DEBT MANAGEMENT POLICY: KEY FOR SUSTAINABLE DEBT MANAGEMENT IN ZIMBABWE

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EXECUTIVE SUMMARY

The paper interrogates the debt position for Zimbabwe, assesses Zimbabwe's debt management policy basing on its debt legislative framework and draws lessons from experiences from other countries. The study mainly relies on literature review, assessing debt statistics. Despite literature suggesting the importance of adhering to fiscal rules and having a formal debt management policy, at the moment Zimbabwe does not have a debt policy in place. The Zimbabwe Aid and Debt Management Office (ZADMO) drafted a Medium-Term Debt Management Strategy in 2017 which is still awaiting finalisation and publishing. Some Sub-Saharan African countries such as Ethiopia, Ghana, and Kenya have developed and published their medium-term debt strategies and Zimbabwe can follow suit by finalising its own Medium-Term Debt Management Strategy to enhance transparency and accountability in debt management. The Medium-Term Debt Management Strategy is expected to reinforce the country's debt management objectives as espoused in the Public Debt Management Act [Chapter 22:21]. At the moment the country's debt policy is inferred from various economic blue prints such as the Transitional Stabilisation Programme and National Budget Statements among other national policy documents. This is why it is important for Zimbabwe to have a debt management policy to ensure a prudent debt management system. However, the fact that public debt management is substantially provided for in the country's debt legal framework which is considered strong and meeting the minimum standards for debt management implies that Zimbabwe can still achieve prudent debt management even in the absence of a debt policy if committed to do so.

The Government of Zimbabwe adopted some initiatives to contain debt. In 2012, they presented the Zimbabwe Accelerated Arrears Clearance Debt and Development Strategy which was adopted by the county's creditors on the side-lines of the 2015 International Monetary Fund (IMF) and World Bank Annual Meetings in Lima. More so, the recently adopted austerity measures through the Transitional Stabilisation Programme (October 2018 – December 2020) are other measures to contain and reduce the burgeoning debt. Other strategies include establishment and operationalisation of the Zimbabwe Aid and Debt Management Office which has been in existence since December 2010.

Zimbabwe's debt management is governed by various legislations which include the Constitution of Zimbabwe, the Public Debt Management Act, the Reserve Bank Act [Chapter 22:15] and the Public Finance Management Act [Chapter 22:19]. The Public Debt Management Act passed in 2015 is the principal piece of legislation for public debt management in Zimbabwe and it stipulates major guidelines on borrowing, maintenance and extinction of debt among other issues. It also specifies the functions and administration of the Public Debt Management Office which falls under the Ministry of Finance and Economic Development. Further, Section 8 of the Public Debt Management Act requires the Debt Management Office to prepare a Medium-Term Debt Management Strategy. The purpose of this strategy is to guide the country on debt management in line with the country's objectives and international best practice. This includes informing the borrowing plan for the country and outlining the quantum of resources the country has to borrow externally and domestically. This strategy also allows the Debt Officials to draft a borrowing calendar from both domestic and external sources which should be shared with the Central Bank to inform financial institutions about government intentions and timing in line with the best practice. Despite the disclosure of the borrowing programme increasing investors' certainty and lowering government's borrowing costs in the long run, the calendar is not being shared with the financial institutions and this is not in line with best practice.

Although Zimbabwe's debt legislation is regarded as one that meets a minimum standard espoused by the International Monetary Fund (IMF) in 2014 there are some weaknesses that need to be addressed. For example, failure to comply with the law has been a major concern not only raised by the Parliament of Zimbabwe (2019) but also highlighted in various reports by the Office of the Auditor General. Similar concerns were also raised by the IMF (2020) which highlighted that debt management in Zimbabwe is weak and debt statistics are not systematically compiled and published. The Zimbabwe Aid and Debt Management Office has been working on the publication of a debt bulletin, but currently no debt data are disseminated on the Ministry of Finance and Economic Development's website. Instead limited debt data has been included in the annual budget documentation and is presented incomprehensively. Further, the Minister of Finance has not submitted any public debt report to the Parliament despite the provisions in the Constitution and legislation on public debt (IMF, 2020). Debt reporting has also been irregular. Limited reporting not only signifies non-compliance with the debt legal framework but compromises transparency in overall debt management of the country. In addition, such levels of reporting are not good enough to enhance debt sustainability assessments and track the evolution of the debt situation. Data gaps in most countries have led to debt distress surprises as undeclared liabilities are converted to real liabilities of central government.

There was a significant reduction in the real value of the domestic debt from about US$9.365 billion in December 2018 to ZWL$8.868 billion, which translates to US$528.69 million about half a billion (US$528.69 million) using the interbank rate of ZWL$16.7734: US$1 registered as at 31 December 2019. However, external debt remains unsustainable at US$ US$10.545 billion of which about 60% are arrears. This has led the country to fail to access concessionary financing from creditors and Zimbabwe has been relying on semi-concessionary financing and commercial loans from China which are expensive to service. This further exacerbates the capacity of the country to repay the loans in the medium to long term. And it is important to highlight that literature suggests that that debt service should be honoured even in times of economic crises. Only on rare occasions like a national disaster is debt repayment put on hold and in some instances, there will be debt cancelation or debt rescheduling as has happened in West Africa.

The case study of Sweden used in this paper shows the importance of having a prudent debt management policy in place to enhance sound economic management. In 1998, Sweden undertook major reforms of the governance system through implementation of a debt management strategy and risk management framework that resulted in debt management decisions being made in a clearer and more structured framework. This led to a reduction in debt to GDP ratio from 75% in 1995, the highest in the Eurozone region, to 38.8% of GDP in 2018, lower than the Maastricht threshold of 60% from 75% in 1995, the highest in the Eurozone region.

This paper recommends that the country should adhere to the set debt management provisions in the Public Debt Management Act and other necessary legislations like the Constitution of Zimbabwe, the Reserve Bank Act and the Public Finance Management Act. These include finalisation of the Medium Debt Strategy to guide the debt process in the short to medium term. A detailed compilation and regular publishing of various debt statistics is also needed to clear the gap. The study further recommends the need to grow the economy, raise the country's debt servicing capacity as well as increasing its capacity to absorb external shocks. Further recommendations are on promoting non debt flows to meet the budgetary requirements and implementing political and economic reforms to facilitate the crafting of an effective debt resolution strategy.

LIST OF ACRONYMS

COMCEC	Committee for Economic and Commercial Cooperation of the Organisation of Islamic Cooperation
DSA	Debt Sustainability Analysis
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
RBZ	Reserve Bank of Zimbabwe
SADC	Southern African Development Community

1

INTRODUCTION AND RATIONALE

The Government of Zimbabwe came up with a number of legislations to guide debt management. These include the Constitution of Zimbabwe, Public Debt Management Act [Chapter 22:21], the Reserve Bank Act [Chapter 22:15] and the Public Finance Management Act [Chapter 22:19]. In addition to these pieces of legislations, the country is expected to adhere to some fiscal rules which include debt management through the Transitional Stabilisation Programme and the Southern African Development Community (SADC) protocol on debt. The legislations together with the economic policy documents set the maximum debt which the country can sustainably acquire. The public and public guaranteed debt is not expected to exceed 60% of gross domestic product (GDP) by the SADC protocol whereas the Public Debt Management Act and the Transitional Stabilisation Programme put a ceiling of 70% of GDP. In terms of debt policy, Zimbabwe has a Medium-Term Debt Management Strategy which is still in its draft form since 2017. To ensure operationalisation of the debt objectives in the short to medium term, this strategy must be finalised. Sustainable public debt has gained renewed attention as countries implement fiscal consolidation measures in the aftermath of the global financial crisis (Awadzi, 2015).

Borrowing is critical for financing investment necessary to enable the counter-cyclical role over economic cycles and to achieve sustainable development, including the Sustainable Development Goals (SDGs) (United Nations, 2015). However, prudent public debt management is also critical to ensure that the government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk (IMF and World Bank, 2001; IMF, 2014). It is important to ensure debt sustainability and debt service even under periods of economic and financial market stress (Ibid). The objectives for debt management should be clearly defined and publicly disclosed, and the measures of cost and risk that are adopted should be explained. Prudent borrowing for growth-enhancing outlays is critical (Ncube and Brixiová, 2014). However, United Nations (2015) argues that severe natural disasters and social or eco¬nomic shocks can undermine a country's debt sustainability. In such instances, creditors can ease debt repayment obligations through debt rescheduling and/or debt cancellation. This can be done following an earthquake, a tsunami or in the context of a pandemic such as the Ebola crisis in West Africa.

IMF and World Bank (2001) argue that there is increasing convergence on what is considered as prudent sovereign debt management practices. This include 'recognition of the benefits of clear objectives for debt management; weighing risks against cost considerations; the separation and coordination of debt and monetary management objectives; a limit on debt expansion; the need to carefully manage refinancing and market risks and the interest costs of debt burdens; and the necessity of developing a sound institutional structure and policies for reducing operational risk, including clear delegation of responsibilities and associated accountabilities among government agencies involved in debt management' (Ibid). Adherence to fiscal rules is critical to contain the budget deficit in order to create fiscal space to enhance debt repayment and to create growth enhancing measures in the economy. In the long term, fiscal policy buffers may be required for emerging challenges such as creation of social protection schemes and other external shocks such as the decline in international commodity prices and the current COVID-19 global pandemic. Moreover, improved debt management, strengthening of capacity to carry out independent debt sustainability analysis and applying to borrowing activities are critical to minimise the risk.

