2021 ANNUAL DEBT MANAGEMENT REPORT FOR ZIMBABWE

AFRODAD

Zimbabwe Coalition on Debt and Development
ZIMCODD

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Acronyms

AfDB	African Development Bank
AFRODAD	African Forum and Network on Debt and Development
AMA	Agriculture Marketing Authority
APNAC	Africa Parliamentary Network Against Corruption
BADEA	Arab Bank for Economic Development in Africa
COVID-19	Coronavirus Disease 2019
DMFAS	Debt Management and Financial Analysis System
DOD	Disbursed Outstanding Debt
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
EIB	European Investment Bank
EMCOZ	Employers Confederation of Zimbabwe
EU	European Union
G20	Group of Twenty
GDP	Gross Domestic Product
GPE	Global Partnership for Education
HIPC	Heavily Indebted Poor Countries
IDA	International Development Agency
IFAD	International Fund for Agricultural Development
IFIs	International Financial Institutions
IMF	International Monetary Fund
JSC	Judicial Service Commission
MDBs	Multilateral Development Banks
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MoFED	Ministry of Finance and Economic Development
MTDMS	Medium-Term Debt Management Strategy
NDS 1	National Development Strategy 1
NOCZIM	National Oil Company of Zimbabwe
NRZ	National Railways of Zimbabwe
OFID	OPEC Fund for International Development
OPC	Office of the President and Cabinet
PDMA	Public Debt Management Act
PPE	Personal Protective Equipment
PPG	Public and Publicly Guaranteed

PRSP	Poverty Reduction Strategy Paper
RBZ	Reserve Bank of Zimbabwe
RISDP	Regional Indicative Strategic Development Plan
SADC	Southern African Development Community
SDRs	Special Drawing Rights
SI	Statutory Instrument
SMP	Staff Monitored Programme
TBs	Treasury Bills
TSP	Transitional Stabilisation Programme
UK	United Kingdom
USA	United States of America
US$	United States Dollar
WB	World Bank
ZACC	Zimbabwe Anti-Corruption Commission
ZAGRINDA	Zimbabwe Agro-Industrial Development Agency
ZAMCO	Zimbabwe Asset Management Company
ZDERA	Zimbabwe Democracy and Economic Recovery Act
ZEPARU	Zimbabwe Economic Policy and Research Unit
ZESA	Zimbabwe Electricity Supply Authority
ZIMCODD	Zimbabwe Coalition on Debt and Development
ZISCO	Zimbabwe Iron and Steel Company
ZPDMO	Zimbabwe Public Debt Management Office
ZWL$	Zimbabwe Dollar

Executive Summary

Zimbabwe is in debt distress with total public debt estimated at US$13.7 billion as at the end of September 2021 up by 28% from US$10.7 billion as at end of December 2020. This increase is on account of the assumption of the blocked funds (historical foreign currency obligations) estimated at US$2.9 billion and other non-guaranteed facilities. The December 2020 figure represents 72.6% of GDP. This is higher than the 70% threshold provided for in the Public Debt Management Act (Chapter 22:21) and the SADC Regional Indicative Strategic Development Plan (RISDP) Public Debt-to-GDP Macroeconomic Convergence Target of 60%. As at the end of September 2021, the Disbursed Outstanding Debt (DOD) was 52.2% of the total public debt stock with the rest being arrears. As at end of December 2020, the Disbursed Outstanding Debt (DOD) was only 37.8% of the total Public Debt Stock with the rest being arrears. Public debt registered a sharp increase between 2009 and 2019 on account of the large fiscal deficits which were largely financed through domestic borrowings. However, the 2019 currency conversion and the chronic high inflation significantly eroded its real value of domestic debt. The government continues to engage in public private partnerships especially for infrastructure in education and health.

The unsustainable stock of external debt has constrained access to concessional financing and to international markets, retarded economic growth, and hampered socio-economic development. The high public debt burden has been exacerbated by the structural weaknesses inherent in the Zimbabwean economy that have constrained the country's ability to generate high and sustainable growth that is necessary to mitigate and even forestall needless debts and their attendant problems.

