Investing in people for social & economic justice

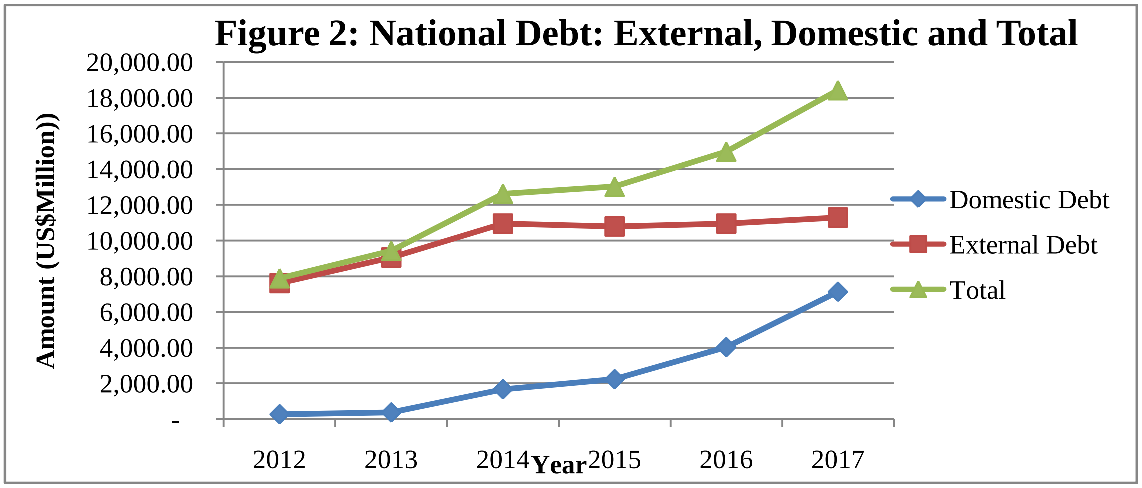
Towards an Inclusive Debt Relief Strategy for Zimbabwe

The figures shared by the Minister of Finance Hon. Prof. Mthuli Ncube and the Reserve Bank of Zimbabwe Governor Dr. John Mangudya have provoked the Zimbabwe Coalition on Debt and Development (ZIMCODD) to reflect on the state of the economy and the national debt in particular. By merely looking at the table below one would conclude that the country is in economic distress which requires concerted efforts from both the government, private sector and the civil society. Whilst the government takes responsibility over poor economic performance and service delivery, the citizens are worst affected by the quality of public service delivery and the high tax burden in an attempt to finance the deficit and debt repayment.

Figure 1: Economic Outlook	
Budget Deficit	US$1.3 billion
Current Account Deficit	US$1.5 billion
Domestic Debt	US$9.5 billion
External Debt	US$7.4 billion
RBZ Overdraft	US$2.3 billion
Cumulative Treasury Bill Issuance	US$7.6 Billion
Treasury Bills to GDP Ratio	36.5%
Inflation Rate	4.9%

Source: Ministry of Finance & Economic Development, 2018; & Reserve Bank of Zimbabwe, 2018

The causal relationship between budget deficit and national debt has kept the country in a debt trap. The persistent government deficit has caused an exponential increase in total debt which further increases the government spending as the government attempts to meet the current spending whilst paying interests on the debt. Domestic borrowing is neither an option as their implications on the economy are the same. It is not by accident that the country is faced by infrastructure deficiencies, weak social service delivery, foreign currency and cash shortages, unsustainable budget and current account deficits and emerging inflationary pressures. Financing the deficit through treasury bills has a tendency of crowding out investors, manipulating capital structures and interest, decrease net exports and lead to higher taxes and inflation (refer to Table1).



Source: **Source:** Ministry of Finance & Economic Development, 2018; & Reserve Bank of Zimbabwe, 2018

LASTING SOLUTION TO THE DEBT QUESTION

The huge debt burden which stands at 137% of GDP, debt defaults and increasing budget deficit calls for a debt relief strategy unique to Zimbabwe. As the country commits itself to achieving the sustainable development goals, a people driven and inclusive debt management mechanism that secures economic fortunes for future generations should be adopted. As the government consolidates ideas in developing this sustainable debt management framework, ZIMCODD would like to add its voice to the current debate. As a think tank with vast experience on debt management, ZIMCODD is contrary to pursuing the LIMA strategy whose limitations lies in feasibility of the proposed strategies;

Use of a bridging loan to clear AfDB debt Arrears

At a time when the country is considered a high risk and rendered ineligible to access funding from IFIs, the option for bridging finance only signifies a shift from one creditor African Development Bank (AfDB) to another African Export-Import Bank (Afrexim bank) at higher interest rates while escaping the penalties. Apart from opening other lines of credit, the strategy does not give any safeguards to ensure that the government will be able to repay the Afrexim bank loan.