For a country like Zimbabwe with short-term debt and predominantly foreign currency external debt, a prominent government objective is that debt management policies should promote the development of the domestic debt market. Domestic and foreign currency borrowings should be coordinated. The central government should monitor and review the potential exposures that may arise from guaranteeing the debts of sub-central governments and state-owned enterprises, and, whenever possible, be aware of the overall financial position of public- and private-sector borrowers. IMF and World Bank (2001) argues that to the extent possible, debt issuance should use market-based mechanisms, including competitive auctions and syndications while performing annual debt audit and conducting stress tests of the debt portfolio to ensure that potential risks are exposed. This warrants the need to undertake this study to assess and recommend the debt management policy for sustainable debt management given that it is critical for Zimbabwe to come out of the debt trap.

The broad objective of the study is to evaluate the debt management policy and to ascertain if it is a missing link in the debt management framework for Zimbabwe. The other objectives include:

- Assessing the debt position, drivers of debt and the implications of debt to the economy;
- Assessing the debt policy and legislation governing debt in Zimbabwe; and
- Evaluating the international experiences on debt management policy basing on selected case studies.

Each objective is tackled in a separate chapter starting with Zimbabwe's debt position, then debt policy and legislation governing debt in Zimbabwe. The case studies are meant to get some best practices which may be taken on board to strengthen the debt management policy in Zimbabwe. Lastly, the conclusion and recommendations cement the paper. The paper uses quantitative and qualitative analysis to bring out key issues on public debt management and to evaluate how Zimbabwe is fairing in terms of debt management policy.

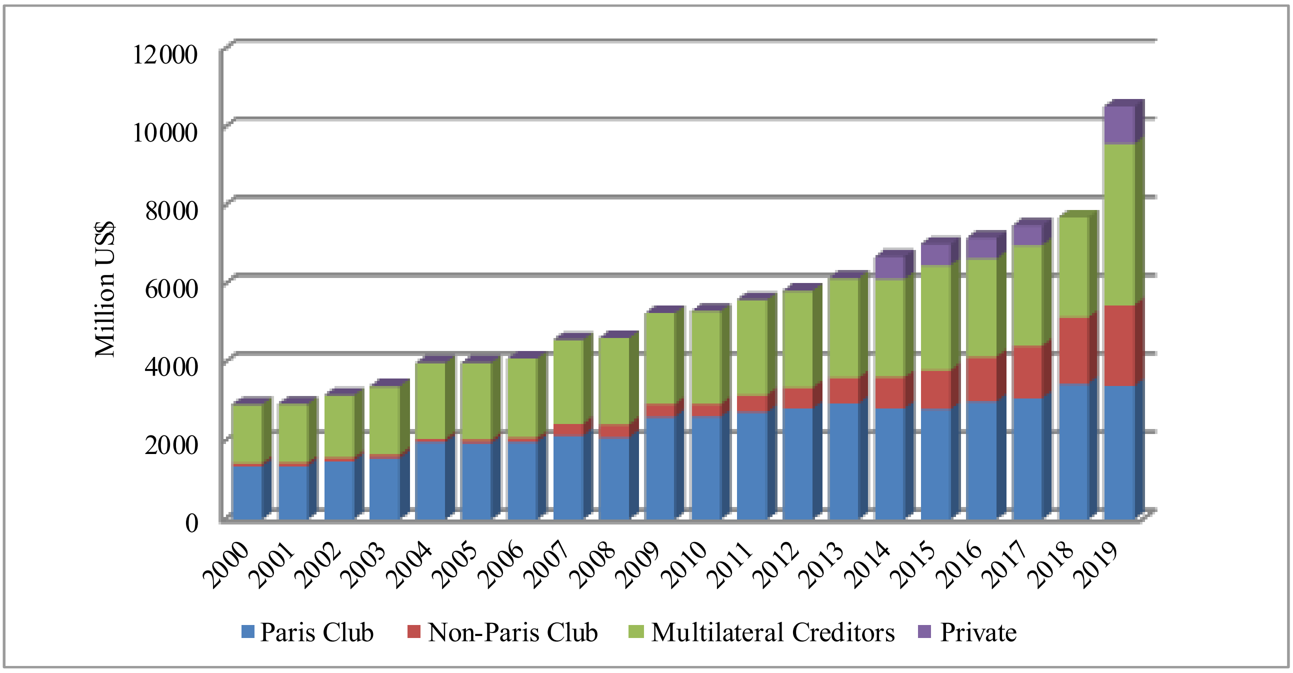
2

ZIMBABWE'S DEBT POSITION AND IMPLICATIONS

2.1 Zimbabwe's debt position and its implications to the Economy

Zimbabwe is in debt distress with unsustainable public and publicly guaranteed external debt and dominated by official creditors from both the bilateral and multilateral creditors with the bulk of the debt being in arrears. Zimbabwe has a huge external debt of about US$10.545 billion as at September 2019 and a domestic debt of about ZWL$8.868 billion as at December 2019 (Zimbabwe Aid and Debt Management Office (ZADMO), 2020). Zimbabwe's capacity to acquire external debt from the international creditors is reduced due to its high indebtedness as evidenced by a huge external debt, of which about 60.35% of the debt is in arrears. Zimbabwe has been in debt distress since 2000, when the country first defaulted on its external obligations (Chigumira, et al., 2018). The existence of arrears shows that the country is struggling to clear the debt, and this affects the country's credit ratings. The composition of external debt shows that as at September 2019, the bulk of the debt is owed to multilateral creditors (39%), followed by the Paris Club (32%), Non-Paris Club (20%) and private creditors (9%), (Figure 1). Lack of access to long term financing from traditional creditors (Paris Club and Multilateral creditors) has led to an increase in debt acquired from Non-Paris Club and private creditors. External debt from Non-Paris Club registered an increase of about 590.6% from 2007 US$ 299 million to US$2.065 billion in 2019 whereas private creditors' debt started to increase from 2014, registering 67.3% to US$947 million from US$565.9 million in 2014. The debt for multilateral creditors and that of the Paris club has been increasing steadily due to the interest and penalties charged due to failure to service the debt.

Figure 1: *Composition of Zimbabwe's Public and Publicly Guaranteed External Debt (US$ Billions), 2000-2019*[1]



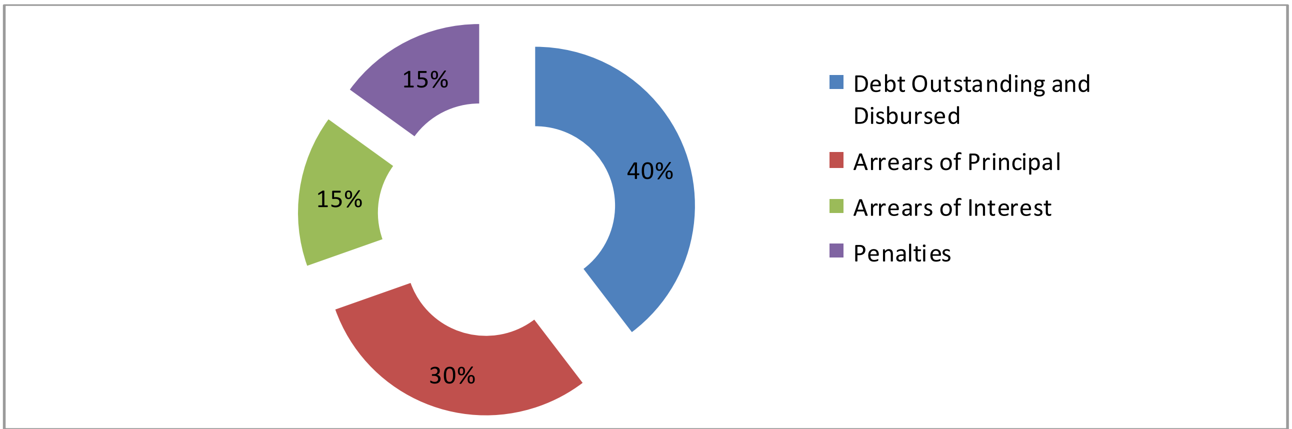
Source: ZADMO, 2020

[1] 2019 figures are recorded as at September 2019

The country has been relying on semi concessional financing mainly from China (Chigumira et al., 2018). In 2019, the Zimbabwean authorities effectively secured several additional external loans, with some constituting almost-concessional borrowing for critical infrastructure projects, but also expensive commercial loans that are securitized by future mineral exports (International Monetary Fund (IMF), 2020). These commercial loans mainly reflect borrowings to introduce and support the new Zimbabwe dollar and facilitate the importation of essential goods (fuel, maize, pharmaceuticals). Such loans will have adverse social and economic impact in the medium to long term since the debt is not transformed into growth enhancing outlays. IMF (2020) also cautioned against continued recourse to collateralized external borrowing on commercial terms as this may potentially complicate any future arrears clearance operations. Moreover, white farmers' compensation estimated at US$2.4-10 billion (10-45% GDP) (IMF, 2020), further exacerbates the country's indebtedness.

