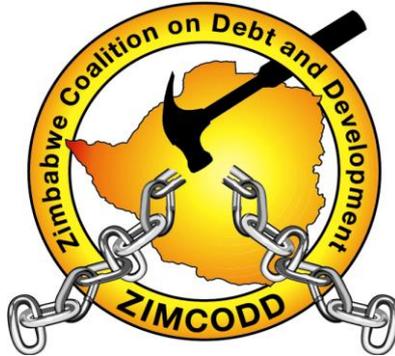


# Zimbabwe Coalition on Debt and Development



*Investing in people for social and economic justice*

**ZIMCODD Submissions for the AfDB Meeting held on  
13 July 2016 at AfDB Offices**

The Zimbabwe Coalition on Debt and Development (ZIMCODD) commends the GoZ and the International Financial Institutions (IFIs) for the expression of commitment to solving the debt crisis in Zimbabwe and relieve the tax payers of the adverse effects of the debt burden. A number of initiatives to find a solution to the debt crisis have taken place including the meeting held in Lima , Peru in October 2015 where the Government of Zimbabwe (GoZ) met with its creditors both bilateral and multilateral to discuss on its arrears clearance strategy on the side-lines of the 2015 World Bank/IMF annual Meetings. At the meeting the GoZ presented a strategy to resolve an external debt overhang of US\$6.7 billion as at 30 June 2015 against an economic outlook characterised by low commodity prices, an appreciating U.S. dollar, low external inflows and low levels of international reserves. A greater component of the external debt is arrears amounting to USD5.528 billion.

Zimbabwe had planned to clear its arrears of US\$110 million to IMF, US\$1.15billion to the World Bank and US\$601 million the African Development Bank by the end of April 2016 to unlock access to fresh concessionary funding to stimulate economic recovery. Zimbabwe is yet to meet this commitment. It is expected that clearance of the external arrears to the IFIs would also lead to the re-engagement with both the Paris and non-Paris Club creditors. Beyond the Lima Conference and the presented strategy the GoZ has continued to engage with the creditors and was in London on 5 July 2016 at a debt conference to discuss the Zimbabwe debt question though without much progress. Information on progress towards arrears clearance remain very scanty without openness on how the government is doing in terms of meeting its target of clearing arrears by April 2016.

Amidst the re-engagement processes, ZIMCODD has over the years been calling on the GoZ to come up with lasting solutions to the external debt crisis. It has consistently called for an official public debt audit to ascertain the sources of the debt and draw some lessons for future economic planning as an important step.

### **Summary of the current Debt Arrears Clearance Strategy**

The GoZ strategy is anchored on the 10 Point Plan Economic Reform agenda enunciated by the President during the August 2015 State of the Nation address. Zimbabwe's strategy entails clearing the external arrears with the IFIs through a combination of the country's resources, arrangement of Bridge finance with regional and international banks and the usage of bilateral loan facilities. According to the Minister of Finance and Economic Development, Honourable Patrick Chinamasa the strategy involves:

- Clearing the arrears to the three multinational institutions by end of April 2016- **Progress is not officially shared- Citizens depend on alternative sources of information**
- Development of a new Comprehensive Country Financing Programme Supported by the AfDB, IMF and World Bank that attract long term financing to promote growth and sustainability; and
- Engagement of the European Investment Bank (EIB), the Paris Club and non-Paris Club bilateral creditors for debt resolution on the strength of the performance under

the above programme- **Civil Society is usually left out of these process by the government, the IMF has made efforts to incorporate civil society working on debt issues.**

**The GoZ has outlined specific aspects of the strategy as:**

- **Leveraging the country's own resources**

In principle sounds as a noble idea since mobilising resources domestically is predictable and sustainable as compared to external financing. However, it is known that in the recent years the Zimbabwe government has used future returns mineral extraction as security for certain loans. The most prominent one is the Chinese loan in 2011 towards construction of a Defence College. Given the lack of clarity on how exactly the country's resources will be utilised in clearing arrears, one would hope that what is being proposed is dissimilar to the deals mentioned above. Furthermore, the country has lost a cumulative of US\$12 billion through illicit financial flows and the President of Zimbabwe has also been record speaking to the illicit financial flows in the diamond sector amounting to USD15billion. If these were plugged, the country would have cleared its debts long back. In this vain, there is need for strong and effective domestic resource mobilisation strategy that will curb illicit financial flows and enhance transparency and accountability in the management of domestic resources so as to increase potential financial resources for sustainable development and for debt arrears clearance.

- **Arrangement of Bridge financing**

The GoZ also intends to apply for bridging loans to pave way for new lines of credit. According to IMF rules, a country in arrears cannot get new loans, therefore clearing arrears is thus seen as critical in order to pave way for new financing. However, the new loans will in turn be used to repay the bridging loans with a risk of creating a debt trap vicious cycle. This clearly does not stimulate a sustainable solution to the current debt problem. If anything, the country is likely to end up in a worse debt situation. There is need to carefully consider the structure of these bridging loans. ZIMCODD would recommend a situation where grants are given for bridging and not loans. In situations where the loans are concessional, this will only serve to increase Zimbabwe's long term outstanding obligations to the IFIs. It also does not resolve that country's incapacity to service its debt, which by implication means the country's debt overhang is likely to grow further.

- **Usage of bilateral loan facility**

While, the GoZ further plans to utilise the bilateral loan facility this entails that the government will enter into negotiations with the Paris Club and non-Paris Club for credit to finance the clearance of arrears, contracting new credits from bilateral creditors will only increase the external debt stock further imposing the repayment burden on the citizens.

