



## TERMS OF REFERENCE

# PRODUCTION OF THE 2021 ANNUAL DEBT MANAGEMENT REPORT FOR ZIMBABWE

### 1. Introduction

The Annual Debt Management Shadow Report for Zimbabwe is jointly produced by AFRODAD and ZIMCODD annually, as an alternative information source on public debt management complementary to the Annual Public Debt Bulletin produced by the Public Debt Management Office (PDMO). The report is meant to provide a broad overview of the internal and external debt portfolios, macro-economic challenges, latest policies and debt utilisation with the purpose of providing stakeholders with information and context that inform decisions about the nation's external and internal borrowing activities.

The Report will also outline and disseminate information on government borrowing, guarantees and other operations of government with the aim of proffering solutions towards sustainable debt management.

The Annual Debt Management Report will look into debt management coordination; transparency and accountability; institutional framework; debt management strategy; risk management framework and developing and maintaining an efficient domestic debt market from an independent monitoring perspective. The government's debt portfolio is usually the largest financial portfolio in the country. It often contains complex financial structures and can create substantial balance sheet risk for the government. Large and poorly structured debt portfolios also make governments more vulnerable to economic and financial shocks and have often been a major factor in economic crises. The Covid-19 pandemic has imposed considerable pressure on public finance which have seen Zimbabwe's government debt to GDP ratio rising to [88.9% in 2020](#).

### 2. Background and Context

Section 5(2)(o) of the [Public Debt Management Act \(22:21\) 2015](#) states that the Public Debt Management Office (PDMO) must prepare an annual report on government debt management activities including debt stock position and related debt service. However, the PDMO only started to produce the report in March 2020 when the [2018 Public Debt Bulletin](#) was published, this was then followed by the [2019 Debt Bulletin](#) in October 2020 and the 2020 Public Debt Bulletin was published in June 2021. In terms of best practice, information should not be more than 6 months old hence the Public debt bulletin was lagging behind by more than a year. Timely reporting of accurate public debt statistics is one of the key elements of effective Public Debt Management. The 2021 Zimbabwe Debt Report is expected to enhance debt transparency and accountability from duty bearers which is also an important pillar for the successful implementation of [National Development Strategy 1\(2021-2025\)](#). The NDS1 places an emphasis on the need to strengthen fiscal transparency by ensuring compliance with the constitutional and legal requirements in respect of public finance management legislation. Managing public debt is critical to ensure the required resources are raised to implement [NDS1](#) and at the same time ensuring that it remains sustainable. The frequency of climate change

phenomena such as cyclones, droughts and floods coupled with the COVID-19 pandemic continues to severely constrain our public resources which necessitates further borrowing.

Zimbabwe has been in debt distress since 2001 which resulted in multilateral institutions such as the IMF and World Bank suspending further disbursements and new loans. Since then, arrears on both principal and interest payments on external debt have been accumulating and interest compounding. In 2011, government adopted the Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy (ZAADDs) to deal with the country's arrears and debt overhang, as well as laying a solid foundation for economic growth supported by investment from both domestic and external resources. ZAADDs was a hybrid debt resolution strategy, which entailed adoption of traditional debt resolution initiatives combined with leveraging the country's natural resources to achieve sustainable economic development. In 2012, government adopted the Accelerated Re-engagement Economic Programme (ZAREP) to prepare for eventual arrears clearance and debt relief by establishing a track record of sound macro-economic management in the context of the IMF's Staff-Monitored Programme (SMP), which was approved in 2013. In 2015, another plan was developed, the Strategy for Clearing External Arrears and Supportive Economic Reform Measures, to clear external arrears to the international financial institutions. Between 2011 and 2015, the various strategies adopted to clear debt areas remained largely unimplemented due to weak international re-engagement efforts. The current [Medium Debt Management Strategy \(2017-2021\)](#) also largely remain unimplemented just like its predecessors.