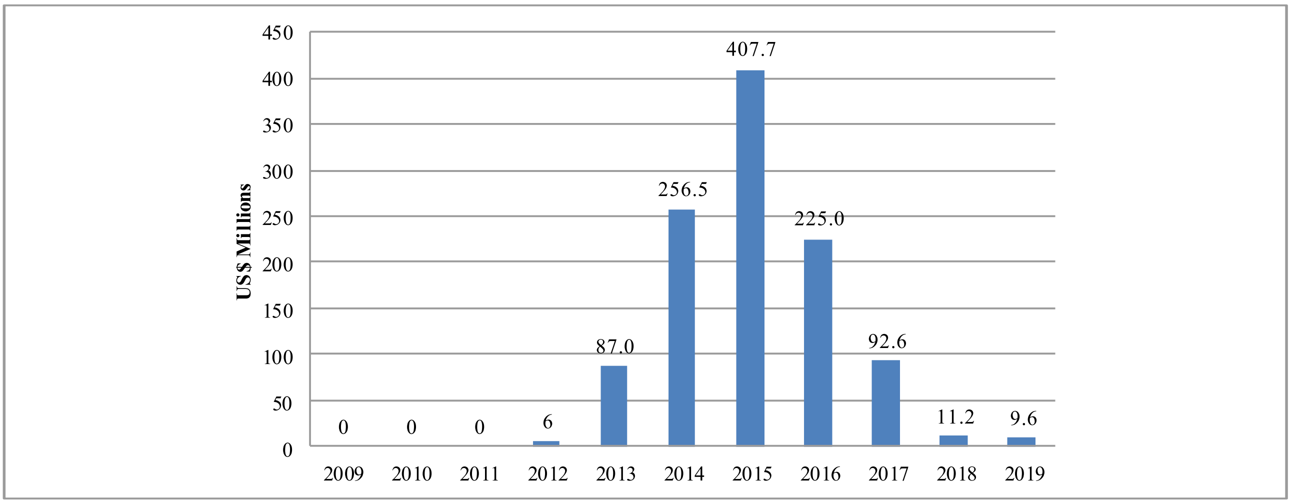
A further disaggregation of external debt shows that only 40% of debt is debt principal outstanding and disbursed. Whereas about 60% is arrears in the form of arrears on principal (30%), with arrears on interest and arrears on penalties with 15% each (Figure 2). Currently, there is no progress on clearing longstanding external arrears (IMF, 2020). This is despite the fact that Zimbabwe cleared the US$108 million arrears to the IMF on 20 October 2016. In addition, there are some token payments that have been made between 2012 and 2019 which cumulatively amounts to about US$1.1 billion (Figure 3).

Figure 2: External Public and Publicly Guaranteed Debt as at September 2019



Source: ZADMO, 2020

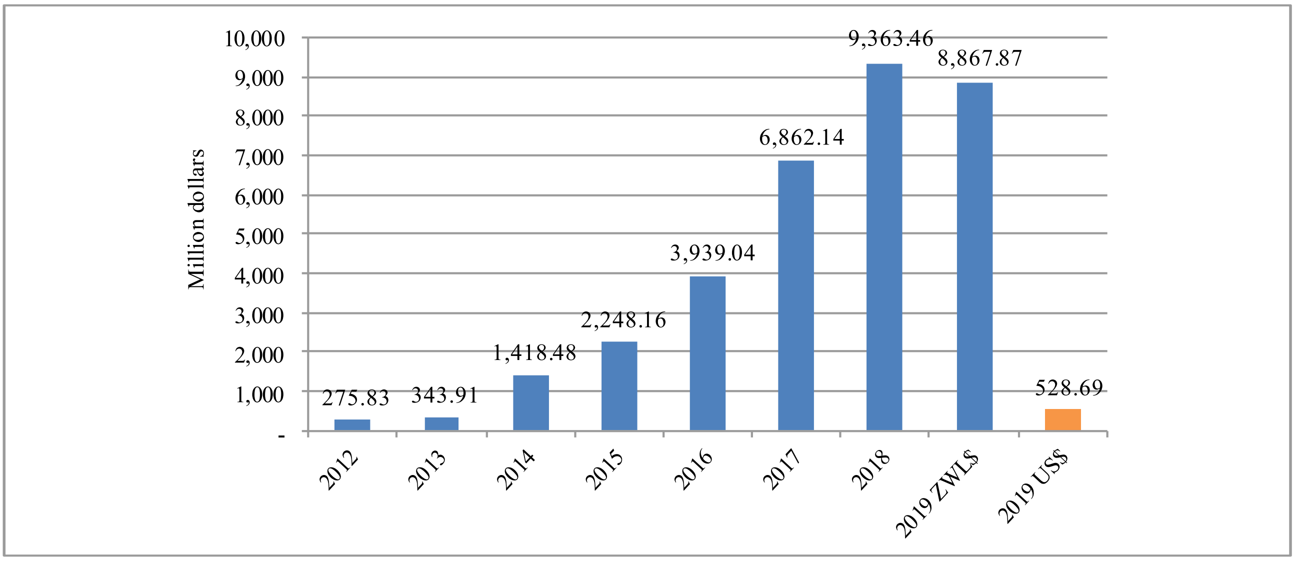
Figure 3: Principal External Debt Repayments (US$ Millions), 2009 – 2019



Source: Reserve Bank of Zimbabwe, 2019

Domestic debt is about ZWL$8.868 billion as at December 2019, which translate to about US$528.69 million, a figure which is slightly above half a billion United States dollars using the interbank rate of ZWL$16.7734: US$1 (Figure 4)[2]. The reintroduction of the Zimbabwe dollar resulted in the depreciation of the local currency from ZWL$1: US$1 before the Monetary Policy Statement of 20 February 2019 to ZWL$16.7734: US$1 as at 31 December 2019 which decimated the real value of the 2019 domestic debt figure of ZWL$8.868 billion. A comparison between 2019 and 2018 domestic debt figures in US dollar terms shows a sharp decline in the real value of the domestic debt of about 94.4% to about US$528.69 million in 2019 from about US$9.39 billion in 2018. The real value of the domestic debt continues to decline due to a further depreciation of the Zimbabwe dollar to the current rate of US$1: ZWL$25 as of 26 March 2020.This will make domestic debt unattractive in future undermining government's ability to mobilise resources domestically as economic agents may refrain from entering into longer-term commitments for fear of depreciation of the value of their investment which can stifle the development of domestic financial markets. However, before the recent developments, domestic debt has escalated from about US$275.83 million in 2012 to a peak of US$9.36billion in 2018, which resulted in an astronomical increase of 3,294.7% during the six-year period.

Figure 4: Domestic Debt (millions), 2012 - 2019



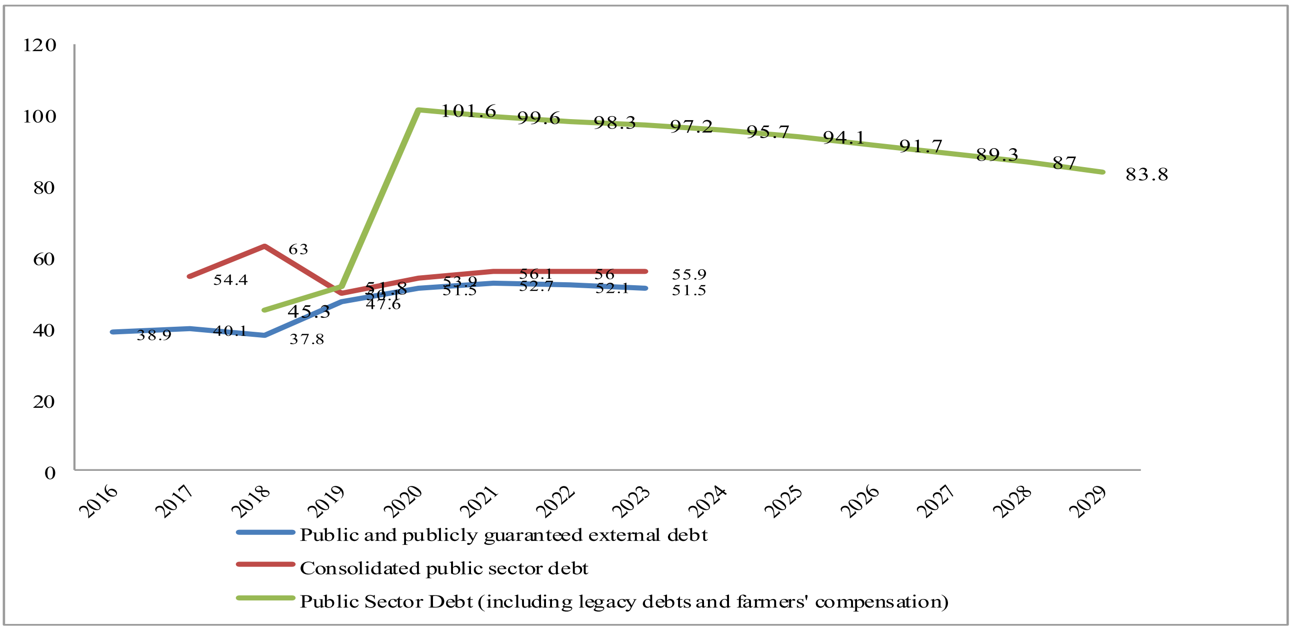
Source: ZADMO, 2020

The external debt to GDP ratio is an indicator of debt to the resource base of a country which may reflect the potential of shifting production to exports or import substitutes to enhance the capacity to repay the debt. Zimbabwe's public and publicly guaranteed external debt to GDP ratio for 2019 is 47.6% and is projected to increase to 51.5% in 2020 (IMF, 2020; see Figure 5). Thereafter, it is expected to slightly increase to 52.7% in 2021 before declining again to 51.5% in 2023. The consolidated public sector debt as a percentage of GDP declined from 63% in 2018 to 50.1% in 2019 due to the decline in the real value of the domestic debt. It is projected to increase to about 55.9% by 2023. However, taking into account legacy debts and farmers' compensation, the public sector debt to GDP ratio skyrockets from about 51.8% estimated for 2019 to a projection of about 101.6% in 2020 (IMF, 2020; see Figure 5). The 2020 debt projection is more than the 60% SADC threshold and 70% debt threshold as espoused in both the Public Debt Management Act and the Transitional Stabilisation Programme. The debt is projected to remain high and unsustainable even up to the year 2029. This shows that Zimbabwe has not been adhering to the set thresholds which help the country to achieve debt sustainability. However, if we take the consolidated

[2] Conversion to US dollar is done using the interbank rate of ZWL$16.7734: US$1 published by the Reserve Bank of Zimbabwe as at 31 December 2019

public sector debt projection for 2020 without legacy debt and farmers' compensation, it appears as if it falls within the threshold and therefore the debt position is sustainable. The consolidation of debt statistics is therefore critical to ensure the Government publishes the correct debt position including legacy debts and farmers' compensation. This also calls for the need to grow the economy to enhance the country's capacity to repay the debt and maintain fiscal rules without prejudicing expenditure in social services and expenditure in capital outlays.

