



ZIMCODD

ZIMBABWE COALITION ON DEBT & DEVELOPMENT

SUSTAINABLE AND INCLUSIVE DEBT MANAGEMENT FRAMEWORK FOR ZIMBABWE (SIDMaF)



A Civil Society Perspective on Debt Resolution

Published by

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ABOUT ZIMCODD

Zimbabwe Coalition on Debt and Development (ZIMCODD) is a social and economic justice coalition established in February 2000. It is dedicated to facilitating citizens' involvement, through their sectors and as activists in making public policy and practice pro-people and sustainable.

ZIMCODD views indebtedness, the unfair local and global trade regime, tax injustices, unsustainable natural resource exploitation 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 aimed at delivering the following 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 of citizens.
- 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.

Vision

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

Mission

To take action in redressing the debt burden and social and economic injustices through formulation and promotion of alternative policies to the neo-liberal agenda.

ACRONYMS

ADF	African Development Fund
AfDB	African Development Bank
Afrexim Bank	African Export-import Bank
AZ	Air Zimbabwe
CAAZ	Civil Aviation Authority
CDC	Commonwealth Development Corporation
DFID	Department for International Development
DMF	Debt Management Framework
DRM	Domestic Resource Mobilization
EIB	European Investment Bank
ESAP	Economic Structural Adjustment Programme
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Country
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFI	International Financial Institutions
IMF	International Monetary Fund
MDRI	Multilateral Debt Relief Initiative
MoE&ED	Ministry of Finance and Economic Development
NRZ	National Railways of Zimbabwe
ODA	Official Development Assistance
PFM	Public Finance Management
PoZ	Parliament of Zimbabwe
RBZ	Reserve Bank of Zimbabwe
SADC	South African Development Community
SDG	Sustainable Development Goal
SDR	Special Drawing Rights
SIDMaF	Sustainable and Inclusive Debt Management Framework
SSA	Sub-Saharan Africa
TB	Treasury Bill
UN	United Nations
UNCHR	United Nations Commission on Human Rights
WBG	World Bank Group
ZAADZ	Zimbabwe Accelerated Clearing Debt and Development Strategy
ZADMO	Zimbabwe Aid and Debt Management Office
ZAMCO	Zimbabwe Asset Management Corporation
ZIMCODD	Zimbabwe Coalition on Debt and Development
ZIMRA	Zimbabwe Revenue Authority
ZISCO	Zimbabwe Iron and Steel Company

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PREFACE

The Sustainable and Inclusive Debt Management Framework (SIDMaF) comes at a very opportune time when people's expectations for a better Zimbabwe remain high. These expectations are coming from both Zimbabweans and the international community whose hopes are pinned on a major shift in the public finance management and the general governance under the "New Dispensation". It is no doubt that the country has the potential to position itself in the development trajectory given the human and natural resource endowments at its disposal. The reasons behind the economic and political crises in Zimbabwe are well documented. What remains is setting the foundations for good governance, rule of law, transparency and accountability and inclusivity in all national decisions.

The economic crisis and the debt overhang in Zimbabwe has remained a national and global topical issue despite the looming debt crisis in other Sub-Saharan countries. The Zimbabwean case remains unique and challenging in that the country's indebtedness has been exacerbated by the huge debt arrears currently at 76% of the total external debt, continuous violation of legal and constitutional provisions, secrecy and exclusionary decision making by policy makers. Resolving the country's debt crisis therefore remains central in reforming the broader macroeconomic framework for Zimbabwe.

The human rights implications of the huge debt burden in Zimbabwe are understated. Women, youth, people with disability, people living with HIV/Aids and other vulnerable groups are disproportionately affected by public debt. As the country gears up to the austerity measures to spare considerable resources for debt repayment, social safety nets continue dwindling. By any means, the deficiencies in public service delivery should be prioritised as part of creating a delicate balance between debt resolution and funding of social services informed by a comprehensive and citizen-led public debt audit.

The Zimbabwe Coalition on Debt and Development (ZIMCODD) believes that it is a collective responsibility to address the macroeconomic challenges bedevilling the economy and the debt crisis in particular. Parliament, central government, civil society, international financial institutions and private sector are equally important in resolving the current debt crisis and shaping a sustainable debt management framework going forward.

It is therefore our hope as ZIMCODD that the government will consider our input into the development of the country's debt management strategy and the entire public finance management framework in line with the Constitution of Zimbabwe Amendment No. 20 of 2013 towards judicious management of national revenues.



Janet Zhou

Executive Director – Zimbabwe Coalition on Debt and Development (ZIMCODD)

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The insightful comments, reviews and guidance from Janet Zhou, the Executive Director of ZIMCODD reflects in both the content and detailed analysis that informs the proposed Sustainable and Inclusive Debt Management Framework. The meticulousness reviewing of the paper provided by John Maketo, the Programmes Manager at ZIMCODD is greatly appreciated in ensuring the credibility of the figures and thoroughness of the facts therein. John Maketo has also been diligent in coordinating and facilitating the research process. The great work of the entire ZIMCODD team which took part in proofreading is commendable. Many other colleagues contributed to this paper in various ways at various stages of its production. Their input and contributions are well acknowledged. We are grateful to the Friedrich-Ebert-Stiftung Zimbabwe for their support in the production of this paper.

KEY MESSAGES

1. The causal relationship between budget deficit and national debt has kept the country in a debt trap since the mid-1980s.
2. The Zimbabwean government has continued to borrow excessively from domestic sources, placing the country in serious overhang. This has negative implications on intergenerational equity as a greater proportion of development resources for subsequent years is preempted to debt service at the expense of growth, employment creation, maintenance of critical services and infrastructure development and has undermined the government's ability to fulfil its social and economic rights obligations.
3. A Sustainable and Inclusive Debt Management Framework (SIDMaF) must follow a comprehensive debt audit in order to ascertain the extent of the debt, how it was used and/or misused; it must evaluate the terms of the specific loans and how the loans benefited Zimbabwe. The audit is important for addressing the legitimacy and moral question on Zimbabwe's debt whilst strengthening a social contract between the government and the citizens.
4. The government should negotiate for unconditional debt cancellation for illegitimate and odious debts and apportion the debt burden to the beneficiaries of such debts (individuals and institutions). Any saved funds (as a result of debt write-offs) should go into an account managed by the UN, for spending on Zimbabwe's efforts to meet the SDGs and its human rights obligations. This should be done as a measure to ring fence such funds from misallocations and to promote and protect basic human rights such as health, education, provision of potable water among other basic provisions.
5. A strong and autonomous debt management office and a transparent, accountable and inclusive loan contraction process are key prerequisites for SIDMaF. The continuous violation of the legal provisions on Limits of State Borrowings, Public Debt and State Guarantees does not only pose a threat to the country's debt position but the broader macroeconomic performance.

1.0 INTRODUCTION

Zimbabwe is currently in debt distress with public and publicly guaranteed debt at unsustainable levels of 97% of GDP against the statutory provision of 70%. The huge debt overhang impacted on the country's credit worthiness, further raises the country's risk profile resulting in massive disinvestment. The high country risk profile represents a major constraint to both poverty reduction and debt strategy. As of December 2018, debt to revenue ratio was 326% while debt to exports stood at 359%. Considering the high debt to exports ratio, Zimbabwe has little chance of emerging from its debt problem even in the long run.

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 external debt which accumulated from pre-independence to post-independence (1980s to 2000). The defaulted debt is therefore largely historical. The government has not been able to meet its financial obligations resulting in interests and penalty charges exceeding the principal amount borrowed. Following the withdrawal of financial assistance by the International Monetary Fund (IMF) and the World Bank (WB) in 2000, the government resorted to domestic borrowing which led to a rise in domestic debt in the early 2000s and since 2012 the government has been attempting to meet the current spending whilst paying interests and penalties on the external debt. Without external lines of credit, domestic borrowing is not an option as its implications on the economy are the same, considering that the loans were acquired in United States dollars after the adoption of the multi-currency regime. It is therefore 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.

It is important to put the Zimbabwean debt into perspective. There is a global trend towards indebtedness, especially in Sub-Saharan Africa. African countries are increasingly falling into debt distress. According to the 2018 World Bank (WB) debt sustainability report, African countries in debt distress rose from 8 in 2013 to 18 in 2018. Overall, debt servicing costs averaged 11% of government revenues in Africa in 2016 up from just 4% in 2013.

The huge debt burden, debt defaults and increasing budget deficit has put Zimbabwe in a precarious situation which calls for a holistic approach to the broader macroeconomic deficiencies and the debt crisis in particular. As the country commits itself to achieve 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 resolving the current debt, this paper provides an alternative debt management framework that addresses the debt crisis to advance sustainable and inclusive socioeconomic development for Zimbabwe.

This strategy paper builds on the historical overview of Zimbabwe's debt position which provided the basis for interrogating the government's policy thrust since 2000. Having evaluated the different strategies, the paper, provides policy options towards a sustainable and inclusive debt management framework for Zimbabwe, supported by key engines and pillars for addressing the prevailing broader macroeconomic deficiencies. This sets the country in a very clear development trajectory.

