THE CASE FOR DEBT RELIEF IN ZIMBABWE IN THE THICK OF THE COVID-19 PANDEMIC

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Introduction

Like many other countries across the globe, Zimbabwe finds itself in the clutches of the deadly coronavirus/COVID-19 pandemic. The double tragedy for Zimbabwe is that the pandemic came at the back of a slew of socio-economic problems in the country including, the aftermath of Cyclone Idai, chronic drought, poor governance, illicit financial flows, endemic corruption, and the external debt overhang.

This has further compounded the economic headwinds in the country. In this context, the coronavirus crisis has already upended the public healthcare system, the livelihoods of millions of people, and the economy of Zimbabwe in a matter of months. As at 13 November 2020, the country has recorded 8 765 confirmed cases of coronavirus infections, 257 deaths, and 8 090 [1] recoveries . There has been a general concern however, that without robust testing, the figures might not be reflecting the actual reality of the pandemic in the country. In the wake of these dynamics, this think-piece sets out to explore the implications of the country's external indebtedness on government's effort against COVID-19. It also seeks to ignite public discussions and prompt responses from both the Zimbabwe government and also the external creditors, lenders, private sector and donors to ramp up financing measures to contain the human and economic costs of the coronavirus crisis.

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[1] Ministry of Health and Childcare, COVID-19 Update, 13 November 2020

External Debt stands as an Albatross to COVID-19 Mitigation

It is the argument of this think-piece that external debt overhang is an albatross against external resource mobilisation for containing the pressures of the COVID-19 in Zimbabwe. The country's external debt is high and largely in arrears. Available statistics from the Reserve Bank of Zimbabwe (RBZ) indicate that the public debt stock is unsustainable with domestic debt growing by an alarming 2 789 percent between 2013 and 2019 from US$0.36 billion to US$10.4 billion respectively. At the same time, external debt has also grown by 27 percent over the same period from US$10.22 billion to US$13.13 billion. In this context, the country's total debt as a percentage of GDP has rallied significantly from 49 percent to 75 percent as at end 2019[2] .

It is widely known that Zimbabwe's external debt pile has been a result of a confluence of poor policy choices including years of austerity measures; gross

mismanagement; abuse of state resources; and poor fiscal management which has created huge budget deficits. By the same token, governance challenges, human rights violations, questions of democratic regression, and rule of law have resulted in international isolation and legislative restrictions such the U.S. sponsored Zimbabwe Democracy and Economic Recovery Act (ZIDERA). Unfortunately, even after the departure of the long-time administration of Robert Mugabe who was ousted through a military intervention in November 2017, similar trends on corruption and mismanagement of public resources appear to have continued unabated under the current administration.

The policies pursued by the successive governments of Zimbabwe have left the country with a long-standing legacy debt to the multilateral creditors such as the World Bank, the African Development Bank, and the European Investment Bank along with the Paris Club and non-Paris bilateral creditors. These debts have been a major deterrent to new credit lines, international investment, and trade. Without external capital inflows, the country is hampered in its efforts to respond to the Covid-19 shocks, more so; the country is currently entrapped in fiscal deficits and unable to raise domestic resources in order to effectively respond to the coronavirus pressures.

[2] ZIMCODD. 2020. Zimbabwe COVID-19 Response Mechanism: The Resource Factor.

Zimbabwe needs more hospitals, hospital beds, medical staff and medical supplies in order for the country to combat the coronavirus outbreak. Moreover, the health workers, the medical staff and other responders on the frontline of this outbreak urgently need intensive care units, test kits, ventilators, masks, personal protective equipment, and sanitizers among other urgent needs. At the onset of the government's response to COVID-19 only two hospitals were equipped to become designated isolation centres, and these are Wilkins Infectious Diseases Hospital in Harare and Thorngrove Infectious Diseases Hospital in Bulawayo. The rest of the designated centres across the provinces and districts were categorised as being under renovation and were not adequately equipped to serve as isolation centres.

It is worth noting at this point that the lockdown measures enforced by government have applied some 'emergency brakes' onto the lives of millions of people, with disproportionate impact on poor households, the self-employed, and the informal sector in general. Since over 80 percent of Zimbabweans are in the informal sector, lockdowns have essentially made many households food insecure forcing the majority of informal traders, hawkers, and street vendors finding alternative ways of breaching the lockdown regulations which was met with a disproportionate use of military and police to enforce them[3] . At a broader level, the country has seen a drop in foreign currency earnings as a result of the slump in mineral exports, travel and tourism revenues, and diaspora remittances as well as cross border trade because of the lockdown, ban on cross border travel and air travel among other factors.

