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Strengthening Institutions for the Preparation of Government Budgets

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ABBREVIATIONS AND ACRONYMS

ACU	Aid Coordination Unit
CP	Cooperating Partners
DFID	Department for International Development
ESAP	Economic Structural Adjustment Program
GDP	Gross Domestic Product
GoZ	Government of Zimbabwe
GPA	Global Political Agreement
ICEU	Implementation and Control of Expenditure Unit (MoF)
IFIs	International Financial Institutions
IMF	International Monetary Fund
IPS	Integrated Planning System
MoEPIP	Ministry of Economic Planning and Investment Promotion
MoF	Ministry of Finance
MTBF	Medium-Term Budget Framework
MTEF	Medium-Term Expenditure Framework
MTFF	Medium-Term Fiscal Framework
MTP	Medium-Term Plan
MYFPR	Mid-Year Fiscal Policy Review
NDF	NDF
NDP	National Development Plan
PA	Performance Agreement
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PFMS	Public Financial Management System
RBB	Results-Based Budgeting
SSA	Sub-Saharan Africa
STERP-I	Short-Term Emergency Recovery Program
STERP-II	Three-Year Macroeconomic Policy and Budget Framework 2010-12
ZIMPREST	Zimbabwe Program for Economic and Social Transformation

EXECUTIVE SUMMARY

Background

During the 1980s and 1990s Zimbabwe was widely seen as having a relatively robust public finance management (PFM) system. In the years following 2000, budget processes and procedures were increasingly eroded until eventually hyperinflation rendered the formal budget process virtually meaningless. This period was also associated with considerable loss of capacities in the PFM system as trained and experienced staff left the public service.

Since February 2009, good progress has been made in re-establishing a functioning budget process and in restoring macroeconomic and fiscal discipline. The focus is now shifting towards strengthening the organisation of the planning and budgeting process and pursuing associated systemic reforms and initiatives including the (i) establishment of an effective policy development and strategic planning process; (ii) the adoption of a more strategic perspective to budget planning within a medium-term expenditure framework (MTEF); and (iii) implementation of results based budgeting (RBB). Measures have also been taken to strengthening budget execution and accounting procedures.

In rebuilding and updating its planning and budgeting processes, Zimbabwe will be able to take into account the recent experiences with the implementation of similar reforms in Africa and elsewhere. Much of this experience highlights the importance of realism in the planning and implementation of reform initiatives and the need to move forward in a deliberate manner. In Zimbabwe, there is the added challenge of having to address severe capacity limitations and re-establish core public finance management (PFM) processes and procedures before moving ahead with more ambitious budgeting reforms.

Main Findings

The Budget Preparation Calendar

The 2010 and 2011 budgets have been prepared against very tight deadlines leaving ministries with little time to plan their expenditure programs. Budget requests from line ministries have exceeded by a substantial margin the available fiscal envelope. These weaknesses are recognised by the MoF and a new budget preparation calendar is to be introduced linked to the RBB initiative. However, the new calendar compresses budget planning into a relatively short four month period and does not give sufficient prominence to the initial strategic review and prioritisation phase that is fundamental to an effective budget process. The formal involvement of the cabinet in the budget process could be made more explicit and further steps taken to involve the Parliament in the discussion of budget strategy and to allow more time for discussion of draft Budget. The MoF should revise the budget planning cycle and establish a clearly defined and specified strategic phase that commences by the end of the first quarter of the financial year leading to the presentation of a Budget Strategy Paper and finalisation of ministry budget resource ceilings.

Budget Planning Processes

- Medium-Term Budgeting. Priority has been given to strengthening macroeconomic forecasting and to establishing realistic fiscal aggregates within which budget preparation can take place.

The MoF is now developing the budget within a three year fiscal forecast although there remain considerable uncertainties over the outer year forecasts that limit their usefulness for budget planning purposes. The Budget Estimates also include expenditure forecasts for a further two years, although these are too detailed and have little credibility. The MoF should aim to progressively develop the medium-term budget focus towards the adoption of a full MTEF, drawing on the experience of other African countries that have successfully introduced such reforms.

- Linking Policy and Strategic Planning to the Budget. Through the 2009 Short-Term Emergency Recovery Program (STERP) and the 2010-12 Macroeconomic Policy and Budget Framework (STERP2), the MoF has signalled the importance of re-establishing an effective policy development and strategic planning process. Concurrently, the Ministry of Economic Planning and Investment Promotion (MoEPIP) has overseen the preparation of a draft Medium-Term Plan (MTP) which is more aspirational and reflects some of the weaknesses and lack of realism of previous National Development Plans (NDPs). The challenge ahead will be to draw on these initial experiences in building an effective policy and strategic planning process that is realistic, makes best use of available professional and administrative capacities, and is integrated with the budget planning process.
- Results-Based Management and Budgeting. The RBB procedures are complex and time-consuming, and appear over-specified for the current conditions in Zimbabwe. The sector policies and strategies that should provide the framework for RBB are not in place and ministries do not have the capacities to undertake the detailed costing involved. Elsewhere RBB has been seen as a relatively sophisticated reform that should be introduced at a late stage in the roll out of MTEF and budget planning reforms. The MoF should undertake a detailed reassessment of the RBB initiative to determine its feasibility and how current procedures and roll-out plans should be modified and to take account of capacity constraints.
- Capital Investment Program Management. Zimbabwe's once well developed infrastructure has deteriorated dramatically in recent years and represents a major constraint to economic recovery. In the short-run the costs of infrastructure rehabilitation will need to be met primarily from the central government budget with donor financing also becoming available. In these circumstances, the MoF will need to shift the emphasis of its capital investment planning away from the open-ended identification of investment needs to a prioritised investment plan that is consistent with resource availability. This will require more rigorous procedures for the identification, screening, appraisal and management of capital investment projects.
- Bringing Aid on Budget. Aid financing is currently being channelled through a wide range of procedures and modalities that mostly bypass government systems. This presents major challenges for budget planning, execution, reporting, oversight and accountability. An immediate priority is for the MoF to work with the CPs in developing a comprehensive listing of aid funding and projects supporting government services, and to put in place procedures for monitoring aid flows and disbursements.

Budget Documentation and Presentation

An impressive set of documentation is now prepared to support the budget process and is being made available through the MoF website. However, there is significant duplication between documents and scope for rationalisation. The main requirement is for the budget documentation to be better linked to the key decision points in the budget process – in agreeing at the outset of the budget process on the key strategic issues to be addressed during budget preparation, in preparing by the end of June the budget strategy and ministry resource ceilings, and in presenting the final budget proposals.

Legislative Framework

A new PFM Act has been passed that sets out the overall framework and responsibilities for ensuring transparency, accountability and sound fiscal management. The law does not provide any general specification of the budget process and calendar.

Organisational Structures and Capacity Building

Around 75% of staff in the MoF have been in place for less than two years, and the situation is similar in the finance departments in line ministries. The high proportion of new staff appointments places additional demands on ministries in providing training and mentoring. The staffing constraints also emphasise the importance of eliminating overlapping functions and responsibilities and avoiding unnecessary fragmentation within ministry structures.

Action Plan

The short and medium-term actions to strengthen the planning and budget process are summarised in the following matrix. This distinguishes between those reform measures to be initiated in 2011 and 2012 and those that could be introduced in the following years.

Findings/Issues	Short-Term Measures (for 2011-12)	Medium-Term Measures (2013 onwards)
A. The Budget Preparation Calendar		
<p>New budget planning calendar being introduced linked to the RBB initiative. However, the timetable remains overly compressed with budget preparation taking place between August and November.</p> <p>The strategic review and prioritisation stage of the budget development not sufficiently separated from preparation of the detailed budget estimates.</p> <p>The budget calendar does not allow sufficient time for the Parliament to review and discuss draft Budget.</p> <p>Role of the cabinet at different stages in the budget process not clearly specified.</p>	<ul style="list-style-type: none"> Reinstate practice of initiating budget preparation before end of first quarter to allow more time for budget policy and strategy review and analysis. Introduce a budget strategy paper (BSP) to underpin the preparation of the next Budget. BSP to replace the Mid-Year Fiscal Policy Review (MYFPR). BSP to be submitted to Cabinet by end June. Bring forward preparation of the detailed budget spending proposals to allow the Budget to be finalised and submitted to the Parliament by the end of October. Introduce a separate budget implementation review based on budget execution data for the first six months of fiscal year. The review to support necessary revision of annual budget. 	<ul style="list-style-type: none"> Strengthen and make explicit role of the cabinet at key stages in budget process in agreeing: (i) the BSP and ministry ceilings; and (ii) the draft budget prior to its submission to Parliament.
B. Strengthening Budget Planning Processes		
Medium-Term Perspective in Budgeting		
<p>MoF still at an early stage in re-establishing medium-term budget planning. It is looking to implement a comprehensive MTEF reform.</p> <p>A fiscal framework is in place. While ministries prepare outer year budget estimates for a further two years, these still have little credibility.</p> <p>Budget ceilings provided to line ministries for recurrent expenditure, but not for capital expenditure. Ministry budget requests exceed ceilings by a substantial margin.</p> <p>Opportunity to learn from the mixed experience in implementing medium term budgeting reforms elsewhere.</p>	<ul style="list-style-type: none"> Further strengthen macro-fiscal analysis and forecasting capabilities in order to provide more robust basis for setting medium-term fiscal targets and budget ceilings. Ensure more realistic budget planning by requiring line ministries to submit budget proposals within their budget ceilings. Priority funding requests in excess of their ceilings can be presented as addendum to their budget submissions. 	<ul style="list-style-type: none"> Develop and implement long-term action plan for progressively rolling out medium-term budgeting reforms and establishing a full MTEF. Experience from elsewhere shows that implementation should be phased over several years. Extend budget ceilings to include capital spending allocations, taking account forward funding commitments for on-going projects.

Findings/Issues	Short-Term Measures (for 2011-12)	Medium-Term Measures (2013 onwards)
Linking Policy and Strategic Planning to the Budget		
<p>Through the STERPs and MTP, the government has sought to re-establish its medium-term policy and planning processes. But there remain inconsistencies in macro forecasts and in the scale of planned public investment spending. Risk of re-establishing policy and strategic planning process that is overly rigid and lacks realism.</p> <p>Capacities in the MoF, MoEPIP and line ministries for policy development and planning are limited. A policy consensus across government has yet to be fully established.</p>	<ul style="list-style-type: none"> Policy and planning priorities in the short-term should remain: (i) consolidating macroeconomic stability; (ii) developing a realistic macro-fiscal framework to guide budget planning; and (iii) re-establishing a credible annual budget that is successfully implemented. Elaborate a flexible policy and strategic planning process that links development and updating of policies and strategies to rolling medium-term action plan that is integrated with the budget planning cycle. 	<ul style="list-style-type: none"> Increase the focus on the reform of sector policies, strategies and expenditure programs with the aim of delivering more effective public services consistent with public resource constraints and strategic objectives. Reorganise policy and planning functions in line ministries so that they are better integrated with the budget process. Consider establishing combined planning and budgeting departments. Review roles of MoF, MoEPIP and the Prime Minister's Office in policy and planning process. Stream-line processes and consolidate functions to make more effective use of available capacities.
Results-Based Management and Budgeting		
<p>Zimbabwe has introduced RBB at an early stage in its medium-term budgeting reforms. The RBB procedures appear overly complex and resource intensive for current conditions when the priority should be to re-establish core budget planning and management processes.</p>	<ul style="list-style-type: none"> The performance agreements that are signed between line ministries and the MoF should be limited to the implementation of the budget as specified in the ministry work plan. Undertake detailed reassessment of plans for roll out of RBB to determine their feasibility and likely effectiveness under current conditions in Zimbabwe. The review should include an analysis of the benefits and costs of RBB drawing on the experiences of other SSA countries. 	<ul style="list-style-type: none"> The GoZ should consider carrying out a more detailed review of the wider RBM initiative. This should reassess its feasibility in the current conditions in Zimbabwe with a view to simplifying procedures in order to reduce capacity demands. Based on the outcome of the RBB reassessment, introduce revised procedures backed up by manuals and training materials. Resolve issue of integration of RBB into budget classification. Develop capacities in ministries to handle a policy driven budget process.
Capital Investment Program Management		
<p>In the short to medium-term the costs of infrastructure rehabilitation will continue to be met primarily from the central government budget.</p> <p>Capital investment planning continues to focus on identification of investment needs. This results in open-ended wish lists of projects with little prioritisation against likely available financing.</p>	<ul style="list-style-type: none"> Introduce a capital spending plan as part of the budget process that links capital spending allocations to total estimated project cost. Prioritise allocations for completion of on-going infrastructure projects over initiating new capital projects. 	<ul style="list-style-type: none"> Put in place a two step process for approval of capital investment projects with (i) provisional approval following identification and screening; and (ii) final approval after detailed design and appraisal for including in the budget Roll out new standards and procedures for project design, preparation and appraisal. Train staff in the new procedures.