2.0 POLICY, LEGISLATIVE AND INSTITUTIONAL FRAMEWORK FOR DEBT MANAGEMENT IN ZIMBABWE

There are a number of legal and institutional instruments available for Zimbabwe's debt management.

2.1 Legal Framework

Notwithstanding the severity of debt and its impacts on social and economic rights in the country for a long time, debt management in Zimbabwe was supposed to be guided by the legal framework outlined below:

- Constitution of Zimbabwe Amendment (No. 20) Act of 2013
- Public Finance Management (PFM) Act (Chapter 22:19) of 2009
- The Reserve Bank of Zimbabwe Act (Chapter 22:15) of 2010 as amended
- The International Bank Loans Assumptions Act (Chapter 22:08)
- Audit and Exchequer Act of 1996 (Chapter 22:02)
- State Loans and Guarantees Act (Chapter 22:13)
- Former Administration (Liabilities) Act (Chapter 22:06) of 1979
- Public Debt Management Act (Chapter 22:21) of 2015.

Prior to 2009, laws governing public debt management in Zimbabwe were fragmented and provided for mainly in the Constitution of Zimbabwe, the International Bank Loans Assumptions Act (Chapter 22:08), Audit and Exchequer Act of 1996 (Chapter 22:02), the State Loans and Guarantees Act (Chapter 22:13) and the Former Administration (Liabilities) Act (Chapter 22:06) of 1979. However, the enactment of the Public Finance Management Act in 2010 (which repealed the Audit and Exchequer and State Loans and Guarantees Acts), the amendment to the RBZ Act (prior to the promulgation of the Debt Management Act), the Constitution of Zimbabwe in 2013 and the Public Debt Management Act in 2015 strengthened the public finance and debt management system in Zimbabwe by providing for a broad framework of fiscal management, which included rigorous reporting requirements as well as strengthening of the role of Parliament in the management of public resources.

The Public Debt Management Act and the Constitution of Zimbabwe (No. 20) Act, 2013 provide guidelines on borrowing in relation to gross domestic product. The Minister of Finance and Economic Development (MoF&ED) is only allowed to exceed the statutory limit through a resolution of the National Assembly under one or more of the following conditions:

- Occurrence of natural disasters or other emergencies requiring exceptional expenditure
- Where a large investment project in the public sector is deemed by Cabinet to be timely and prudent
- In case of a general economic slow-down requiring fiscal and monetary stimulus.¹

Consistent with Section 300 of Zimbabwe Amendment (No. 20) Act of 2013, Section 61 (a-b) of the Public Finance Management Act provides that the aggregate amount that may be borrowed in any financial year shall not exceed 30% of the general government revenue in the previous year. Furthermore, the aggregate of the amounts that may be guaranteed in any financial year in respect of indebtedness or other obligations raised, incurred or established, as the case may be, within Zimbabwe shall not exceed 40% of the general revenues

¹ Public Debt Management Act [Chapter 22:21], 2015

of Zimbabwe in the previous financial year in accordance with 61 (3) of the Public Finance Management Act. The government has not only disregarded the Constitution and the Public Finance Management Act but also Section 11(1) of the Reserve Bank Act [Chapter 22:15], which states that borrowing from the Reserve Bank of Zimbabwe (RBZ) shall not exceed 20% of the previous year's government revenues at any given point. As of 31 August 2018, the overdraft with the central bank stood at US\$2.3 billion against the statutory limit of US\$762.8 million.²

As a signatory to the SADC Protocol on Finance and Investment, Zimbabwe is also bound by the SADC debt sustainability threshold. Annex 2 of the protocol compels member states to maintain public debt to GDP ratio to levels at or below the 60% threshold. Despite this provision, Zimbabwe set its debt to GDP ratio at 70% in violation of the regional benchmark. Despite having such comprehensive national and regional frameworks, it suffices to say that compliance with the legislative provisions, in particular, relating to loan acquisition and debt management, has generally been low. It is, therefore, not a secret that the bulk of Zimbabwe's national debt was acquired without Parliamentary approval or even following the constitutional and statutory requirements.

2.2 Institutional Framework

Public debt management is a collective responsibility for both debtor and creditor countries. However, there are certain institutions that have been tasked with the responsibility of managing national debt. The efficiency of debt management in Zimbabwe is a function of the effectiveness of these institutions both jointly and independently. These institutions include the following:

2.2.1 Ministry of Finance and Economic Development (MoF&ED)

The Public Finance Management Act mandates the MoF&ED through the minister to manage, supervise, control and direct all matters relating to state revenues and expenditures. The minister in turn draws his mandate from the office of the president. Section 52 of the Public Finance Management Act, provides that the president may authorize the minister of finance to borrow a sum of money for any purpose deemed necessary by the president. The minister is also required to publish the terms of the loan in the Government Gazette within 60 days after the government has concluded a loan agreement or guarantee. To ensure transparency and accountability, the Constitution further mandates the minister to report to Parliament at least twice a year on both the performance of loans raised by the state; and loans guaranteed by the state. The minister must also table in Parliament a comprehensive statement of the public debt of Zimbabwe at the same time as the estimates of revenue and expenditure are laid before the National Assembly in terms of Section 305 of the Constitution.

2.2.2 Zimbabwe Aid and Debt Management Office (ZADMO)

To ensure, judicious debt management in Zimbabwe, the public debt management framework provides for the establishment of the ZADMO. ZADMO is established for the purpose of advising the Minister of Finance and Economic Development on all government borrowings, participate in all negotiations with creditors on government borrowing and guaranteed loans. ZADMO is mandated by the Public Debt Management Act of 2015 to prepare and publish a Medium Term Debt Management Strategy, prepare and publish an annual borrowing plan which includes a borrowing limit and undertake annual debt sustainability analyses. The ZADMO is also responsible for compiling, verifying and reporting on all public debt arrears, especially government public debt arrears, and designing a strategy for debt settlement. Since its inception in 2010, the

² Ministry of Finance and Economic Development, Fiscal Measures for Reversing Fiscal Dis-equilibrium, 1 October 2018

ZADMO has not been able to fully satisfy its obligations as provided for in the Public Debt Management Act of 2015, if so the information has not been made public to promote debt transparency.

2.2.3 External and Domestic Debt Management Committee (EDDC)

The Public Debt Management Act also provides for the establishment of the External and Domestic Debt Management Committee (EDDC). The Committee which consists of the Permanent Secretary in the Ministry of Finance and Economic Development (chairperson), the Governor of the Reserve Bank, and the attorney-general who reports to the Minister of Finance and Economic Development. The main functions of the committee consist of making recommendations to the minister on public debt management policy and strategy; and all external borrowings, domestic debt issuance and guarantees. The committee further advises the minister on all policy matters relating to public debt management. The committee is required by law to meet at least once every calendar month. The committee is confirmed to have met a couple of times to discuss and give advice to the Minister of Finance and Economic Development with regard to debt management in Zimbabwe. However, the meetings are not on a regular basis.

2.2.4 Parliament of Zimbabwe

The Parliament of Zimbabwe (PoZ) is the supreme institution responsible for monitoring and overseeing expenditure by the state and all commissions, institutions and agencies of government at every level, including statutory bodies, government-controlled entities, provincial and metropolitan councils and local authorities, in order to ensure that all revenue is accounted for; all expenditure has been properly incurred and any limits and conditions on appropriations have been observed in accordance with Section 299 of the Constitution of Zimbabwe Amendment No. 20 of 2013. Section 300 of the Constitution further empowers Parliament to make a final decision on government borrowing and state guarantees. Limits of state borrowing, public debt and guarantees must not be exceeded without the authority of the National Assembly.³ At the same time as the estimates of revenue and expenditure are laid before the National Assembly in terms of Section 305, the Minister of Finance and Economic Development also has to table in Parliament a comprehensive statement of the public debt of Zimbabwe. This report should include information on how the debt management strategy has been implemented over the course of the financial year and the bi-annual reporting of debt management activities covering evaluation of outcomes against the debt management objectives. It is a must that all external loans contracted under the Public Debt Management Act are subject to ratification by Parliament in accordance with the Constitution.

2.3 Current Challenges

The continuous violation of Section 300(1) of the Constitution and Section 11 of the Public Debt Management Act poses a lot of questions with regard to the country's governance, rule of law and legitimacy of both domestic and external debt. At a time when the government has decided to rebase the economy from US\$18 billion to US\$25.8 billion, the debt to GDP ratio has declined from 97% to 70.3%. This implies that the country's debt becomes sustainable despite the huge debt arrears. The Debt to GDP ratio, may however not be the best measure of debt sustainability as it only considers the face value of debt and not the cost of debt. ZIMCODD posits that debt management strategy should, therefore, be based on debt service as a proportion of government revenue, both now and into the projected future.