Consequently, government has witnessed massive reductions in revenue which are desperately required for containing the Covid-19.

Apparently, the problem of debt overhang has seen Zimbabwe losing out from the resources provided by the international financial institutions (IFIs) in their response to COVID-19. For example, the IMF, the World Bank, and the G20 have all come up with a slew of financing facilities for the poor and economically vulnerable countries, but Zimbabwe is not eligible to benefit from any of them because of its debt peonage. To be precise, Zimbabwe is in arrears with the World Bank, the African Development Bank, and the European Investment Bank creditors. While Zimbabwe cleared its arrears with IMF in 2016, it is still not eligible to access that organisation's resources because of the pari pasu principle [4].

Apart from the fact that Zimbabwe does not qualify to benefit from the offered global finance, it is argued here that the IMF, the World Bank, and the G20 financing windows for the Covid-19 are debt inducing hence they will leave the beneficiaries worse off in the post COVID-19 era. Ironically, the global financial arrangements assume that the COVID-19 shock will be over in six months and that the beneficiaries will be in a position to shoulder the debt service repayments at the expiry of the reprieve [5]. Against this backdrop, this think-piece canvasses for more nuanced financing mechanisms for COVID-19 that will also address the problem of external debt crisis in Zimbabwe.

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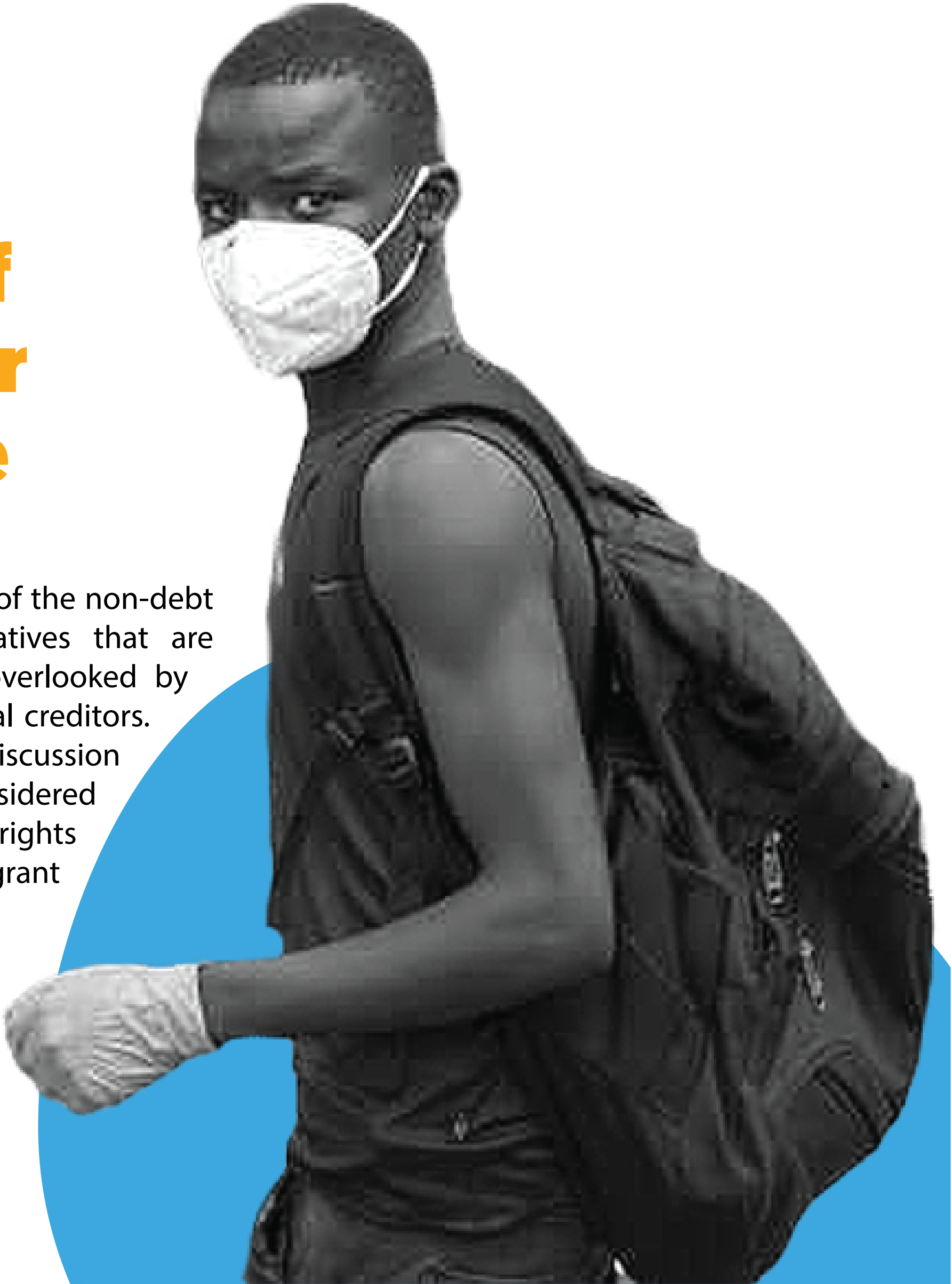
[3] High Court ordered the soldiers, police and other state security agents to respect human rights, the dignity of people and their fundamental freedoms and rights while enforcing the country's national covid-19 lockdown regulations. www.voazimbabwe.com