Findings/Issues	Short-Term Measures (for 2011-12)	Medium-Term Measures (2013 onwards)
Bringing Aid on Budget		
<p>Aid financing currently channelled through a wide range of mechanisms, making it difficult to reflect aid flows in the budget and coordinate donor and GoZ financed expenditure.</p> <p>CPs remain cautious towards using the former NDF procedures and more generally toward using GoZ financial systems.</p>	<ul style="list-style-type: none"> ▪ In order that aid financed spending can be reflected in budget plans, work with CPs to: (i) develop a comprehensive listing of public expenditures financed by the CPs; and (ii) establish procedures for budgeting and tracking of aid financed expenditures. ▪ Develop timetable and action plan to restore PFM systems to allow CPs to bring their investment funding 'on system' and satisfy requirements for receiving budget support. 	<ul style="list-style-type: none"> ▪ Review existing NDF and Vote of Account arrangements and determine how CPs funded projects can be better integrated with ministry planning and budgeting procedures ▪ Apply common procedures for the identification and screening of externally and domestically financed expenditures. ▪ Put in place the necessary conditions for donor funding to be provided as budget support.
C. Budget Documentation and Presentation		
<p>A comprehensive set of documentation around the budget process exists. This comprises: (i) the Three Year Macroeconomic Policy and Budget Framework; (ii) the Budget Statement and Budget Estimates; (iii) the Mid-Year Fiscal Policy Review; and (iv) the Quarterly Treasury Bulletins.</p> <p>However, considerable overlap in the analysis contained in these documents. Scope for introducing a better sequenced set of documentation to support the budget decision making and facilitate more informed discussion of the Budget in the Parliament.</p>	<ul style="list-style-type: none"> ▪ Transform MYFPR into a BSP for discussion in cabinet prior to issuing the budget call circular. BSP to set out macro-fiscal framework, policy context and strategic priorities, and resource ceilings for the next budget. ▪ Present BSP to Parliament to allow the underlying strategic and policy basis of the budget to be discussed prior to presentation of the full budget. 	<ul style="list-style-type: none"> ▪ Introduce a Budget Issues Paper to be discussed at a government workshop held at outset of budget preparation. The paper to set out the key issues and choices to be analysed and addressed in developing the next budget. ▪ Improve presentation of ministry budgets in the Blue Book by: (i) progressively strengthening the narrative section; and (ii) developing the tabular presentation linked to revision of budget classification.
D. Legislative Framework		
<p>New Public Finance Management Act was passed in early 2010, but provides little specification of budget process.</p> <p>The Act requires that the draft Budget should not be presented in the Parliament before December leaving insufficient time for its discussion.</p>	<ul style="list-style-type: none"> ▪ Develop budget instructions and guidelines to reflect recent reforms and new procedures being introduced. ▪ Revise PFM Act to require submission of the draft Budget to the Parliament at least two months before start of new financial year. 	<ul style="list-style-type: none"> ▪ Undertake wider revision of legislation covering the budget process, involving either revision of PFM Act or preparation of a separate law on the budget system and process.

Findings/Issues	Short-Term Measures (for 2011-12)	Medium-Term Measures (2013 onwards)
E. Organisational Structures and Capacities		
<p>Currently considerable overlap in the roles and functions of MoF and MoEPIP resulting in poor utilisation of available skills and capacities.</p> <p>A high proportion of staff in the central and line ministries have been appointed in the last two years (75% in the case of the MoF).</p>	<ul style="list-style-type: none"> ▪ Establish training and capacity development program in budget planning and management for staff in MoF and line ministries. ▪ MoF and MoEPIP should advise line ministries on strengthening their budget planning and budgeting functions. This should consider the scope for integration of these functions within unified planning and budgeting units. 	<ul style="list-style-type: none"> ▪ Undertake functional review of MoF and revise organisational structure based on the review findings. Review should consider reintegrating ICEU into Budget Department, and consolidating current and investment budgeting within unified sector clusters.

I. INTRODUCTION

1. **Since the beginning of 2009 Zimbabwe has made considerable progress towards restoring its public finances.** The achievements have been particularly impressive in view of the severe capacity constraints that continue to be faced by the Ministry of Finance (MoF). With significant progress made towards the immediate goal of macroeconomic and fiscal stabilisation, the Government of Zimbabwe (GoZ) now needs to look at how to further strengthen and develop the strategic planning and budgetary institutions over the medium term. This note¹ addresses this issue and identifies a series of reform measures aimed at strengthening the procedures for budget planning and the allocation of public resources. In so doing, it emphasises the need for Zimbabwe to draw on the recent experience of other countries in reforming their budget processes and systems.

2. **A series of broad recommendations are provided for strengthening the budget preparation process over the next 3-4 years.** Each of these recommendations will need to be reviewed and further developed before they can be acted upon. In many instances there will be different options to be considered regarding the approach to be followed and in the timing of implementation. While there will be pressures to move forward quickly, it will be important for the MoF to be realistic in allowing sufficient time for the design and testing of new procedures and also to take into account the implications of institutional and capacity constraints for the proposed course and timing of the planned reform measures.

3. **However, it should be recognised that the success of the measures proposed in this note will depend on the implementation of the government's wider program of initiatives to strengthen public finance management and accountability.** Budget execution and accounting processes are still being re-established and remain weak. A functioning payments system has only recently been reintroduced, accumulation of arrears remains a significant problem, there is no systematic tracking of banking accounts and the monthly budget outcomes data are subject to frequent revisions². Furthermore, the lack of accountability in the parastatals sector continues to be a major fiscal management issue. Decisions with significant fiscal implications are made by those who control the parastatals sector without reference to the MoF, with the result that fiscal resources have subsequently to be reallocated to accommodate these decisions. This undermines the integrity of the budget and creates significant deviations between budget outcomes and the budget approved by parliament.³

4. **The note is organised as follows.** Section II outlines the background and institutional context of the planning and budgeting system in Zimbabwe and some of the key challenges that are to be faced in strengthening it. Section III reviews the current budget calendar and makes recommendations for adoption of a revised calendar that would support a more strategic approach to budget planning, allow line ministries greater time to prepare their budgets, and provide for cabinet-level involvement at key stages in the budget planning process. Section IV considers requirements for strengthening key aspects of the budget planning process covering medium-term budgeting, the link between policy and budget planning, results based management and budgeting, capital investment program management, and

¹ The note is one of a series of public expenditure notes that are intended to contribute to the dialogue between the Cooperating Partners (CPs) and the Government of Zimbabwe on public expenditure management issues. The other notes cover: (i) Operational and regulatory challenges in parastatals; (ii) Managing public wage bill and employment; and (iii) challenges in financing education, health, and social protection expenditures).

² The on-going Public Expenditure and Financial Accountability (PEFA) study will provide a comprehensive assessment of the current status of Zimbabwe's PFM systems that can be used for identifying reform priorities.

³ The fiscal challenges in the parastatals sector are the subject of a separate public expenditure note.

bringing aid on budget. Section V makes recommendations for improving the presentation and documentation of the government's budget plans. Section VI looks at the legislative framework provisions relating to the preparation of the budget. Finally, Section VII considers issues of organisational structure and capacity building requirements.

II. BACKGROUND AND INSTITUTIONAL CONTEXT

5. **This section provides a brief overview of the evolution of Zimbabwe's planning and budgeting system in the period between Independence and 2000, and its subsequent near collapse as the economic situation deteriorated rapidly in the following years.** It provides the context within which to understand the challenges and choices that now face the GoZ in rebuilding these processes, and why it is important to look to recent experience from other SSA countries rather than seeking to reinstate former systems and processes and initiatives.

Size of Government Operations

6. **Historically public expenditure in Zimbabwe was high compared with other countries of similar levels of per capita income.** For most of the 1980s, central government expenditure constituted about 45 percent of GDP. This represented a much larger presence of government in the economy than in most other African countries and was only exceeded by a few European countries. High levels of public expenditure led to large and unsustainable fiscal deficits which from the mid 1980s averaged 10 percent of GDP. By the early 1990s the increasing level of state activity in the economy had become a constraint to economic development. Against this backdrop, the key objectives of the adjustment programs that became the major feature of economic policy during the 1990s were control of public spending, reduction in the fiscal deficit and implementation of structural reform measures to facilitate private sector growth. However, these policies were not successful.

7. **The subsequent period of rapid economic decline during 2000-08 resulted in per capita GDP falling by 42 percent in real terms (Table 1).** Over the same period public expenditure fell from 44 percent of GDP to under 7 percent of GDP. Although public expenditure is expected to recover to over 30 percent of GDP in 2010, it will still be less than 50 percent in real terms of the level of a decade earlier.

Table 1: Selected Macroeconomic and Fiscal Indicators

		2000	2004	2008	2009e	2010p
GDP	<i>(constant 2000 million US\$)</i>	6,803	5,469	3,914	4,070	4,160
GDP per capita	<i>(constant 2000 million US\$)</i>	546	438	314	326	333
Revenue and Grants	<i>(constant 2000 million US\$)</i>	1,721	1,859	133	904	1,086
	<i>(% of GDP)</i>	25.3	34.0	3.4	22.2	26.1
Expenditure	<i>(constant 2000 million US\$)</i>	2,993	2,242	254	973	1,402
	<i>(% of GDP)</i>	44.0	41.0	6.5	23.9	33.7
Fiscal Balance[#]	<i>(constant 2000 million US\$)</i>	-1,265	-383	-125	-69	-316
	<i>(% of GDP)</i>	-18.6	-7.0	-3.2	-1.7	-7.6

[#] (accrual basis, incl grants)

8. **The large size of the public service wage bill has been an enduring policy issue that will need to be addressed by the government as fiscal stability is restored.** Spending on wages and salaries

averaged around 25 percent of total primary expenditure (total expenditure less interest payments) during the mid 1980s, but had risen to over 35 percent during the first half of the 1990s and reached 56 percent in 2000. The wage bill is forecast at 43 percent of total primary expenditure in 2010. By contrast, capital expenditure remained relatively low by international standards, averaging less than 10 percent of total primary expenditure during the mid 1980s. While it increased to around 12.5 percent in the early 1990s, it subsequently collapsed to 2.3 percent in 2000. Managing public expenditure so that wagebill spending does not crowd out essential spending on operations and maintenance and capital investment remains a major fiscal policy challenge.

9. The substantial decline in real GDP and public spending over the last ten years poses significant challenges for the GoZ in reformulating its budget policies and strategies to take account of Zimbabwe's changed economic circumstances and for establishing the private sector led growth that is a cornerstone of the government's development strategy. This has a number of implications for the planning and budgeting process:

- **First, Zimbabwe will need to avoid a return to the very high levels of public spending and government borrowing that characterised public spending during the 1980s and 1990s.** This will require a fundamental review of the role of government and of government spending programs and priorities in order to ensure the sustainability of public finances and the effective and efficient use of scarce public resources.
- **Second, line ministries will need to review their spending priorities and programs.** Adjustments will be required to reflect the levels of infrastructure and services that can realistically be provided within the available resource envelope and also to take account of the changed role of government spending in the sector.

Development Assistance

10. Zimbabwe was previously a major recipient of Official Development Assistance (ODA), although from the late 1990s aid flows declined dramatically with most ODA now channelled outside of the government budget. In 1980, the year Zimbabwe gained Independence, net Official Development Assistance (ODA) totalled \$ 160 million. During the 1980s the level of assistance continued to increase and peaked at \$789 million in 1992 with external grants and loans financing around 13% of total government expenditure. Aid flows subsequently fell to \$ 163 million in 2001 and the assistance that was received was increasingly channelled outside of the government budget. From 2005, receipts of ODA began to increase, and had reached \$ 611 million in 2008. However, the major share of ODA now passes outside of the government budget with foreign grants totalling \$ 41 million recorded in the 2009 Government accounts.

Development Policy and Planning Framework

11. Like many SSA countries, Zimbabwe introduced a national development plan (NDP) following Independence. The three-year Transitional National Development Plan 1982/83-1984/85 was followed by the First Five Year National Development Plan 1986-90 and the Second Five Year National Development Plan 1991-95. Slowing economic growth and the deteriorating fiscal situation during the early 1990s resulted in government policy becoming increasingly determined by the structural adjustment program (ESAP) that was agreed with the IFIs in 1990. The NDPs had proved overly aspirational and had failed to provide a robust and realistic framework for guiding public resource allocation. As a result few of the plan targets were achieved and the Second Five Year National Development Plan was effectively sidelined by the ESAP which was followed in 1998 by the three year Zimbabwe Program for Economic and Social Transformation (ZIMPREST), the Zimbabwe Millennium Economic Recovery Program, and the 2003 National Economic Recovery Program. Whereas the NDPs envisaged a high level

of state control over the economy, this stance was formally reversed in the ESAP and ZIMPREST which focused on macroeconomic management and structural reforms. However, neither of these initiatives was successful in halting the deterioration in Zimbabwe's economic and fiscal performance. After 2000 there were also attempts to reinstate a five year NDP process, with the 2006 Budget Statement referring to ongoing work on the preparation of the 2007-11 NDP.

12. The experience with the NDP process in Zimbabwe echoes that of other African countries which, during the late 1980s and early 1990s, abandoned the preparation of five year plans and introduced more flexible medium-term economic and fiscal policy frameworks that were better linked to the budget process. Poverty reduction strategies and medium-term expenditure frameworks became key elements of this new approach. More recently some countries, including Zambia and Uganda, have reinstated NDP processes, although there remain questions over the extent to which these are providing a realistic strategic framework for planning government programs and budgets (Box 1).

Box 1: Zambia's Experience with Reinstating the NDP Process

Zambia adopted a five year national planning framework at Independence. The 1964-66 Transitional Development Plan was followed by four National Development Plans (NDP). However, the NDPs became progressively more unrealistic and unaffordable and their link to government policies and budgets increasingly tenuous. The fourth NDP was not rolled over and during the 1990s the focus switched to shorter term economic management and macroeconomic stabilisation.

The preparation of a Poverty Reduction Strategy Paper (PRSP) in 2000 saw the reinstatement of a medium-term planning horizon. This was followed by the 2002-05 Transitional National Development Plan and the Fifth National Development Plan 2006-10 (FNDP). In reinstating the NDP process, it was emphasised that the new generation of NDPs should avoid the weaknesses and lack of realism of their predecessors.

However, a review of Zambia's planning and budgeting system undertaken in 2009 found that the FNDP reflected a number of the weaknesses of the former NDP process. These included: (i) the absence of an elaborated macroeconomic and fiscal framework making it impossible to assess the realism of the spending proposals contained in the NDP; (ii) insufficiently defined sector policies, strategies and priorities to guide program and budget planning; and (iii) the lack of a procedure for annual review and updating of the FNDP to maintain its relevance.