Figure 5: Public and Publicly Guaranteed External Debt and Consolidated Public Sector Debt as a % of GDP, 2016 - 2029



Source: IMF, 2020

However, Ncube and Brixiová (2014) argue that in fiscal consolidation debates, 40% public debt-to-GDP ratio is often recommended as prudent limit that developing and emerging market countries should not exceed on a long-term basis. This is because high and unsustainable external debt results in an increase in country's vulnerability to external shocks. For instance, the decrease in the price of global commodity prices for agriculture and mineral product reduces the value of exports thereby reducing the capacity of the country to repay foreign debt. Because Zimbabwe mainly relies on exports to get foreign currency, this may increase the vulnerability of the country to external shocks. The current global COVID-19 pandemic has further exposed the gaps in public finance management given that generally the health sector is struggling due to limited fiscal space by the government. IMF (2020) argues that despite efforts to contain the budget deficit in 2019 to tighten the fiscal stance and restraining quasi-fiscal operations by the central bank, deficits remain and could be exacerbated by the need to respond to the humanitarian crisis. The IMF (2020) further argues for cuts on non-essential spending including reforms to agricultural support programmes to allow for infrastructure and social spending needs. While the 2020 National Budget includes a significant increase in social spending, it may be insufficient to meet the pressing social needs for the country given that Zimbabwe has been constrained to meet social spending over the years due to limited fiscal space. The rehabilitation and expansion of infrastructure (road, rail, air, water and energy) have suffered significantly owing to under-investment in the sectors (Chigumira, 2018). Through the austerity measures implemented through the Transitional Stabilisation Programme (October 2018 – December 2020), the allocation to capital expenditure also increased from 21.1% to about 25% from the 2019 to the 2020 National Budget, a move which if sustained may enhance the growth of the economy.

All the sustainability indicators for Zimbabwe shows that Zimbabwe is off track on the set thresholds (Table 1). The public debt benchmark of 51% of GDP was way above the IMF Debt Sustainability Analysis (DSA) threshold for low income countries of 38%. On the present value of debt to GDP ratio, Zimbabwe scored 45% against the threshold for low income counties of 30%. This may imply that the potential of shifting production to exports or import substitutes so as to enhance repayment capacity is weak. Similarly, the debt to exports ratio was 201% against the set threshold of 140%. The repayment capacity of the country based on exports is also weak. This is worsened by the fact that most of Zimbabwe's exports are primary commodities in the form of agricultural and mineral products. Raw exports of agricultural and mineral products are susceptible to external shocks vulnerabilities which include a slump in the global commodity prices. This will further reduce the value of the exports and making it more difficult for Zimbabwe to come out of the debt trap. Debt service to exports and debt service to revenue were at 12% and 33%, above the set thresholds of 10% and 14%, respectively. This shows that the country's debt-carrying capacity is weak. IMF (2020) further argues that Zimbabwe's public debt has increased since the last published DSA (2017) as unsustainable fiscal deficits and quasi-fiscal activities of the RBZ increased domestic and external debt, including through further arrear accumulation.

Table 1: Zimbabwe's Debt Sustainability Position as at December 2019

Indicator	*Applicable Low Income Country-Debt Sustainability Analysis Thresholds: Weak*	*Zimbabwe's position as at end-2019*
PV of debt in % of		
Exports	140	201
GDP	30	45
Debt service in % of		
Exports	10	12
Revenue	14	33
Public debt benchmark	38	51

Source: IMF, 2020

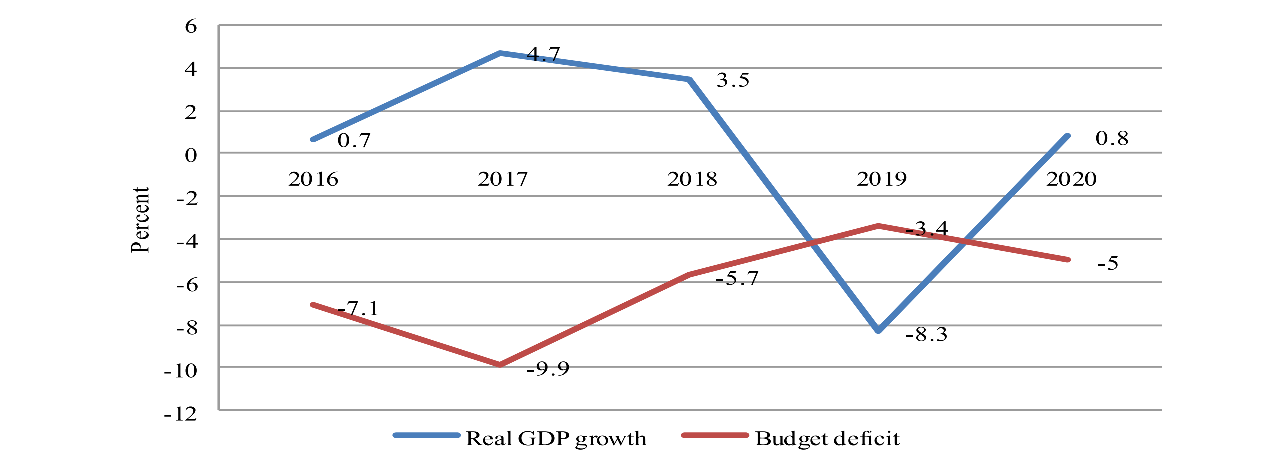
Ncube and Brixiová (2014) argue that policymakers can reduce public debt-to-GDP ratio through accelerating growth; revenue mobilisation and optimising of expenditures; reducing the real interest (also by raising inflation), and defaulting. However, inflation and defaulting undermine other government goals such as rising living standards of the population and improved access to capital markets. In addition, domestic resource mobilisation, efficiency in public expenditure and medium-term budgeting, reducing inefficient spending such as oversized wage bills and costly energy subsidies and investment in infrastructure and Information Communication Technology (ICT) may benefit low income African countries with low revenue to GDP ratio. In the short-term, countries with high public debt and/or large fiscal deficits need to undertake fiscal adjustment (Ncube and Brixiová, 2014), a measure which is already being implemented by the Government of Zimbabwe through the implementation of austerity measures under the Transitional Stabilisation Programme which included a reduction in wage bill. In countries with long-term domestic debt, slightly higher domestic inflation could in theory help 'inflate the debt away', even though this option would have other negative implications. This is the option which was taken by Zimbabwe to reduce domestic debt due to rising inflation which recorded 521% in December 2019 (IMF, 2020).

2.2 Major debt drivers

Ballooning fiscal deficit

High fiscal deficits between 2016 and 2018 were financed by the RBZ money creation which resulted in severe macroeconomic imbalances and market distortions. The projected slump of the economy for 2019 and 2020 is expected to register -8.3% and -7.4% of real GDP growth rate (Figure 6) and it further highlights that the country is struggling to register growth targets of 9% and 9.7% for 2019 and 2020 respectively as enunciated in the Transitional Stabilisation Programme. Despite the reduction of the budget deficit from a peak of -9.9% of GDP in 2017 to the prescribed -5% in 2020, the COVID-19 pandemic may lead to an increase in the budget deficit induced by low productivity due to rolling lockdowns being implemented to reduce the spread of the virus. The high budget deficit leads to borrowing to cover the expenditure which is not covered by the revenue generated in the economy. This then leads to a general increase in debt which also leads to higher interest payments. This may end up being a vicious cycle which tends to increase debt.

Figure 6: GDP Growth Rate and Budget Deficit, 2016 - 2020



Source: IMF, 2020

Accumulation of Arrears and Penalties and borrowing at Commercial Rates

Failure to service the debt on time results in accumulation of arrears and penalties which lead to spiralling of debt and eventually locking Zimbabwe in a debt trap. For instance, the case of Zimbabwe where arrears constitute about 60% of the total external debt shows that interest and penalties are now driving the debt more than the actual credit extended to government and government agencies. Borrowing at commercial rates increases the cost of borrowing since the interest rates are not competitive as compared to concessionary financing which is relatively cheaper to acquire. Zimbabwe is failing to acquire loans at concessionary rates due to the existence of arrears on external debt.

Quasi-fiscal operations of the RBZ and Transactions done outside the Public Financial Management System (PFMS)

The RBZ was involved in quasi-fiscal operations which include preferential exchange rates for fuel imports (discontinued since October 2019). This provided fuel subsidies estimated to have amounted to over US$300 million in 2019 together with the financial support to gold miners via the Fidelity Printers and Refiners (IMF, 2020). The quasi-fiscal operations are not included in the national budget despite these operations resulting in huge expenditures that may affect the overall budget deficit of Zimbabwe. More so, many transactions occur outside the automated PFMS and no penalties are applied to ministries, departments and agencies do not comply despite this not being permitted by the provisions of the Public Finance Management Act (PFMA) (IMF, 2020). The quasi-fiscal operations together with transactions which are done outside the public financial management information system may lead to an underestimation of the fiscal deficit yet in actual fact if these transactions are included in the overall public expenditure, the deficit may increase. The budget deficit may then lead to accumulation of debt through borrowing to finance the deficit.

Depreciation of the Local Currency induced by Inflation

The depreciation of the local currency is two-fold to the debt position in Zimbabwe. On one hand, the depreciation of the local currency makes it cheaper for the Government of Zimbabwe to repay the domestic debt due to the reduction in the real value of the debt. On the other hand, the depreciation of the local currency makes it more expensive for the country to raise the foreign currency required to service external debt.

