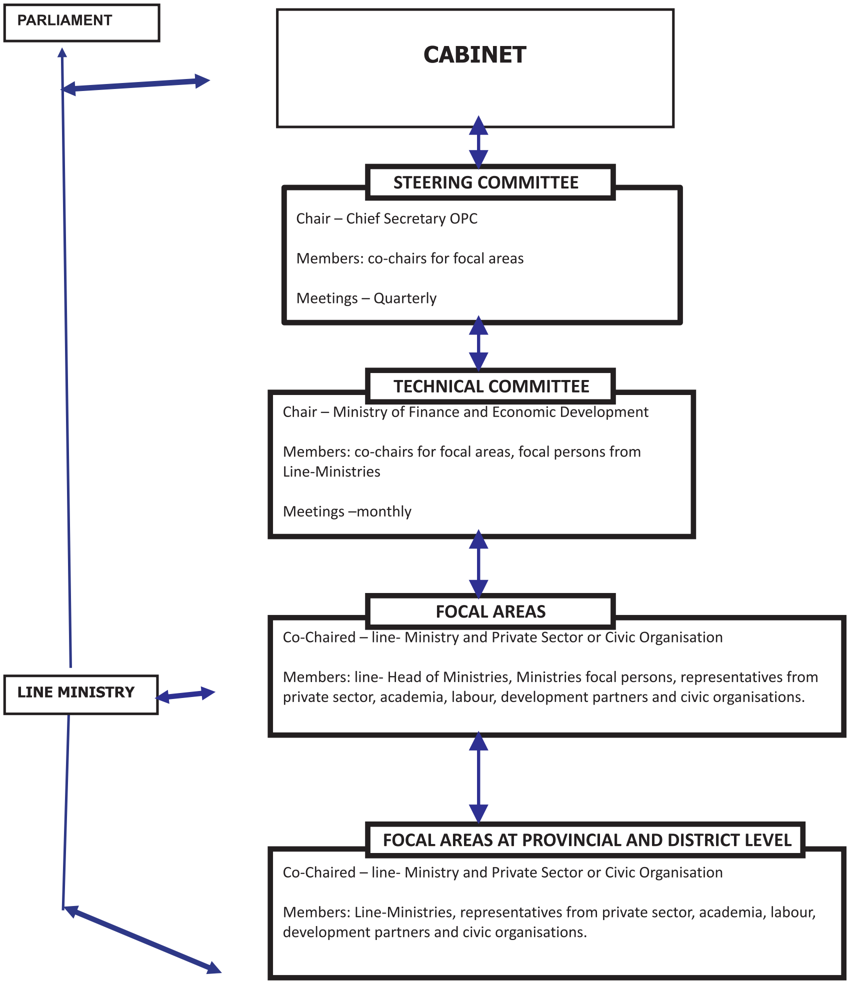
2.3.2 Fiscal Coordination

The budget statement generally provides mechanisms for the coordination and management of budgetary and extra budgetary activities within the overall fiscal policy framework. However, the Government of Zimbabwe and World Bank (2017) noted that the successful implementation of government policies in Zimbabwe is being hindered by the fact that the management of public resources is dissipated over a number of different agencies with limited coordination and cooperation. Improved inter-agency dialogue and information sharing will improve co-ordination and reduce wasteful duplication of effort. In addition, transparency and accountability of what each agent is implementing facilitate better co-ordination of government activities.

For the implementation of the Zimbabwe Agenda for Sustainable

Socio-Economic Transformation (ZIMASSET) economic policy, the government came up with an implementation and coordination architecture which provided a platform in which all key stakeholders interacted and interfaced in the implementation of the policy within specified clusters. The Transitional Stabilisation Programme implementation architecture added other components to what was prevailing under ZIMASSET such as a component for focal areas at provincial and district level due to devolution and the involvement of Parliament and Cabinet (Figure 5).

Figure 5: Transitional Stabilisation Programme Implementation Architecture



Source: Transitional Stabilisation Programme

3. Conclusion and Recommendations

Zimbabwe satisfies the basic principles of the Fiscal Transparency Code on fiscal reporting. However, there is need for improvement, particularly in the coverage of institutions, timeliness of reporting and reporting of stocks including nonfinancial assets and liabilities relating to government balance sheet position. The integrity of reports could be enhanced by publishing reconciliations between stocks and flows, and improving the comparability of statistics that are provided in various fiscal reports.

