

## **Fiscal Sustainability critical for the 2016 National Budget**

**By: Rodney Ndamba**

It is that time of the year, **when the hype of the 2016 National Budget is underway**. The national budget comes at a time when Government had **just achieved convincing the Bretton Woods Institutions** on a Debt Restructuring Strategy which was largely endorsed. This **development has expected and unanticipated** implications for the 2016 National Budget. The Budget is expected to demonstrate the practicality and translation of the Debt Restructuring Strategy into a fiscal regime and economic direction. Failing to provide for the debt strategy will be a critical setback for this achievement which **may have ripple** effects on the economy. While it is important to acknowledge progress made in Lima, Peru, is vital for setting the economic direction for Zimbabwe, **and the 2016 National Budget will be crucial in pointing the right direction**. Many a times as a country we have come from the right direction but ended up going the wrong direction. To avoid such we should aim to achieve fiscal sustainability in addition to other economic fundamentals that will drive sustainability and national competitiveness. This article provides pointers to issues that 2016 National budget formulation process may need to explore.

### **Fiscal Sustainability**

Despite achievement in Lima, it will be crucial for 2016 National Budget to address fiscal sustainability. Fiscal sustainability or public finance sustainability refers to a government's ability to sustain its current spending, tax and other policies in the long term without threatening solvency or defaulting on some of its liabilities or promised expenditure. In essence, fiscal sustainability provides a scenario in which government does not impose future generation with high taxes due to heavy borrowing by the present generation. **Managing fiscal sustainability will not come without the hard decision through fiscal rules and it needs generational sacrifice**. Fiscal rules refer to statutory or constitutional restrictions that set specific limits on fiscal indicators such as budgetary balance, debt, government spending, or taxation (Kennedy and Robbins, 2012). Therefore, Fiscal rules will be crucial for the 2016 national budget to ensure that government honors commitments made in LIMA through the Debt Restructuring Strategy. A review of Ghana post fiscal deficit by Insah and Ofori-Boateng (2015) provides a learning experience for Zimbabwe in managing fiscal sustainability.

Achieving fiscal sustainability will require sustainable public finance that balances government revenue trends with expenditure to avoid defaulting on international debts. Further, defaulting on debt will negatively impact the country's fiscal profile which has far reaching implications on ability to attract foreign direct investment and investors. On the other hand, it will be crucial for Zimbabwe to ensure debt ceilings are set in order to avoid digging new holes to fill old ones. Achieving this, will require tough decision to be made on non-productive government expenditure such as **expensive vehicles for instance**. Certainly, it will be crucial for the budget to be based on government stable revenue capacity.

### **Stable and Sustainable Economic Growth**

It is a fact that achievements in Lima cannot be under projected. However, there are a number of variables that will need to be constructed to support this achievement. The 2016 National Budget will need to build upon this achievement to inspire sustainable economic growth that is supported by a culture of productivity and results based orientation in which expenditure should be matched with results or returns in active humans. Growth ambition should be based on creating new formal businesses that

creates formal jobs which allow government to collect taxes. The informal sectors can then part of the supply chain. Experiences have shown that is hard to collect taxes in informal settings. The 2016 National Budget should consider setting the ambition for business and economic growth.

To drive sustainable economic growth, the government should create a prudent fiscal position that obviate pressure on future increases (Schick, 2005). Providing stable taxes given investor confidence in the economy will be unattainable for the economy when taxes keeps being raised for the sack of meeting unbudgeted expenditure. However, it will be crucial for the national budget to create an enabling business environment that create new businesses for new jobs hence offering opportunity for broadening the tax base for government as compared to increasing taxes on the already struggling companies. As such, the National Budget need to provide a stable tax regime that attract investors while driving existing and news business towards values creation.