2.3.1 Debt Assumption

The government enacted the Reserve Bank of Zimbabwe (Debt Assumption) Act of 2015 to provide for

³ Constitution of Zimbabwe Amendment No. 20, 2013

the settlement of certain liabilities worth US\$1.35 billion incurred by the Reserve Bank of Zimbabwe. This was despite resistance from the members of the public who felt that the debt was a liability to individual beneficiaries of the agricultural mechanization programme, not the state. The same approach was followed in assuming the ZISCO Steel debt of US\$495 million in 2018. By assuming the ZISCO and RBZ debts, domestic debt increased by US\$1.85 billion. On passing both laws, the government was only concerned with providing clean balance sheets for the RBZ and ZISCO Steel to enable the two institutions to attract international funding for RBZ and to pave way for new investors into ZISCO Steel. By doing this, the government is shifting the debt burden from the institutions in question to the national fiscus thereby worsening the unsustainability of the national debt at a time when the creditors are holding on to full repayment of outstanding arrears as a precondition for debt relief. As if this is not enough, more parastatal debts are lined up for assumption following the cabinet decision to assume parastatal debt worth US\$1 billion⁴ owed to domestic and external creditors by the National Railways of Zimbabwe (NRZ), Air Zimbabwe (AZ) and Civil Aviation Authority of Zimbabwe (CAAZ) classified as legacy debts. This is despite the governance challenges and malpractices in these institutions as has been noted in the auditor general's Reports on an annual basis. The government should not condone inefficiency and corruption which has been largely responsible for the perennial losses in state owned enterprises by transferring the burden from these institutions to the citizens. Prior to assuming parastatal debts, serious considerations must be made based on the material issues raised in the auditor general's reports as follows:

Table 1: Issues Raised in the Auditor General's Report

State Owned Enterprise	Issues Raised
CAAZ	<ul style="list-style-type: none"> • Domestic debt of US\$165.5 million • External debt of US\$100.8 million • Procurement of cellphones for board members worth US\$6 265 without the approval of the parent ministry • Paid US\$419 677 to Creative Systems for furniture in 2015, but only furniture worth US\$28 614 was delivered
AZ	<ul style="list-style-type: none"> • Debt exceeded US\$334 million as of 2010 • Current liabilities exceeded current assets by US\$104.4 million • Collusion between management team and their insurance broker regarding overpayment of aircraft insurance premiums • Poor management of inventories • Three airlines leased without a signed lease agreement • Incorrect valuation of property, aircraft and equipment • Unsupported expenditure worth over US\$107 million • Unsupported transactions on property aircraft and equipment • Poor bookkeeping • Non-compliance with international accounting standards

⁴ The Herald, Cabinet okays \$1bn parastatals debt takeover, 10 July 2017

NRZ	<ul style="list-style-type: none"> • Debt exceeds US\$200 million • Accumulated loss of over US\$388 million • Illegal tenants on real estate land
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The creation of the Zimbabwe Asset Management Company (ZAMCO) to mop up non-performing loans at banks after following non-payment of loans by individuals and corporates further worsened the country's debt position. As of June 2018, ZAMCO had acquired US\$997 million Non-Performing Loans (NPL).⁵ During the presentation of the 2019 National Budget, however, the Minister of finance and Economic Development announced a government decision to stop further acquisitions of non-performing loans from companies through ZAMCO.⁶

The implications of assuming both private and state owned enterprise debts on the country's indebtedness, credit rating and public confidence and trust cannot be overemphasised. In recent years, public enterprises' contribution to the economy declined from 60% to about 2% with 70% of these entities technically insolvent.⁷

Instead of financing national priority infrastructure and productive sector projects with high economic and social impacts and projects that can generate sufficient revenues to repay the loans as provided for under Section 12(a) of the Public Debt Management Act, the country became worse. This affected the other macroeconomic indicators as shown by the following table.

Table 2: Economic Indicators

Total Government Revenue	US\$2.5 billion
Tax Revenue	US\$2.4 billion
Non-Tax Revenue	US\$139.7 million
Total Expenditure and Net Lending	US\$3.9 billion
Current Expenditure	US\$2.4 billion
Capital Expenditure	US\$1.2 billion
Budget Deficit	US\$1.3 billion
Deficit Financing	US\$1.5 billion
Merchandise Imports	US\$3.4 billion
Merchandise Export	US\$1.9 billion
Trade Balance	US\$1.5 billion
Source: Ministry of Finance, 2018 ZIMRA, 2018 RBZ, 2018	

⁵ Chronicle, 22 June 2018: ZAMCO mops up US\$1 million non-performance loans

⁶ Herald, 26 November 2018: No more acquisitions from ZAMCO

⁷ Godfrey Kanyenze, Analysis of the 2019 National Budget and Projected Impact on Socio-Economic Development, 2018

3.0 OVERVIEW OF ZIMBABWE'S DEBT (1980 to 2018)

Zimbabwe's public debt has been accumulating exponentially to unsustainable levels since 1980. The financing of budget deficit through both external and domestic borrowing is not a new phenomenon. For four consecutive years running from 30 June 1984 to June 1989, central government debt went up from at least ZW\$1 billion a year to about ZW\$7 billion.⁸ Total debt, thus rose at an average of 20% per annum over the same period whilst service payments increased nine fold during that period and as a percentage of revenue, from 10.4% in 1980 to 17.2% in 1988,⁹ a clear indication that most of the borrowed funds might not have been invested into direct revenue-generating sectors. The cumulative effects of budget deficit manifested as high interest payments and foregone infrastructure and public service delivery. There was no movement in the implementation of projects for which the funds were borrowed. This was coupled with inadequate capacity of government to maintain an acceptable pipeline of projects and supply performance reports of the standards required by the funding agencies. About 16% of actual recurrent expenditure was attributed to interest payments.¹⁰

External debt to total government debt rose from 21.9% in June 1980 to 40% in June 1988. The actual stock of public external debt, excluding contingent liabilities in respect of loans for parastatals, increased from ZW\$364 million to ZW\$2.8 billion over the same period. This was exclusive of parastatal borrowings, most of which were guaranteed by government.¹¹ The trend continued during the early to mid-1990s when the country implemented the Structural Adjustment Programme (ESAP). ESAP led to the deterioration of the economy to the extent of failing to service the country's debt. ESAP further compromised public service delivery, poverty reduction and infrastructure development due to the conditionalities set in the programme. Kawewe and Dibia (2000) argued that ESAP was an inappropriate public policy for Zimbabwe as it inflated poverty, dampened the country's capacity to develop a strong diversified economy and increased the exploitation of workers through deregulation accompanied by environmental degradation. The conditionalities attached to ESAP allowed international corporations to gain access and entry to the country's labour force and resources unabated and at bottom line bargaining prices compounded by privatization.¹² In this development matrix, workers, peasants and women, and children suffered the most. Ironically, the failed ESAP was a prescription package from the International Financial Institutions (IFIs), namely the International Monetary Fund (IMF) and the World Bank. The Zimbabwe country assessment evaluation done by the World Bank confirmed its failure to launch a lending programme for agriculture and insufficient attention given to social safety nets which contributed to the failure of ESAP.¹³ These two institutions are partly to blame for weakening the country's economic performance and failure to repay the debt.

The country's debt position worsened between 1997 and 2000 due to excessive foreign currency shortages, depreciation of the Zimbabwean dollar and exorbitant interest rates which rose to over 50% in 1998. Paradoxically, the government was owed large sums of money by beneficiaries of the War Victims Compensation Fund, Government Housing Scheme, the Grain Loan Scheme, Commodity Import Programmes and Early Indigenisation Fund. Beneficiaries of these schemes, most of which used their political positions to hijack the specific funds, defaulted the payments. To date, the government is not clear on whether such resources were recovered. Those resources could have been used to finance public service delivery and lessen the need for borrowing.

8 1988 National Budget Statement, Ministry of Finance, Economic Planning and Development

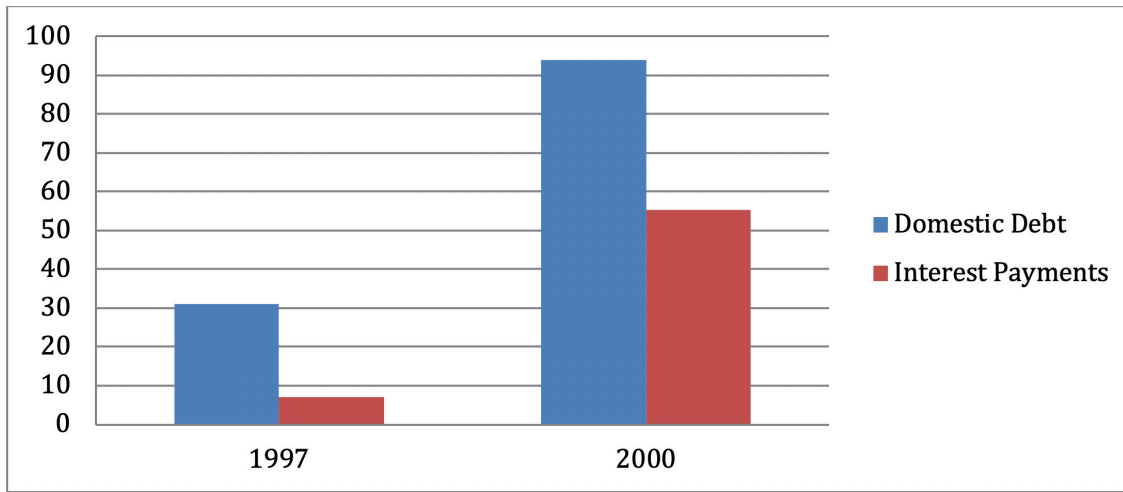
9 Ibid

10 1984 National Budget Statement, Ministry of Finance, Economic Planning and Development