The Coronavirus Disease 2019

(COVID-19) pandemic has exacerbated the public debt situation in the country. With limited fiscal space and recourse to external financing, Zimbabwe has resorted to internal borrowing to complement resources that were brought in by Development Partners and other bilateral donors to help mitigate the effects of the pandemic. On August 2, 2021, the Board of Governors of the International Monetary Fund (IMF) approved a general allocation of Special Drawing Rights (SDRs) equivalent to US$650 billion (about SDR 456 billion) to address the long-term global need for reserves, and help countries cope with the impact of the COVID-19 pandemic. Zimbabwe received an allocation of SDR 677.4 million (US$ 958 million). The SDR allocation will enhance the fiscal space and reduce pressure on the Government to borrow. There is therefore need for transparency and accountability in the use of these resources in order to ensure that they help boost liquidity and fight the pandemic. Zimbabwe's key debt sustainability indicators have worsened implying that the country has little chance of emerging from its unsustainable debt situation in the short run. Government signed the Global Compensation Deed with former white farmers valued at US$3.5 billion. This is likely going to be financed partially or wholly through public borrowing which will exacerbate the debt position.

The cost of servicing the debt continues to crowd out fiscal resources that could have been invested in critical social services such as health care and education. As a result, Government spending on critical sectors such as health remains relatively low. During the period January to September 2021, debt service payments amounting to US$44.2 million were made to external creditors.

Government has improved on debt transparency with the publication of the 2019 and 2020 Annual Public Debt Bulletins as well as the Statement of Public Debt tabled in parliament on the 25th of November 2021 by the Minister of Finance and Economic Development. However, Zimbabwe's adherence to the African Borrowing Charter principles and is mixed. The recommendations on debt management proffered by 2019 and 2020 reports have not been fully implemented.

Arrears clearance is a prerequisite for full engagement and ability to borrow from the International Financial Institutions (IFIs). Zimbabwe is currently not considered poor enough to be eligible for the Heavily Indebted Poor Countries (HIPC) initiative. A sustainable arrears clearance strategy must be anchored on inclusive and sustainable growth, improvements in productivity and competitiveness, as well as structural transformation of the economy. Moreover, a stable political environment is very important. Moreover, restoring debt sustainability requires a sustained implementation of significant fiscal consolidation measures, cessation of quasi-fiscal activities that lead to debt increases, as well as reaching agreement with creditors on a comprehensive treatment of Zimbabwe's external debt and arrears.

01

Introduction

Zimbabwe's Public Debt Profile and External Payment Arrears: The Stylised Facts
Public External Debt , External Loan Disbursements
Public Domestic Debt , 2020 Budget Financing
Public Domestic Debt Maturity Profile

The rich ruleth over the poor, and the borrower is servant to the lender.

Proverbs 22:7 King James Version (KJV)

Zimbabwe's debt distress can be traced back to the year 2000 when the country first defaulted on its external obligations to the International Financial Institutions (IFIs)[1]. A combination of high debt service obligations, fiscal deficits, erratic economic growth and constrained access to new external financing in the 1990s culminated in a net outflow of resources from the country, with the consequence of default by 2000. The situation was exacerbated by an economic crisis that was triggered following the onset of the fast-track land reform programme. The US imposed sanctions on Zimbabwe under the Zimbabwe Democracy and Economic Recovery Act (ZDERA) of 2001 which was further revised in 2018. It restricts US support for multilateral financing to Zimbabwe and the EU followed suit in February 2002. Consequently, the country could not access external financing from IFIs and other traditional multilateral and bilateral creditors. Agricultural output declined by about 50% between 2000 and 2008, headlined by the decline in tobacco production of 64% and the decline in maize production of 76% (ZIMSTAT, 2015). According to Chigumira et al (2018), Zimbabwe's debt burden indicators as measured by debt to GDP ratio significantly increased to levels above 100% in 2005 and 2008.