No single Government Account

Poor fiscal accounting of public resources occurring in Zimbabwe may lead to unnecessary public borrowing. Public funds are not consolidated in a single fund to help determine the true financial position of Government. This would mean Government may borrow funds for liquidity management while some funds are sitting in another account, thereby increasing the cost of borrowing as well as the stock at particular point, which could have been avoided.

2.3 Implications of the country's debt position

Social Implications

- High and unsustainable debt leads to a further decay in social services such as provision of water, sanitation, health and education services due to limited fiscal space induced by a lacklustre performance of the economy due to constrained economic growth.

Economic implications

- Zimbabwe's huge and unsustainable external debt coupled with arrears to international creditors makes the country unable to borrow at concessionary rates from traditional bilateral and multilateral creditors. The lack of access to long-term capital has and will continue to lead to significant infrastructural deficiencies in the economy resulting in compromised public service delivery.
- In light of the changing financing landscape, the composition of public debt in general across most African countries is shifting from the traditional sources to non-Paris Club bilateral lenders like China, commercial creditors and domestic creditors (commercial banks). The rise in commercially-priced debt (due to high country risk, most loans are variable with higher margins) is leading to higher service costs while a rise in debt from non-traditional sources pose new challenges for resolving debt disputes especially with poor coordination among these new creditors. More so, most of the public loans from private sources are coming with shorter maturities and higher interest rates posing rollover risks when the debts mature.
- Risks to budget execution are high as demands for further public sector wage increases, quasi-fiscal activities of the RBZ that will need to be absorbed by the central government, and pressure to provide agriculture subsidies could push the deficit back into an unsustainable stance (IMF, 2020). This may result in the burgeoning of the budget deficit, which may lead to debt contraction to finance the deficit. This affects productivity, which is critical to enable the country to create fiscal space to service the debt.
- The alternative to the debt resolution through external resources was for the government to mobilize resources from internal sources. Regrettably, the performance of the domestic economic has not helped much to ameliorate the debt situation. Economic growth has been subdued and projected to worsen in 2020 and 2021 due to the outbreak of the coronavirus which has spread across the globe with negative knock-on effects on trade, investment and credit availability. Rising inflation, policy slippages and low confidence in the financial system in the economy, impede domestic growth, thereby driving up external borrowing. The situation is further compounded by weak domestic resource mobilization through poor tax administration at home with implications for fiscal revenues, hence deficits and borrowing may ensue. The domestic economic environment and thin and shallow domestic financial (debt) markets preclude efforts by government to reduce its appetite for external borrowing. The implications of lockdowns induced by the COVID-19 pandemic may affect productivity of the country as most people are restricted to go to work. Companies may fail to realise the

anticipated revenues which may depress the aggregate demand of the economy. Players in the informal sector also find it difficult to survive during the lockdown which may result in permanent closures. Some of them are forced to defy the lockdown measures, thereby further threatening the spread of the corona virus. This may result in the need for a huge health budget to cater for the pandemic and possible loss of life for the players in the small and medium enterprises and the labour force despite human resources being a critical component of the Zimbabwean economy.

- The country faces low international reserves to absorb external shocks some of which are caused by the huge debt burden.
- Ballooning domestic debt between 2013 and 2018 implies that the Government of Zimbabwe was crowding out the private sector that could have used the funds productively. Crowding out of the private sector is evidence of limited access to foreign funding. On the other hand, the relatively high debt burden, squeezed government scope to save and invest to grow the economy, create good well-paying jobs, while building the infrastructure and skilled workforce needed to keep the economy strong and growing for the future (Government of Zimbabwe, 2019a).

3

POLICY, LEGAL AND INSTITUTIONAL FRAMEWORK FOR DEBT MANAGEMENT AND ISSUES

Debt management policy is key to sustainable development and debt sustainability is an essential condition for economic stability and growth in low-income countries like Zimbabwe.

3.1 Zimbabwe's Debt Policy interventions

Zimbabwe does not have a debt policy in place. Instead the country's debt policy is inferred from various economic blue prints such as the Transitional Stabilisation Programme and National Budget Statements among other national policy documents. This policy is very critical as it outlines the institutional framework for debt management (how debt is initiated, the roles and responsibilities of the Ministry of Finance, debt management office; Parliament and the Office of the Auditor General among others) and provides for debt sustainability analysis. It further calls for the public debt audits and when these must be conducted. Nevertheless, the fact that public debt management is substantially provided for in the country's legal framework (see Section 3.3 of this paper), implies that Zimbabwe can still achieve debt sustainability even in the absence of a debt policy if committed to do so.

The Government of Zimbabwe adopted some initiatives to contain debt which include the Zimbabwe Accelerated Arrears Clearance Debt and Development Strategy in 2012 and the Lima strategy document presented to and adopted by the county's creditors on the side-lines of the 2015 International Monetary Fund and World Bank Annual Meetings in Lima in 2015. The recently adopted austerity measures through the Transitional Stabilisation Programme in 2018 are additional measures to contain and reduce public debt in an effort to curb burgeoning debt. Other strategies include establishment and operationalization of the Zimbabwe Aid and Debt Management Office which has been in existence since December 2010.

In 2017, Zimbabwe put in place a draft Mid Term Debt Management Strategy. This however, can only guide the country's debt management efforts in the short to medium term. This critical document is yet to be finalised and published. This is despite the fact that it is meant to operationalise the objectives of the public debt management in the country as espoused in Section 3 of the Public Debt Management Act. Ideally, debt management operations should be guided by a formal debt management strategy (Cabral, 2015).

There are many advantages to implementing a debt management strategy. Cabral (2015) outlines some of these as:

- assisting a country in making prudent choices based on analysis of cost and risk thereby avoiding expensive mistakes;
- boosting the country's communication with creditors and markets, which can potentially reduce costs in the medium-term by reducing uncertainty;
- instrumental in the governance/accountability framework for public debt management, because it gives the debt office a clear mandate to manage its risk exposure, and provides standards by which to hold the debt office accountable for its decisions;
- facilitates domestic debt market development by clearly announcing to market participants the plans of the government for the medium term.

Jessen (2017) weighed in by arguing that making the debt management strategy available to the public domain allows public debt management goals to be understood and authorities are seen to make credible commitment to meet them. Further, if implemented, it should improve accountability given that debt portfolio poses significant risk sharing and the strategy provides a sense that public debt is being managed well.

In addition, Government has been adopting a macroeconomic approach to limit the debt. In its October 2018 – December 2020 Transitional Stabilisation Programme (TSP), Government committed to implementing austerity measures aimed at addressing fiscal and debt challenges for sustained macro-economic stability and growth (TSP, 2018). For example, since the end of 2018, domestic debt has been stabilising reflecting improved management of the fiscus together with some increased debt service repayments (Government of Zimbabwe, 2019a). This was realised through implementation of the following measures:

- Zero recourse to RBZ financing, including the overdraft facility;
- Restructuring into long term marketable instrument of the RBZ overdraft facility, cash advances and Treasury bills held by RBZ into long-term marketable instruments;
- No additional issuances of treasury bills (TBs) for Zimbabwe Asset Management Corporation (ZAMCO) from 2019; and
- Limited issuances of treasury bills through private placement and introduction of the auction system (Government of Zimbabwe, 2018).

However, re-engagement with the international community continues to face delays despite commitment. The main creditors to begin re-engagement with would be World Bank, African Development Bank, and European Investment Bank. The timing and scope of repayment of arrears is still uncertain. The IMF (2020) argues that the government is yet to define the modalities and financing to clear arrears to the World Bank and other multilateral institutions, and to undertake reforms that would facilitate resolution of arrears with bilateral creditors. They further argue that the most practical starting point would be a comprehensive debt reconciliation exercise and a creditor agreement on clearing arrears at the international financial institutions. This continues to constrain Zimbabwe's access to external concessionary lines of credit at a time when the country is struggling to finance its infrastructure and social services.

Further, the Zimbabwean authorities are also considering non-debt creating sources of finance for major capital projects to address the worsening debt dynamics (IMF, 2020). An unfavourable business environment however, is likely to result in failure to attract other non-debt creating capital like Foreign Direct Investment (FDI). At the same time, government has reduced central bank borrowing from the 20% statutory limit to 5% of the previous year's revenue, with advances only confined to smoothening short-term cash-flow mismatches. Going forward, the resumption of the Treasury Bills auction system is expected to promote competitive bidding and market pricing of government securities and the eventual reduction of the interest burden (IMF, 2020).

Policy issues and challenges

Zimbabwe's total Public and Publicly Guaranteed debt remains unsustainably high due to the continuous accumulation of arrears, as well as expansion in domestic debt (Government of Zimbabwe, 2019a). The biggest challenge with domestic debt is that it was being contracted for recurrent expenditure compared to development projects that have the potential of growing the economy and boosting its capacity to repay debts. Government has in recent years been relying on the domestic financial markets to meet its budget financing needs resulting in the rise of the public domestic debt (Government of Zimbabwe, 2019a). The domestic debt has however, been eroded by the depreciation of the local currency against the US dollar.

The key issue of concern is that justification for external public borrowing is weak in the face of pervasive deficits not in sync with an increase in public investments. This may be a reflection of leakage through corruption or borrowing for public projects that are not viable for the country. Due diligence in the loan contraction process maybe inadequate or lacks proper project appraisal for value of money.

Further, public debt audit in Zimbabwe continues to fall short of best practices. Effective public debt audit is a requirement for sound debt management. It calls for internal and external audit of financial and performance audits of public debts. In Zimbabwe however, there is no internal audit done within the Ministry of Finance. Public debt is only subjected to external audit by the Office of the Auditor General. The other issue in Zimbabwe's case is that the current audit focuses only on financial irregularities but not on performance audit. Further, the financial irregularities are just reported but not implemented and this is misaligned to best practice that calls for correction of any issues raised through public audit so that they do not recur. Performance audits check whether the debt laws regulations are adhered to and; if the country is getting value for money on what the debt is used for against what was planned. In addition, they flag out any gaps hence assist a country to be on track when it comes to sustainable debt management.