The Budget Process

13. During the 1980s and 1990s Zimbabwe was seen as having a relatively robust budget preparation process. A well elaborated budget planning cycle existed that commenced early in the fiscal year with cabinet setting the key priorities for the next year's budget. This was followed by the development of an initial macroeconomic framework and issuing of the budget call circular in March requesting ministries to submit their initial budget proposals. The budget proposals submission were reviewed by the finance ministry in June/July, after which the budget framework containing recommendations for the final ministry budget ceilings was prepared and submitted to the Cabinet Committee on Economic and Social Affairs. Following approval of the budget framework in August, ministries prepared their revised budget estimates within the agreed ceilings. After review of the ministry budget submissions by the finance ministry the estimates were finalised and incorporated into the draft Budget that was presented in Parliament in early December.

14. In the period following 2000, the budget preparation cycle became increasingly compressed into the final months of the year as rising levels of inflation necessitated shortening the gap between budget preparation and the start of the new fiscal year. Ultimately, hyperinflation rendered the formal budget planning process meaningless, although the annual budget continued to be presented to Parliament prior to the start of the fiscal year. Nevertheless the formalities of the budget preparation

process continued to be observed. Ironically, it was only as the newly appointed government re-established, at the beginning of 2009, a meaningful budget framework that the annual Budget was for the first time presented in the Parliament after the beginning of the new financial year.

15. While core budget processes were being increasingly undermined by economic crisis, the GoZ continued to pursue two initiatives aimed at modernising the management of the budget. The first, which had commenced in the late 1980s, involved the introduction of a modern public financial management system (PFMS). The deteriorating conditions in the following years meant that the system was never fully introduced and eventually the hyperinflationary environment meant that it was unable to handle core accounting functions. The second was the results based budgeting (RBB) approach, which was formally adopted in 2006 as one component of a wider Results Based Management (RBM) initiative coordinated through the Office of the President and Cabinet. The other components of this reform were a personnel performance system, a monitoring and evaluation system and a management information system. Considerable work was done in developing RBB guidelines which included a modified budget planning cycle. However, the political and economic environment at that time meant that the necessary conditions were not in place for introducing and successfully rolling out RBB.

Capacity Issues

16. In the late 1990s, Zimbabwe had a well resourced planning and budgeting system that in many aspects performed satisfactorily. Although the high degree of state intervention in the economy had exposed the system to abuse, this was relatively confined and problems of pervasive corruption were much less widespread than in many other African countries. As such, core budget and public finance management processes had been less undermined than elsewhere.

17. The period between 2000 and 2008 saw a dramatic reduction in the capacities to support the budget process. This was evidenced in a number of ways. First, there was a substantial loss of skilled and experienced staff from both the MoF and line ministries. In mid 2010 only a quarter of the staff working in the MoF had been in post for longer than two years. Second, there was significant erosion of institutional memory. This was reflected not only in the shortage of staff experienced in the operation and management of the budget process, but in the inaccessibility of instructions, guidelines and other documentation on the budget process. Third, staff in the MoF and line ministries now lack the IT equipment and systems required to carry out their daily tasks efficiently.

18. Since February 2009, impressive progress has been made in re-establishing a functioning budgeting process. The initial emphasis during 2009 was on achieving macroeconomic and fiscal stabilisation and restarting basic processes. New staff was recruited into the MoF and a new Public Finance Management Law setting out the functions and responsibilities of the key players in the public finance management (PFM) system was promulgated. With the immediate objectives under the government's Short-Term Emergency Recovery Program (STERP-I) largely achieved, the focus within the MoF has shifted towards strengthening the organisation of the planning and budgeting system, and to pursuing systemic reforms including the revamp and roll-out of the PFMS, the introduction of a more strategic medium-term perspective to budget planning, and the implementation of RBB.

19. In reforming and rebuilding its budget planning and management processes, Zimbabwe has the opportunity to learn from the recent experience of planning and budget systems reforms in other SSA countries. Much of this experience has highlighted the importance of realism both in the expectation and design of initiatives such as medium-term budget planning reforms, integrated financial management information systems, and performance oriented budgeting. In the case of Zimbabwe it will also be important to address capacity limitations and to re-establish core PFM systems before moving ahead with more ambitious reform initiatives.

III. REVISING THE BUDGET PREPARATION CALENDAR

20. **The budget preparation calendar should set out clearly the different stages and elements of budget preparation and the responsibilities for each of these stages.** These typically involve the development of the macro-fiscal framework, determination of the policy priorities to guide resource allocation, the review of ministry strategies and spending priorities, the preparation of the detailed ministry budget requests, and the review of these requests and their incorporation into the draft budget. It should also identify the key points at which cabinet-level discussion is likely to be required and provide sufficient time for parliamentary consultation and review of the government's budget proposal. This section addresses the issue of how the budget calendar should evolve to support a strengthened budget planning process. It begins by looking at the timetable for the preparation of the 2011 Budget, and then goes on to assess the new calendar that has been developed for RBB. Finally, it makes recommendations for further revisions drawing on the experience of other countries

Preparation of the 2010 and 2011 Budgets

21. **The priority for the MoF during 2009 and 2010 was to re-establish a credible budget in an environment that at least initially was extremely uncertain.** In these circumstances the focus was on establishing a realistic macro-fiscal framework and then fitting ministry spending demands within this framework. Timelines were typically very short allowing little time for development and review of spending plans. The MoF also introduced a Mid-Year Fiscal Policy Review (Box 2) prepared in July and which in 2009 and 2010 also represented a second updated budget for the year introducing significant changes in resource allocations. With a more stable fiscal and budgeting environment now in place, the MoF is looking to introduce new budget preparation calendar linked to the RBB initiative, although this was not possible for the preparation of the 2011 Budget.

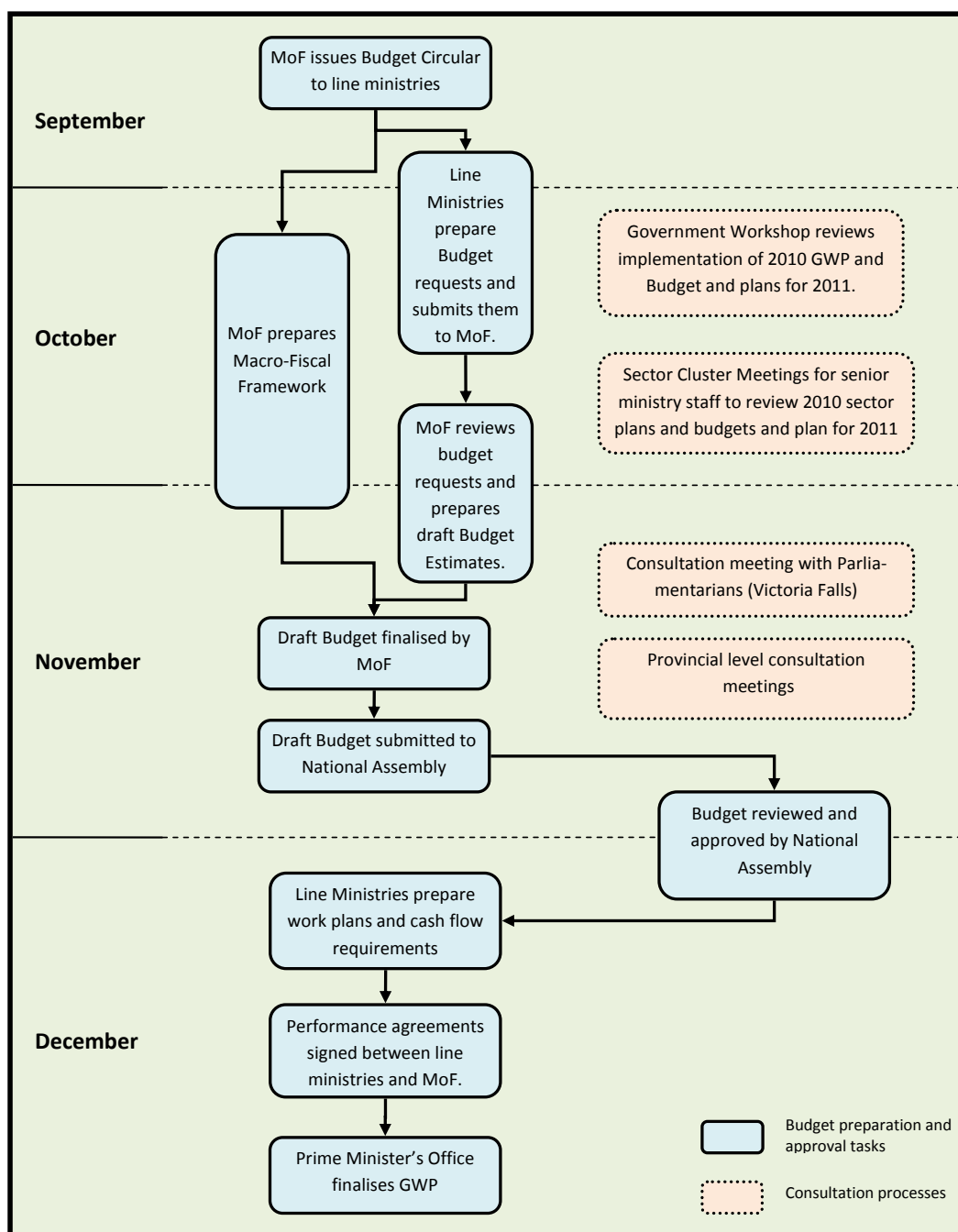
Box 2: Mid-Year Fiscal Policy Review

The MoF introduced in 2009 a Mid-Year Fiscal Policy Review (MYFPR) that is presented to Parliament in June. While the formal role of the MYFPR is to assess progress with implementation of the current year's budget and identify necessary changes to ministry Budget allocations, it has also provided a more comprehensive policy review and update of STERP implementation.

The MYFPR combines elements of a budget strategy paper (BSP) that sets out the fiscal strategy and priorities that should be the basis for the development of the following year's budget with a more detailed budget implementation review based on budget performance and outturns during the first six months of the year. In practice it can be problematical to combine these two distinct functions if it results in a late start to the preparation of the annual budget. Consequently, most countries treat the BSP and mid-year budget implementation review as separate exercises.

22. **The 2011 Budget (Figure 1) was again prepared against very tight deadlines with the Budget Call Circular being issued in September 2010 and the draft Budget being submitted to Parliament on 25th November.** The relatively late start to budget preparation was a consequence of the MoF first completing the MYFPR and the updating and revision of the 2010 Budget. Despite the tight timetable, an impressive program of consultation around the development of the 2011 Budget took place involving government ministries, the Provinces, and parliamentarians. The preparation of the Budget was also linked to the review and updating of the Government Work Plan (GWP) that was coordinated by the Prime Minister's Office which played a facilitating role in organising some of the consultation processes.

Figure 1: 2011 Budget Preparation Process



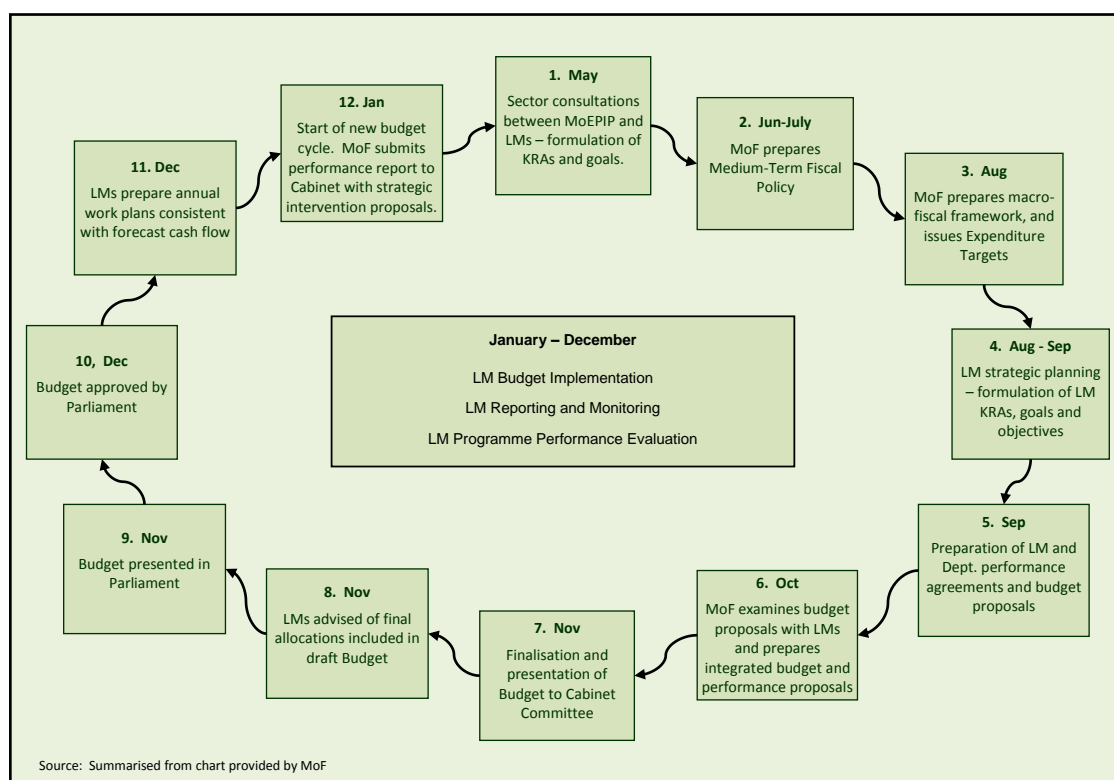
23. **However, there remained fundamental weaknesses in the preparation of the 2011 Budget.** Line ministries were provided with ceilings for recurrent expenditure, but not for capital expenditure. The ceilings were not based on any macro-fiscal framework, which was prepared later. As a result the budget requests received from line ministries considerably exceeded the available resources totalling \$12 billion against the final resource envelope of \$2.7 billion. Capital budget requests were particularly unrealistic, exceeding the eventual allocation by over twelvefold. The quality of ministry requests was generally poor with many being submitted late, in some cases only a day before the budget hearings. The tight deadlines meant that there was little opportunity for the MoF to send back ministry budget requests that significantly exceeded the ceilings. This meant that, as in the previous year, the MoF ended up

effectively setting the budgets for these ministries. The consultation processes around the strategies and priorities underlying the Budget also took place too late to influence the spending proposals included in the draft budget. It was also too open-ended with some of the issues better suited to a broader planning consultation than a discussion of the forthcoming budget framework.