11 1988 National Budget Statement, Ministry of Finance, Economic Planning and Development

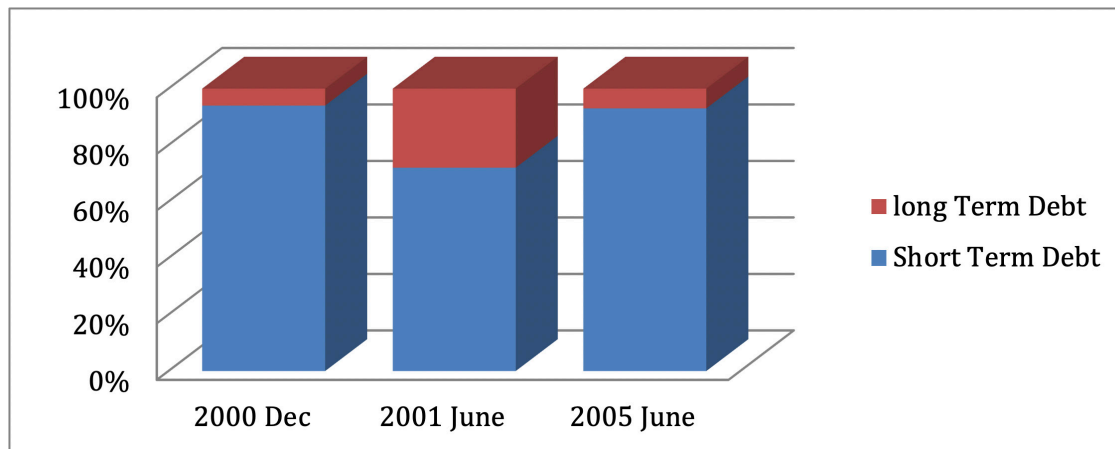
12 Kawewe, Saliwe M. and Dibia, Robert (2000) "The Impact of Economic Structural Adjustment Programs [ESAP] on Women and Children: Implications for Social Welfare in ZIMBABWE," *The Journal of Sociology & Social Welfare*: Vol. 27: Iss. 4 Article 6. Available at: <http://scholarworks.wmich.edu/jssw/vol27/iss4/6>

13 World Bank Zimbabwe Country Assessment Evaluation, May 2004

Figure 1: Total Domestic Debt and Interest Payments: 1997 and 2000 (ZW\$ billion)

Source: 2001 National Budget Statement

High budget deficit compelled the government to borrow excessively despite the increasing debt burden, placing the country in serious debt overhang. Total government debt grew from ZW\$37 billion in 1995 to ZW\$207 billion in 2000. Domestic debt rose sharply from 26.5% of GDP to 37% over the same period. This prompted the government to restructure domestic debt. The short term domestic debt declined to 72% in 2001 from 94% as at end of 2000 (refer to Figure 1). Domestic debt of two years or more increased from 6% to 28%, thereby reducing the domestic debt burden in the short term. This has negative implications on intergenerational equity as a greater proportion of development resources for subsequent years is preempted to debt service at the expense of growth, employment creation, maintenance of critical services and infrastructure development. The restructuring of domestic debt was, however, short-lived due to the high inflationary environment. In 2005, short term public debt shot up again to 93% of the total domestic debt.

Figure 2: Domestic Debt Structure (2000-2005)

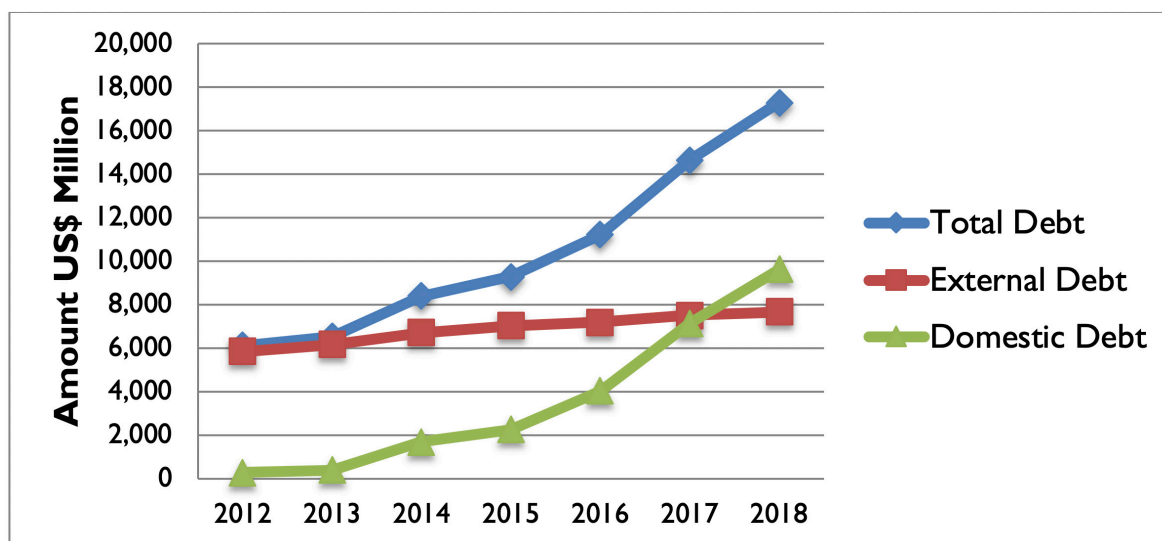
Source: 2002, 2006 National Budget Statements

With limited scope for external financing, domestic debt ballooned to ZW\$15.9 trillion as of October 2005 up from the ZW\$1.7 trillion in December 2004,¹⁴ as the government resorted to Treasury Bills (TBs) and central bank overdraft. Apart from external payment arrears to the IMF, World Bank and the AfDB, the country had to meet a huge foreign currency demand to import fuel and electricity.

The macroeconomic environment worsened between 2006 and 2008 characterised by ever increasing prices with inflation reaching the record high of 231 million per cent¹⁵ in 2008, high unemployment and rising poverty levels, foreign exchange shortages, low industrial capacity utilization, unprecedented corruption, deteriorating provision of public services and public financial indiscipline. Considering that the loan defaults dated back to 2000 the interest on loans and penalties rose sharply. The total external debt as of October 2006 stood at US\$4.1 billion, of which US\$2.2 billion was in arrears.¹⁶ The arrears further rose to US\$2.7 billion in 2007.¹⁷

Domestic debt grew to ZW\$119.4 billion in 2006 and ZW\$12.5 trillion in 2007 reflecting the impact of inflation on government operations and programmes.¹⁸ The government did not release information with regard to domestic debt between 2009 and 2012, after which it published a domestic debt of US\$276 million in 2012. Since then, domestic debt has been growing at an exponential rate due to the government's propensity to borrow domestically by issuing TBs and through the RBZ bank overdrafts. The RBZ Debt assumption Bill in 2015, resulted in the sharp rise in domestic debt from US\$1.676 billion in 2014 to US\$2.239 billion. The huge budget deficit continued driving domestic debt to unsustainable debt levels of US\$4.033 billion in 2016, US\$7.134 in 2017 and US\$9.5 billion as of August 2018. (Refer to figure 3)

Figure 3: National Debt: External, Domestic and Total (2012-2018)



Source: Author – Based on statistics from MF&ED and RBZ, 2017

Total external debt was US\$6.9 billion in 2010 (103% of the national GDP) and 70% of this was in arrears (US\$4.8 billion), constituting 71.6% of GDP. This implies that only the debt arrears were above the statutory

¹⁴ 2006 National Budget Statement, Ministry of Finance

¹⁵ The Guardian 2008 <https://www.theguardian.com/world/2008/oct/09/zimbabwe>

¹⁶ 2007 National Budget Statement, Ministry of Finance

¹⁷ 2008 National Budget Statement, Ministry of Finance

¹⁸ Ibid

threshold of 70% debt to GDP ratio.¹⁹ About 41% of total external debt for 2012 was owed to multilateral institutions.

The external debt continued on an upward trend reaching US\$7.030 billion in 2015 up to US\$7.5 billion in 2017. With the increasing domestic debt, the total publicly guaranteed debt as of December 2017 stood at US\$14.642 billion, rising to above US\$17.3 billion as of August 2018 (see table 3). The US\$495 million ZISCO Steel Debt also contributed to this sharp rise.

The country's external debt amounted to US\$7.7 billion as at September 2018, dominated by principal interest arrears and penalties amounting to US\$5.9 billion.²⁰ Of this amount, 41% is owed to Paris Club creditors, 34% to multilateral creditors, 18% to non-Paris Club creditors and 7% to private creditors. The country's external payment arrears (a combination of both unsettled interest payments, penalty charges and principal payments) continually increased from US\$109 million in 1999 to US\$5.9 billion in 2018. In 2016, arrears were partially reduced by the clearance of arrears to IMF of US\$107.9 million and token payments to other multilateral creditors. Meanwhile, domestic debt stood at US\$9.6 billion as at September 2018. The bulk of the debt is in TBs, which were issued for recapitalization of public enterprises, settling government obligations and RBZ debt assumption.²¹ Out of the US\$2.1 billion TBs and bonds issued in 2016, only US\$356.3 million (17%) was to finance the budget deficit, with US\$1.7 billion (81%) going towards settlement of legacy debts.