In February 2009, Zimbabwe abandoned its currency following a hyperinflationary episode[2] and adopted a multicurrency regime. The adoption of the multicurrency regime helped to eliminate the hyperinflation and restore macroeconomic stability. This multi-currency phase, amid strained international relations and lack of access to external finance led to budget deficits that were above the SADC recommended threshold of 5%. These large fiscal deficits were largely financed domestically through central bank advances and treasury bill issuance. Domestic debt therefore swelled and reached almost 45% of GDP in 2017[3], although it had been negligible during the early years of adopting the multicurrency regime in 2009. The growth in domestic debt was also fuelled by recapitalization of the RBZ and other public enterprises, as Government issued government paper to commercial banks through the Zimbabwe Asset Management Company (ZAMCO), in an effort to reduce the stock of non-performing loans held by the banking system.[4]

For external financing, Zimbabwe has relied mainly on semi-concessional financing mainly from China. Rather than offering grants or concessionary loans (at below-market interest rates), China provides huge project-related loans at market-based rates. Concerns have been raised about the lack of transparency, and the often little or no environmental or social-impact assessments.

The outbreak of the Coronavirus Disease 2019 (COVID-19) led to the economy declining by an estimated 5.3% in 2020. Following the COVID-19 pandemic, borrowing to support the associated health expenditure and to mitigate economic vulnerabilities became is projected to rebound by 7.8% in 2021 following 2 years of successive economic decline as shown in Table 1. The country is currently experiencing chronic high inflation with an estimated average inflation rate

1 Chigumira et al (2018).

2 By July 2008, when the then Central Statistical Office released its last inflation figures for that year, the monthly inflation rate had reached 2,600.2 percent while annual inflation rate was 231 million percent.

3 IMF (2017) Article Iv Consultation—Press Release; Staff Report; And Statement By The Executive Director For Zimbabwe IMF Country Report No. 17/196.

4 Chigumira et al (2018).

of 86% in 2021 down from 557.2% in 2020. The budget deficit improved from -4.7% of GDP in 2018 to a projected -0.5% in 2021, while the current account position improved from a deficit of -8.3% of GDP in 2018 to 4.7% in 2020. A current account surplus is important for debt and macroeconomic sustainability.

Table 1: Selected Macroeconomic Indicators

	2009	2010	2013	2016	2017	2018	2019	2020	2021
Real GDP (% change)	7.4	16.7	2	0.5	4.7	3.5	-6.1	-5.3	7.8
Average Inflation (%)	6.2	3	1.6	-1.6	0.9	10.6	255.3	557.2	86
Gross Savings (% of GDP)	-9.9	-4.5	-4.9	-1.2	13.5	-0.3	8.3	9.0	
Investment (% of GDP)	9.9	17	9.2	9.8	8.9	5.7			
Budget Balance (% of GDP)	-2.2	0.2	-1.3	-6.5	-8.3	-4.7	-1.4	0.4	0.5
Current Account Balance (% of GDP)	-9.7	-12	-13.2	-3.58	-1.66	-8.3	4.4	4.7	

Source: International Monetary Fund, World Economic Outlook Database, October 2021; World Development Indicators, Last Updated Date: 15/09/2021; 2022 National Budget Statement.

This report examines the debt management coordination; transparency and accountability; institutional framework; and debt management strategy in the country among others. The report has the following specific objectives, namely:

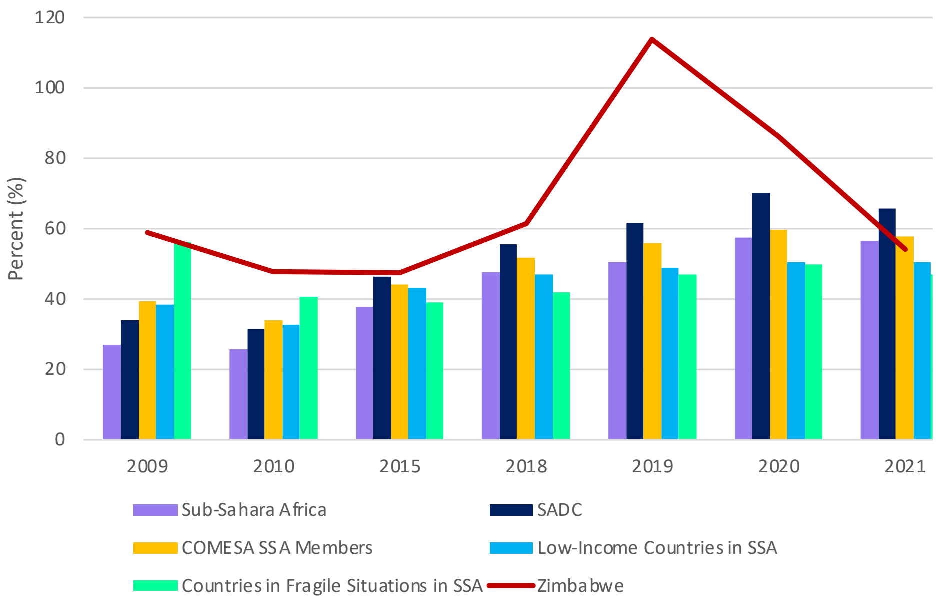
i. Provide a brief country debt profile including latest 2021 statistics;
ii. Assess COVID-19 pandemic implications of Zimbabwe's economy and debt distress situation;
iii. Review the uptake and implementation of the recommendations proffered by AFRODAD and ZIMCODD 2019/2020 Annual Debt Management Reports 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.

1.1 Zimbabwe's Public Debt Profile and External Payment Arrears: The Stylised Facts

A key macroeconomic objective of the National Development Strategy 1 (NDS 1) is for Zimbabwe to maintain public and publicly guaranteed external and domestic debt to GDP at below 70% of GDP. This is in line with the provisions of the Public Debt Management Act which caps public and publicly guaranteed debt to a maximum of 70% of GDP and can only be exceeded through a resolution of the National Assembly under one or more of the following conditions:

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

Figure 1: Comparison of Government Debt as a Percent of GDP: 2009 - 2021



Source: IMF SSA Regional Economic Outlook 2021

Figure 1 above shows that Zimbabwe government debt has been well above the regional averages indicating the need for long term solution to resolve the debt overhang. As shown in Table 2, the total public debt as at end of September 2021 was US$13.7 billion up by 28% from US$10.7 billion as at end December 2020. This increase is on account of the assumption of the blocked funds (historical foreign currency obligations) estimated at US$3.34 billion and other non-guaranteed facilities. The December 2020 figure represents 72.6% of GDP while IMF puts the government debt at 86.1% of GDP. This is higher than the 70% threshold provided for in the Public Debt Management Act (Chapter 22:21) and the SADC Regional Indicative Strategic Development Plan (RISDP) Public Debt-to-GDP Macroeconomic Convergence Target of 60%. As at the end of September 2021, the Disbursed Outstanding Debt (DOD) was 52.2% of the total public debt stock with the rest being arrears. As at end of December 2020, the Disbursed Outstanding Debt (DOD) was only 37.8% of the total public debt stock with the rest being arrears.

Total debt owed to bilateral creditors of US$5.4 billion accounted for 37.7% of the total public debt stock, while debt owed to multilateral creditors of US$2.7 billion constituted 19.4%t of the total public debt stock. On the other hand, RBZ balance sheet debt amounted to US$4.9 billion which constituted 35.4% of the total public debt stock.