[4] Pari pasu principle requires that all the IFIs and the regional development banks must be treated same.

[5] UNCTAD. 2020. *From the Great Lockdown to the Great Meltdown: Developing Country Debt in the Time of COVID-19*, UNCTAD: New York.

Debt Relief Options for Zimbabwe

This section surfaces some of the non-debt inducing financing alternatives that are generally side-lined and overlooked by the multilateral and bilateral creditors. For the purposes of this discussion only four options are considered namely; special drawing rights (SDRs), debt cancellation, grant funding, and debt strike.



Case for Special Drawing Rights (SDRs)

To begin with, this paper presents Special Drawing Rights (SDRs) as one of the viable, fast, easy, and debt-free mechanism for raising financial resources to combat the COVID-19 pandemic not only in Zimbabwe but in the rest of the economically vulnerable countries of the global South. The SDRs are a form of global money issued by the IMF to its Member States [6]. They are held in the foreign reserves of Member States of the IMF and can be traded or used for transfers to other country's central bank.

While Zimbabwe is a defaulting member of the multilateral institutions, it is entitled to its proportion of SDRs held by the IMF. As such, an allocation of additional SDRs is the closest the country can come to non-debt creating acquisition of hard currency. To be clear, SDRs are offered without conditionalities and discrimination such as those that have prevented Zimbabwe from benefiting from the IMF-Catastrophe Containment and Relief Trust (CCRT). Moreover, while the loans offered by the IMF and the World Bank as previously mentioned will need to be repaid by the beneficiaries, SDRs do not require any such repayment requirements. It would be remembered that at the height of the global financial crisis in 2009 [7], IMF issued SDRs to the value of US$259 billion to boost liquidity in the international system, and despite the fact that Zimbabwe was a defaulter and was in huge arrears to its creditors, the IMF allocated 500 million SDRs to the then Government of National Unity (GNU) [8].

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[6] Aryeetey Enerst. 2004. A development-focused allocation of the SDRs. www.unu-dp2004-003-en.pdf

[7] Patnaik, Prabhat (26 April 2020). *The exodus of finance from the third world.* www.peopleddispatch.org/2020/04/26/the-exodus-of-finance-from-the-third-world

[8] Personal notes of the author who was a cabinet member of the GNU (2009-2013)

There is no consensus among the G20 Finance Ministers on this no-cost measure to assist the global economy. In particular, the U.S. which holds controlling shares of the IMF is reportedly the main holdout[9] . Understandably, its concern is that additional SDRs will provide huge amounts of financial assistance to autocratic regimes such as Cuba, Iran, North Korea, and Venezuela who may use those resources to undermine global stability, peace and security rather than for COVID-19 purposes.

The intractable behaviour of the Mnangagwa administration towards human rights, governance, and corruption may not be ruled out as part of the reasons why the U.S. is hesitant to authorise the issuance of the additional SDRs as part of the financial packages for combating the coronavirus outbreak.