The Revised Budget Preparation Calendar

24. **Under the new budget calendar developed for the RBB initiative, work on preparation of the budget should take place between May and November (Figure 2).** The new calendar acknowledges the requirement for strategic analysis and planning prior to the preparation of the detailed ministry budget estimates, with the MoF developing the budget framework in August, and line ministries undertaking a strategic planning exercise in August/September. It also emphasises the importance of reporting, monitoring and program performance evaluation as activities that should be on-going throughout the year.

Figure 2: The New Budget Preparation Calendar (RBB)



25. **However, the calendar has a number of weaknesses when compared with good practice in other countries:**

- **The strategic review and planning phase of the budget planning cycle and the preparation of the detailed budget preparation are confined within a four months period between August and November.** In other countries, preparation of the budget is initiated considerably earlier in the fiscal year to allow sufficient time for budget strategy review and priority setting, and sector strategy and expenditure reviews. For example in both South Africa and Uganda the budget process starts in the first quarter of the fiscal year with the issuing of the budget preparation guidelines, cabinet-level meetings to review the budget strategy and priorities, and the revision of ministry three-year strategic plans. This is similar to the timetable that existed in

Zimbabwe prior to 2000 when the budget strategy was reviewed by cabinet and the budget call circular issued before the end of the first quarter.

- **The strategic review and planning phase in the budget planning calendar is not sufficiently separated from the task of preparing the detailed budget estimates.** Good practice elsewhere is for the strategic phase to lead to the preparation of a budget strategy paper (BSP)⁴ or budget framework paper that is typically approved by the cabinet prior to issuing the final resource ceilings to be used by ministries in making their detailed budget submissions⁵.
- **The role of the cabinet in the budget process is not clearly spelt out.** In other countries there are cabinet-level discussions at several stages during budget preparation. For example, Uganda's MTEF provides for cabinet involvement: (i) at the outset of budget preparation when a cabinet-level retreat is held to discuss the strategic issues and directions for the coming budget; (ii) at the conclusion of the strategic phase when the budget framework and final resource ceilings are firmed up; and (iii) when the draft budget is finalised.
- **The timetable provides for only limited consultation with Parliament at the time when the Budget is presented.** It is increasingly common practice for governments to present their budget strategies to Parliament for discussion in advance of the presentation of the final budget proposal and detailed budget estimates. Examples of such presentations include the Spring Budget Bill in Sweden, the Pre-Budget Report in the United Kingdom, the Spring Budget Orientation Debate in France, the Medium-Term Budget Policy Statement in South Africa, the National Budget Framework Paper in Uganda, and the Medium-Term Expenditure Framework and Budget Green Paper in Zambia.

Recommendations

26. **The MoF should draw on the experience of other countries in further developing Zimbabwe's budget preparation cycle and calendar.** The revised calendar should address the immediate priority of developing a realistic and better justified annual budget while allowing for the development of a medium-term focus to budget planning. The key recommendations which are reflected in the revised budget calendar shown at Figure 3 involve:

- **Bringing forward the start of preparation of the budget to before the end of the first quarter of the fiscal year.** This will be necessary to support the development of a more policy based budget process that is at the heart of the RBB reforms that the GoZ is introducing.
- **Introducing a clearly demarcated strategic review and planning phase to budget preparation that precedes issuing of the budget ceilings and preparation of the detailed budget estimates.** During this phase:
 - ◇ The MoF and MoEPIP should review recent fiscal performance and analyse key fiscal and expenditure policy and strategy issues, update the medium-term macroeconomic forecasts and develop the initial medium-term macro-fiscal framework.
 - ◇ Line ministries should review their sector policies and expenditure programs, and update the key spending priorities and plans for the coming three years with an assessment of the expected budgetary implications. This analysis should be framed within a realistic estimation of the likely available budgetary resources that should be provided by the MoF and to the extent possible be based on the outer two years of the current MTEF.

⁴ Examples of budget strategy papers include South Africa's Medium-Term Budget Policy Statement, and Uganda's National Budget Framework Paper.

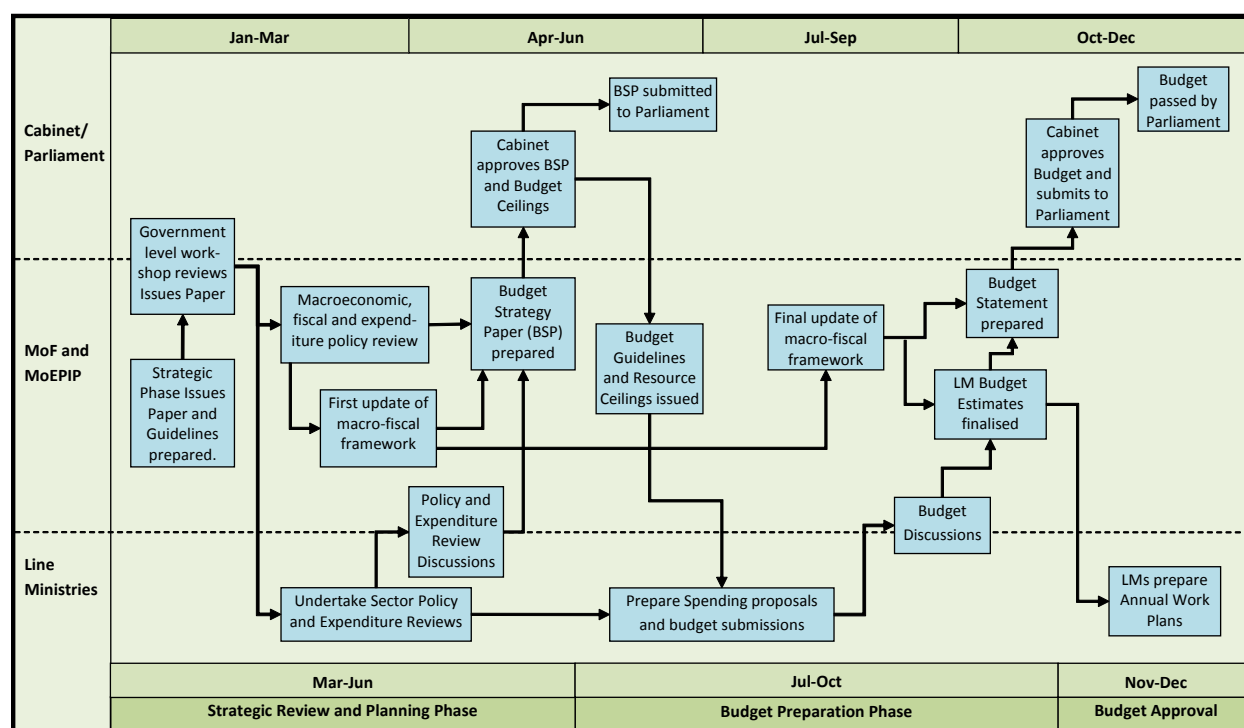
⁵ The Budget Strategy Paper is further discussed in Section V and an outline structure provided in Box 11.

◇ The MoF should develop the proposal for line ministry resources ceilings to be used in the preparation of the detailed budget proposals. These ceilings should be consistent with the medium-term macroeconomic framework and reflect the findings and priorities from the sector policy and expenditure reviews.

- **Making an earlier start to the budget preparation phase, during which line ministries prepare their detailed spending proposals and estimates.** This would allow the budget to be finalised and presented to Parliament by the end of October, two months prior to the start of the new fiscal year. During this phase, the macro-fiscal framework should be further updated and necessary adjustments reflected in the expenditure estimates.
- **Providing for a more explicit role for the cabinet at key stages during budget preparation:** (i) at the outset of the strategic phase in agreeing the fiscal and expenditure policy priorities and issues to be addressed in rolling forward the medium-term budget strategy; (ii) at the conclusion of the strategic phase when the budget strategy and line ministry resource ceilings are approved; and (ii) when the draft budget is finalised prior to its submission to Parliament.

27. **The strategic phase and the preparation of the BSP would to a considerable extent replace the existing MYFPR, providing more forward looking analysis focused on the coming budget period⁶.** However, while it would provide a revised fiscal forecast for the current year, the BSP would not include the more detailed budget implementation review required as the basis for making revisions to ministry budget estimates for the current year. This task would need to be undertaken as a separate and subsequent exercise once the budget execution data for the first six months of the year was available. As this would be part of the annual budget implementation, it is not reflected in Figure 3.

Figure 3: Proposed Revised Budget Preparation Calendar



⁶ It is recommend to retain the title of the MYFPR for the BSP document, bringing forward its preparation to the second quarter and transforming it into a budget strategy paper. A separate mid-year budget implementation review would then need to be prepared that follows the MYFPR and is focused on determining necessary revisions to current year's budget.

IV. STRENGTHENING BUDGET PLANNING PROCESSES

28. **The adoption of a revised budget preparation calendar should be seen as providing the architecture against which to strengthen core budget planning processes.** This section looks at issues around strengthening these processes. Specifically it covers: (i) medium-term budgeting reforms; (ii) linkage between strategic planning and budgeting processes; (iii) performance oriented budgeting reforms; (iv) capital investment program management; and (v) bringing aid on budget.

Medium-Term Perspective in Budgeting

29. **The MoF considers the development of a medium-term perspective as an important element of its program to strengthen the budget process.** There is a strong underlying logic of medium-term budgeting reforms. Governments need to plan their programs within a medium-term context since program reform initiatives and capital investment projects are typically implemented over a number of years. Budgetary resources should also be allocated consistent with strategic policy and program priorities and to ensure the efficient use of available resources. It has become conventional to differentiate between three levels of medium-term budgeting reforms (Box 3).

Box 3: Medium-Term Budgeting Reforms – Definitions[#]

The term medium-term expenditure framework (MTEF) is often used to refer collectively to a series of medium-term budget planning reforms. It has also become the convention to differentiate between three distinct levels in the development and implementation of these reforms.

- ◇ **A Medium-Term Fiscal Framework (MTFF)** requires agreement on a comprehensive statement of fiscal policy objectives against which fiscal performance can be assessed. It involves specifying fiscal targets that are consistent with macroeconomic stability and fiscal sustainability and which are embedded within realistic and internally consistent macroeconomic projections. It requires a strong interface between the government's national planning or development framework and the medium-term budget.
- ◇ **A Medium-Term Budget Framework (MTBF)** takes this approach a stage further by incorporating projections of expenditures and revenues by individual spending agencies that allocate resources in line with strategic priorities, consistent with the overall MTFF. This gives a degree of budget predictability to spending agencies, while ensuring overall fiscal discipline. An important advantage of an MTBF for developing and transition countries is that it helps link capital and recurrent budgets.
- ◇ **A Medium-Term Expenditure Framework (MTEF)^{##}** extends the analysis of expenditures further with more detailed sectoral costing and performance measures, sometimes extending to activity and output-based budgeting. It involves the production of medium-term disaggregated expenditure profiles, including (in more advanced versions) detailed costing and monitorable performance measures at an aggregate and sectoral level. These elements seek to improve the value for money of public spending, in addition to reinforcing fiscal discipline and strategic prioritisation.

For countries that are only beginning to develop and implement a medium-term framework, only aggregate forecasts will be feasible in the initial stages. These can nonetheless provide a useful starting point for considering medium-term changes in budget policy. Generally a basic MTFF and MTBF can be introduced over a relatively short period utilising existing systems and capacities. The introduction of a MTEF is likely to require a much longer period with its more ambitious elements involving substantial investment in reforming the budget classifications and in developing budget planning and management software systems. This can substantially increase the level of attendant risk.

[#] This box is based on the description and definitions provided in the IMF Manual on Fiscal Transparency (2007) paras 122 and 123.

^{##} Alternatively this may be referred to as a Medium-Term Performance Framework (MTPF). Under this taxonomy an MTFF represents a Stage 1 MTEF, and MTFF+MTBF represents a Stage 2 MTEF, and a MTFF+MTBF+MTPF represents a Stage 3 MTEF.

30. **Since the beginning of 2009, significant progress has been made in re-instating a realistic macro-fiscal framework within which the budget is being developed.** Forecasts are now being developed covering a three year period, although the underlying statistical and analytical basis for outer year forecasts remains weak and the usefulness of these outer year forecasts limited. The MoF has received support from the Bank in developing its capacities for macroeconomic forecasting and with introducing a basic macroeconomic forecasting model. There is a process for developing the macroeconomic forecasts that involves a working group comprising the MoF, the MoEPIP, the Central Statistical Office, and the Reserve Bank of Zimbabwe. However, in practice, forecasting capacities are largely confined to the MoF and it is the MoF that takes the lead.

31. **The budget ceilings currently have a limited credibility with line ministries submitting budget proposals significantly in excess of their ceilings.** Budget ceilings have a key role in medium-term budgeting reforms by providing a realistic envelope within which ministries can develop their medium-term spending plans. They can also facilitate a more strategic approach to budget planning by changing the basis of the budget negotiation with line ministries away from cutting back budget requests to fit within the available resource envelope towards ensuring that the ministry's spending plans represent an effective and efficient use of the available budget resources. At present, because they are not observed, the budget ceilings fulfil neither of these roles. Furthermore, the ceilings are not comprehensive since provision for capital spending is explicitly excluded. In the present circumstances this is not surprising since there is no forward capital investment spending plan that provides information on funding requirements for on-going projects that could be used in determining ceilings for capital spending. Establishing more credible and robust budget ceilings for both current and capital expenditure and introducing an enforceable requirement for ministry budgets to submit their budget requests within their ceilings should be seen as priorities in moving forward the medium-term budgeting reform (Box 4).