Table 2: Total Public Debt Stock end September 2021 (US$ million)

	Non-Guaranteed			Guaranteed			Grand Total
	DOD	Arrears	Total	DOD	Arrears	Total	
Total Public Debt	2,269	5,182	7,452	4,883	1,388	6,271	13,722
1. External Debt (a+b+c+d)	1,738	5,182	6,920	4,883	1,388	6,271	13,191
A. BILATERAL CREDITORS	1,271	3,320	4,591	22	832	854	5,445
Paris Club	110	2,831	2,942	19	823	843	3,784
Non-Paris Club	1,160	489	1,649	3	8	11	1,661
B. MULTILATERAL CREDITORS	246	1,862	2,108	0	557	557	2,664
World Bank	162	1,070	1,232	0	291	291	1,523
African Development Bank	31	599	630	0	87	87	716
European Investment Bank	14	167	181	0	179	179	361
Others	38	26	64	0	0	0	64
C. RBZ ASSUMED DEBT (2015)	221	0	221	0	0	0	221
D. RBZ BALANCE SHEET DEBT				4,860		4,860	4,860
RBZ Borrowing - Guaranteed				1,448		1,448	1,448
RBZ Borrowing - Non-Guaranteed				72		72	72
Blocked Funds				3,340		3,340	3,340
2. Domestic Debt (e+f+g)	532	0	0	0	0	0	532
E. TREASURY BILLS	426						426
F. TREASURY BONDS	62						62
G. DOMESTIC ARREARS	44						44

Source: Zimbabwe Public Debt management Office and the Reserve Bank of Zimbabwe (RBZ)

Notes: Exchange rate as at end September 2021: 87.7

DOD-Debt Outstanding and Disbursed

Contingent liabilities:

- *Compensation of Former Farm Owners US$3.5 billion*

Government signed the Global Compensation Deed with former white farmers valued at US$3.5 billion which if included external debt will increase to US$14 billion with total PPG debt of US$17.2 billion. The government continues to allocate interim relief to the pending finalisation of the settlement. The huge debt burden has undermined the government's ability to fulfil its social and economic rights obligations.

The cost of servicing the debt continues to crowd out fiscal resources that could have been invested in critical social services such as health care and education. As a result, Government spending on critical sectors such as health remains relatively low. According to the 2022 National Budget Statement, during the period January to September 2021, debt service payments to external creditors amounted to US$44.2 million. These payments were made for the active portfolios and for token payments to International Financial Institutions (IFIs) and bilateral Paris Club creditors.

1.2 Public External Debt

As shown in Table 3, as at September 2021, total PPG external debt, including RBZ external guaranteed debt amounted to US$13.2 billion up from US$10.5 billion as at December 2020 (26% increase). Total external debt accounts for 96% of the total public debt. RBZ external debt (both assumed debt of 2015 and balance sheet debt) amounted to US$5.1 billion up from US$2.1 billion as at December 2020. The RBZ balance sheet debt of RBZ balance sheet external debt of US$4.9 billion comprises US$1.4 billion guaranteed debt, US$72 million non-guaranteed debt and US$3.3 billion of blocked funds. The total RBZ debt constitutes 38.5% of the total external debt and 37% of total public debt. Debt owed to bilateral creditors amounted to US$5.4 billion while debt to multilateral creditors amounted to US$2.7 billion.

Table 3: Public External Debt by Creditor Type end September 2021 (US$ million)

	Non-Guaranteed			Guaranteed			Grand Total
	DOD	Arrears	Total	DOD	Arrears	Total	
1. External Debt (a+b+c+d)	1,738	5,182	6,920	4,883	1,388	6,271	13,191
A. BILATERAL CREDITORS	1,271	3,320	4,591	22	832	854	5,445
Paris Club	110	2,831	2,942	19	823	843	3,784
Non-Paris Club	1,160	489	1,649	3	8	11	1,661
B. MULTILATERAL CREDITORS	246	1,862	2,108	0	557	557	2,664
World Bank	162	1,070	1,232	0	291	291	1,523
African Development Bank	31	599	630	0	87	87	716
European Investment Bank	14	167	181	0	179	179	361
Others	38	26	64	0	0	0	64
C. RBZ ASSUMED DEBT (2015)	221	0	221	0	0	0	221
D. RBZ BALANCE SHEET DEBT				4,860		4,860	4,860
RBZ Borrowing - Guaranteed				1,448		1,448	1,448
RBZ Borrowing - Non-Guaranteed				72		72	72
Blocked Funds				3,340		3,340	3,340

