

PERFORMANCE AND PROJECTION OF THE 2011 BUDGET

INTRODUCTION

The 2011 budget presented and approved by Parliament sought to cover critical infrastructure projects as well as improvement in service delivery. The capital budget estimate stands at about US\$551 million representing 20% of the total budget of US\$2.746 billion. The budget provision for service delivery amounts to US\$1.346 billion with emphasis being given to improvement of service delivery in the health and education sectors as well as social safety nets. Recognition was also given to other sectors including security taking into account their critical role in the economy.

The approved budget provides for US\$1.4 billion for employment costs, including the wage bill, as well as pension, medical aid and social security contributions representing 45% or 14.5% of total expenditure and GDP respectively.

Implementation of the 2011 budget remains anchored on the principle of cash budgeting system and capacity to collect revenues projected to be around US\$2.746 billion by year-end. The revenue collections achieved on a monthly basis determine the extent of disbursements towards the budgeted items, the first charge being towards employment costs. The monthly bill for employment costs now averages US\$120 million in comparison to the average monthly revenue collections of US\$229 million.

It is necessary that we review the above budget setting in comparison to the actual performance to date in the context of emerging and pressing 2011 funding requirements.

2011 BUDGET PERFORMANCE TO DATE

As at May 2011, Budget disbursements stand at US\$930 million which is 34% of the budget estimate of US\$2,746 billion.

Revenue outturn to end of May 2011 amounted to US\$1.023 billion and was below the target for the same period of US\$1.145 billion, giving a negative variance of US\$177 million.

The Table below gives the Budget outturn to May 2011:-

ITEM	TARGET	ACTUAL	VARIANCE
	US\$	US\$	US\$
Revenue	1,145,000,000	1,027,800,000	117,200,000
Expenditure	1,006,137,200	930,100,000	80,437,200
<i>Of which:</i>			
• Employment costs	547,310,000	582,600,000	-18,890,000
• Ministries operations	159,591,400	142,200,000	17,391,400
• Grants & Transfers	64,045,000	67,500,000	-3,455,000
• Interest payments	18,000,000	14,300,000	3,700,000
• ZIMRA grant	38,195,800	36,600,000	995,800
• Capital expenditures	178,995,000	86,900,000	80,695,000

From the above Table, it is self evident that employment costs continue to crowd out other expenditures, particularly development programmes.

What appears to be a positive variance between revenues and expenditures is an accumulation of what Treasury has recourse in to meet employment costs in the subsequent month. Without such a cashflow, payments of salaries in the subsequent month by due dates would be unachievable.

Capital expenditure

The 2011 Budget allocation of US\$551 million for capital expenditure prioritised implementation of key infrastructure projects in the energy, transport, water and sanitation, ICT and social sector targeting health and education.

Cumulative Capital Budget disbursements to date amount US\$86,7 million against a target of US\$178 million. In addition, a total of US\$68.7 million was disbursed through IDBZ. The disbursements made through IDBBZ were from resources carried over from 2010.

In terms of the Development Budget, total disbursements to May amounted to US\$60.4 million against a target of US\$112,9 million. These disbursements were mainly targeted at addressing key infrastructure bottlenecks in the energy, water and sanitation, transport and

communication and social sector infrastructure as reflected on the Table below:-

SECTOR	2011 BUDGET ALLOCATION	PLANNED DISBURSEMENTS TO MAY	ACTUAL DISBURSEMENTS TO DATE
ENERGY	65,740,000	38,400,000	22,000,000
WATER & SANITATION	71,845,000	11,200,000	8,400,000
TRANSPORT & COMMUNICATION	93,654,000	18,935,500	7,000,000
HOUSING	88,062,800	20,100,600	12,834,600
HEALTH	46,825,000	11,800,000	4,400,000
EDUCATION	51,842,400	9,400,000	4,300,000
AGRICULTURE – Irrigation Rehabilitation	11,763,500	3,023,000	1,500,000
Total	429,732,700	112,859,100	60,434,600

The underperformance of the development expenditure budget is largely due to the crowding out effect of non-discretionary recurrent expenditure especially the wage bill. This has had the effect of dampening completion of targeted projects. Such performance in the implementation of the development budget hinders economic growth since infrastructure is key to enhancement of the productive capacity of the economy.