Viewed from this perspective, the government of Zimbabwe will need to implement the reforms outlined by its Finance Minister in a leaked letter to IMF on April 2020[10] . In his letter, the minister assured the international financial institutions that Zimbabwe is committed to economic, political, electoral and governance reforms including fighting corruption, compensation of former farm owners affected by the land reform program, as well as aligning the national laws to the 2013 constitution.

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[9] ActionAid (20 April 2020). IMF meetings fail to agree support to protect developing countries from COVID19. www.actionaid.org/opinions/2020/imf-meetings-fail-agree-support-to-protect-developing-countries-from-covid19

[10] Mthuli Ncube (02 April 2020), Letter to addressed to the Managing Director Kristalina Georgieva, IMF

Case for Debt Cancellation

The allocation of SDRs as proposed above will be more effective if coupled with external debt amnesty for Zimbabwe and the rest of the global South countries. As already noted, Zimbabwe has contracted loans from bilateral, multilateral, and private creditors. Some of the loans in question were made without any democratic review process with the executive branch negotiated for funds without due process and with little consideration of the prospects of repayment.

By its own admission, government neither has the capacity to clear the loans in default nor to settle the maturing ones [11]. Conversely, any attempt to divert resources towards debt payment will further compromise the efforts towards public health, livelihoods, and economic rehabilitation. In this context, there is a clear case for external debt cancellation so that the citizens can be saved from the menaces of

[11] Ibid.

COVID-19 including the anticipated further shrinking of the economy.

Cancelling debt payments from Zimbabwe would be the fastest way to free up existing public and private resources to tackle this unprecedented crisis and save both lives and what remain of the economy from the coronavirus crisis. While Zimbabwe will not directly benefit from the cancellation because it has already been defaulting over the past two decades, external debt cancellation would give the country the breathing space and public confidence to better address the economic and social challenges of the COVID-19 outbreak without the handcuffs of debt overhang.

Understandably, some Euro-American bilateral creditors are uncomfortable with cancelling debts because China and some other commercial creditors will have a free ride on the beneficiaries. This is based on the fact that after 33 countries received debt relief through the Highly Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI) offered by multilateral and bilateral creditors in the 2000s, most of the African countries went on to contract more debts from China and from commercial creditors. This has raised frictions and suspicions in the debt-politics even though China also offered debt cancellation to some African countries in the 2000s [12].

It is also the argument of this paper that debt cancellation should not be tied to any neoliberal policy conditionalities including austerity measures, privatisation, trade liberalisation, destatisation, deregulation, decontrol, hikes in interest rates, privatisation of parastatals and state enterprises, and cuts in public services such as health and education among others.

This is because the country's need for relief and emergency finance is urgent and cannot wait for the protracted elaborate policy prescriptions which ironically contributed to the accumulation of the said debt in the first place. This therefore calls for a genuine dialogue between the government of Zimbabwe and all its creditors. By and large, debt cancellation cannot simply be realised by dint of political fiat, instead, it should be negotiated with all the creditors hence the initiative by the Minister of Finance and Economic Development to engage the IFIs outlined in his leaked letter is commendable.

[12] Between 2006 and 2009 China cancelled USD$1.3 billion in debts for over 30 African countries. Brazil's debt relief was around USD$400 million see Dambisa Moyo, 2009. Dead Aid: Why Aid is not working and How There is a Better Way for Africa. Farrar, Straus &Giroux: New York.

Case for Grant Funding

As explained above, debt relief in Zimbabwe would not constitute fresh money into the economy since the country is already defaulting on its debt obligations. As such, Zimbabwe will require massive liquidity and financing support to deal with the immediate fall-out from the pandemic and its economic repercussions. The country therefore needs grants, humanitarian and financial assistance from multilateral institutions, bilateral partners, business, and philanthropists to support health and social expenditures. The provision of grants and humanitarian assistance would ensure that the initial emergency response would not add further debt burden to the already financially strapped country.