Box 4: Enforcing Budget Ceilings

Enforcing budget ceilings can be difficult if ministries perceive that presenting a budget request that significantly exceeds their budget ceilings might result in a larger budget allocation than if they had kept to their ceiling. At the same time, there may be a justification to provide a ministry with a larger allocation if some very high spending commitments had been overlooked in setting the ceiling.

One way around this issue is for the MoF to retain a share (perhaps up to 10% in Zimbabwe's current circumstances) of the updated aggregate resource ceilings[#] for later allocation when the budgets submissions are being reviewed. The remaining net aggregate resource ceiling is then distributed between ministry resource ceilings.

Ministries would be instructed that their base budget request must be submitted within their ceiling, or they would face having the request returned for revision. However, the ministry would be permitted to submit a number of separate additional requests to finance priority spending requirements that could not be covered within their base budget request. These additional requests would need to be accompanied by detailed justification showing the impact on the services provided by the ministry and explaining why the activity could not be funded from within the base budget. The additional requests should be ranked in order of their priority. To prevent ministries presenting a larger number of requests that would stand little chance of being financed, a limit on the number of additional requests and on their total funding requirement (as a percentage of the ministry's base budget ceiling) should be specified by the MoF.

The additional budget requests would then be assessed by the MoF for financing from the retained share of the aggregate ceiling. In addition to considering the merit of each request, the quality of the base budget request should be taken into account. If a ministry is not perceived to making the most effective use of its base budget allocation, the justification for it to receive additional funding would be significantly reduced.

[#] The aggregate resource ceilings should be derived from the most recent update/revision of the fiscal framework.

32. The 2010 and 2011 Budgets have included indicative forecasts and ministry spending estimates for a further two years. The inclusion of outer year expenditure forecasts in the Budget is helpful in emphasising the likely medium-term resource constraints within which ministry expenditure programs should be planned. However, the budget estimates included detailed forward spending estimates at economic item level which are likely to be of limited usefulness at the present time. This is for two reasons. First, there remains considerable uncertainty around the macro-fiscal forecasts which means that they do not yet provide a sufficiently strong basis for detailed medium-term budgeting. Second, line ministry policies and departmental programs are undergoing a process of review and reform that should result in significant changes in departmental and program spending budgets over the medium-term.

33. The experience among SSA countries with introducing medium-term budgeting reforms has been mixed and it is not always clear what real change has been achieved. On the positive side the reforms have brought about greater awareness of the importance of going beyond a single year in planning public expenditure and also of linking planning and budgeting processes. Some focus has been brought to analysing issues of the efficiency and effectiveness of public spending. In some countries, including South Africa, Mauritius and Uganda, robust and relatively effective MTEF processes have evolved linked to strong underlying PFM systems that were either already in existence (South Africa and Mauritius), or have been put in place through a complementary program of reforms implemented over an extended period (Uganda). However, elsewhere there has often been limited ownership of MTEF reforms, particularly where they have been seen as having been pushed by donor agencies rather than driven by domestic agendas. There are also risks of the complex demands of an MTEF distracting from more basic expenditure management reforms that should precede medium-term budgeting. Overly sophisticated MTEF initiatives and related performance budgeting reforms can also accentuate capacity constraints.

34. Zimbabwe is in the fortunate position of being able to learn from the experience of countries such as South Africa, Uganda and Mauritius where medium-term budgeting reforms have achieved impressive results as well as those such as Ghana and Zambia where reform has proved more problematic. The main message from this experience is the need for a gradual approach in progressing medium-term budgeting reforms that is linked to a wider PFM reform program. The development of credible macro-fiscal forecasts, a clear fiscal strategy and priorities, and robust sectoral and ministry resource envelopes should be seen as initial and fundamental conditions. The more advanced MTEF and performance budgeting reforms require strong commitment, at both political and administrative levels, to putting in place the necessary analytical capacities and discipline to support a more policy led approach to budget planning. If introduced too early, such reforms are likely to severely overstretch capacities, have limited impact, and may later require substantial efforts to redesign and fix weaknesses in the process. In general, it is likely to take some 10-15 years of sustained reform to establish a full-fledged MTEF.

Recommendations

35. In terms of the progression of medium-term budgeting reforms, Zimbabwe can be considered as being at the stage of re-establishing a realistic medium-term fiscal framework (MTFF) and introducing the initial elements of a medium-term budget framework (MTBF). In the coming years, the MoF should look to gradually build the medium-term focus of the budget process towards the adoption of a full MTEF. Implementation of the medium-term budgeting reforms will need to be phased against a wider framework of planning, budgeting and financial management reforms that provides for: (i) strengthened macroeconomic and fiscal management; (ii) the elaboration of realistic and robust sector policies and strategies to guide resource allocation decisions; and (iii) improved budget implementation, reporting and accounting procedures that facilitate the timely execution and monitoring of budget implementation. In moving towards this goal the immediate requirements are:

- **Strengthening the macroeconomic and fiscal analysis and forecasts underlying the MTFF to provide a more robust basis for setting medium-term fiscal targets and ministry budget ceilings.** This can build on the initial Bank supported work in rebuilding the MoF's macroeconomic analysis and forecasting capabilities. The MoEPIP, Central Statistical Organisation and Reserve Bank for Zimbabwe should be involved through the macroeconomic working group. The mandate of the macroeconomic working group should be clarified and a schedule of its outputs linked to key stages in the budget planning process established.
- **Using budget ceilings to establish a realistic basis for medium-term budget planning in line ministries.** Ministries should be required to submit their budget proposal within their budget ceiling, with priority funding requests in excess of their ceilings presented as an addendum to their budget submissions. Ministry forecasts for outer year spending allocations should be presented at a higher level of aggregation and reflect strategic shifts in spending patterns rather than the rolling forward of existing spending allocations. Budget ceilings should be extended to include separate capital spending allocations and take into account forward spending commitments on on-going projects included in the capital investment spending plan⁷.
- **Developing a long-term action plan for further rolling out the medium-term budgeting reforms.** This should draw on the experience of other countries regarding the sequencing and time required to successfully implement similar reform initiatives.

Linking Policy and Strategic Planning to the Budget

36. Since the beginning of 2009, there have been two separate initiatives to establish an updated framework of macroeconomic policies, structural reforms and sectoral priorities within which budget planning should take place:

- **In February 2009 the MoF prepared the Short-Term Emergency Recovery Program (STERP-I) setting out the government's policy and program priorities linked to the 2009 Budget.** This was followed by the Three-Year Macroeconomic Policy and Budget Framework 2010-12, also referred to as STERP-II, which was launched in December 2009 with the 2010 Budget. While both of the STERPs suffered from inevitable data and analytical limitations, they were strongly focused on the structural policy reform measures necessary to stabilise the economy and restore economic growth. STERP-II included a relatively realistic three-year macroeconomic and fiscal framework. However, there were significant inconsistencies between this framework and the estimated financing requirements elaborated in the tables attached to the document⁸, suggesting that full consensus around the need to plan programs and related public spending against a realistic assessment of available resources had yet to be established. The MoF does not plan to update the STERP-II.
- **Since mid-2009, the Ministry of Economic Planning and Investment Promotion (MoEPIP) has worked to re-establish a broader strategic planning process involving the preparation of the 2010-15 Medium-Term Plan (MTP).** An initial draft of the MTP was completed in October 2009 and a full draft was submitted to the Cabinet in May 2010. The draft MTP forecast significantly higher levels of economic growth than the forecasts used by the MoF in STERP-II, took a more interventionist economic policy stance and made very optimistic assumptions about planned infrastructure investment. Consequently, it reflected many of the

⁷ Box 7 below discusses the role and composition of the Capital Investment Spending Plan.

⁸ The tables annexed to STERP-II identified total financing requirements for the government's program of \$29 billion over three years, exceeding forecast GDP over the period by some 70 percent. A more modest emergency investment program of \$ 376 million over the period was also included, representing some 8 percent of forecast public expenditure during 2010-12.

limitations of previous NDPs in being overly aspirational and based on unrealistic economic growth assumptions. These shortcomings were recognised with the draft MTP being withdrawn for revision. A further draft was completed in late 2010 that used the same macro-fiscal framework as the 2011 Budget.

37. The experience with the MTP indicates the potential risk of slipping back into an old-style NDP process that quickly becomes outdated and contains spending proposals that exceed the available resource envelope. Elsewhere there has been a shift away from fixed period NDPs towards more flexible approaches which recognise that government policies and priorities are constantly evolving in response to changing economic uncertainties and the evolution of a government's development goals. One approach that has been tried in some of the transition economies of Eastern Europe has involved the preparation of a less comprehensive national policy and strategy that is linked to a rolling multi-year action plan which is updated annually as an integral part of the budget planning process. Albania's integrated planning system (Box 5) provides one example of such a process. This approach is also echoed in the initial strategic phase of the budget planning process in South Africa that provides for a similar policy review and update process.

Box 5: Albania's Integrated Planning System

Recognising that Albania's policy and financial planning systems were fragmented and disjointed, the Government of Albania in November 2005 adopted an Integrated Planning System (IPS). The IPS, which drew on a similar initiative that had been introduced in Lithuania in 1998, provides a planning and monitoring framework for the government's core policy and financial processes. Within the IPS framework two main processes are specified: (i) the National Strategy for Development and Integration[#] which provides a single comprehensive strategy covering all sectors; and (ii) the MTEF/budget process requiring line ministries to elaborate their medium-term expenditure plans to deliver their policy objectives and goals. The IPS also emphasised a requirement for stronger strategic direction from the cabinet which is tasked with approving the initial fiscal framework and resource ceilings for the MTEF and Budget as well as the strategies developed by each ministry.

Three structures were established to oversee implementation of the IPS: (i) an inter-ministerial strategic planning committee chaired by the Prime Minister; (ii) a Government Modernisation Committee chaired by the Deputy Prime Minister; and (iii) the Department of Strategy and Donor Coordination responsible for coordinating IPS across government. Implementation of the IPS was undertaken as a phased process. The initial focus during 2006 was on establishing the central structures and developing the basic IPS methodologies and processes. During 2007 the basic IPS processes were extended to all ministries. Broadening and deepening of these processes has taken place in subsequent years.

While the IPS is still at a relatively early stage of development and has yet to be evaluated, it has resulted in significantly better coordination between policy, planning and budgeting processes and much strengthened engagement of the cabinet.

[#] Integration refers to Albania's policy of closer integration with mainstream European economies and its longer term objective of joining the European Union.

Source: Albania Restructuring Public Expenditure to Sustain Growth – a Public Expenditure and Institutional Review, World Bank, December 2006

38. Line ministries will need to review and update their strategies to take account of changed circumstances and priorities and the much reduced funding levels within which they now have to operate. This will require a major rethinking of ministry roles and in the way that public services are delivered, a task made difficult by the current organisational and capacity constraints. Where dedicated ministry policy and planning units exist these often have little involvement in the budget process. Consequently they may have limited understanding of the resource constraints against which program level initiatives will need to be developed. Conversely, the line ministry finance departments that are

responsible for putting together the ministry budget submissions to the MoF tend to focus on the requirements for maintaining existing operations rather than in looking at how the changes needed to make effective use of the available resources. As yet, there has been limited strategic thinking on how to reorganise ministry functions and how to prioritise funding across a relatively smaller public sector.

Recommendations

39. **The experience with the STERP and MTP has highlighted a number of the issues in re-establishing an effective medium-term policy and strategic planning process.** First, the necessary policy consensus is still not yet fully established. Second, the more detailed sector level policy review and development work that should underpin such an exercise is not in place. Third, the capacities in MoF, MoEPIP and the line ministries, to support such a process are still extremely limited. Fourth, the experience from elsewhere as well as with the preparation of the MTP has highlighted questions over the relevance of traditional fixed multi-year development plans which tend to become quickly outdated.

40. **In moving forward and addressing these challenges it is recommended that:**

- **For the immediate future, the priority should continue to be: (i) the development of a realistic medium-term macroeconomic and fiscal framework that can guide budget planning; and (ii) putting in place a credible annual budget that can be successfully executed.** As the resource envelope stabilizes and the conditions exist to re-establish a stronger medium-term economic policy outlook, the focus should shift towards the reform of sector policies, strategies and programs consistent with the macro-fiscal framework and public resource constraints.
- **Once progress has been made in meeting these basic requirements, the GoZ should determine how to re-establish its medium-term strategic policy and program planning processes.** In so doing, it will be important to avoid the rigidity and lack of realism that has characterised conventional fixed period development plans. There is thus a strong case for adopting a rolling strategy and budget process that takes into account the on-going process of government policy development and which allows for updating of implementation plans as an integral part of the annual budget planning process.
- **In establishing these new arrangements the institutional framework for the policy and planning process and the respective roles and responsibilities of the MoF, MoEPIP and the Prime Minister's Office should be clarified and their respective functions better integrated and coordinated.** This could be achieved for example through the establishment of joint working groups involving key stakeholder institutions, as already exists for the preparation of macroeconomic forecasts. The severe capacity constraints faced by the GoZ emphasise the importance of roles being clearly specified to avoid overlapping mandates and functions and for effective collaboration arrangements to be in place. In these circumstances, a first best solution would be to merge the economic planning departments of MoEPIP with the MoF. If this were not possible, the government would need to further strengthen collaboration in order to ensure a seamless partnership between the MoF and MoEPIP.
- **Policy and planning functions in line ministries will need to be reorganised and strengthened and better linked to the budget process.** A more strategic approach to planning and budgeting will be required as ministries review and restructure their operations to reflect new policy priorities and the fundamental changes that have taken place in the role and scale of government funded programs. The scope for integrating these functions within combined line ministry planning and budgeting departments, as has happened in Zambia, should be considered. Support for rebuilding policy, planning and budgeting functions in the line ministries could be an area for future CP assistance

Results-Based Management and Budgeting

41. **In adopting RBB as part of its wider results-based management reform, Zimbabwe has introduced a stronger performance focus to its budget planning and management.** While such a focus is always relevant, it is important that it is both realistic and relevant. In Zimbabwe, this needs to take account of the immediate priorities of re-establishing a credible budget framework and rebuilding core budget planning and management processes. An ambitiously specified RBB reform risks diverting attention from simpler reforms that are easier to implement and are more appropriate to the current circumstances.