Use of Medium to Long Term Loan Facility to Clear Arrears to the World Bank Group

This strategy is simply a shift of the debt burden from the previous and current generation to the future generation. This debt which is coming to cover another debt does not have the potential to create capital which can only be financed by future generation through compulsory tax payments. As an organisation that works to defend social and economic rights, ZIMCODD would have relegated its duties by accepting a debt repayment plan that undermines the principle of intergenerational equity. Worse still the medium to long term loans are payable as a lump sum payment for the entirety of a loan amount paid at maturity (bullet payment). This strategy is not convincing and is primarily a stop gap measure whose implications will be felt at maturity of the medium to long term loan.

Use of domestic Resources to clear Arrears to the IMF

The government has already pursued this route by transferring part of its Special Drawing Rights (SDR) holdings kept by the IMF to clear the arrears. The government does not look at the opportunity cost of offsetting debt with SDR. That diversion of national resources to clear the arrears does not address the debt question. The country still has an obligation to repay other debts, finance public service delivery and replenishing the SDR. SDR and other national resources should instead be used to transform the lives of Zimbabweans whose social and economic rights have been undermined for nearly two decades. The citizens have higher expectations of the country's mineral resources, for instance, which contribute over 68% of national export receipts. They look up to the resources as a source of transformation for their standards of living and that of future generations. As the country explores option for settling the national debt, the use of mineral resources on debt repayments should not be an option either. ZIMCODD strongly discourages either exploitation of resources for debt repayment or mortgaging of mineral resources for future debts to avoid falling into the natural resource curse.

WAY FORWARD

With all the resources generated from the national debt, the government has nothing to show. Instead, people's welfare worsened. This brings the question of legitimacy of the Zimbabwean debt. The RBZ and ZISCO Steel Debts, for instance, despite public outcry and contestation, have been assumed by the state. By doing this, the government simply shifted the debt burden from the institutions in question to the state thereby worsening the unsustainability of the national debt at a time where the creditors are holding on to full repayment of outstanding arrears as a precondition for debt relief. This is in contravention of Section 11 of the Public Finance Management Act and section 300 (1) of the Constitution of Zimbabwe which set the limit for total public and publicly guaranteed debt as a ratio of GDP at 70%. Jointly, these two debt increased domestic debt by close to US$1 billion. Valid reasons and arguments for not assuming the debts were raised, shared and acknowledged by the Parliament of Zimbabwe, but the same parliament went ahead and assumed the same. Whilst chapter 17, section 298 (1f) of the constitution provides that "*public borrowing and all transactions involving the national debt must be carried out transparently and in the best interests of Zimbabwe",* the deliberate decision to assume state enterprise debts is falling short of the basic principles of transparent, accountable and inclusive loan contraction and debt management processes. Is it about the power relations between the central government and the legislature? The citizens were vilified in the process and have no option but to pay for the contested debts. The country is not only divided over the debt management strategy, but rather on the way the debt has been accumulated. ZIMCODD therefore calls for:

- ✓ A comprehensive debt audit to ascertain the extent of the debt, how it was used or misused and create a basis for total debt cancellation;
- ✓ Development of a comprehensive and inclusive debt management framework going forward. This process is crucial for building a social contract between the government and citizens, and ensuring tax compliance which is currently below 30% and also as a key tenet for good governance in public finance management.
- ✓ United call for Debt Clemency – this clamor should be sounded high in government, private sector, media and civil society. Zimbabwe deserves an opportunity for a fresh start without shouldering a debt burden in consideration of the crippling IMF imposed ESAPs and the inherited $700 million colonial debt from the Rhodesian government

among other debts that were accumulated under the regime of the former President Robert Mugabe. Our call for total debt cancellation is also premised on the fact that the country does not have the capacity to pay off.

Policy Inconsistences on the Intermediate Transaction Tax

Lack of coordination on part of the Ministry of Finance and the Reserve Bank of Zimbabwe on electronic transaction disadvantages the transacting public. On one hand the central bank is promoting the use plastic money, electronic and mobile money payments whilst on the other the Ministry of Finance reviews the intermediate money transfer tax from 5 cents per transaction to 2 cents per dollar transacted. As it stands, the proposed measure will hurt the poor most as the rich have options to avoid the 2cents pre dollar tax by transferring the costs to the final consumer. It would only make economic sense for the government to further incentivize people for the use of electronic transactions. However the government is not only penalizing the transacting public but rather imposing additional burden on them. The citizens have been cornered to accept the only option at a cost. This is a clear sign of failure on part of the government, which is presented with several options for expanding the tax base but instead impose tax on the basis of convenience in violation of the principles of efficiency, equity and the redistributive nature of tax. The people out there are outraged and the frequently asked questions are as follows;

1. What is the tax revenue collected used for?
2. Whose interests are being represented in these reforms (monetary and fiscal)
3. Why is the government overburdening the already suffering public?
4. Can the government honestly explain to the citizens the rationale for raising the transaction tax when there are other revenue generation options available?

Unless these questions are addressed, it will be difficult to build a social contract between the government and its citizens.

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