Table 3: Zimbabwe Debt Stock: 2018 (US\$)

	DOD	Arrears	Total	Total	GDP @17.85 billion	GDP @25.77 billion
Public and Publicly Guaranteed Debt	11,260	6,025	17,285	100%	97%	70%
External Debt	1,753	5,907	7,660	44%	43%	31%
Bilateral Creditors	1,431	3,302	4,432	26%	25%	18%
Paris Club	217	3,046	3,095	18%	17%	13%
Non-Paris Club	1,214	256	1,337	8%	7%	5%
Multilateral Creditors	322	2,242	2,544	15%	14%	10%
World Bank	226	1,258	1,464	8%	8%	6%
African Development Bank	35	651	686	4%	4%	3%
European Investment Bank	20	302	322	1.86%	2%	1%
Others	41	31	72	0.42%	0%	0%
RBZ Assumed External Debt²	0	363	507	3%	3%	2%
Domestic Debt	9507.2	117.6	9,625	56%	54%	39%

Source: Ministry of Finance and own calculations

¹⁹ 2011 National Budget Statement, Ministry of Finance

²⁰ The 2019 National Budget Statement, 22 November 2018

²¹ Ibid

4.0 GOVERNMENT'S DEBT RESOLUTION STRATEGIES POST 2000

Since 2001, the government accelerated its efforts to restore the country's credit worthiness and credibility with a view to unlocking critical international assistance and commercial credit lines. This section will interrogate Domestic Debt Restructuring (2001-2008), Sustainable and Holistic Debt Strategy (2010), Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy (2012) and the Lima Strategy (2015).

4.1 Domestic Debt Restructuring (2001-2008)

To deal with the disproportionately high domestic debt amounting to ZW\$125 billion in 2000, the government restructured domestic debt so that at least 30% became medium to long term while 70% was converted to TBs of 91 days, six months and one year maturities, however, this failed to achieve the intended results. By 2007, short term domestic debt had risen to 98.5% while only 1.5% was medium to long term debt. This prompted further restructuring of 64.2% of the domestic debt to one year while 35.8% was restructured to three years. On the other hand, there was no deliberate policy to repay external debt. The government only proposed to use part of privatization proceeds to clear external arrears, to no avail.

4.2 Sustainable and Holistic Debt Strategy, 2010

Following ten years of defaulting payments to the IFIs, external debt stood at US\$6.9 billion in 2010, of which 70% (US\$4.8 billion) was in arrears. This further undermined the country's credit worthiness and compromised new funding options from the international financial institutions. In order to arrest the continuous accumulation of external debt, the government adopted the Sustainable and Holistic Debt Strategy. This was a hybrid model which involved a combination of traditional debt resolution initiatives and creative leveraging of the country's natural resources for economic development.

4.3 Zimbabwe Accelerated Arrears Clearance Debt and Development Strategy (ZAADS), 2012

In March 2012, the Government of Zimbabwe adopted the ZAADS whose key tenets included the establishment and operationalization of the Zimbabwe Aid and Debt Management Office which had been in existence since December 2010. This was followed by the validation and reconciliation exercise of the external debt database. This however did not look into circumstances under which the debt was accrued, terms thereof, status, costs, use of the loan (whether it was used for intended purposes) and if objectives were met among other things.²² ZAADS proposed three approaches towards re-engagement and arrears clearance for IFIs, Paris Club and other creditors respectively:

4.3.1 Bridging Loans for Debt Repayment, which implied acquisition of bridge loans from cooperating partners to fully clear the arrears owed to multilateral institutions namely the IMF, World Bank [International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)] and the African Development Bank (AfDB). The government was keen to clear the arrears in order to pave way for new financing. However, this option had a risk of drawing the country into a debt trap as the country only reschedule its debt by getting into new lines of credit. This was likely to draw the country into a worse debt situation.

4.3.2 Applying the Naples Terms for settlement of the debt and arrears due to the Paris Club. This entailed consolidation of existing arrears, rescheduling of payments by about three years, and a 67% reduction in repayment obligations and rescheduling of the balance over several years. To get this to happen, the Paris

²² ZIMCODD, Position Paper on the adopted Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy (ZAADS), 2015

Club currently insists that a country meets IMF conditions and the IMF must certify that the debt is not payable. Going through the Highly Indebted Poor Country Initiative (HIPC) would require the same criterion, but lead to 90%-100% of the debt to the Paris Club being written-off in the end.²³ This option entails fulfilling IMF conditionalities which require structural adjustments including privatisation of public entities, in which case the country will not have the autonomy to implement its own policies.

4.3.3 Negotiating for Comparable Debt Relief with Non-Paris Members and other commercial creditors. This was dependent on negotiations with the individual creditors. ZAADS suggested that the terms will be comparable to that of the Paris Club which presupposed the HIPC. ZAADS further proposed that the country should mobilize new financing and leverage on Zimbabwe's natural resources in pursuit of (debt relief and) economic development. The government was however not clear on the policy proposal regarding leveraging of mineral resources. The country's natural resources are under threat due to rampant corruption and opacity in the sector. The government has even acknowledged the high levels of corruption which is blamed for Zimbabwe's macroeconomic decline. The failure to account for the US\$15 billion from Chiyadzwa diamond fields casts doubt on the country's commitment to fight corruption and ensure transparency and accountability in Zimbabwe's natural resource sector. Mortgaging of mineral resources to settle unproductive debts would mean disadvantaging both the current and future generations.

4.4 Lima Strategy, 2015

The deteriorating macroeconomic environment, current account deficit and fiscal deficit and the surging external debt triggered the government to come up with strategies for clearing external debt arrears and the supportive economic reform agenda which was presented to and adopted by the country's creditors on the sidelines of the 2015 International Monetary Fund and World Bank Annual Meetings in Lima. The Lima Strategy is premised on a non-HIPC debt resolution strategy designed to clear external debt arrears amounting to US\$1.8 billion owed to the IMF, WBG and the AfDB as a first step towards seeking a debt treatment by the Paris Club,²⁴ after which the government would commence negotiations towards a resolution with the Paris Club. The government came up with a combination of strategies for clearing the arrears as follows:

Table 4: Strategies on Arrears Clearance to IFIs

Creditor	Outstanding arrears (US\$M)	Amount to be cleared by own resources + bridge loan (US\$M)	Amount to be cleared by medium to long term loan (US\$M)
World Bank Group (IBRD)	896	-	896
World Bank Group (IDA)	218	218	0
AfDB including AfDF	601	601	0
IMF	110	110	0
TOTAL	1825	929	896

Source: Lima Strategy, 2015

²³ ZIMCODD Position Paper on ZAADS, 2012

²⁴ Strategies for Clearing External Debt Arrears and the Supportive Economic Reform Agenda, 2015

4.4.1 Use of Domestic Resources

Adopting a strong stance on Domestic Resource Mobilization (DRM) is a key option to derive maximum benefit for the country not only to pay off the national debt without further borrowing but also creating fiscal space for economic development. The Lima Strategy, however, was only limited to the use of government's Special Drawing Rights (SDR) to clear the US\$110 million payment arrears owed to the IMF. The government had already transferred part of its SDR holdings kept by the IMF to clear the US\$107.9 million debt arrears which were owed to the IMF dating back to 2001. The government did 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 high expectations of the country's mineral resources which contribute over 68% of national export receipts. As the country explores options 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 worsening the natural resource curse.

4.4.2 Use of a Bridging Loan

The government proposed the use of the bridge loan facility that was already arranged with debt advisors, the African Export-Import Bank (Afrexim Bank), to clear the outstanding arrears to AfDB of US\$585 million and African Development Fund (ADF) holdings of US\$16 million by December 2015. There is however no information on progress made in pursuit of this strategy, but the AfDB loan is still outstanding. At a time when the country is considered high risk and rendered ineligible to access funding from IFIs, the option for bridging finance only signified a shift from one creditor, African Development Bank (AfDB), to another (Afrexim Bank) at higher interest rates while escaping the penalties. Apart from opening other lines of credit, the strategy does not provide any safeguards to ensure that the government will be able to repay the Afrxim Bank loan.

4.4.3 Use of Medium to Long Term Loan Facility

The government further proposed the use of the bridging loan facility to the tune of US\$1.1 billion to clear external payment arrears to the World Bank Group consisting of International Bank for Reconstruction and Development (IBRD) (US\$896 million) and International Development Association (IDA) (US\$218 million) by the first quarter of 2016. The loan facility was supposed to be for a period of 10 to 15 years at an interest rate of 5-10% per annum and to be paid as a bullet payment.²⁵ The strategy was 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 the future generation through compulsory tax payments. It would be a disservice for the government to adopt 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 stopgap measure whose implications will be felt at maturity of the medium to long term loan.

The Lima strategy was, however not implemented effectively due to non-conclusive negotiations on settling outstanding arrears. The government vowed to pursue the Lima agreement which expired in November 2018.