42. **The RBB procedures are potentially complex and time consuming requiring line ministries to prepare ministry and departmental performance agreements (PAs) and work plans that link ministry budgets to performance targets.** The PAs are intended to provide a basis against which the MoF can determine whether the intended outputs of a ministry's budget have been achieved and whether these have resulted in the realisation of specified higher level strategic objectives and policy goals. However, robust and achievable ministry strategic plans that could form the basis for performance agreements are not in place and neither the MoF nor the line ministries presently have the capacities to cost and link activities to outputs and to strategic objectives. The necessary data capture and monitoring systems are also not yet in place. Not surprisingly, staff in some line ministries perceive RBB as being of limited relevance as long as their ministries lack sufficient budgetary resources to deliver their mandated functions and outputs. In these circumstance the preparation of PAs risks becoming primarily a form-filling exercise.

43. **RBB has also been implemented in a piecemeal way that risks undermining the integrity of the budget structure.** To accommodate a performance focus into the budget, additional item groups have been introduced into the main economic segment of the budget classification. These groups cover programs and institutions, the latter referring to cost centres responsible for particular aspects of public service delivery. In the 2010 Budget these two item groups accounted for only 8 percent of total expenditure. This contrasts with standard practice under performance budgeting where all expenditures, including personnel costs, are allocated to program level, so that performance can be measured against the total costs of providing the specified public services and infrastructure. The way in which the performance element has been introduced into the budget has consequently undermined the integrity of the budget classification and resulted in a confused presentation that makes ministry budgets difficult to analyse. Programs are normally included as a separate segment in the budget classification⁹, while institutions/cost centres should be part of the administrative classification.

Recommendations

44. **The immediate task for the MoF is to re-establish and strengthen core budgeting processes.** The further roll out of RBB should therefore not be regarded as a priority and should be conditional on the prior implementation of the other more basic budgeting reforms. Specifically, it is recommended that:

- **The performance agreements that are signed between the line ministries and the MoF should be limited to the commitment to implement the Budget as specified in the ministry work plan.** They should provide a simple but robust basis against which line ministries can be held responsible to the MoF for the implementation of their budget plans.

⁹ In some countries, spending on programs may be derived from the administrative classification of the budget. This is feasible where programs are defined in a way that is synonymous with department or sub-departmental functions and responsibilities. This was the practice in South Africa until the introduction of a separate program segment in the budget classification with the 2009 Budget.

Box 6: Performance Budgeting Reforms – Lessons of Experience

The implementation of performance budgeting reforms is always a journey that takes time and involves learning from experience along the way. Governments may introduce such reforms for one or more of a number of reasons. These could include: (i) to ensure the budgets are delivered as planned through the improved management of public funds; (ii) to address the disconnect between government priorities and budget allocations through better specified budget programs; and (iii) to meet citizen demands to connect their taxes paid to results requiring better information on budget outputs and outcomes. The relative importance of each of these reasons is likely to determine the particular version of performance budgeting that is introduced and how it evolves.

It follows that there is no single approach to introducing performance budgeting reforms and that the approach adopted should reflect the particular objectives and circumstances of the country concerned. What is vital is that there is a strong political and senior management commitment to the reform - something that may not be present where the reforms is being promoted strongly by a particular donor or is overly dependent on external consultants.

Against this background Ghana and South Africa reflect contrasting paths and experiences to introducing performance budgeting reforms. While direct comparison should be avoided, since the underlying economic environment and capacities varied tremendously, the experience does suggest that a more gradual evolution approach is more likely to be successful.

Ghana

Performance budgeting was introduced in Ghana as part of an ambitious MTEF reform in the late 1990s. Referred to as Activity Based Budgeting (ABB) this involved ministries presenting their budget estimates broken down by a three level classification - objective, output and activity. In practice, the implementation of ABB encountered a number of difficulties. First, the approach had focused on detailed costings of activities. This and the absence of robust and enforced budget ceilings meant that ministries continued to present budget requests substantially in excess of the available funding, necessitating subsequent cut-backs in spending. Second, instead of leading to a more strategic focus to the budget ABB had resulted in excessive fragmentation of ministry budgets, the Ministry of Education estimates alone extending to 2,000 pages. Third, the approach was not comprehensive with personnel and administrative costs, which amounted to over 50 percent of ministry expenditures, being excluded. Ultimately ABB risked becoming a form-filling exercise rather than an instrument for the allocation of resources. In 2010, the finance ministry decided to reform ABB by adopting a simpler and more strategic program-based budgeting approach that is better integrated with the way in which ministries organise and manage their functions.

South Africa

South Africa adopted a more gradual approach to introducing a stronger performance element into the budgets of each department (ministry). Departments were required to prepare their budgets within the ceilings provided by the Treasury which reflected the outcome of a series of policy discussions in which the Departments had participated. Each department was then required to explain and justify its budget in terms of the major programs that it was delivering – typically 3-5 programs per ministry. The programs were defined along administrative lines so that no changes to the budget classification were initially required. A small number of key performance indicators and associated targets were also specified.

The reform has brought a more strategic focus to the budget and a more transparent presentation of departmental budgets to Parliament. Since 2009, the process has been formalised with the introduction of a program classification into the budget classification and chart of accounts and a stronger emphasis on performance measurement and monitoring.

- **The MoF should complete its detailed reassessment of the current plans for rolling out the RBB initiative to determine their feasibility and the likely effectiveness of the reform, taking into account current conditions and capacity constraints in Zimbabwe.** The review should include an analysis of the benefits and costs of RBB drawing on the experiences of other SSA countries (Box 6). The aim should be to develop a more phased approach to introducing RBB that takes account of Zimbabwe's particular circumstances and ensures that: (i) procedures are better specified and backed up by supporting manuals and training materials; (ii) issues of how a performance element is integrated into the budget structure and classification are resolved; and (iii) capacities in line ministries to handle a more policy-driven approach to

budgeting are put in place; and (iv) an appropriate change management process is implemented to transform formal reforms into practical changes.

- **As part of a wider review of the budget classification and chart of accounts, the MoF should consider the pros and cons of inclusion of a separate performance segment that would track allocations and expenditures at program level.** The existing program and institution groups should be removed from the economic segment of the budget classification.
- **The GoZ should also consider undertaking a more detailed review of the wider RBM initiative.** This should reassess its feasibility in the current situation in Zimbabwe with a view to simplifying procedures in order to reduce capacity demands.

Capital Investment Program Management

45. **Zimbabwe's once relatively well developed capital infrastructure has deteriorated dramatically in recent years and represents a major constraint to sustained economic recovery.** In the 2010 Budget, capital spending allocations totalled US\$ 180 million accounting for 12.5 percent of total domestically financed expenditure. The Budget also included \$ 229 million in estimated donor funded spending on infrastructure rehabilitation projects. However, these figures were highly optimistic, since much of this funding had yet to be committed and the estimates did not allow for the time lag between commitment of funding and commencement of implementation.

46. **STERP-II assumed that significant levels of capital investment financing were to be obtained from PPPs and international assistance.** While there are prospects for securing increased external official assistance for investment in infrastructure rehabilitation, PPPs are only likely to be feasible in the longer-term when the economic situation has normalised, the necessary regulatory reforms implemented and the perceived political risk to the return on private investment has subsided. Therefore in the short-run the costs of infrastructure rehabilitation will fall primarily on the central government budget, emphasising the importance of selecting and prioritising planned investments against a realistic assessment of the likely available financing (Box 7).

Box 7: Short-Run Investment Priorities

An initial assessment of priority investments in the infrastructure sectors undertaken by the World Bank in late 2009, noted that social rates of return are likely to be very high on investment in rehabilitation or for removing bottlenecks, and that installed capacity can often be restored quickly and at relatively lower cost. This would allow earlier realisation of economic benefits, which coupled with measures in the public utilities to reduce losses and improve cost recovery, would create the conditions under which financing could be justified and secured to meet future investment requirements.

The assessment identified the following broad prioritisation criteria for assessing potential public investments:

- ◊ **Priority 1:** Investments needed to mitigate high risks to the loss of life (e.g. to prevent cholera) and to protect existing physical assets.
- ◊ **Priority 2:** Investments needed to resuscitate or rehabilitate existing capacity and improve financial sustainability.
- ◊ **Priority 3:** Investments needed to expand capacity.

Investments also need to be consistent with the longer-term sector policies and strategies. For example major public investment is unlikely to be justified in a sector, such as telecommunications and IT infrastructure, where current policies are to promote private sector participation and investment.

Recommendations

47. A priority for the MoF should be to shift the emphasis of capital investment planning and management away from an open-ended identification of investment needs that can be expected to result in wish-lists, towards reinstating more rigorous procedures for the prioritisation, appraisal and management of projects to be included in the capital investment program. These procedures, which should apply initially to domestically financed capital projects and subsequently extended to include externally financed capital projects, should provide for:

- **Establishing a clear distinction between departmental capital spending that is required for the updating of facilities and replacement of equipment, and capital investment spending to support the rehabilitation or expansion of infrastructure and services.** Departmental capital spending is typically implemented within a single year, and its requirements should be assessed together with current spending¹⁰.
- **Developing a capital investment spending plan that is integrated with the budget process.** Capital projects involve significant lead-in times and spending commitments over a number of years, often extending beyond the time horizon of the MTEF. These commitments need to be tracked and taken into account when determining the overall capital spending ceiling and ministry budget ceilings. The preparation of the annual budget estimates should be used to update the project's spending forecast and, where necessary revising the total estimated cost of the project (Box 8).

Box 8: Capital Investment Spending Plans and Project Total Estimated Cost

Capital Spending Plan

It is common practice for governments to include in their Budget documentation a capital investment spending plan that provides a detailed listing of the capital projects that are included in ministry budgets[#]. In some countries this requirement may be specified in the budget systems legislation.

The capital investment spending plan provides additional information on the capital investment spending program to that which is included in the ministry budget estimates. This typically includes:

- ◇ a statement of the purpose and a brief description of the project.
- ◇ the total estimated cost (TEC) of the project.
- ◇ a spending schedule showing: (i) actual spending in the years prior to the budget year just ending; (ii) the revised estimate of spending for budget year just ending; (iii) estimated spending for the coming budget year; (iv) forecast spending in the following two outer years of the MTFF, and (v) any balance of spending required to complete the project in the following financial years.
- ◇ the estimated recurrent costs (or savings) resulting from implementation of the project including staffing and maintenance costs; and
- ◇ the sources of funding for the project.

Total Estimated Cost (TEC)

The TEC of a project should play an important function in managing the government's capital investment program. Project spending plans and forecasts should be updated annually as part of the budget process. Where the updated forecast results in the project exceeding its TEC, the increase should be justified and approval sought for the increase in TEC as part of the Budget approval process. In Botswana, the TEC of a capital investment project and any subsequent increases are approved by the Parliament.

[#] In countries with separate Recurrent and Development Budgets, the Development Budget may perform the role of a capital investment spending plan.

¹⁰ In countries where there is a division between recurrent and investment budgets, departmental capital spending would normally be included within the recurrent budget estimates.

- **In managing the implementation of the capital investment spending plan, prioritising allocations for the completion of on-going infrastructure projects over initiating the implementation of new capital projects.** This is required to avoid an over-committed capital investment budget where the implementation of on-going projects is slowed in order to accommodate the financing requirements of new projects. The resulting delays in project completion and in the realisation of project benefits result in a significantly less efficient use of scarce capital investment resources.
- **Put in place a two step process for approval of capital investment projects with (i) provisional approval following identification and screening; and (ii) final approval following the detailed design and appraisal.** Such a procedure would allow for the early exclusion of investments that were inconsistent with GoZ policies and priorities, unlikely to prove economically or technically feasible, or could be expected to be unaffordable. Only projects that passed through this initial screening process would be included in the GoZ's investment plans, thereby avoiding the development of unrealistic wish-lists of projects with little chance of being financed and implemented (Box 9). This would also help to ensure that resources were not committed to the further development of project proposals that had little prospect of being financed. In designing these procedures, the political dimension will need to be taken into account. For the majority of projects the decision at both the initial screening and final approval stage could be taken by a capital projects committee chaired by the Minister of Finance at which the technical assessment is presented by the line ministry and discussed. For larger and more politically sensitive projects, these decisions would need to be taken at cabinet committee level following presentation of the technical assessment.

Box 9: Botswana - Investment Project Identification, Selection and Appraisal

Botswana's procedures for investment project identification, selection and appraisal have been seen as an example of good practice, and designed to eliminate projects which are inconsistent with government strategies and resource constraints at an early stage. The procedures involve the following steps:

Project Identification

- ◇ Projects, in theory, can be identified almost at any level. But the formal demarcation of a project is made by the implementing agency (IA), usually a government department or ministerial planning unit (MPU). Formally, this is done within the framework of the NDP which helps to ensure consistency between projects and the ministry's policies and strategies. The process also ensures that proposals are consistent with the NDP resource ceilings.