It is therefore pleasing that Zimbabwe is already receiving some generous support from various countries, donor agencies, private individuals, business, faith communities, Non-Governmental Organisations (NGOs), Civil Society Organisations (CSOs), and philanthropists among others. In his speech to the ruling party the Zimbabwe African National Union-Patriotic Front (ZANU PF) Politburo held on Wednesday 6 May 2020 in Harare, President Mnangagwa thanked various contributors to the fight against COVID-19 including the People's Republic of China, United Arab Emirates, India, Japan, the EU, the UK, the U.S. and the African Union (AU). Online media outlets are also replete with reports that the World Bank has approved a sum of US$7 million as a grant towards COVID-19 mitigation[13].

[13] Reuters (6 May 2020). Zimbabwe gets $7m Covid-19 lifeline from World Bank. www.cnbcafrica.com/news/

While US$7 million is a paltry contribution in relation to the bid of US$2.2 billion launched by government, it is appreciated in this paper because it is in the form of a grant and not a loan.

Given the record of mismanagement of public resources in Zimbabwe, it is important to note that contributors would want assurance that their contributions and grants are properly deployed to fight COVID-19. While some international agencies including the UN Humanitarian agencies may directly deploy their resources to the needy communities and cases, it is recommended here that government should establish a COVID-19 National Trust Fund that will be responsible for collecting and administering all the resources mobilised to respond to COVID-19 crisis.

The setting up of the fund would allow for the ring-fencing of all resources raised to combat COVID-19 pandemic and minimise the risk of funds being used for unintended purposes and being co-mingled with other fiscal expenditures that have nothing to do with the coronavirus crisis. In this sense, the COVID-19 National Trust Fund must be independently governed through the appointment of respected members of society to take up the governance roles of the fund. This view is shared by a number of respected Zimbabweans including the highly credentialed Zimbabwean billionaire Strive Masiyiwa.

Case for Debt Strike

In the event that the global financial institutions and their shareholders in the G20 club do not see reason in the combination of SDRs allocation, debt forgiveness, and grant funding, there should be ways in which citizens of poor and vulnerable countries should be assisted in the face of the coronavirus. This paper endorses ActionAid's view that given the scale of the looming health, social, and economic crisis facing the global South economies and Africa in particular, there is justification for finance ministers to initiate a debt strike.

This famed organisation posits that by working collectively together and immediately suspending payments, African ministers of finance would regain access to money already in their treasuries-freeing up US50.4 billion for low income countries alone[14] . This money can then be invested in the healthcare, other essential public services, and universal protection needed to

[14] ActionAid (20 April 2020). IMF meetings fail to agree support to protect developing countries from COVID19 www.actionaid.org/opinions/2020/imf-meetings-fail-agree-support-to-protect-developing-countries-from-covid19

contain the short- and long-term impacts of COVID-19.

However, Zimbabwean authorities are cautioned here that they should not adopt this option outside the collective of the African Union. In other words, debt strike should only be considered in the discursive context of an African Common Position rather than at a national level which may leave the country exposed to further international isolation. To be clear, unilateral debt strike can attract retaliation and punishment for what creditors consider to be unruly behaviour. The punishment could range from impeding the country from entering global markets and trade to economic embargo and severance of diplomatic relations that will be problematic for Zimbabwe which is already suffering from international isolation.

Accountability and Monitoring Mechanism

While mobilising resources for combating the coronavirus is critical, it is equally important to pay attention at the country's ability to effectively deploy those resources. As intimated above, Zimbabwe's economy has been badly smitten by corruption, illicit financial flows, and mismanagement. A case in point is where Obadiah Moyo the then Minister of Health and Child Care is alleged to have handpicked a controversial company to supply COVID-19 related materials and equipment to Zimbabwe without going through proper tender procedures. This scandalous deal involved approximately US$60 million, US$2 million of which has already been authorised by the minister.

As a result of the limited transparency and accountability in the way resources are managed, it is difficult to expect that potential contributors to the COVID-19 Fund would provide grants and contributions without some assurances that their funds would not be lost to corruption or wasted in the context of weak institutions and poor governance. It is therefore the argument of this think-piece that government spending on COVID-19 should be tied to transparency and accountability in public procurement, auditing by independent monitors, and strengthening of anticorruption and money laundering frameworks.