²⁵ Government of Zimbabwe, Strategic Clearing External Debt Arrears and the Supportive Economic Reform Agenda (LIMA Strategy)

4.4.4 Beyond the Lima Strategy, 2018

The Bali Arrears Clearance Strategy agreed to in October 2018 prioritized the US\$2.4 billion owed to the creditors of choice as follows: US\$680 million to the AfDB, US\$1.4 billion to the World Bank and US\$308 million to the European Investment Bank. The Minister of Finance and Economic Development indicated that the arrears will be cleared within 12 months. In the context of austerity, this will even limit further the fiscal space for social development. Unsustainable debt in Zimbabwe deprives the country of resources that normally should be invested in the development of the national economy. The budget is completely imbalanced and social spending is ridiculously low compared to amounts spent on debt repayment.

Table 5: Expenditure Towards Social Protection (US\$)

Year	2014	2015	2016	2017	2018
Social Protection (US\$ million)	9.9 million	12.6 million	5.9 million	23.6 million	26.8 million

The lack of social spending implies that the state is in breach of Sections 75-77 of the Constitution of Zimbabwe which guarantees the right to education, health, food and water, respectively. Considering that the government allocated US\$20 million towards the Basic Education Assistance Module (BEAM), each one of the 416 000 vulnerable and orphaned learners is entitled to US\$48 per year. This amount is far less than the school fees and levies for one term. This is more so in a country with 76% of rural households deemed to be poor and 23% of which live in extreme poverty.

5.0 TOWARDS A SUSTAINABLE AND INCLUSIVE DEBT MANAGEMENT FRAMEWORK FOR ZIMBABWE (SIDMaF): A CIVIL SOCIETY PERSPECTIVE

Debt Resolution Strategy

The country's indebtedness is a systemic and structural issue that requires both national and global level approaches. On one hand, the international financial, trade and investment architecture perpetuates the developing country syndrome of relying on external support which if not broken will persist, and on the other hand, structural issues within the country compound the challenge, creating a vicious cycle of debt. The current development model where the IMF and World Bank are both global standard setters and interested parties is conflicted. The IFIs in themselves are thus part of the debt crisis. The multilateral debt stocks for Zimbabwe, for instance, ballooned during and post ESAP. This was not peculiar to Zimbabwe, but rather across countries that adopted structural adjustment programmes. Thus, in spite of its severity in Zimbabwe, coupled by governance challenges (especially transparency and accountability in the loan contractual process), violation of the country's legal and institutional frameworks for debt management, corruption, macroeconomic inconsistencies and lack of political will, debt is a function of the global financial architecture that promotes the flow of resources from the global South to the North which undermines domestic resource mobilization. While the debt issues are dealt with separately from trade, labour, tax and other cross boarder engagements, they are, interdependent and so the development architecture should be designed as such.

An independent expert on the effects of economic reform policies and foreign debt on the full enjoyment of all human rights mandated by the United Nations Commission on Human Rights (UNCHR) in 2004, provides that debt relief agreements and new loan arrangements must be formulated in a transparent way, with

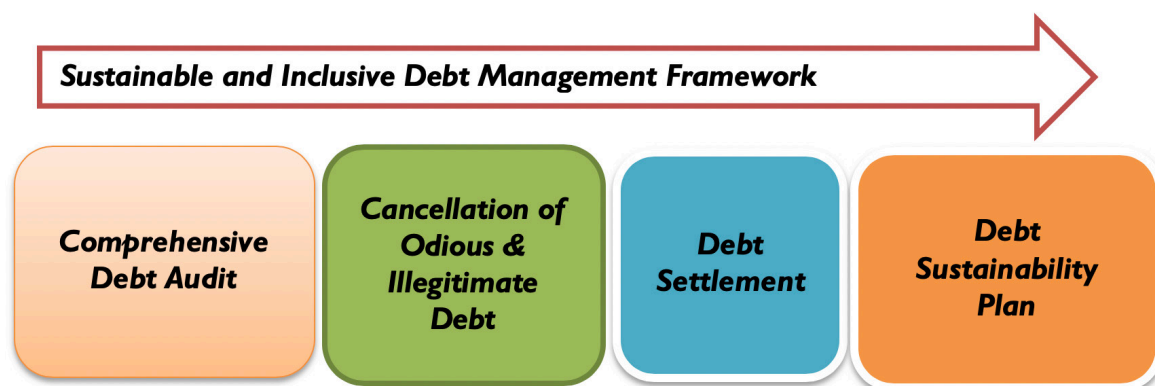
relevant information made available in a timely manner; and with the knowledge of the public, with legislative frameworks, institutional arrangements and mechanisms for consultation and accountability being established. A sustainable debt management framework that addresses the current debt problem whilst providing a lasting solution to future debt problems is one that recognizes the debtor and creditor as equal partners.

The debt resolution for Zimbabwe is therefore a shared responsibility between the citizens, the government and the creditors. This pact is only feasible when there is symmetric information sharing among these key players.

In light of this, the debt crisis in Zimbabwe will only be resolved by following a systematic approach:

- A comprehensive debt audit to determine legitimate and illegitimate debt.
- A comprehensive debt settlement plan (refer to figure 5).

Figure 5: Sustainable and Inclusive Debt Management Framework



5.1 Comprehensive Debt Audit

A comprehensive debt audit is an important step in ascertaining the extent of the debt, the loan contraction process, how it was used and/or misused, evaluating the terms of the specific loans and how the loans benefited Zimbabwe. The audit should cover the social, economic and human rights impacts of the loans and debt in Zimbabwe. Zimbabwe has been shouldering unjust debt since independence, having inherited US\$700 million from the Rhodesia Government which was meant to propel racial supremacy. In the 1980s and 1990s, some of the loans were tied to the use of companies from the source countries. This includes the £60 million (US\$140 million) from the Commonwealth Development Corporation (CDC) and Department for International Development (DFID) which were tied to the use of British companies, goods and services.²⁶ The US\$105 million and US\$250 million secured from the World Bank and the European Investment Bank (EIB) respectively to develop Hwange Coal Power Station required that British and Italian companies be contracted.²⁷ This practice is against the basic principles of responsible lending. To make matters worse, the electricity output from the plant was less than the World Bank Prediction by 37%. With the devaluation of the Zimbabwean dollar, the cost of the debt rose by 65% implying that the overall debt burden was way above

²⁶ Tim Jones Uncovering Zimbabwe's debt: The case for a democratic solution to the unjust debt burden, 2011

²⁷ Ibid

the economic benefits of the project. The assumption of the RBZ, ZISCO Steel and ZAMCO debts without due processes also escalate the national debt. The national debt audit is therefore important for addressing the legitimacy and moral question in Zimbabwe's debt whilst strengthening a social contract between the government and citizens. The Parliament of Zimbabwe should take a leading role in ensuring that the audit whose outcome should be used to increase transparency, accountability and quality of any future loans takes place. This is the perfect time to conduct a debt audit, especially after the fall of the former president Robert Gabriel Mugabe, whose regime had dictatorial tendencies coupled with the abuse of state resources and corruption. Most importantly, the findings of the audit must be shared publicly to ensure transparency and accountability in the management debt stock. The audit results should also inform future borrowing decisions and a sustainable and inclusive debt management strategy going forward.

5.1.1 Socio-Economic Audit

An analysis of the social and economic impacts of debt is an important component of the national debt audit. The analysis will help understand the implications of debt on poverty, inequality, social development, human rights and gender. Mindful of the fact that Zimbabwe has serious gender imbalances in decision making and control over resources, it is ironic that the main victims of the debt crisis in Zimbabwe are the least responsible for the loan contraction process and other governance decisions. The austerity measures associated with debt repayment and re-engagement processes undermine the capacity of government to deliver social services. The 2% tax introduced in 2018 and the privatization of state enterprises pushes elite accumulation of wealth to private hands, further exacerbating unequal distribution of wealth and income. This explains the regressive nature of the Zimbabwean tax system where the poor contribute more in tax revenue than the rich. Further austerity to resolve the debt question is paid by women due to the forgone social service delivery and unpaid labour.

5.2 Settling the Debt

As highlighted in Figure 3, Zimbabwe owes various amounts of money to both external and domestic creditors. The proposed debt settlement plan therefore provides clear strategies for addressing multilateral debt, bilateral debt and domestic debt, based on a hybrid model. It is important that Zimbabwe comes up with a debt repayment plan targeting both domestic and external debt (multilateral and bilateral) in a systematic way. Considering that substantial amounts of domestic debt is owed to service providers and/or is part of statutory obligations, public service delivery and other essential human rights obligations of the citizens have been compromised. The state therefore has a responsibility to provide the basic services towards the fulfilment of basic human rights. The government should prioritise the settlement of domestic debt and enhance mechanisms for domestic resource mobilisation and it should prioritise basic public services. The solution to the huge domestic debt problem lies in fiscal discipline and prioritizing public service delivery. The fiscal measures pronounced in the 2019 budget statement must be seen to be taking effect. This should be coupled with a deliberate decision to cut waste, especially elimination of ghost workers instead of cutting costs.²⁸ This allows the government to provide critical social services to its people and the foundation for genuine and inclusive growth. A clear road map for domestic debt repayment should be put in place according to priorities and the cost of debt. The legitimate debts owed to providers of social services should therefore be prioritised. The government should then proceed to settle legitimate external debts starting with creditors that have expensive repayment terms and huge arrears and end with those with favourable conditions. The government should follow up on its debtors including beneficiaries of the War Victims Compensation

²⁸ The government, under the new dispensation, is making deliberate decisions to cut on social spending, which compromises the social and economic rights of citizens.

