Investing in People for Social & Economic Justice

Four Decades of Debt Distress: Reflections on Zim@40

Four decades of debt distress in Zimbabwe has had devastating social and economic ramifications for Zimbabwe. As people, for the first time, celebrate independence from their homes in the wake of COVID-19, it is important that we take a tour on Zimbabwe debt crisis since independence. Whether intentional or unintentional, people do not often take time to reflect on the historical background of any crisis. Whilst it is given that history defines the present state of affairs and shapes the future, the human nature is generally that of being grounded on addressing the immediate impacts of any predicament. Whether this has yielded results is subject to debate. Traditionally, the political history of our country has always dominated other important dimensions of independence especially economic and social emancipation of the people of Zimbabwe. Considering that social and economic emancipation was the major driver for the liberation movements in Africa and Zimbabwe in particular, that discussion should be brought to the fore. Those who understand the social and economic implications of public debt will concur with the particular focus on the public debt dimension amid social and economic wars that the country is battling with. It is also time to remind each other that the fiscal and monetary policies under the Transitional Stabilisation Programme are being shaped by the country's indebtedness. The human rights implications of the huge debt burden in Zimbabwe are understated. Women, youth, people with disability, the elderly and other vulnerable groups are disproportionately affected by public debt. Moreover, high levels of public debt constrain the ability of the state to respond to shocks and emergencies, such as COVID-19, further threatening humanity.

The Debt Tour: 1980 to Present in Brief

It is indisputable that Zimbabwe is currently in debt distress which is impacting on the country's credit worthiness, further raising the country's risk profile resulting in massive disinvestment despite the "***Zimbabwe is open for business"*** mantra. The high-country risk profile is a major threat to both poverty reduction and the achievement of sustainable development goals. As we navigate throughout the tour one would be compelled to subscribe to the notion that without a debt cancellation, Zimbabwe has very limited chances of escaping the debt trap even in the long run. This sounds worrying but factual.

The financing of budget deficit through both external and domestic borrowing is not a new phenomenon. The fiscal deficits that the government is battling with today dates back to as far as 1980 when the government inherited US$700 million sovereign debt from the colonial masters. Since then, the country did not recover with public and publicly guaranteed debt rising exponentially to US$17.4 billion in September 2018. The defaulted debt is therefore largely historical. In the first 2 decades, the government borrowed excessively and failed to meet its financial obligations to the main multilateral creditors, the International Monetary Fund (IMF) and the World Bank resulting in interests and penalty charges exceeding the principal amount borrowed. Failure to repay prompted the World Bank and the International Monetary Fund (IMF) to withdraw their funding to Zimbabwe. Following decades of **aid and debt dependence,** the government could not withstand the rising fiscal demand and resorted to domestic borrowing which led to a rise in domestic debt in the early 2000s through to 2008. Unfortunately, most of the borrowings post 2000 were towards meeting recurrent expenditures whilst inflation rate which rose to 231 million per cent in 2008 put a toll on government limiting their ability to meet its legal obligation to protect, promote and fulfil its social and economic rights obligations. Debt arears emanating from unpaid interests and penalties rose sharply from 54% in 2006 to 70% in 2010 and the current 72%. Failure to respect the constitutional and statutory borrowing limits exacerbated the debt crisis which saw the country accumulating domestic debt from US$276 million in 2012 to US$9.2 billion by December 2018. It is, therefore, not by accident that the country is failing to recover from infrastructure deficiencies, poor social service delivery, foreign currency and cash shortages, unsustainable budget and current account deficits and emerging inflationary pressures.

Debt undermining the realisation of social and economic rights in Zimbabwe

The implications of debt on poverty, inequality, social development, human rights and gender should not be over emphasised. People still have vivid memories of the impacts of the Economic Structural Adjustment Programme of 1990 to 1995 and the recent Austerity for Prosperity programme implemented by government in 2019 to cut on social spending and prioritise debt repayments. Austerity measures under the two programmes further compromised public service delivery, poverty reduction and infrastructure development. The deliberate decision to cut expenditure on education, health, water and sanitation and social services in some cases direct food and nutrition support in the 1990s, is still being felt today. People can easily relate to the state of Zimbabwe's health sector in the wake of COVID-19 when the government rely on external support to renovate coronavirus isolation and testing centres. Likewise, water and sanitation remain a nightmare in most urban settings further compromising people's health as they rely on community boreholes. On the other hand, social safety remains underfunded with the government failing to adequately cushion the poor and vulnerable members of society from the effects of the coronavirus. Without reviewing the budget allocation towards social protection which constitute 3.8% of the total budget (based on the 2020 figures), the fight against poverty, inequality, gender discrimination and food insecurity will remain a daunting challenge for Zimbabwe.

Kawewe and Dibie (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.[1] In this development matrix, workers, peasants, women, and children suffered the most. Ironically, the failed ESAP was a prescription package from the International Financial Institutions (IFIs), namely the 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.[2] The 2% tax introduced in 2018 and the privatization of state enterprises pushes elite accumulation of wealth 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.

Recommendations

- **Debt Transparency -** The Ministry of Finance and Economic Development must guarantee full disclosure of all relevant information regarding loan agreements, debt repayments, debt management, outcomes of public debt audits and other related matters.
- **Upholding Constitutionalism -** 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.***[3]

  The government must, develop a Domestic Resource Mobilisation Framework that wean the country from aid and debt dependence. Widening the scope of domestic resource mobilisation including developing mechanism for taxing digital based commerce.

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[1] Kawewe, Saliwe M. and Dibie, Robert (2000) "The Impact of Economic Structural Adjustment Programs [ESAPs] on Women and Children: Implications for Social Welfare in ZIMBABWE, "The Journal of Sociology & Social Welfare: Vol. 27 : Iss. 4 , Article 6. Available at: https://scholarworks.wmich.edu/jssw/vol27/iss4/6
[2] World Bank Zimbabwe Country Assessment Evaluation, May 2004
[3] Public Finance Management Act [Chapter 22:19], 2009