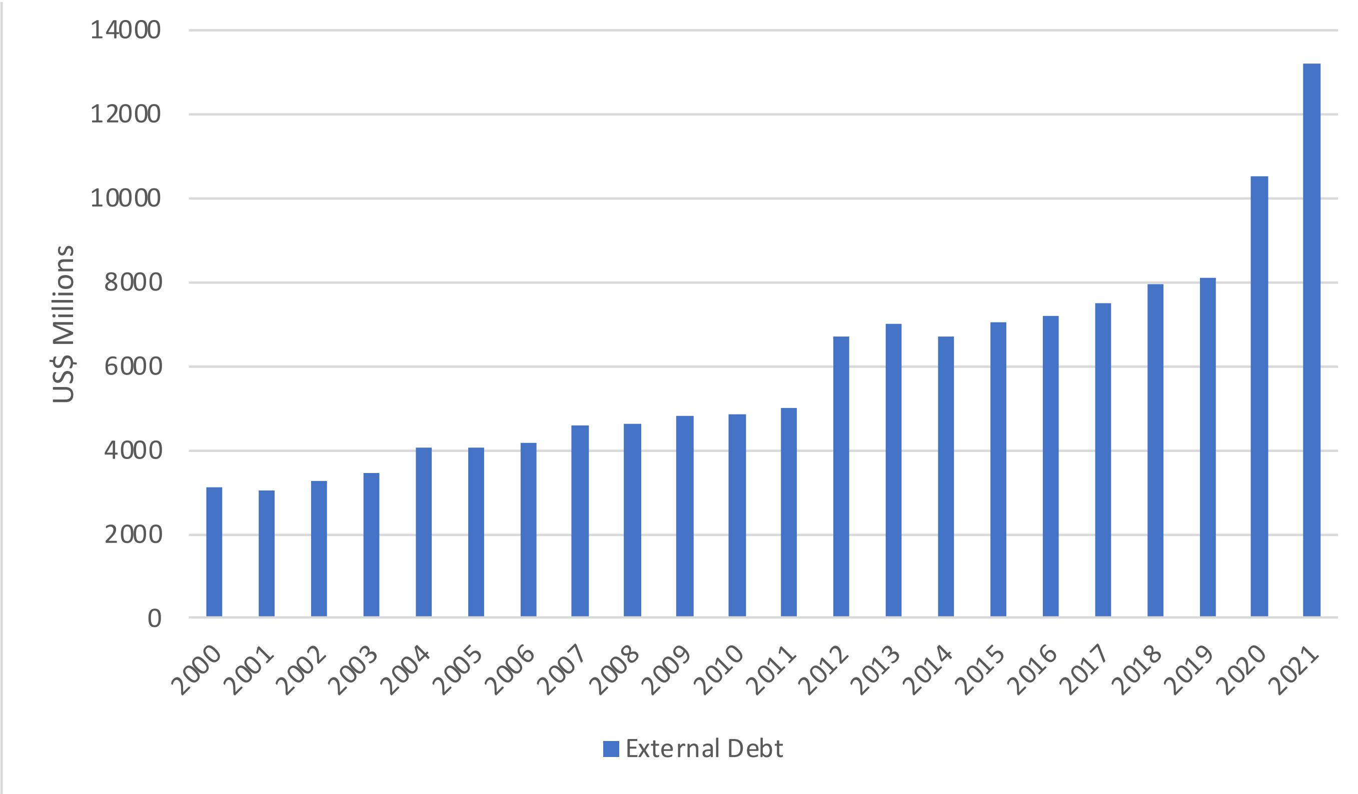
Table 4 reflects the total public external debt by original debtor. The RBZ balance Sheet of US$4.8 billion constitutes 36.8% of the total public external debt