By the same token, civil society can only call for debt cancellation after the assurance that public resources would not be used for personal gain by the politicians and the politically connected. Examples of countries like Mozambique now back in debt distress and Zambia in near distress today because they did not take the opportunity to strengthen accountability mechanisms. To this extent, government will therefore need to put in place strong accountability measures in order to arrest the scourge of corruption which is blatant in the country. In the same vein, the proposed COVID-19 National Trust Fund should publish all information related to programmes on its website as well as publish all public contracts and use open and competitive bidding and strictly limit the use of non-competitive processes. More importantly, it should disclose information on all donations, contributions, and grants made towards COVID-19 mitigation.

The role of civil society and broad citizenry in holding government accountable for prudent governance of resources, transparency, and accountable public financial management remains crucial. In essence, government should formally recognise independent monitoring organisations as stakeholders of the proposed COVID-19 National Trust Fund and establish a channel for them to be consulted and participate as accountability and transparency stakeholders. On its part, the civil society should prepare the ground for the advocacy work on COVID-19; raise awareness on the need for debt cancellation, issuance of SDRs, and grant funding as the most effective ways of financing the fight against the global pandemic.

Recommendations

Given the foregoing discussions, Oxfam Zimbabwe makes the following recommendations.
Bilateral and Multilateral Creditors are urged to take action as follows:

- Cancel 100 percent of the debt owed by Zimbabwe to the bilateral and multilateral creditors.
- Provide aid in the form of grants and not loans. The grants and the humanitarian assistance should be strictly channelled towards tackling health and other social and economic rights such as water and sanitation, education and alleviate the social and economic crises resulting from COVID-19.
- Free debt cancellation process in Zimbabwe from conditionalities such as deregulation, decontrol, desubsidisation, destatisation, and downsizing all of which have contributed to debt accumulation in Zimbabwe in the first place.
- Restrict the use of conditions to requirements for financial accountability measures and broadly agreed Covid-19 expenditures only.
- Support the creation of independent, fair and transparent debt-arbitration panel to enable creditors and the Zimbabwe government to resolve debt crises without compromising the country's fight against COVID-19. This international debt workout process should be independent of lenders and borrowers in line with the UN General Assembly resolution of September 2014.
- Support the issuance of the Special Drawing Rights by the IMF. This will offer Zimbabwe the much-needed financial resources to fight COVID-19 pressures.

- Promote an end to the IMF's role as 'gatekeeper' for debt relief and the imposition of limits on aid spending.
- Government of Zimbabwe is urged to take action as follows:
  Establish an independent Covid-19 National Trust Fund that will be responsible for collecting and administering all the resources mobilised to respond to COVID-19 crisis. The Fund should ring-fence all resources raised to combat COVID-19 pandemic.
- Publish all information related to Covid-19 resources including all public contracts on the National Trust Fund website and use open and competitive bidding and strictly limit the use of non-competitive processes. Also disclose information on all donations, contributions, and grants made towards Covid-19 mitigation.
- Strengthen all key accountability institutions including the Audit General's Office, Parliament, Debt Management Office, Zimbabwe Anti-Corruption Commission (ZACC), and the National Prosecuting Authority (NPA).
- Institutionalise through legislation, Civil Society participation in the monitoring and reporting of the COVID-19 resource allocation and distribution. Civil society should play its watchdog role throughout the COVID-19 value chain including using digital based accountability and monitoring tools.
- Demonstrate commitment to transparency and accountability by fighting corruption and ensuring that offenders pay back the stolen assets and financial resources to the National Treasury.
- African Union is urged to take action as follows
  Speak in one voice in supporting Zimbabwe resolve its debt problem. The African Union should call for the total and irrevocable debt cancellation in Zimbabwe and Africa in general.
- Urge Zimbabwe government to totally commit to end impunity, fight corruption and adhere to the principles of the African Charter on Human and Peoples Rights.

Conclusion

Zimbabwe cannot adequately absorb, adapt, and mitigate the impacts of COVID-19 without addressing the sovereign debt burden which has excluded it from a number of initiatives that have been accessed by other low income and poor countries. Considering that Zimbabwe was already in a recession before the coronavirus erupted, this paper argues that the country will benefit from the issuance of SDRs, debt cancellations, and grant funding which together can provide the much needed liquidity and fiscal space to combat the COVID-19 global pandemic without inducing further debt strain on the economy.

Lastly, it is the responsibility of the government of Zimbabwe to genuinely engage with the international community for debt relief negotiations and fully commit to reforms that can better the lives of many Zimbabweans who are suffering from the multifaceted crises.

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