Fund, Government Housing Scheme, the Grain Loan Scheme, Commodity Import Programmes and Early Indigenisation Fund to raise revenue for repayment of the legitimate debt owed to both external and domestic creditors. These schemes which were meant to empower people in their different economic classifications have been abused especially by ruling party politicians who subsequently defaulted on the repayments. The 2016 Auditor General's report on appropriation accounts, finance and revenue statements and fund accounts, estimates that between 2015 and 2016 alone, debtors increased from US\$48.9 million to US\$91.4 million. The recoveries from the over US\$5 billion tax debt owed to ZIMRA, can also be used for debt repayment. It is however noted that some of the tax debtors are owed by government itself for goods and services not paid for.

5.2.1 Odious and Illegitimate Debt

National debt is considered illegitimate when its authorization and contraction process violated the laws of either the creditor or debtor countries. Section 12 and 13 of the Public Debt Management Act provides for borrowing purposes and manner of raising state loans respectively. The legal and constitutional provisions discussed in Section 2.1 forms the basis upon which debt will be assessed in terms of its legitimacy. Debt will therefore be considered illegitimate if it was contracted outside the confines of these stipulated provisions. On the other hand, there are loans that did not benefit the people or were used to suppress the citizens. Such loans are classified as odious because they were only used to perpetuate and extend the tenure of the previous regimes. As highlighted above, the country finds itself in debt distress due to faulty loan contraction processes, violation of constitutional and legal provisions on debt and poor debt management. Such debts are not the obligation of the state and thus should be cancelled from the national balance sheet. Instead, legal proceedings against those responsible should commence immediately. This will also cover what the UN Independent Expert on Foreign Debt and Human Rights referred to as "financial complicity" where institutions lend to states involved in gross human rights violations.

5.2.2 External Debt

The government neither has the capacity to clear the loans in default nor settle the maturing loans. Any attempt to divert resources towards debt repayment will further compromise the realization of the basic human rights which are already in a dire situation. This is a test to the creditor countries and institutions. The country should therefore have a genuine engagement with the multilateral, bilateral and private creditors and lobby for debt relief with no attached conditions.

5.2.2.1 Multilateral Debt

The Economic Structural Adjustment Programme (ESAP) developed and implemented at the behest of the World Bank and the IMF (the Bretton Woods Institutions) contributed to the country's indebtedness and macroeconomic instability in the 1990s. In particular, the devaluation of the Zimbabwean dollar further shrank the economy and increased the cost of borrowing without adjustments to the terms of the loans. Ironically, the policy shifts were directly influenced by the lenders without shouldering any responsibility whatsoever. As such, the debt accumulated during that period should be a shared responsibility between the state and the lending institutions whose policy prescription failed to realize its intended goals and rather worsened the economic situation in the country. In fact, the Zimbabwean economy never grew to the levels forecasted by the World Bank and IMF since 1980.

The Highly Indebted Poor Country (HIPC) and Multilateral Debt Relief Initiative (MDRI) are not feasible options, despite the fact that Zimbabwe is highly indebted. In the first instance the debt sustainability is only measured in economic terms, in which case, Zimbabwe does not qualify. It would have been comprehensive if

debt sustainability was also inclusive of the human development aspects. The two initiatives would, however, not save Zimbabwe any money considering that 77% (US\$5.9 billion) of external debt is in interest arrears and penalties and that all the money owed is in default. By pursuing HIPC and MDRI initiatives, the country would now be eligible for new loans from donors which the current government is keen on. Both the government and the creditors must not only focus on the opening up of new credit lines but rather on building a strong debt management strategy that comprehensively addresses the issues of a debt audit, debt relief and sustainability going forward. It is sad that the current discussion around arrears clearance is not about clearing old defaulted debt but rather eligibility to new loans which is likely to leave the country saddled in new debt.

The World Bank and IMF initiatives have contributed to the social and economic crises in most African states that have undergone their programmes, especially after the Structural Adjustment Programmes. The HIPC initiative, for instance, has been criticized for failing to ensure that eligible countries get full debt relief from all its creditors. Smaller plurilateral institutions, Non-Paris Club official bilateral creditors, and commercial creditors, who together account for about 27% of total HIPC initiative costs, have only delivered a small share of their expected relief so far.²⁹ Based on experiences elsewhere, about a third of Non-Paris Club bilateral creditors have not delivered any relief. The country should therefore lobby for unconditional debt cancellation in order to start on a clean balance sheet under the new dispensation. Any saved funds (as a result of debt write-offs) should then go into an account managed by the UN, for spending on Zimbabwe's efforts to meet the SDGs and its international human rights obligations. The resources should specifically be allocated towards meeting the needs and aspirations of people living in extreme poverty and the marginalized in achieving SDG goals 1-7 and 10 as follows: "no poverty, zero hunger, good health and wellbeing, quality education, gender equality, availability and sustainable management of water and sanitation for all and reduced inequality." This should continue until the government demonstrates its commitment to promote and protect human rights. The total debt cancellation should be backed by a comprehensive debt management strategy in order to avoid falling into the same debt trap in future.

5.2.2.2 Bilateral Debt

Bearing in mind the donor dynamics among the bilateral donors owed by Zimbabwe, it is important that the bilateral creditors be engaged and dealt with on a case by case basis, depending on their development financing frameworks and facilities. Germany, for instance, has, in its budget law, provisions that allow the German government to forego Official Development Assistance (ODA) reflows from development partners. This is allowable provided that the beneficiary country in return provides an equivalent amount in national currency for projects, agreed upon with the German development ministry. This facility is allocated €150 million annually for this kind of "debt swap". If adopted neither the creditor nor the Zimbabwean Government (through debt relief) will benefit, but the Zimbabwean people, who suffered from the debt crisis. A country qualifies for the facility by meeting the following minimum criteria:

- have outstanding ODA debt to Germany
- be categorized as low income or lower middle income country by the World Bank
- qualify through either of the two debt problem indicators
 - have a current Paris Club agreement which includes a swap clause
 - or have debt/export earnings or debt service/export earnings above a pre-defined threshold (presently 15% and 150% respectively).

Given that Zimbabwe is a lower middle income country and that debt indicators are "high" enough it may

²⁹ IMF Policy brief

qualify for this facility. It is therefore prudent for the Zimbabwean Government to explore facilities from other bilateral donors.

5.2.3 Domestic Debt

The domestic debt should also be subjected to an audit pending cancellation for failing the basic litmus test in accordance with the national laws. Corruption of monumental and scandalous levels has contributed to the exponential growth in domestic debt in Zimbabwe. Examples of such domestic debts are:

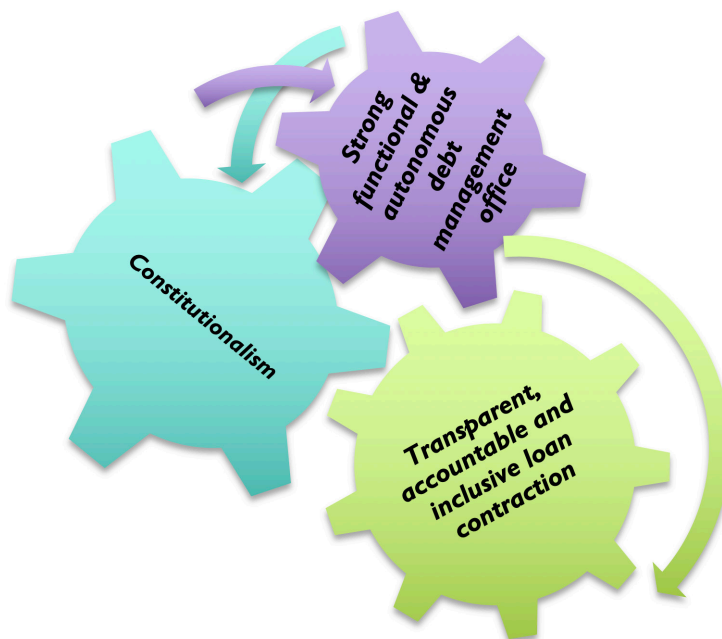
- The US\$495 million ZISCO Steel debt was assumed by the state despite the citizen contestation.
- The Reserve Bank of Zimbabwe debt assumption of USD\$1.3 billion in 2015 in which the government went ahead in assuming the quasi-fiscal liabilities of the RBZ that selectively benefited a few privileged elites without availing necessary information to parliament, including the beneficiaries of the mechanization programme. These included expensive farm equipment such as combine harvesters and tractors which would have been essential in generating the resources for repayment of the debt. To this day, some of these beneficiaries are productive farmers who have some capacity to repay what they owe, should government seriously pursue them.

5.3 Debt Sustainability Plan

Going forward, a comprehensive debt sustainability plan is essential for maintaining the country's credit rating after an agreed debt resolution. This is a comprehensive strategy with key engines and supporting pillars as outlined below.