Project Screening and Selection

- ◇ Initial screening is conducted by the IA and the MPU. A Thumbnail Sketch (TNS) is prepared containing the background of the project, purpose of the project and ties to a particular policy. The TNS should include a general technical description, an outline of the project's benefits, both quantitative (as applicable) and qualitative, the project's Total Estimated Cost (TEC) and projections of the capital and recurrent cost of the project for the implementation period in current and constant prices. TNSs should assist IAs in screening out lower priority projects.
- ◇ A second screening is conducted by the Ministry of Finance and Development Planning at meetings of Project Review Committee (PRC). The Project Review meeting is where each ministry presents its NDP (and annual) bid for each project to the PRC. A project is likely to be approved as long as it fits within the ministerial ceiling and is broadly in line with national objectives. These approved projects are then incorporated in the NDP framework upon the approval of cabinet and parliament. No economic appraisal techniques are applied at the screening and selection stage.

Approval.

- ◇ The Public Investment Program (the compilation of TNSs) is approved by Parliament together with the NDP. In so doing, Parliament also approves project TECs. Therefore revisions to the TECs must be approved by Parliament through the annual budget or supplementary estimates. In urgent cases or emergencies, TEC revisions can also be sought through cabinet memoranda, and submitted to Parliament for ratification at its next sitting.

Appraisal.

- ◇ Once the NDP is approved, a more in-depth analysis is required for funds to be withdrawn to implement the project. This is done in the form of a Project Memorandum (PM) submitted by the IA and relevant MPU to MFDP. The PM provides a detailed plan for project implementation, a basis for final appraisal and a design brief. The PM contains the following information: project description (background, technical description and plan of operation), financial analysis (capital expenditure, recurrent costs and manpower implications), economic, social and environmental impact analysis, project's adherence to NDP objectives, targets and policy recommendations, TEC and annual ceilings, recurrent budget implications and resulting policy implications. PMs do not constitute a feasibility study. In most cases feasibility studies or cost benefit analysis are only conducted for large projects, especially those with external funding.

Bringing Aid on Budget

48. **In the 1990s Zimbabwe was seen as having effective procedures in place for bringing aid funding 'on budget' (aid financing budgeted and recorded) and 'on system' (aid financing channelled through government financial procedures).** A high proportion of aid financing was included in the GoZ budget and recorded in the GoZ accounts, thereby contributing to the comprehensiveness of the budget planning process. The formal procedures through which aid funding was incorporated into the budget were through the National Development Fund (NDF) and its associated Vote of Credit. These practices were in many respects unique to Zimbabwe (Box 10).

Box 10: The National Development Fund and Vote of Credit[#]

The National Development Fund (NDF) was established in 1981 following the Zimbabwe Conference on Reconstruction and Development which had been convened to mobilise international funding to support Zimbabwe's post-war reconstruction and development. The objectives of the NDF were: (i) to receive development grants and loans from other governments, foreign or international organisations, persons or agencies; and (ii) to disburse those monies in such a manner as the Treasury may direct subject to prevailing law and agreements with the donor and lender.

The NDF is budgeted under a separate Vote in the National Budget titled Vote of Credit. The Vote on Account arrangement permitted funding to be advanced to ministries once a funding agreement was signed with reimbursement being made when the donor funds were received.

The NDF operated in a relatively flexible way which allowed donor funds to be separately operated and maintained in the commercial banks. These arrangements facilitated a relatively high proportion of aid financing within the Budget and enabled funding that was not channelled through the Consolidated Fund to be brought to account.

[#] Source: 'Note on Aid Accounting in Zimbabwe', Oxford Policy Management (November 2009)

49. In the years following 2000, declining aid flows and the increasing reluctance among donors to channel funding through the NDF meant that the Vote of Credit ceased to operate during 2005-08. In the 2009 Revised Budget, expenditure to be incurred under the Vote of Credit was estimated at US\$ 391 million, although actual recorded expenditure totalled only US\$ 22 million. Expenditure under the Vote of Credit for the 2010 Budget totals US\$ 810 million, although at the end of the first quarter expenditure of only US\$ 3 million had been recorded. As noted above, this represents a grossly optimistic assessment of likely available funding.

50. Following the signing of the GPA the CPs have been cautious towards using the former NDF procedures and more generally to using GoZ financial systems. Aid financing is being channelled though a wide range of different procedures with few CPs formally providing assistance to GoZ. This has complicated budget planning for the MoF. In some sectors, for example health, that are receiving substantial donor funding, good cooperation has been established with the MoF and this has allowed programmed donor funding to be taken into account in the planning of their GoZ financed budgets. In other sectors line ministries deliberately ignore or conceal donor funding in case this results in a reduction to their access to GoZ funding.

51. The present way in which the NDF and Vote of Credit is being used is not appropriate with grossly optimistic estimates of likely CP funding undermining the integrity and realism of the Budget. Also, the NDF/Vote on Account mechanisms no longer conform to best practice. A weakness of these procedures is that they resulted in a dual budget structure whereby external financing was separated from core ministry budget and subject to separate procedures. Within the framework of the Paris and Accra donor harmonisation agendas, aid agencies will ultimately look to channel their assistance directly through country systems and ministry budgets either as budget support or as project funding.

52. The aim over the next 3-5 years should be to put in place the conditions for donor funding to be progressively brought on system with, in time, a significant share of such funding being provided as budget support. This is not just an issue of ensuring that aid resources are properly managed (narrow accountability), but that these resources are contributing to an effective and well managed overall public expenditure program (broad accountability). It will require three sets of issues to be addressed: (i) resolution of outstanding political and governance issues that are currently preventing the CPs from directly supporting GoZ programs; (ii) the strengthening arrangements for budget planning and prioritisation, for budget management and execution, and for ensuring effective oversight and accountability in the use of public resources; and (iii) the design and implementation of improved PFM

procedures that would provide the necessary accountability to allow CPs to channel resources through country systems¹¹.

Recommendations

53. Re-establishing effective public investment management capabilities will take some years and is likely to require some rationalisation of the existing investment program.

- **The immediate priority for the MoF and line ministries is to work with the CPs in developing a comprehensive listing of public project and service delivery expenditures that are being financed so that these can be taken into account in the planning of the overall public expenditure program.** Concurrently, procedures for recording and tracking these expenditures should be established. The Aid Coordination Unit (ACU) in the MoF should coordinate this initiative, working in partnership with ACUs in the line ministries. The Accountant General should be consulted in the development of these procedures to ensure that they allow reported spending to be recorded in the GoZ accounts.
- **The development of a timetable and action plan to restore Zimbabwe's PFM systems to the point at which they would allow donors to bring their investment funding 'on system' and satisfy the requirements for receiving budget support.** The on-going public expenditure and financial accountability assessment (PEFA) should provide the necessary baseline for this task.
- **The MoF should review the existing NDF and Vote of Credit arrangements and determine how CP funded projects can be better integrated with line ministry planning and budget management procedures.** With the implementation of the PFMS and planned improvements in fund release, procurement and accounting arrangements, the justification for maintaining the separate Vote of Credit provision should be revisited.

V. BUDGET DOCUMENTATION AND PRESENTATION

Documentation

54. An impressive set of documentation supports the presentation of the Budget. However, there are limitations in the analysis and proposals contained in the budget documentation that reflect problems of data availability and quality, the lack of well developed sector policies and strategies to guide budget choices, and capacity constraints in the MoF and line ministries. The MoF has made the budget documents available to the general publication through its website¹². For the 2010 Budget, the documentation comprised:

- **The Three-Year Macroeconomic Policy and Budget Framework 2010-12 (STERP-II) that was finalised in December 2009.** In practice, this was more of a policy and plan update than a medium-term budget framework. The document totalled some 400 pages.
- **The Budget presentation to Parliament.** This comprises: (i) the Minister's Budget Statement, which is presented as a speech and sets out the underlying macroeconomic and policy

¹¹ The Bank has developed a comprehensive methodology to assess whether country PFM systems can be used for management of investment lending projects. Carrying out a Use of Country System assessment with this methodology could help in determining the requirements and an action plan for introducing necessary changes to PFM procedures.

¹² The 2011 Budget Statement was posted on the MoF website on the same day that it was presented in the Parliament. However, for most of the first quarter of 2011 the MoF website was 'closed for maintenance'.

framework for the budget and outlines its expenditure priorities and revenue measures; and (ii) the Blue Book, which includes the detailed estimates of expenditure broken down by administrative ministry vote, departmental sub-vote and economic item.

- **The Mid-Year Fiscal Policy Review (MYFPR) that is presented to Parliament in June.** The primary focus of the MYFPR is on the fiscal performance in the current fiscal year and on identifying necessary changes and adjustments to the annual budget. In practice, the MYFPR also contains a more forward looking update of the macroeconomic and budget framework and an analysis of policy and budget priorities. Like the Budget Statement, the MYFPR is presented to Parliament as a ministerial speech.

55. There is considerable overlap in the analysis contained in these documents. For example, the STERP-II analysis and the forward looking analysis contained in the MYFPR could be consolidated into a Budget Strategy Paper presented to Parliament mid-year.

Ministry Budget Estimates

56. The narrative description of ministry budgets contained in the Blue Book is limited. The 2010 Blue Book introduced a single page listing for each ministry detailing: (i) its mandate, referred to as ‘purpose of life’; (ii) its functions, referred to as ‘key results areas’; (iii) its overall policy goals; (iv) its objectives in terms of the key outcomes to which the operations of the ministry contribute; and (v) the planned outputs for each of the main areas of infrastructure and service delivery falling within its mandate. In practice, the listing is limited to a series of single phrase descriptions that provide little real information on the ministry’s program and activities.

57. Recognising these limitations, the MoF is now looking to further develop the narrative explanation of ministry budgets. This reflects the trend internationally away from ministry budgets being presented as series of numerical tables towards narrative based presentations that provide a concise description of the ministry’s planned spending program. South Africa’s Budget Estimates provide a good example of a narrative based presentation of ministry budgets (Box 11).

Box 11: South Africa’s Budget Estimates

The Budget Estimates in South Africa use a narrative format that contrasts with the lengthy presentations of numerical tables which characterises ministry budget estimates documents in many SSA countries. The Estimates for a typical ministry in South Africa total around 25-40 pages providing an explanation of the ministry’s spending program. They comprise three main elements:

- ◇ **Budget Overview Sections.** 5-6 pages providing: (i) an overview of the ministry’s program and budget and including a table of key performance indicators; and (ii) summary expenditure and revenue estimates tables.
- ◇ **Program Sections.** A separate section for each budget program, usually 2-4 pages in length, setting out: (i) the objective of the program and the measures through which these are to be delivered; (ii) the spending focus for the coming budget in terms of key initiatives and their spending implications; (iii) program level expenditure estimates and a discussion of expenditure trends and underlying drivers.
- ◇ **Additional Tables.** These cover: (i) personnel numbers and employee compensation; (ii) training expenditure; (iii) conditional grants to sub-national authorities; (iv) departmental public private partnership projects; and (v) a summary of donor financing by project (3-6 pages).

While the structure and contents of the Estimates reflect South Africa’s relatively sophisticated budget and public financial management systems and capabilities, the principle of presenting shorter ministry budget estimates documents that includes a narrative description is more widely applicable.

Recommendations

58. **There is scope for streamlining and bringing a stronger focus to the documentation prepared to support the Budget linked to the introduction of the proposed revised budget planning cycle.** This would reduce duplication between documents and would also support a stronger involvement of Parliament in discussing and reviewing the Budget. The main requirements are outlined below.

- **At the start of the budget process, a short Budget Issues Paper should be prepared for presentation at a government-level workshop.** The paper would identify the key issues and choices to be addressed in developing the strategy for the coming budget.
- **Transforming the MYFPR into a Budget Strategy Paper (BSP).** This BSP should be prepared at the conclusion of the strategic phase of the budget preparation and set out the macro-fiscal framework, policy context and strategic priorities, and resource ceilings within which the coming budget will be prepared (Box 12). Presenting the BSP in Parliament would allow for the strategic and policy basis of the budget to be discussed prior to the presentation of the detailed budget.
- **Introducing a Mid-Year Budget Implementation Report.** This would provide a more detailed review of progress with implementing the budget, particularly on the investment expenditure component, and set out and justify changes that are to be proposed in the revised Budget.
- **Improvements should be introduced to the presentation of ministry budgets contained in the Blue Book.** There are two elements to this. First, the narrative presentation should be gradually developed and strengthened so that it makes clear what the ministry plans to achieve with the resources being made available. Second, the tabular presentation of the budget should be improved, linked to revision of the budget classification to remove the present inconsistencies in the economic segment.

Box 12: Outline Structure for a Budget Strategy Paper (BSP)

The purpose of a BSP is to set out the economic and fiscal framework, policies and priorities against which the government's budget is to be prepared. It is also commonly used to lock down the resource ceilings to be used in the development of sector and ministry level budget requests. The experience from many countries is that a BSP has brought greater clarity to budget preparation and has contributed to higher quality budget plans.

BSPs are typically organised around three main elements: (i) the macroeconomic outlook and medium-term macroeconomic forecast; (ii) medium-term fiscal policy and management; and (iii) medium-term spending plans and priorities. The main features are set out below.