- **Engagement with the European Investment Bank (EIB), the Paris Club and non-Paris Club bilateral creditors for debt resolution**

The government has stepped up re-engagement efforts with creditors, including efforts to increase payments to the WB and the AfDB, a key step in the roadmap towards seeking rescheduling of bilateral official debt under the umbrella of the Paris Club. These developments constitute important steps toward re-engaging with IFIs. This strategy also intends to step up their efforts to build consensus among creditors and development partners on ways to address the external arrears. However, what is agreed as a way to redress the debt

problem between and among the GoZ and its creditors should not infringe on social and economic development. The re-engagements with the EIB, Paris Club and non-Paris Club also sends a right signal to the international community and investors who had lost confidence in dealing with IMF condemned state like Zimbabwe.

### **ZIMCODD's position regarding debt management**

The current debt strategy's main aim is to clear arrears to unlock new lines of credit. The pitfall of this approach is that it overlooks sustainability as manifested by the government's endeavour to use bridging loans only to access IFIs loans to repay the same loans. While new loans are justified as necessary in order to finance "infrastructure reconstruction and improving the quality of life of ordinary Zimbabweans", this is unlikely to be achieved without a clear debt sustainability strategy. The strategy's prioritisation of arrears repayment at the expense of sustainability, poverty reduction and social welfare obligations, fair remuneration for government employees among other things, is in conflict with its purported aim of improving the quality of life of Zimbabweans. Experiences where loans have been contracted to finance projects like a defence college put to doubt that new finance will be in line with developmental priorities. In the absence of proper, transparent and accountable loan contraction and public debt management systems, new finance is unlikely to result in meaningful improvements in people's social and economic well-being.

ZIMCODD is concerned by the lack of visibility of Parliament in the ongoing processes. The constitution and the Public Debt Management are clear on the role of parliament in public debt management. Parliament should start to exercise their duty in order to safeguard the interests and rights of the citizens.

### **ZIMCODD therefore recommends that:**

- The GoZ should commission and the IFIs should support an official debt audit to establish how much is owed, the purpose and condition under which loans were given, disbursement methods, whether objectives were met, charges other than interest and benefits and if any benefits accrued to citizens. This will assist to avoid past mistakes made by both the debtor and the creditors. The audit should cover both external and domestic public debt.
- The government and the IFIs should come up with a debt management and arrears clearance strategy that will ensure that the country does not plunge into huge debt as efforts are made to re-engage with the IFIs and other bilateral partners.
- The establishment of Zimbabwe's transparent and accountable institutions and transparent investment agreements which can guarantee efficient utilization of resources and revenue. This will reduce both illicit and licit financial flows in Zimbabwe thereby allowing the country to deal with its debt question effectively.
- The role of parliament in public debt management should be strengthened according to the constitutional provisions (Section 300 subsections 1-4).
- If there are any conditions on the cancellation of the debts, these should not infringe on social and economic development. For example, the recommendation by the IMF for the government to reduce the size of the public service's workforce is not palatable. This has negative impacts on the people as the poverty levels will increase.
- There should be responsible lending from the creditors. There is need for the creditors to give grants and concessional loans as primary financial assistance to Zimbabwe. Lenders should first determine whether the country has the absorptive capacity, the ability to pay and the social and economic impact of the loans before they give the loans.

- The government should continue to lead in the process of resolving the debt crisis instead of allowing the external players to dictate the debt resolution strategies. In any negotiations around debt resolution strategies, both partners should be on equal footing.

Strategies for debt management should be located within a broader developmental vision of the country that balances growth, obligations to repay and human development. Sound debt management entails keeping the cost of repayment at minimal while the very debt is employed to build repayment capacity and develop domestic funding mechanisms. Building internal and citizens based revenue capacity is crucial since it enhances the link between taxation, state building and democratization.

### **About ZIMCODD**

The Zimbabwe Coalition on Debt and Development (ZIMCODD), is a non-profit Social and Economic Justice coalition established in February 2000 to facilitate citizens' involvement in making public policy and practice pro people and sustainable. ZIMCODD views indebtedness, the unfair local and global trade regime and lack of democratic people-centred social economic and political governance as root causes of the socio-economic crises in Zimbabwe and the world at large. Drawing from community-based livelihood experiences of its membership, ZIMCODD implements programmes targeted at:

- Educating the citizen
- Facilitating policy dialogue among stakeholders
- Engaging and acting on socio-economic governance at local, regional and global levels.

### **Our vision**

Sustainable socio-economic justice in Zimbabwe through a vibrant people based movement.

### **Mission**

To take action in redressing the Debt burden, Social and Economic Injustices through formulation and promotion of alternative policies to the neo-liberal agenda

### **Objectives**

- To raise the level of economic literacy among ZIMCODD members and citizens to include views and participation of grassroots and marginalised communities.
- To facilitate research, lobbying and advocacy in order to raise the level of economic literacy on issues of debt, trade and sustainable development.
- To formulate credible and sustainable economic and social policy alternatives.
- To develop a national coalition and facilitate the building of a vibrant movement for social and economic justice.

### ***For more information, please contact:***

*Mr. Joy Mabenge: National Chairperson: +263772904479, Email:  
jmabenge@yahoo.com*

*Ms. Patricia Kasiamhuru: Executive Director: +263773213770, Email:  
patriciak@zimcodd.co.zw*

### ***Contact ZIMCODD Head Office:***

*226 Samora Machel Avenue, Eastlea, Harare Tel: +263-4-776830*

*Website: [www.zimcodd.org](http://www.zimcodd.org)*

*Facebook Page: Zimbabwe Coalition on Debt and Development, Profile: Zimcodd*

*Zimcodd*

*Twitter: ZIMCODD1*