Service delivery

Apart from capital expenditures, votes and budget items directly linked to service delivery such as support to health institutions, schools and tertiary teaching and learning materials and other programmes have received disbursements of around US\$210 million which is 22% of overall budget disbursements. This area, just like capital projects, is being seriously crowded out by non-discretionary expenditures.

The following Table illustrates performance in selected areas:-

Items	Budget	Cum Disbursement to May	Cum Target to May	Variance
	US\$m	US\$m	US\$m	US\$m
Foreign Missions	33.5	11.6	14.0	2.4
Security services	113.2	43.2	47.2	3.9
Health services	71.5	13.3	29.8	16.5
PFMS	3.0	2.0	1.3	(0.8)
Parliament Select Committee	3.5	0.4	1.5	1.1
Empowerment programmes	10.3	0.1	4.3	4.2
Social protection	27.8	6.8	16.2	9.4

Agricultural extension services & diseases control	16.2	3.3	6.8	3.5
Title surveys	1.0	0.6	0.4	(0.2)
Teaching and Learning Materials	15.6	-	6.5	6.5
Support to tertiary institutions	14.7	2.9	6.1	3.2
Students support	20.0	8.7	8.3	(0.4)
Maintenance of infrastructure	4.5	0.9	1.9	1.0
Service Providers	55.2	12.1	23.0	10.9

As a result disbursements trailing below targeted levels, Ministries are operating below optimal service capacity.

Arrears to service providers

Government indebtedness to service providers such as Local authorities, CMED, Netone, Telone, ZINWA and ZESA remains of major concern. This is also a reflection of inadequate budget support which is constraining Ministries capacity to clear outstanding and current bills to service providers. Currently Government Ministries owe about **US\$103** million to service providers. This is after taking into account payments to date of US\$12 million out of the budget provision of US\$55 million.

Projections to year end, after taking account of the budget balance which stands at US\$43 million as well as consumption to November 2011, indicate that the accumulated arrears are likely to close the year at around **US\$100 million**.

Such a level of inadequate budget support undermines the operational viability of these institutions.

Foreign travel

The budget disbursements continue to show a disturbing trend whereby an amount of **US\$24 million** has been spent on foreign travel for the period to May 2011 or 72% of the budget provision of US\$33.4 million.

The disbursements are accounted as per **Annex 1 attached**.

The moral of this outlay becomes clear when one considers the fact that disbursements for other critical budget areas to date as illustrated in the above table with respect to such items as agricultural extension services, social protection, budget support to teaching and learning materials for schools, payments to service providers, etc.

Employment costs

The Table below presents the actual levels of payments under employment costs for the period January - May 2011.

Based on current expenditures well as remuneration levels, the projected outturn on employment costs to December 2011 is **US\$1.415 billion** compared to the approved budget provision of **US\$1.305 billion** leading to an excess of about **US\$110 million**. Of concern is the trend whereby, despite the current levels of pay, which fall way below the poverty datum line, overall employment costs absorb over **60%** of revenue inflows. They therefore have a crowding out effect on capital expenditure and other service delivery requirements.