Austerity measures which the government is implementing are about clearing domestic debt in an easy way but tough to the people of Zimbabwe. It also brings with it risk. For example, there is risk of creditors losing due to exchange rate and inflation pressures. Further, evidence from the sovereign debt crisis of the European Union reveals that fiscal consolidation especially through government spending cuts is a long process, which can give effects in decades (Slav'yuk and Slaviuk, 2018).

Another challenge is the short-term nature of the instruments used to contract domestic debt. Instruments within the domestic market show problems of sustainability as around 50% of the domestic loans were short term including overdraft loans from banks and arrears from suppliers. It implies that every year government has to raise funds to repay the debt. Detragiache and Spilimbergo (2001) in Slav'yuk and Slaviuk (2018) have shown that short-term borrowings increase the possibility of the debt crisis and that it is hard to use short-term borrowings as an investment source. Further, most of the domestic debt was not contracted on market terms hence the interest rate could be higher. Use of market systems ensure competition hence lower interest rates.

Borrowing is not coordinated in Zimbabwe that is why contingent liabilities are still lying around and not adequately recorded. This is one of the key areas where debt law is not being adhered to. Contingent liabilities being assumed by government are on the high side raising questions on the adequacy of the existing legal framework on the management of contingent liabilities. The main risk to Zimbabwe's debt stems from additional contingent liabilities relating to a compensation agreement for displaced farmers and additional fiscal costs from RBZ debt assumption and quasi-fiscal activities (IMF, 2020). The RBZ will compensate some stakeholders for losses incurred following the currency conversion estimated at about US$1.2 billion. This legacy debt increases the real value of domestic debt and worsens Zimbabwe's debt distress. The Zimbabwean authorities view the settlement of exchange losses stemming from the currency conversion implemented in February 2019, as essential to retain the private sector's access to critical off-shore facilities (IMF, 2020). In this respect, they plan to compensate banks' net operating positions to enhance financial stability. Already, the central bank has completed verification of the external obligations and plans to firm up on repayment modalities (Ibid). Notwithstanding, the obligations to be assumed by government on legacy debt remain subject to resource availability and Parliamentary approval.

Zimbabwe's financial account, is expected to remain fragile characterized by huge scheduled repayments for offshore facilities against subdued inflows due to the perceived high-country risk (RBZ, 2020). Accumulation of domestic and external debt arrears shows that there are challenges in Zimbabwe's revenue mobilisation capacity. The economy has been contracting since a short recovery witnessed from

2009 to 2011. This implies challenges to in raising revenues through taxes in an economy where more than 60% of the economic activities are in the informal sector with a high tax evasion rate. Export performance is low, and so is the revenue generation capacity.

Zimbabwe suffers from limited access to cheap international financing except for expensive financing whose interest rates are higher than the economic growth rate currently prevailing in Zimbabwe and could be worsened by the advent of COVID-19. This implies unsustainable loans hence the debt portfolio would be unsustainable as any debt funded project which Zimbabwe may venture into would not have a rate of return that is higher than the interest rates. Thus, it will be unviable to run infrastructure development with unviable loans in Zimbabwe. Domestically, Zimbabwe cannot raise these resources therefore there is limited policy space for development. Constrains regarding foreign investment are significant. Investors look at debt levels and they take a cautious approach to see how the debt will be repaid for fear of being highly taxed as government raises funds to repay the debt. Some courageous investors who intend to invest in Zimbabwe will come with many conditionalities to be protected, thus in terms of policy space, government becomes very much constrained. Hence, a huge debt is a financing problem that scares away investors.

As part of the roadmap to arrears clearance, Government signed a Staff Monitored Program (SMP) with the International Monetary Fund (IMF) covering the period May 15, 2019 to March 15, 2020 with quarterly performance reviews (Government of Zimbabwe, 2019b). The report that came out is not very positive for Zimbabwe since IMF (2020) reported that the country is off track in terms of the set indicators. This may delay further re-engagements with the international community since the programme generally measures the preparedness of the country to meet the set measures and reforms in an effort to transform the economy. This is despite notable reforms which include significant fiscal consolidation that has helped reduce the monetary financing of the deficit. Eliminating deficit monetization would not only be crucial for fiscal sustainability, but it would also serve as a precondition for the stabilization of hyper-inflation and the preservation of the external value of the currency.

Zimbabwe is continuously hung back by poor economic policy coordination. For example, in addition to pursuing fiscal policies that ballooned the debt, the continuous deflation of investors value (following the 2008 economic crisis and at mono currency change over in 2019) reduces public confidence and does not develop the domestic financial market. After the currency change over in 2019, domestic debt fell from a whooping US$ 9,363.46 billion in 2018 to less than US$1 billion in 2019. This is an implicit default to debt through inflation and exchange rate. Hence, debt management should be anchored in sound macroeconomic and financial sector policies to ensure that the level and rate of growth in public debt are sustainable (IMF, 2014). In addition, the depreciation of the local currency raises the cost of Zimbabwe's external borrowing.

Zimbabwe is pursuing medium to long term economic policies that are guided by the Vision 2030 of attaining an upper middle-income economy. The questions on how this is going to be funded and its implications on the debt sustainability and debt service of the country needs to be put into perspective. Zimbabwe needs to weigh the risks associated with increasing non concessionary sources of financing in the face of deep macroeconomic challenges. In fact, becoming a middle-income country means, in the medium-term, graduation from the concessional windows of multilateral development banks and the phasing out of donors' bilateral programmes (Mustapha and Prizzon,2018).

3.2 Legal framework for Debt Management

A sound governance process is a necessary complement to having a good debt management strategy (Cabral, 2015). Mustapha and Prizzon (2018) emphasise on the importance of establishing a clear legal and organisational framework, as well as reporting policies to ensure accountability and transparency to enhance debt management.

A sound legal framework is one of the prerequisites for implementing a good public debt management in a country. Minimum requirements for such include a clear authorization to borrow or undertake debt-related transactions, including the issuance of guarantees, specification of the purposes for which debt can be issued, as well as the requirement to develop a debt management strategy (Cabral, 2015). Four key legal instruments govern debt management in Zimbabwe and their relevant provisions are highlighted below.

3.2.1 Constitution of Zimbabwe

Provisions relating to debt management border around as requirement to set limits on state borrowing, public debt, and state guarantees, full disclosure and transparency on public debt in a comprehensive manner among others.

- Section 298 (1) (f) states that public borrowing and all transactions involving the national debt must be carried out transparently and in the best interest of Zimbabwe.
- Section 300 (1) states that an Act of Parliament must set limits on
  (a) borrowings by the State;
  (b) the public debt; and
  (c) debts and obligations whose payment or re-payment is guaranteed by the State and those limits, must not be exceeded without the authority of the National Assembly.
- Section 300(2) provides that Act of Parliament to prescribe terms and conditions under which the government may guarantee loans.
- Section 300 (3) states that the Minister responsible for Finance to gazette the terms of a loan agreement or guarantee concluded by the Government within sixty days and accountability on public debt issues. Section 300 (5) stipulates that Minister of Finance to present a comprehensive statement of the public debt of Zimbabwe biannually before Parliament.

3.2.2 Public Debt Management Act [Chapter 22:21]

This is the principal Act for public Debt Management in Zimbabwe. It stipulates major guidelines on borrowing, maintenance, extinction of debt; definition of contingent liabilities; exposure of government; borrowing powers of the Minister; as well the Minister's powers to give guarantees; borrowing by local authorities and public entities among other issues.

It also stipulates the functions and administration of the Public Debt Management Office which falls within the Ministry of Finance and Economic Development. Further, Section 8 of the Public Debt Management Act requires the Debt Management Office to prepare Medium Term Debt Management Strategy in accordance with Section 8 of the Act. The purpose of this strategy is to guide the country on debt management in line with the country's objectives and international best practice. It informs the borrowing plan for the country; outlines the quantum of resources the country has to borrow externally and domestically; borrowing terms and conditions as well as the financial options that minimise costs and risks. This strategy also allows the Debt Officials to draft a borrowing calendar from both domestic and external sources. The delay in the finalisation and implementation of the Mid Term Debt Management Strategy is postponing the possibilities of achieving debt sustainability in Zimbabwe. Further, the calendar should be shared with the Central Bank to inform the players in the financial sector on government intentions and timing.

Section 11(2) of the Public Debt Management Act [Chapter 22:21] sets a ceiling on total outstanding Public and Publicly Guaranteed Debt as a ratio of GDP where it must not exceed 70% at the end of any fiscal year. Exceptional cases for exceeding this limit as stated in the Act include the occurrence of a natural disaster; to fund a large investment deemed timely and prudent by the Cabinet; or in case of a general economic slow-down requiring fiscal and monetary stimulus. This is the same as what is happening in other jurisdictions. For example, Poland's constitution has a requirement that total government debt, augmented by the amount of anticipated disbursements on guarantees, is not allowed to exceed 60% of GDP, the debt limit stipulated by the Maastricht treaty (Bilal, 2018). However, countries like Denmark and the United States have legislative limits on the stock of debt outstanding (Bilal, 2018). Further, in Brazil, South Africa and Nigeria, legal provisions go further to invalidate unlawfully contracted debt. For example, under the South African Public Finance Management Act 1999 (section 68) amended as of 2009, any borrowing, guarantee, indemnity or security entered into by the Government or any public institution in breach of the provisions of the Act is null and void and of no effect. Further, Section 45 (2) of the Nigeria's Fiscal Responsibility Act of 2007 provides that loans by banks and financial institutions to Government in contravention of the provisions of the Act are unlawful. Zimbabwe's legal framework does not have such provisions.