However, despite excessive external debt burden that led the country to incur arrears, the country continues to accumulate more debt from bilateral creditors and the domestic market with some of the debt being [resource backed](#) and parliament approval was not sought for some of the loans. Both the [NDS1](#) and the [2021 National Budget](#) noted that the public debt is choking economic growth. The public finance management legislation requires the Ministry of Finance to submit comprehensive reports to Parliament on performance of loans and guarantees by government as well as gazetting loan agreements entered into by government. This is further supported by the [principle of disclosure and publication](#) which obliges the government to disclose terms and conditions of financial agreements to citizens. However, the responsible authorities repeatedly violate such provisions which is against the [principle of transparency and accountability](#). This is in contradiction to AFRODAD's advocacy work as stipulated in the African Borrowing Charter which emphasises that public debt contraction should be anchored on constitutionalism.

The 2019 Annual Debt Management Report for Zimbabwe which recommended adherence to legislation regarding public debt ceiling, provision of comprehensive reports to parliament on public debt and how it was utilised; contacting regular debt audits, strengthening public debt institutions; ensuring public access to aggregate and disaggregated debt statistics. All these recommendations were in line with the guidelines in the [African Borrowing Charter](#). In 2020 the government started to produce Public Debt Bulletin for 2018 and the 2021 National Budget had an annex of loans that were acquired by government since 1980. In 2020 AFRODAD and ZIMCODD produced the second Annual Debt Management report which recommended: genuine and inclusive re-engagement process on arrears clearance, policy consistency, transparency on government borrowing process, discourage government on non-concessionary borrowing, contingent liabilities arising from guaranteed debt of parastatals. At the end of 2020 both the NDS1 and 2021 National Budget reiterated some of our recommendations and a framework

for monitoring and evaluating guaranteed debt was developed which was also part of our recommendations.

Section 298(C) of the Constitution emphasise that burdens and benefits of use of resources should be shared equally between present and future generation while sub-section (d) highlights that national debt must be carried out transparently and in the best interest of all Zimbabweans. Failure by the executive to observe such principles affect the productive use of borrowed funds which then create a cycle of debt distress which perpetuate poverty and inequality. A good track record of implementing sound macro policies can help to alleviate this uncertainty. However, Zimbabwe has been failing to meet the targets under the IMF Staff Monitored Program and Transitional Stabilisation Programme. Sound macroeconomic management need to be supplemented with appropriate technical infrastructure - such as a central registry and payments and settlement systems - to facilitate the development of domestic financial markets. Corruption has also been high in the country which affects utilisation of borrowed funds and the performance of the economy in general. Covid-19 and frequency of cyclones has further complicated sustainable debt management in the country. Government financing of parastatals and on-lending facilities such as mechanisation are also fuelling public debt.

Given the preceding background context, AFRODAD and ZIMCODD seeks to produce the third annual debt management report for Zimbabwe in a bid to foster prudent, transparent and accountable debt management practises and enhance inclusive sustainable development. In the Zimbabwean context transparency in debt contraction is still a big issue (there are cases of [resource backed loans](#) and government departments have conflicting statistics of public debt), while adherence to the available legal frameworks remains a big challenge. The management and monitoring of the public debt has not been effectively performed which resulted in the country getting into debt distress. Covid-19 has worsened the situation which saw public debt reaching [88.9%](#) in 2020 which further constrained public service delivery.

In the light of the forgoing, the third annual debt management report for Zimbabwe that will be produced intends to address the following questions: To what extent has there been effective uptake of policy recommendations previously provided by AFRODAD and ZIMCODD and what implications does this have on Zimbabwe's use of COVID-19 Response and debt relief packages?

### **3. Objectives of the Assignment**

The specific objectives of the study are to:

- i. Provide a brief country debt profile including latest 2021 statistics;
- ii. Assess COVID-19 pandemic implications of Zimbabwe's economy and debt distress situation;
- iii. Review the uptake and implementation of the recommendations proffered by AFRODAD and ZIMCODD 2019/2020 Annual Debt Management Reports for Zimbabwe;
- iv. Review the extent to which Zimbabwe benefited from International financial institutions COVID-19 Response packages and debt relief initiatives;
- v. Proffer strategies for fostering responsible borrowing and effective use of COVID-19 resources.