5.3.1 Key Engines for a Debt Management Strategy

A prudent debt management strategy is one that is driven by the following key engines which should run concurrently. This implies that if one of these engines fails the country will find itself in debt distress. The government has the ultimate responsibility for the different engines and should therefore undertake continuous and periodic checks and balances to ensure continuity and sustainability of the entire debt management framework for both domestic and external debt.



5.3.1.1 Transparent, Accountable and Inclusive Loan Contraction Process

Transparency, participation and accountability are important principles that should inform the lending and borrowing decisions in Zimbabwe. Such principles should bind debtor country and creditor countries and institutions among other actors as appropriate in the negotiation and execution of loan agreements or other debt instruments. The utilization of loan funds, making of debt repayments, the renegotiation and restructuring of external debts, and the implementation of debt relief should be conducted in a transparent, accountable and participatory manner. The loan contraction process should be informed by a transparent and participatory needs assessment to ensure that the loan will meet the specific needs of citizens of Zimbabwe.

Going forward, the government must guarantee full disclosure of all relevant information regarding loan agreements, debt repayments, debt management, outcomes of public debt audits and other related matters. This should be coupled with meaningful participation where there is effective and meaningful input from all stakeholders (including project beneficiaries). Accountability requires remedial measures that ensure decision-makers are answerable, if warranted, for their actions regarding external debt agreements or arrangements, as well as external debt policies and strategies.³⁰

Where it is really necessary and unavoidable to borrow, the loan contraction process should be conducted in accordance with Section 315 of the Constitution which provides that the procurement of goods and services by the state and all institutions and agencies of government at every level must be effected in a manner that is transparent, fair, honest, cost-effective and competitive. Parliament must also, in accordance with Section 117 (1) (a), make laws that promote good governance for Zimbabwe. It is also a pre-request that prior to borrowing money the minister of finance should ensure that it is in the public interest to do so.³¹

Civil society organisations together with the media have a role to play in ensuring that there is widespread dissemination of information on government debt, before, during and after the loan agreements. This will create and facilitate a dialogue on sustainable debt management. The government should do away with confidentiality clauses in the contracts and ensure that the resources borrowed are consistent with the needs of the people in addressing the social and economic rights.

5.3.1.2 Constitutionalism

The primary role of Parliament, according to Section 119 is to protect the national Constitution and promote democratic governance in Zimbabwe. It is the sole institution with the power to ensure that the provisions of the Constitution are upheld and that the State and all institutions and agencies of government at every level act constitutionally and in the national interest. Respect of the Constitution is important across the budget cycle. This should start at the loan contraction stage to ensure that the debt is acquired in accordance with the law and that the limits of state borrowings, public debt and state guarantees are adhered to. However, the Government of Zimbabwe has been systematically violating Section 300 of the Constitution of Zimbabwe, Sections 52-61 of the Public Finance Management Act, Section 11 of the Public Debt Management Act and Section 11 of the RBZ Act [Chapter 22:15] on limits of state borrowings, public debt and state guarantees. Moving forward, there should be strong parliamentary oversight in debt management in Zimbabwe enunciated under section 5.3.1.1 above. Constitutionalism provides the basis for continuous engagement on debt and public finance management throughout the budgeting process.

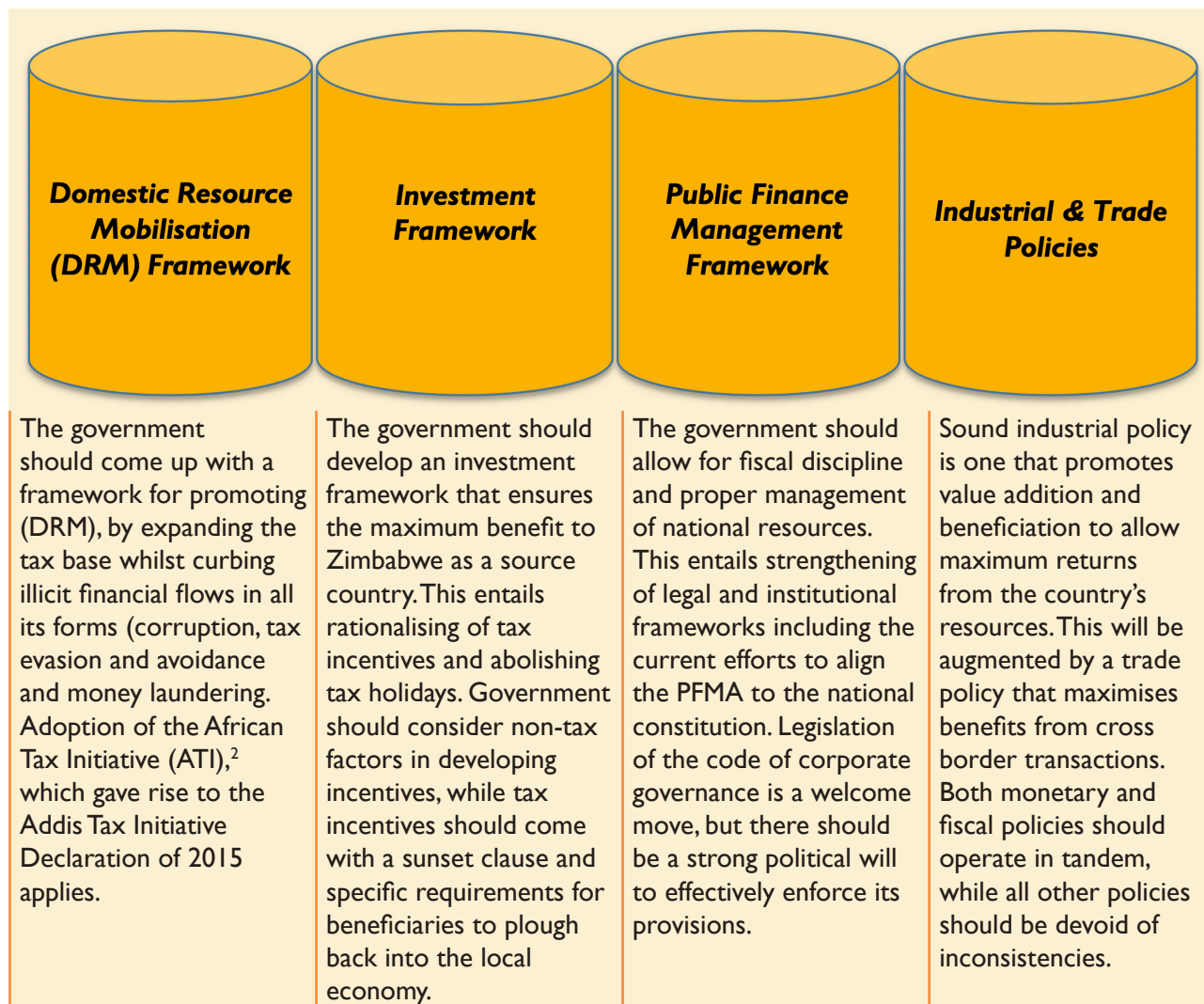
³⁰ Human Rights Commission, Guiding principles on foreign debt and human rights, 2011

³¹ Public Finance Management Act [Chapter 22:19], 2009

5.3.1.3 Strong Functional and Autonomous Debt Management Office

A strong debt management office is critical for delivering its mandate as provided for under Section 5 of the Public Debt Management Act.

Figure 6: Supporting Pillars for Debt Management in Zimbabwe



6.0 CONCLUSION

The country has reached a critical moment and needs to wean itself from the debt trap and associated macroeconomic stagnation. The government's ambitious Vision 2030, in which it aspires to be a middle-income economy by 2030, will remain a fallacy unless critical steps are taken to resolve the debt crisis. The national debt should therefore be viewed and treated as a symptom of the wider structural and political challenges inherent in the economy. Dealing with these challenges will form an integral part of a sustainable debt strategy. Without addressing these challenges inherent in the economy, it will be difficult to prevent future indebtedness. The government should thus simultaneously implement structural, political and sound macroeconomic policies as part of a sustainable and inclusive debt management strategy. The framework which will address the identified deficiency in respect of the loan contraction process, debt management and respect for the rule of law should provide buoyancy and multiplier effects on the economy. The onus is also upon the responsible authorities to facilitate a genuine and honest engagement, with creditors and citizens, on debt.

The performance of SIDMaF is hinged on sound public finance management and coordination with taxation, investment, trade and industrial policies. Learning from the last two decades of debt overhang, domestic resource mobilisation has proved to be the only reliable and sustainable source of development financing in Zimbabwe. The other options will not further the interests of the country considering the external conditions attached to such loans. Similarly, externally imposed debt resolution frameworks will pose challenges in implementation as previously experienced with Economic Structural Adjustment Programme. It is therefore imperative for Zimbabwe to mobilize resources domestically instead of solely depending on foreign aid and donor funds. The effective management of natural resources is crucial in ensuring that citizens benefit from these finite resources. The tax authorities and other trade enforcement/management arms of government should be capacitated to enable effective and efficient revenue mobilization.

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“The debt... is jointly ours as a nation. This means that loan contraction and debt management are legitimately matters of the public interest and explains why there must be broad consultation in matters of public loan contraction and debt management.”



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