Table 4: Public External debt by Debtor end of September 2021 (US$ millions)

	Debt Outstanding and Disbursed	Principal Arrears	Interest Arrears	Penalties	Total
Total Public External Debt (a+b)	6,620	2,995	1,676	1,899	13,191
A. PUBLIC EXTERNAL DEBT (EXCL. RBZ)	1,760	2,995	1,676	1,899	8,331
Central Government (Including US$221 million RBZ Assumed Debt)	1,741	2,436	1,297	1,466	6,939
IDBZ	0	23	3	26	52
ZESA	2	236	198	163	598
Telone	17	174	99	138	429
Netone	-	18	9	13	40
NRZ	-	8	2	4	14
ZISCO	-	67	67	36	170
ZAGRINDA	-	7	0	12	20
NOCZIM	-	21	0	31	52
Wankie Colliery	-	4	0	8	12
Petrozim	-	1	0	3	4
B. RBZ BALANCE SHEET	4,860	-	-	-	4,860
RBZ Guaranteed	1,448	-	-	-	1,448
RBZ - Non-Guaranteed	72	-	-	-	72
Blocked Funds	3,340	-	-	-	3,340

Source: Zimbabwe Public Debt Management Office and the Reserve Bank of Zimbabwe (RBZ)

Figure 2: Evolution of PPG External Debt 1980-2021



*Source: Own computation from MoFED 2020 Annual Public Debt Bulletin statistics *2021 Figures is as of end of September 2021*

The Government, through an Act of Parliament, the RBZ Debt Assumption Act assumed the Reserve Bank of Zimbabwe (RBZ) Debt in 2015. As at the end of September 2021, the RBZ's external debt stood at US$4.9 billion up from US$2.1 billion as at the end of December 2020. The RBZ external debt comprises guaranteed borrowing of US$1.4 billion; non-guaranteed borrowing of US$72 million; and blocked funds (historical foreign currency borrowings) of US$3.3 billion.

1.2.1 External Loan Disbursements

As shown in Table 5, external on-lent loan disbursements, for the period January to September 2021, which were from the India Eximbank for the Deka Pumping Station and River Water Intake System project, amounted to US$3.9 million.

The low disbursements are on account of the accumulation of arrears on projects such as Victoria Falls Airport (China Eximbank), Netone Network Expansion Phase III (China Eximbank) and Telone Backbone Network and Broadband Access (China Eximbank). Total disbursements projected for 2021 amount to US$37.7 million.

Projected external loan disbursements for 2022 (see Table 5) for projects implemented by State Owned Enterprises are estimated at US$308.6 million. The disbursements will be towards the Hwange 7 and 8 Thermal Power Station, Deka Pumping Station, R.G. Mugabe International Airport, Netone Network Expansion Phase III and the Bulawayo Thermal Power Station.

Table 5: 2021 Disbursements (January to September) and 2022 Projected Disbursements (US$ million)

Loan Facility	Lender	Loan Amount	2021 Actual	2021 Q4 Proj	2021 Total	2022 Proj
Hwange 7 & 8 Thermal Power Station	China Eximbank	997.7	-	33.83	33.83	200
Deka Pumping Station and River Water Intake System	India Eximbank	28.6	3.9	-	3.9	10
R.G. Mugabe International Airport	China Eximbank	153	-	-	-	51
Netone Network Expansion Phase III	China Eximbank	71	-	-	-	27.6
Bulawayo Thermal Power Station	India Eximbank	87	-	-	-	20
Total			3.9	33.83	37.73	308.6

Source: Zimbabwe Public Debt Management Office

In 2021, Government concluded a concessional loan amounting to US$35.7 million for the smallholder irrigation revitalisation programme. This facility is funded by the International Fund for Agricultural Development (IFAD). In line with the legal requirements, this loan was gazetted on the 13th of August 2021 and was subsequently approved by Parliament on the 11th of November 2021.