### **4. Scope of Work**

- i. Highlight the country's debt profile:
  - Size, nature and composition of sovereign debt;
  - Resource backed loans and government financing of parastatals;
  - Foreign and domestic debt as a proportion of GDP;
  - Debt service as a proportion of government revenue;
  - Debt service in comparison with expenditure on social sector, health and education;
  - Government's debt portfolio risks;
  - Evaluate the choice of projects financed by loans, and the participation of domestic players in the implementation of such projects;
  - Trace utilisation and development impact of borrowed funds;
  - Overview analysis of government's guaranteed borrowing for state owned enterprises, on-lending facilities and local government.
  - Outline the degree of compliance to the law by the executive when contracting loans and the utilisation of the funds;
  - The High Court Ruling and NDS1;
  - Highlight the socioeconomic implications of rising unsustainable debt;
  - Credit rating of the country;
  - Recent debt strategies and policies to deal with debt issues in Zimbabwe.
- ii. Assess and outline government's borrowing requirements to implement NDS1 and to fight primary and secondary effects of Covid-19;
- iii. Review recommendations from 2019 and 2020 Annual Debt Management Reports;
- iv. Review the extent to which Zimbabwe benefitted from International Financial Institutions COVID-19 response packages and debt relief initiatives;
- v. Propose possible policy and regulatory measures on sustainable debt management in Zimbabwe.

## **5. Results and Expected Outcomes**

The report will contribute to a better understanding of the debt management and associated challenges in Zimbabwe. It is also expected that the study will result in deepened and strengthened national, regional and global awareness on the magnitude and impact of debt crisis on economic, social and political development.

## **6. Structure of the Research**

- Chapter 1 – An Introduction that presents the key background issues and the main problem, the aim and objective of the study, summary and justification of the research method;
- Chapter 2 – Discussing the relevant literature;
- Chapter 3 – Key results judging from questions, aim and objectives of the research;
- Chapter 4 – Policy discussions, conclusions and recommendations.

## **7. Key deliverables/Outputs**

- First draft report (week 3).
- Second draft report incorporating feedback from reviewers (Week 4).
- A presentation of draft paper – validation workshop (Week 5).
- A final paper incorporating feedback from the validation workshop (Week 6).

- A power point presentation of the findings in a conference.

## **7. Approach and Methodology**

- **Literature Review** - Desk research will be used to address all issues related to the study.
- **Qualitative Analysis** - Interviews with key informants from the government and relevant institutions will be conducted to collect data.
- Validation workshop for the draft findings.

## **8. Timing**

The study should be completed by **15 September 2021**.

## **9. Reporting**

The consultant will report to the Executive Director. However, for day to day activities the consultant shall work closely with the Senior Policy Analyst and Project Consultant.

## **10. Qualifications and Experience**

At least a Master's degree in Economics, Development Studies, Public Administration; Social Sciences or equivalent and knowledge of public finance/debt management; A minimum of 7 years of professional experiences in undertaking similar or related task; adequate familiarity with broad Policy and Legal frameworks in Zimbabwean PFM systems; debt management system in Zimbabwe and oral communication skills in English language.

Expressions of Interest (EOIs) to be submitted to [recruitment@afrodad.org](mailto:recruitment@afrodad.org) cc: [reginald@afrodad.org](mailto:reginald@afrodad.org). The deadline for submission of EOI is 11 August 2021. The submission should include the following:

- Consultant's understanding of the task and methodology
- Financial Proposal in US\$
- Quality assurance of research work
- Timeline and work plan
- Curriculum Vitae
- At least 3 references for similar work

All enquiries should be addressed to:

The Acting Executive Director

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