BUDGET CHALLENGES

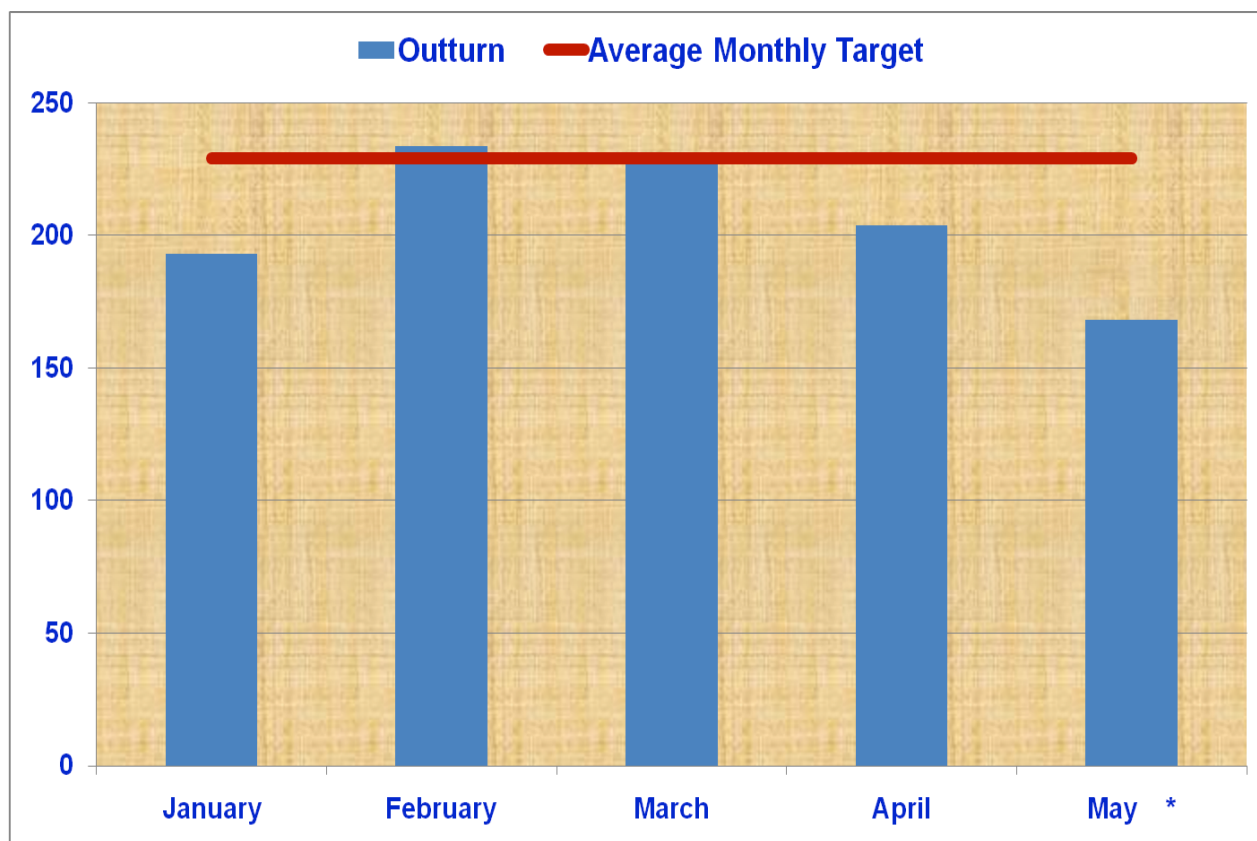
Revenue capacity

The trend in revenue performance is not encouraging. Judging from the amount **US\$168 million** received in May 2011, which is below the average of **US\$229 million** and is lower than the amount of **US\$204 million** received in April 2011, it appears that the economy and therefore the revenue base are experiencing contraction.

	Outturn	Average Monthly Target	Variance
January	193.0	228.8	(35.8)

February	233.5	228.8	4.7
March	229.1	228.8	0.3
April	203.9	228.8	(24.9)
May *	168.2	228.8	(60.6)
Total	1,027.7	1,144.2	(116.5)

*** Performance to 27 May.**



The above revenue performance trend is a cause for concern given our existing as well as emerging budget requirements. As already cited, employment costs currently average **US\$120 million** per month. There appears to be no immediate scope for improvement in revenue performance given the existing structural challenges in the economy such as shortage of power and high cost of production.

A key challenge is to improve revenue collections in excess of the budgeted monthly average in order to get room to meet disbursements to Budget line items consistent with the approved Budget. Government's operational requirements as well as projects and programmes can then be realised as planned.