### **Responsible Investment**

While a lot of effort has been made in trying to attract foreign direct investment, the 2016 National Budget need to reflect that. Government will need to invest the scare resources it is collecting from taxes responsibly. Investing in infrastructure such good roads and railway networks, water, energy and efficient service delivery that make the country an attractive investment destination. Such responsible investment enhance the country's investment profile while motivating the local society towards productive and sustainable economic development. The national budget will need to reflect a sustainable national investment profile supported by responsible investment values. In this regards, Government will need to take a lead by ensuring that public sector investment is driven by responsible invest. It is a sad development when you see a struggling parastatal prioritizingbuying top of the range vehicles while struggling to deliver basic social services. Responsible investing will require the national budget to consider fiscal rules on SOE investments that ensure public sector sustainability. Sustainability is now a defining factor for lending. Multinational lending institutions like the International Finance Corporate already have their sustainability reporting framework which they use before lending.

The test for the 2016 National Budget rest upon allocation of resources in a responsible matter that reflects the national ambition that rest upon responsible and sustainable values. While the Institute for Sustainability Africa and its partners, the Securities and Exchange Commission of Zimbabwe and the Zimbabwe Stock Exchange have been on the drive to promote responsible investing in the private, Government will need to ensure resources allocation to state owned enterprises is done in responsible manner that will drive SOE towards greater corporate governance, accountability and transparency. During the an event on the demutualisation of Zimbabwe Stock Exchange, Hon. Chinamasa echoed a sentiment that state owned entities should list on the stock. It will be critical that important stance is reflected in the national budget as sign that government is investing responsibly in state owned enterprises by ensuring that they alternative capital sources that require accountability and good governance in services delivery.

### **Sustainable Private Sector and Competitiveness**

A lot has been talked about private sector impact on national competitiveness as reflected the World Bank economic competitiveness ranking that saw Zimbabwe being ranked lowly. It is crucial that government put aside resources for monitoring and driving private sector competitiveness besides providing rescue packages that bear very result. It is obvious that major struggles among private sector in Zimbabwe are inherent issues of poor management, poor corporate governance practices and

outdated business models that are uncompetitive. Competitive economies in Africa are mainly driven by sustainable business practices attract investors. In Africa, countries that attracts the bigger share of FDI like South Africa, Kenya, Nigeria and Egypt have built their competitiveness corporate sustainability practices for their private sectors and capital markets.

Therefore, the national budget will need to outline a national ambition of developing and driving policies for the private sector that are driven by corporate sustainability values. The implementation of National Code on Corporate Governance (ZIMCODE) should be one of the issues the national budget should provide resources for monitoring and driving implementation. It is important to point out that government made a commitment in ZimCode to provide a conducive environment in which the code will be implement. Therefore, developing a competitive business environment in 2016, will require government to work with to include Zimcode and corporate sustainability practices in the Companies Act. As such, the national budget will need to reflect the ambition to build a competitive and sustainable private sectors that is driven by international best practices and values.

In conclusion, the national budget need to take great lesions of avoiding business underpinned by one sector of the economy. Many countries including Zimbabwe are bearing the pain of depressed mineral prices having placed too much hope the mining sectors. It will be crucial that the National Budget provide a multiple sector approach in which fiscal revenue should come from different sectors of the economy like agriculture, manufacturing, tourism, finance and others in addition to mining. The 2016 budget will be a testing case for avoiding a fiscal cliff amid global economic slowdown in major economies with the BRICS (Brazil, Russia, India, China and South Africa). Should the National Budget be crafted and supported with fiscal discipline, sustainability and fiscal rules, chances are high that Zimbabwe will be able to turn its fortunes. Achieving fiscal sustainability, will require government to consider generational accounting in which annual national budgets will be updated versions of long term budget that could range 10 – 20 years from now.

**Rodney is the Founder of the Institute for Sustainability Africa, an independent think tank and research institute on sustainability and sustainable development. He can be reached on [rndamba@insafrika.org](mailto:rndamba@insafrika.org)**