Macroeconomic Outlook	<ul style="list-style-type: none"> ▪ review of underlying macroeconomic conditions and challenges – global, regional and national; ▪ macroeconomic outturn for the previous year, analysis of recent trends, identification of key macroeconomic policy and management issues; ▪ updated macroeconomic forecast for the current year and medium-term forecast for the coming three years; ▪ implications for economic and fiscal policies and strategies; ▪ analysis of macroeconomic risks, sensitivity analysis and mitigation strategies.
Fiscal Policy and Management	<ul style="list-style-type: none"> ▪ summary of fiscal developments, covering broad fiscal aggregates for recent years and medium-term forecasts; ▪ assessment of the extent to which fiscal performance in the budget year just completed was consistent with fiscal policy; ▪ analysis of the key fiscal and macroeconomic issues which fiscal policy needs to address (fiscal imbalances, debt levels, high future spending requirements, etc.); ▪ fiscal objectives and how they relate to the key challenges facing fiscal policy; ▪ fiscal targets for both the short and medium terms, an explanation of the relation of the budget to the fiscal targets; ▪ discussion of short-term departures from medium and longer term fiscal objectives (e.g., a temporarily higher deficit level), with an explanation of how the government proposes to move back to compliance with its fiscal objectives.
Public Spending Priorities and Provisional Resource Allocations	<ul style="list-style-type: none"> ▪ analysis of recent trends in public spending by economic item and by function (sector); factors driving trends and changes (policy factors, inertial factors etc.); ▪ identification of key expenditure issues to be tackled over the medium-term (e.g. high wagebill spending crowding out spending on operations and maintenance); ▪ key government policies and priorities that will impact significantly on resource allocations between major sectors and programs, funding requirements and how requirements can be met from within the available fiscal space; ▪ resource allocation implications covering both on-going expenditure commitments and initiatives (implicit priorities) and new requirements linked to stated government policy priorities (explicit priorities); ▪ priority sectors in which spending will need to be increased significantly, sectors where emphasis should be on consolidation of functions and containing expenditure; sectors in which there is significant scope for efficiency savings; ▪ resource ceilings for each major sector and major spending program (ministry level ceilings may also be included or alternatively circulated separately once the BSP is approved).

VI. LEGISLATIVE FRAMEWORK

59. A new PFM Act that was passed in April 2010 establishes the framework for ensuring the “*transparency, accountability and sound management of (public) revenues, expenditures and liabilities*”. The law sets out: (i) the responsibilities, authorities and obligations of the key players involved in the management of public finances; (ii) the requirements for reporting on the use of public funds; (iii) the financial management obligations of public entities; (iv) the specific provisions relating to government borrowing and guarantees; (v) audit requirements; and (vi) financial misconduct.

60. The PFM Act contains a short section on the National Budget, but does not provide the more detailed specification that is normally included in budget systems legislation¹³ (Box 13). It sets out the formal requirement and date for submission of the annual estimates of revenue and expenditure to Parliament and technical provisions regarding the authority to advance funds, the circumstance under which appropriated funds may be withheld, and the duration of appropriations and warrants. There is no general specification of budget preparation, approval and execution processes as would normally be included in a country’s budget systems legislation. However, with budget processes and procedures still undergoing review and revision, Zimbabwe is not yet in a position to introduce such revisions into its budget systems legislation.

Box 13: Budget Systems Legislation

The IMF describes Budget Systems Legislation[#] as “the formal expression of rules that govern budgetary decisions made by the legislature and the executive. The objectives of the formal rules are to specify what budgetary processes are prescribed in law, who is responsible, and when key budgetary steps should be taken. The question of *how* budget processes are implemented can also be addressed in law, although lower level regulations are more appropriate for this purpose in many cases”.

[#] See Ian Leinert and Israel Fainboim: IMF Technical Notes and Manuals: Reforming Budget Systems Laws p1.

61. A further issue is that the PFM Act specifies that the draft Budget should be submitted to the Parliament “*not earlier than thirty days before and not later than thirty days after the start of the forthcoming financial year*”¹⁴. This timetable no longer reflects accepted good practice which requires that the Budget is approved by the Parliament prior to the start of the fiscal year, and for the legislature to be allowed at least two months to review the draft budget proposals¹⁵. In practice, the 2011 Budget was submitted to Parliament in late November, earlier than specified in the PFM Act.

Recommendations

62. Although, the 2010 PFM Act provides a stronger basis for the management of public resources, the framework of legislation and regulations around the budget process is not well developed:

- The immediate priority should be for the MoF to develop and issue instructions and guidelines covering the budget process that reflect recent reforms and the new procedures that are being introduced.

¹³ Budget Systems Laws are also commonly referred to as Organic Budget Laws.

¹⁴ 2010 Public Finance Act, para 28.

¹⁵ PEFA indicator PI-27 specified that the legislature should be allowed at least two months to review the budget proposals in order to achieve an A score.

- The MoF should consider an amendment of the PFM Act to require submission of the draft Budget to the Parliament at least two months before the start of the new fiscal year.
- Wider revision of the legislation covering the budget process should be considered in the medium-term. This could involve either (i) revision of the PFM Act with the introduction of subsidiary regulations setting out in more detail main elements and timelines of the budget process; or (ii) the introduction of a separate budget systems law or of a broader fiscal responsibility law that also specifies the obligations on the government for ensuring prudent fiscal management.

VII. ORGANISATIONAL STRUCTURE AND CAPACITY BUILDING

63. **The post 2000 economic crisis had a devastating impact on Zimbabwe's public service with many ministries losing the majority of their skilled and experienced personnel.** Since the beginning of 2009 new staff members have been recruited to fill vacant posts, although in the case of the MoF some 30 percent of established posts remain vacant. The high proportion of new staff appointments places additional demands on ministries in providing training and mentoring. These constraints emphasise the importance of eliminating overlapping functions and responsibilities within the planning and budgeting systems and of streamlining processes where this is feasible. This has implications for the respective roles of the MoF, MoEPIP and the line ministries and for the organisational structure and departmental responsibilities within the MoF.

Ministry of Finance

64. **The MoF is organised into 3 main operational departments (Finance and Taxation Department; Budget Department; and Accountant General's Department), two operational units (Fiscal and Policy Advisory Services; and Implementation and Control of Expenditure Units) and three support departments and units (Legal Services; Finance, Human Resources and Administration; and Internal Audit).** The MoF has a total establishment of 224 posts of which 159 (71 percent) were filled in May 2010. Over 75 percent of staff in the ministry had been in post for less than two years. Recognising the importance of addressing these capacity constraints, the MoF has recently revived its training committee and is developing a human resources development master plan to guide its training and capacity building activities. Figure 4 shows the current MoF Organisation Chart and the number of professional posts in the main operational departments and units.

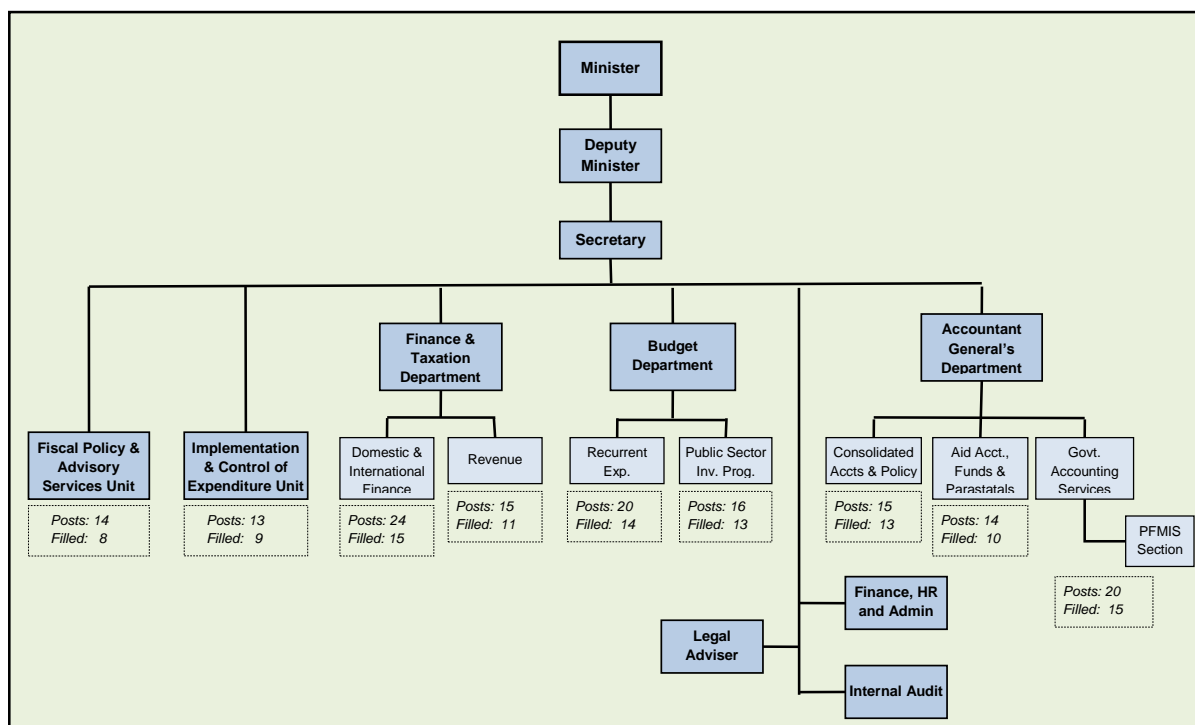
65. **Within the MoF the following departments and units are involved in the planning of the Expenditure Budget:**

- **Fiscal Policy and Advisory Services Unit** is responsible for fiscal monitoring, the development of the macro-fiscal framework, overall budget policy and strategy analysis. It undertakes the preparation of the Budget Statement, the MYFPR and the Quarterly Treasury Bulletins. It also took the lead in preparing the STERP documents.
- **The Budget Department** oversees the preparation and implementation of ministry budgets. The Department is organised into two units, the Recurrent Expenditure Unit and the Public Sector Investment Program Unit. Both units are divided into clusters, each cluster responsible for a group of ministries.
- **The Implementation and Control of Expenditure Unit (ICEU)** is a relatively new unit which was established to ensure more effective monitoring of the performance of ministries in implementing their budgets, including project inspection units. It has also taken the lead in the

MoF in supporting the introduction of RBB. However, the core tasks and work program of the Unit are not yet fully defined.

- **The Domestic and International Finance Unit** in the Finance and Taxation Department is responsible for aid coordination and mobilising external aid in support of GoZ programs and projects. With insignificant aid flows passing to GoZ in recent years, the Unit currently has only very limited involvement in the planning of the budget.

Figure 4: Ministry of Finance – Head Office Organisation Chart



66. **Staff in these three departments/units are appointed primarily against economist posts.** In the case of the Budget Department, this has helped to ensure a strong policy outlook to their work and a focus on how ministries should restructure their operations to make them more effective. This may be contrasted with the situation in line ministries where staff in finance departments who are responsible for budget preparation have a predominantly accounting background.

67. **The role of the Fiscal Policy and Advisory Services Unit as the macroeconomic and fiscal policy analysis and forecasting unit within the MoF is well-defined and clear cut.** This is a core function of a finance ministry and a priority for the MoF should be to further build its capacities macroeconomic and fiscal analysis and forecasting. At the same, the overlap with the mandate and functions of the MoEPIP which were evident in the STERP-II and MTP exercises should be addressed. Staff within the Fiscal Policy and Advisory Services Unit handle a heavy work-load in supporting the preparation the major fiscal plans, statements and reports that are prepared during the year. In introducing measures to further strengthen the budget process, it will therefore be important to streamline requirements for preparing budget policy statements and reports in order to free up staff time for more analytical tasks.

68. **The logic of separating the functions of the Budget Department and the ICEU is less clear.** Furthermore, the structure of the Budget Department creates a separation between the planning of recurrent and capital expenditures. There is a strong argument for combining the responsibility for the recurrent budget and public sector investment program (PSIP) within a single cluster responsible for a group of ministries. This would enable budget analysts to take a unified approach that addresses the appropriate balance between recurrent and capital spending and ensures that recurrent expenditure implications of capital projects are incorporated in the forecasts of future spending demands. Similarly, responsibility for monitoring line ministry budget implementation should be undertaken at cluster level in the Budget Department in order to ensure that the findings are fed into the future planning of ministry budgets. Within such a structure there would remain requirements for small specialist technical units, for example to develop and oversee the procedures for capital project screening, appraisal and approval.

Ministry of Economic Planning and Investment Promotion

69. In MoEPIP, the Research Department, the Economic Policy and Planning and the Macroeconomic Forecasting Department have an indirect involvement in the budget process. The Macroeconomic Forecasting Department formally participates in developing the macroeconomic forecasts for the budget, although as noted earlier the actual forecasts are prepared by the MoF. The Department currently has six staff of which only two have any training and experience in macroeconomic modelling. The experience with the development of the draft MTP and STERP-II has highlighted issues of institutional overlap between the MoF and MoEPIP in managing short and medium-term economic planning and management functions. This suggests that these functions might be more appropriately located within the MoF, recognising its primary macroeconomic and fiscal management role within government.

Line Ministries

70. **In the line ministries, the finance departments are responsible for preparation of the Budget.** These departments face significant capacity constraints, particularly where the majority of staff have only recently been appointed. In the Ministry of Labour and Social Welfare 90 percent of the staff in the Finance Department were reported to have been in post for less than two years. In these circumstances it is not surprising that there is considerable variation in the quality of the ministry budget submissions, and in the extent to which donor support to the sector is taken into account. The 2010 and 2011 budget submissions from some ministries were of such poor quality that they had to be completely reworked by the MoF.

Recommendations

71. **This note has emphasised the considerable capacity constraints facing Zimbabwe's planning and budget system and the importance of making the most effective use of the available capacities.** Against these requirements there are a number of areas where organisational structures and mandates could be rationalised and strengthened.

- **The respective economic analysis and forecasting functions of the MoEPIP and the MoF should be reviewed in order to reduce overlap and ensure improved partnership and consistency.** As noted earlier a first best solution would be to consolidate these functions within the MoF, although other options that emphasise team-working between staff in the two ministries could also be pursued.
- **The current organisational structure of the MoF should be reviewed, possibly as part of a wider functional review of the ministry.** Specifically, the review should consider: (i) the consolidation recurrent and investment budgeting functions within unified sector clusters; and

(ii) the reintegration of the ICEU into the Budget Department. The MoF should align its human resources development master plan to the implementation of the review recommendations.

- **The MoF and MoEPIP should provide advice to line ministries on the strengthening of their planning and budgeting functions.** This should consider the integration of these functions within unified planning and budgeting units.