Section 20 of the Public Debt Management Act and Section 5 of Statutory Instrument 79 of 2019 on Public Debt Management prescribe terms and condition under which the Government may guarantee loans. The Statutory Instrument 79 of 2019 regulations were issued to further strengthen and to give effect to the legal framework governing debt management in Zimbabwe.

Issues and challenges

- The Public Debt Management Act [Chapter 22:21] was enacted in 2015. Only in 2017 was the Medium-Term Debt Management Strategy drafted but yet to be finalised and published. One key challenge is that the Government's debt calendar is not being shared with the financial institutions and this is not in line with best practice. The other challenge is that, with no access to financing, undertaking a Medium-term Debt Management Strategy is difficult as there are no competitive borrowing options for Zimbabwe. According to Jessen (2017), disclosure of the borrowing programme increases investors' certainty and lowers government's borrowing costs in the long run.
- If we take into account commercial white farmers' compensation and legacy debts, the legal limit of debt to GDP for Zimbabwe falls beyond the set threshold specified under the SADC macroeconomic convergence benchmark of less than 60%. Zimbabwe being a founding member of SADC should align its domestic policy with its regional commitments. Neither does the public debt to GDP meet the 70% set in the Transitional Stabilisation Programme and the Public Debt Management Act.

3.2.3 Reserve Bank Act [Chapter 22:15]

The RBZ sets limits on what the Central Bank is to lend to the State. Its Section 11(1) provides that Government borrowing will not exceed 20% of the previous year's revenues.

Issues and challenges

Zimbabwe has been on record for violating this provision and many others. A case in point is the Government's US$2.93 billion overdraft facility with the RBZ as at December 2018 (ZADMO, 2019), representing 75.7% of the 2017 revenues which far exceed the requisite 20% borrowing limit.

3.2.4 Public Finance Management Act [Chapter 22:19]

This Act provides for the control and management of public resources. Its objective is to secure the transparency, accountability and sound management of public revenues, expenditures and assets. The Act has some fiscal rules which help to contain the fiscal deficit, which in most instances is the cause of Governments to contact debt.

3.2.5 Overall assessment of the legal framework for debt management

Despite the fact that Zimbabwe's debt management legal framework is very clear and is rated quite strongly by development partners and regional organisations such as World Bank and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) as one that meets minimum standards for debt management; it lacks enforcement by the government authorities (IMF, 2020; AFRODAD, 2019). Failure to comply with the law; particularly the provisions of the Constitution, the Public Finance Management Act, the Public Debt Management Act on debt management has been a major issue of concern with not only Parliament of Zimbabwe (2019) but also reports by the Office of the Auditor General (Office of the Auditor General, 2019).

Related to this is also the lack of transparency in loan contraction process. Government contracted some loans without approval of Parliament, which is a total disregard of the legal framework, only to seek coadunation by the Executive later. For example, Parliament of Zimbabwe (2019) reported that a total amount for domestic and foreign debt of US$ 17,69 billion as at August 2018 reported in the 2019 Budget Statement was different from US$ 9,230,742,461 billion reflected in the 2019 National Budget Estimates. It further reported that all the loans obtained/debts incurred should have been presented to Parliament for approval as these were acquired outside the budget. The non-disclosure by government of public loans to Parliament, media and civic society organization helps government to get away without being held to account on how the loans were/are to be used. Thus, there is a gap in the legislation regarding steps that should be taken when the executive fails to implement recommendations by Parliament Portfolio Committees relating to public borrowing.

Concerns were also raised by the IMF (2020) which highlighted that debt management in Zimbabwe is weak and debt statistics are not systematically compiled and published. For example, the IMF (2020) highlighted that the Public Debt Management Office has been working on the publication of a debt bulletin, but currently no debt data are disseminated on the Ministry of Finance and Economic Development's website. Instead limited debt data has been included in the annual budget documentation and is presented incomprehensively. Further, the Minister of Finance has not submitted any public debt report to the Parliament despite the provisions of the Constitution and the legislation on public debt (IMF, 2020) as alluded to above and debt reporting has been irregular.

According to Section 36 of the Public Debt Management Act the Minister of Finance's report to Parliament must cover performance of the debt strategy; performance of the debt management activity outcome versus debt management objectives; list of all debt guarantees issued by government; as well as all outstanding borrowings and the corresponding debt service projections. Limited reporting not only signifies non-compliance with the debt legal framework but compromises transparency in overall debt management of the country. Further, such levels of reporting are not good enough to enhance debt sustainability assessments and also track the evolution of the debt situation. Data gaps in most countries have led to debt distress surprises as undeclared liabilities are converted to real liabilities of central government. Thus, during debt sustainability analyses, such data will not be availed. The most underreported data include government guarantees, risks related to Public Private Partnerships and unreported public enterprises debt (all these are examples of contingent liabilities). A case in point is that although the government has reported some arrangements to settle the land debt owed to former white commercial farmers, the aggregate quantum involved is not in the public domain for accountability. The time involved in settling this debt is largely unknown to most people and this debt is not being reported along other public debt aggregates. Neither does it enter debt sustainability assessments.

The Government of Zimbabwe continues to assume huge amounts of contingence liabilities thereby raising questions of compliance to the existing legal framework on the management of contingence liabilities (AFRODAD, 2019). Every year the government is assuming parastatals and public entities debt thereby increasing public debt stock. Given the overlap between the debt management policy and fiscal policy, there seems to be no office that is responsible to effectively monitor contingent liabilities in Zimbabwe otherwise highlighting a lack of capacity to do so.

The Constitution of Zimbabwe is at the broader level and details are in the Acts. Section 300(1) of the Constitution of Zimbabwe has its expectations e.g. on the setting of limits by borrowing per annum, debt to GDP at any given time and contingent liabilities. The Public Debt Management Act sets the limit for the debt to GDP of not exceeding 70%. The limit for public guarantees is announced in the National Budget. What is missing however, is setting of borrowing limits in the year, that is, the quantum of borrowing. Whilst the Medium-Term Debt Management Strategy is a plan to achieve this objective, the borrowing limit should be prescribed in the law for debt authorities to adhere to it.

3.3 Institutional framework for debt management and issues

Over the recent years, Zimbabwe has been committed to buttressing its institutional and human capacity in debt management. This is evidenced by the setting up of a dedicated Debt Management Office (ZADMO), adoption of a modern public debt management legislation, preparation and adoption of debt management procedures manuals, regular reconciliation of public debt database, installation of frameworks for debt data back-up, as well as staff recruitment and training.[3] While the ZADMO falls under the ambit of the Ministry of Finance and Economic Development, its front office is housed by another department in this Ministry. Further, the back office is housed at the RBZ. This poses coordination challenge required for effective debt management. Further, its efficiency and effectiveness in debt management is put to test by the fact that it plays an advisory role to the very Ministry that oversees its operations thereby creating an opportunity for faltering on prudent debt management practices (AFRODAD, 2020). The continued breach of the debt management law under the nose of Parliament raises questions regarding their effectiveness in oversight role.

Zimbabwe's debt institutional framework is quite transparent in terms of clarity of roles, responsibilities, and objectives of government institutions responsible for debt management as espoused by IMF (2004) but has shortcoming on public availability of information on the reporting of debt management strategies and operations as required by internationally best practice guidelines on good public debt management practices.

There is lack of data reconciliation and validation between Ministry of Finance and Economic Development and the RBZ. Detailed compilation and regular publishing of various debt statistics is needed to clear the gap. The fragmented institutional framework for debt management implies no perfect flow of information.

[3] http://mefmi.org/2017/08/01/zimbabwe-develops-a-medium-term-debt-management-strategy-and-the-first-annual-borrowing-plan/

4

INTERNATIONAL EXPERIENCES ON DEBT MANAGEMENT

A number of international authorities have provided guidance on public debt management. For example, Section 93 of Addis Ababa Action Agenda of the Third International Conference on Financing for Development calls for prudent management of public borrowing. Further, the IMF (2014) outlines the Guidelines for Public debt management to strengthen the international financial architecture, promote policies and practices that contribute to financial stability and transparency, and reduce countries' external vulnerabilities. It focuses on six major areas, notably debt management objectives and coordination; transparency and accountability; institutional framework; debt management strategy; risk management framework; development and maintenance of an efficient market for domestic government securities. A number of countries are leading in implementing effective public debt management. In the advanced countries these include the Denmark; Sweden; United Kingdom while in the emerging economies Brazil and Turkey are some of the examples. In Africa, Uganda, Tanzania and Rwanda are making notable progress on this front. This section attempts to share Sweden's experience on debt management given its remarkable performance over time.

4.1 Sweden Case study on public debt management

The deep financial crisis in the early 1990s saw Sweden recording debt to GDP ratio of 75% in 1995, the highest in the Eurozone region (Andersson and Jonung, 2019). This pushed the country to re-think its economic policies. The country established a fiscal framework to reduce debt; gave the monetary policy a prime role in stabilising the economy in the short run and introduced a number of supply-side measures to improve economic growth (Andersson and Jonung, 2019).