Diamond revenue

The above revenue inflows include an amount of US\$56.2 million in diamond revenues received this year to date. This amount comprises of direct deposits to Treasury of US\$41.6 million with respect to the dividend and US\$14.6 million paid through ZIMRA in relation to royalties and corporate tax.

Of concern is that there has been no further inflows apart from the US\$56.2 million received in February 2011. This is despite continued enquiries with the relevant Ministry. Unconfirmed reports indicate that some pay overs to the Treasury were due.

It is increasingly becoming clear that the 2011 budget and the generality of the citizens are not going to benefit from diamond mining.

2011 BUDGET PRESSURES

There are key issues that Government is faced with that require attention during the current financial year.

Grain procurement

Following the announcement of the maize producer price of \$285 per tonne, Government Budget support towards payments for maize deliveries by farmers through the GMB is estimated to amount to US\$71,3 million. This assumes that of the deliveries to be made to GMB, Government will finance purchase of 250 000 tonnes to augment the SGR. Costs for transportation as well as handling charges are estimated at \$17 million giving a financing requirement US\$88.2 million. The Budget shortfall which has to be financed for maize procurement alone will therefore be **US\$78 million**, after taking account of the Budget balance from the original provision of US\$15 million.

2011 Winter wheat programme

The 2011 Budget does not have a provision for financing the winter wheat programme. Realising this, Treasury has had to already made a commitment to provide an amount of **US\$10 million** as part of Government contribution to the programme.

This commitment has to be honoured by making the necessary Budget provision given that inputs to this value are already in distribution to farmers.

2011/12 Summer Programme

To the extent that Government still continues to play a part in funding food security on the grounds of vulnerabilities, the Ministry of Agriculture obviously expects additional funding for the coming summer cropping programme. For 2010, a Budget provision of **US\$30 million** had to be made, and requirements for 2011 will need to be considered.

Parastatal recapitalisation

Some of our parastatals are in deep financial doldrums, beset with huge financial requirements with respect to retrenchment costs, unpaid debts to service providers and lack of working capital.

Examples are Air Zimbabwe, Agribank and the RBZ. Most of the other parastatals are entangled in inter-parastatal and service provider debts, examples ZESA/Sables, TelOne/Econet, NRZ/GMB, etc.

Pressure is always being brought for these financing challenges to be under the fiscus, which is an unfair expectation as it skates the hard and pragmatic decisions such situations deserve.

Food mitigation measures

The food mitigation strategy being finalised by Line Ministries calls for resource outlays in the coming months. The full requirements are yet to be communicated to Treasury.

Constitution Making

The 2011 Budget envisaged budget support from cooperating partners for the Constitution making funding requirements. Uch support is so far hard to come, leaving the fiscus as the only means available.

To date, resources disbursed amount to **US\$5 million** as extra budgetary, which is already considered grossly inadequate and necessitating additional funding.

Electoral requirements

There is unfolding serious pressure for funding following proclamations of Harmonised Elections being held before the end of the year. Funding requirements are estimated to be in the range of at least \$100 million outside the current Budget, taking account of a referendum and the actual polls.

Workers welfare

In light of prevailing pay levels and cost of living prevailing, Government employees have a legitimate claim for increases in their salaries and allowances as from July 2011.

Balancing this and the stark reality of the equality pressing needs of Government, some of which are outlined above, becomes a matter of socio-economic and political responsibility and pragmatism, in itself often easier said than done.

It is possible that parties within Government have easily politicised this issue and yet the key question is what the current revenue collections can or cannot sustain and implications thereto.

Payroll and Skills Audit

Clearly, it is not tenable to seek to increase pay without taking any measures that mitigates the implications. This brings to the fore

the need to implement aspects of the recommendations coming from the Civil service Payroll and Skills Audit which was concluded in November 2010.

HON. T. BITI (MP)

MINISTER OF FINANCE

31 May 2011