The Public Financial Management Act (Chapter 22:19) provides a foundation for fiscal reporting in Zimbabwe. The Act defines the frequency and coverage of frequently published fiscal reports, as well as the timelines for submission and audit of financial statements. In addition, there is need to expand the coverage of fiscal reporting as required by the Public Finance Management Act to include local governments and state-owned entities.

The Public Finance Management Act has enhanced the country's performance under the requirements of the IMF Fiscal Transparency Code. The PFMA provides a foundation for fiscal reporting. Furthermore, in relation to the Open Budget Survey the government has also initiated various reforms that will further contribute to improved fiscal forecasting and budgeting. The Transitional Stabilisation Programme (October 2018 to December 2020) is the new economic blue print for Zimbabwe, a short-term stabilisation programme which draws its thrust from the Vision 2030 which intends to transform the country into an upper middle income country by 2030. Some of the focus areas for the Transitional Stabilisation Programme include adoption and implementation of prudent fiscal policy underpinned by adherence to fiscal and financial rules as enunciated in the PFMA and Public Debt Management Act. This is meant to curb unsustainable and prolonged fiscal deficits that perpetuate uncontrolled domestic borrowing by Government which crowds out domestic private investment. This creates fiscal space to support capital expenditure which include infrastructure investments.

The Fiscal and Financial Stabilisation Committee will coordinate and monitor Government's adherence to the fiscal and monetary targets outlined by the Transitional Stabilisation Programme. The Fiscal and Financial Stabilisation Committee, will set clearly defined, credible and enforceable fiscal and financial rules, borrowing plans and performance, against targeted macro-economic aggregates which include monetary policy targets that complement the fiscal consolidation thrust. Fiscal policy coordination is critical to enhance fiscal transparency and accountability.

To further enhance the coverage, quality, integrity of fiscal reports and to cover for fiscal risks, the government should consider to undertake the following:

- Need to improve coverage of institutions, timeliness of reporting and reporting of stocks including nonfinancial assets and liabilities relating to government balance sheet position.
    - o Need to expand coverage of fiscal reporting to include local governments and state-owned entities;
    - o Provide a summary of in-year changes to expenditure and revenue plans by vote;
    - o To expand the coverage of fiscal reports to include other public sector entities and local governments as well for them to adopt fiscal reporting standards in accordance with the requirements of the GFSM (2014); and
    - o Incorporate government balance sheet data into fiscal reporting to highlight government's financial position with regards to its assets and liabilities.
    - o Could improve integrity by publishing reconciliations between stocks and flows, and improving the comparability of statistics that are provided in various fiscal reports.
- Enhance the publication of fiscal reports on tax expenditures and the annual financial statements through other media platforms.
- Need reporting and analysis of near-term fiscal risks and forecasts of longer-term fiscal pressures.
- External risk such as the volatility of commodity prices should be taken into account given that the bulk of Zimbabwe's exports are dominated by agriculture and mineral products.
- Estimate, explain, and publish in budget documents the

underlying factors, including new policy decisions, changes between successive fiscal forecasts.

- Institutionalize the review of government policies and plans i.e. mid-year and end of policy period to inform the public of what the policy achieved or failed to achieve. The review should also interrogate factors that led to the achievement or failure to achieve the policy target as well as remedial action that need to be implemented.
- Institutionalize broad stakeholder policy dialogue on major economic policy issues of the moment and institute independent evaluations of government economic forecast as well as the underlying assumptions to enhance credibility of fiscal forecast and budgets.
- The reporting of specific fiscal risks in Zimbabwe is currently limited. Hence, there is need to improve the disclosure and analysis of fiscal risks. External risk such as the volatility of commodity prices should be taken into account given that the bulk of Zimbabwe's exports are dominated by agriculture and mineral products.

4. Areas for further research and dialogue

The following areas can be considered for the next policy dialogues.

- Policy and Institutional co-ordination and its implication to the attainment of Vision 2030
- Fourth IMF pillar of fiscal transparency and accountability on Resource revenue management may require to be scrutinized further given that Zimbabwe is endowed with a huge mineral resource base with more than 60 different types of minerals discovered, 40 of which have historically been exploited hence disclosure of such revenue is critical to meaningfully contribute to socio-economic development of the current and the future generations. Mineral resources are finite hence the need to closely look at this subject to enhance transparency and accountability in order to guard resource curse which normally happens to resource rich countries.

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