Further, in 1998, Sweden undertook major reform of the governance system through implementation of a debt management strategy and risk management framework that resulted in debt management decisions being made in a more clearly and structured framework. Further, this new governance system created a framework for more focused analysis of the debt management strategy and risks involved. (IMF, 2003).[4] In addition to a well-balanced allocation among the types of debts, Sweden developed a smooth functioning markets for government securities, a critical element for achieving the objective of minimising costs (IMF, 2003). [5]

This move was successful. The country's debt to GDP resultantly fell in two decades to from 75% in 1998 to 40% in 2017, becoming one of the region's lowest from 1998 to 2017 (Andersson and Jonung, 2019). In fact, it is lower than the Maastricht threshold of 60%. It reached 38.8% of GDP in 2018, which is lower than the average over the period 2013-2017 of 42.7%.[6]

In addition, Sweden tapped on a sound governance and institutional framework for debt management that it developed. Over a long period of time, it has since 1789 been running a debt office as an autonomous agency under Government supervision thereby providing greater institutional separation between fiscal, monetary, and debt management policies, though they generally operate within well-

[4] https://www.elibrary.imf.org/view/IMF069/02997-9781589061941/02997-9781589061941/pa02ch16.xml?language=en&redirect=true
[5] https://www.elibrary.imf.org/view/IMF069/02997-9781589061941/02997-9781589061941/pa02ch16.xml?language=en&redirect=true
[6]

specified policies established by the Ministry of Finance. Parliament was responsible for the debt office until July 1989, at which time it was transferred to the government. It is now an independent government agency subordinate to the Ministry of Finance. It is the sole institution that may borrow on behalf of the Kingdom of Sweden and is responsible for debt management (Hanif, 2012).

Whilst debt-to-GDP indicator cannot be used alone, economists widely use it as a basic indicator and to compare the state of government indebtedness in different countries (Slav'yuk and Slaviuk, 2018). The indicator does not show the possibility of the country to service its debts. It is important to note that countries with different policy and institutional strengths, macroeconomic performance, and buffers to absorb shocks, have different abilities to handle debt.[7] The possibility of the country to service its debt depends on the competitiveness of its economy, the state of the current account balance of the country, the level of budget deficit and economic growth. (Slav'yuk and Slaviuk, 2018).

[7] https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/39/Debt-Sustainability-Framework-for-Low-Income-Countries

5

CONCLUSION AND RECOMMENDATIONS

5.1Conclusion

Zimbabwe continues to be in debt distress if legacy debts and farmers compensation are taken into consideration for year 2020 as indicated by debt sustainability indicators and this is constraining its capacity to access new loans thereby thwarting its development efforts as a country. It cannot invest towards economic recovery and growth. The external debt burden is excessive and the country is accumulating arrears. Domestic debt has grown in recent years due to large fiscal deficits and limited access to external finance, but the recent currency conversion and high inflation have significantly eroded its real value. While the real value of domestic debt has fallen significantly given the high inflation, contingent liabilities related to a compensation agreement for displaced farmers and a legacy debt increases the severity of the debt. Restoring debt sustainability requires the sustained implementation of a significant fiscal consolidation, cessation of quasi-fiscal activities that lead to debt increases, as well as reaching agreement with creditors on a comprehensive treatment of the country's external debt and arrears. Reengagement with the international community will help restore debt sustainability although the process is taking longer than expected.

Despite implementation of austerity measures and an IMF Staff Monitored Program to contain fiscal expenditure, external debt continues to expand whilst arrears continue to accumulate. This is also worsened by the fact that domestic debt is going towards unproductive activities such as recurrent expenditure. The domestic financial market is not developed as government continues to squeeze the private sector from accessing productive resources. Pressures for further debt expansion are emanating from compensation of farmers and RBZ debt assumptions even though the legal basis for the latter is still questionable. Further, the impact of COVID-19 to Zimbabwe's debt accumulation cannot be overemphasised. The country's aspiration of becoming an upper middle-income economy by 2030 also require funding which is likely to come from external sources as domestic resource mobilisation is heavily constrained. Limited funds may be acquired at high interest rates which is costly to the country. Thus, as the country contracts more debts, it should be cautious on the risks associated with these loans.

Since 2011, Zimbabwe made efforts in strengthening its public debt management capacity as evidenced by setting up of a dedicated Debt Management Office, strengthening the debt management legal framework; and training of staff. In fact, the legal framework is considered as one of the best in Africa and is said to satisfy the World Bank and MEFMI' minimum requirements for a modern debt management system despite misgivings from the IMF. Gaps however, still exist and the debt burden continues to increase. Debt management capacity remains weak as provisions of its legal framework are not adhered to. More so, debt statistics are not systematically compiled and published. Further, disclosure of debts information to Parliament is incomplete and not in line with the legal requirements. Moreover, the Government continues to assume huge amounts of contingence liabilities with no proper reconciliation to overall debt statistics which may compromise the Government's balance sheet. Delays in engaging the international community to resolve the debt problem threatens the country's sustainable development aspiration.
Zimbabwe's debt management is governed by various legislations which include the Constitution of

Zimbabwe, the Public Debt Management Act, the Reserve Bank Act and the Public Finance Management Act. The country does not have a debt policy in place and the Medium-Term Debt Management Strategy crafted by the Zimbabwe Aid and Debt Management Office in 2017 is still in draft form awaiting finalisation and publishing despite its critical role in operationalizing the country's debt management objectives as espoused in the Public Debt Management Act. Literature has also shown the importance of having a formal debt management policy to further strengthen the debt management policy in the short to medium term. Despite the country not having a public debt policy document, Zimbabwe can still achieve prudent debt management if the country adheres to the set debt thresholds. It has a clear legislation in place with clear objectives on debt, the institutional framework is in place but what is lacking is adherence to the set debt laws.

5.2 Recommendations

5.2.1 Need for a comprehensive Debt management Policy

- There is need to come up with a debt management policy for Zimbabwe to enhance the country's ability to make decisions on issuing or entering into debt obligations. The development of such a policy will exhibit a commitment to long-term financial planning that will ensure fiscal prudence and financial stability. This stems the problem of initiation of debt by non-mandated government institutions and ensures operationalization of the provisions of the debt law. Further, it allows for public debt analysis and effective internal and external debt audits in line with best practice.
- The Government of Zimbabwe should finalise the Medium-Term Debt Management Strategy further strengthen the debt management policy in the short to medium term through operationalizing the country's debt management as espoused in the Public Debt Management Act.
- Hence, strengthening of government's debt management capacity is critical for achieving fiscal sustainability and effective budgeting which are key ingredients in crafting and managing sound debt management policy and to ensure that the Zimbabwe Aid and Debt Management Office adheres to the set debt thresholds.
- Government to run an effective Treasury Single Account (TSA) to avoid borrowing when it has funds in its other coffers.
- Overall, the country's debt policy needs to be coordinated with other economic policies (e.g. Fiscal and monetary) to ensure sound debt management in the country.

5.2.2 Adhere to debt management legal provisions

- The Governments should seek to ensure that both the level and rate of growth in the public debt are on a sustainable path through tightening the enforcement of legal provisions on the submission of public debt reports and adhering to the set debt thresholds to ensure implementation of prudent debt management policy.
- There is need for implementation of Auditor General's recommendations regarding debt issues to ensure prudent debt management. In line with Section 30 of the Public Debt Management Act [Chapter.22:21], reports on public debt are to be presented to Parliament by the Minister at least bi-annually.
- In line with the public debt management laws of Zimbabwe, the government should regularly publish information on the stock and composition of its debt and financial assets, including their currency, maturity, and interest rate structure to ensure transparency, accountability and prudent debt management for the country.

- There is need to introduce data dissemination dates and follow those dates for publishing regular and timely debt statistics. This can be done quarterly and the information should be made accessible through publishing on various platforms such as the Ministry of Finance and Economic Development website and other social media platforms. Disaggregation of statistics for domestic debt should also be provided to enable critical analysis of the source of debt.

5.2.3 Promote non debt flows to meet the budgetary requirements

- Zimbabwe is in a debt trap where it needs foreign funding for its capital and social expenditure. To move out of the trap, the country can avoid further debt contractions on commercial terms loans and try to promote non debt flows like foreign direct investment (FDI), public-private partnerships (PPPs) and joint ventures in order to fund government requirements. In fact, through its TSP, Government is committed to private sector led growth and this commitment should be complimented by a corresponding decline in debt and an increase in private sector financing. The government therefore has limited resources hence private sector should chip in to fund infrastructure and other social services. There is need however, to create conducive investment environment to achieve this.
- Further, the country needs create an enabling environment through satisfying all the set conditions in the IMF Staff Monitored Programme and other relevant legislations like the Pubic Finance Management Act to try and regain confidence from the private investors. Focusing on sound public finance management is an enabler for both domestic investment and FDI. Debt repayment should be prioritised even in crises period to show that the Government is committed to repay the creditors as enunciated in literature.
- The Government Ministries, Departments and Agencies should ensure that all the expenditures are done under the public financial management information system in order to capture the correct debt position which gives a hindsight on whether the country is on track in terms of the debt thresholds. RBZ's quasi-fiscal operations results in the ballooning of the budget deficit and hence should not resurface in future. ***Implement political and economic reforms to facilitate the crafting of an effective debt resolution strategy***
- There is need to implement political and economic reforms in order to facilitate the effective reengagement process and step towards mapping a debt resolution strategy.

5.2.4 Grow the economy

- Zimbabwe should take measures to grow the economy to enable the country to raise the requisite resources to clear the arrears to ensure debt sustainability and sound debt management policy. This will also enhance its capacity to absorb external shocks.
- Further, Governments should seek to ensure that both the level and rate of growth in their public debt are on a sustainable path (IMF, 2014). The debt needs to be issued towards productive spending such as viable capital projects. Productive spending is an investment under uncertain conditions such as prevailing in Zimbabwe. Financing bankable projects ensures future generation of revenue streams to sustain economic growth and the ability of the country to repay its external debt obligations.
- The authorities ought to take advantage of foreign exchange savings by building petroleum reserves in the country especially during times when oil prices are at their rock bottom levels, currently due to COVID19 lockdowns at US$20 per barrel.[8] This is analogous to building reserves though not in monetary form of foreign exchange but through inventories of goods with potential drains on the country's foreign exchange reserves in future.

[8] 1 barrel of oil is equivalent to 157.987 litres

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