Table 6: Loans Concluded by Government in 2021 (US$ millions)

Loan Facility	Lender	Loan Amount	Tenure (years)	Grace Period (years)	Interest Rate (%)
Smallholder Irrigation Revitalisation Programme	IFAD	35.7	40	10	15

Source: Zimbabwe Public Debt Management Office

As shown in Table 7, in 2020, US$189.5 million external loans were disbursed and these were mainly from the OPEC Fund for International Development (OFID) and the China Eximbank. The disbursements for 2020 represent a 216% increase from the US$60.0 million recorded in 2019. This increase is mainly attributed to the ongoing projects particularly the Hwange 7 and 8 Thermal Power Station Expansion and the rehabilitation of the Robert Gabriel Mugabe International Airport projects funded by the China Eximbank. Chigumira et al (2018) argue that loan contraction from China threatens to repeat past mistakes of overreliance on foreign borrowing rather than using domestic resources and using foreign borrowing for activities that will not create sufficient returns to repay the loans. They further contend that in the future, Zimbabwe could find itself in similar challenges with China as it did with the other creditors in the 1990s following the dwindling of the country's capacity to service the loans and accumulation of arrears.

Table 7: 2020 Actual Disbursements from External Loans

Loan Facility	Lender	Loan Amount (US$ millions)	2020 Disbursements (US$ millions)
Hwange 7 & 8 Thermal Power Station Expansion	China Eximbank	997.70	129.60
Robert G. Mugabe International Airport	China Eximbank	153.00	27.70
Telone Backborne Network	China Eximbank	98.60	5.51
NetOne Network Expansion Phase 3	China Eximbank	71.00	21.30
Poverty Alleviation Project	OFID	7.80	1.73
First Education Project	OFID	20.00	3.35
Smallholder Irrigation Revitalisation Project	OFID	15.00	0.38
Total			189.50

Source: 2020 MoFED Annual Public Debt Bulletin

In 2020, the Government signed two external concessional loan agreements amounting to US$320 million, for the refurbishment of Hwange 1 - 6 Thermal Power Station and the procurement of Personal Protective Equipment (PPE) and laboratory equipment towards the mitigation of the COVID-19 pandemic. The loans signed by Government in 2020 are shown in Table 8.

Table 8: Loans signed by Government in 2020

Loan Facility	Lender	Date Signed	Loan Amount US$	Maturity	Grace Period	Interest Rate %	Grant Element %
Repowering Hwange 1-6 Thermal Power Station	India Eximbank	24.02.2020	310 million	25	5	1.75	32.95
Urgent Response Operation to fight COVID-19	BADEA	28.08.2020	10 million	20	5	2	27.21

Source: 2020 MoFED Annual Public Debt Bulletin

1.3 Public Domestic Debt

With limited access to external resources, fiscal deficits have been financed domestically through the local financial and capital markets. According to the 2022 National Budget Statement, domestic debt stock as at end September 2021, amounted to ZWL$46.6 billion, with Treasury Bills (TBs) having the largest share of 80% of the total domestic debt (ZWL$37.3 billion), Treasury bonds with 12% (ZWL$5.4 billion), while domestic arrears were at 8% (ZWL$3.9 billion). Public domestic debt increased from ZWL$20.9 billion as at end of April 2021, and ZWL$16.7 billion as at end of December 2020.

In 2019, public domestic debt was ZWL$7.7 billion. Domestic debt had reached almost 45% of GDP in 2018, driven mainly by the issuance of Treasury Bills (TBs) and the use of RBZ overdraft facility. The real value of the domestic debt has been significantly eroded owing to the chronic high inflation and the conversion of US$ denominated debts during the multicurrency era to Zimbabwean Dollars at an exchange rate of 1:1 in February 2019. Consequently, the share of domestic debt in total PPG debt dropped significantly from 51% in 2017 to 1.9% in 2020.

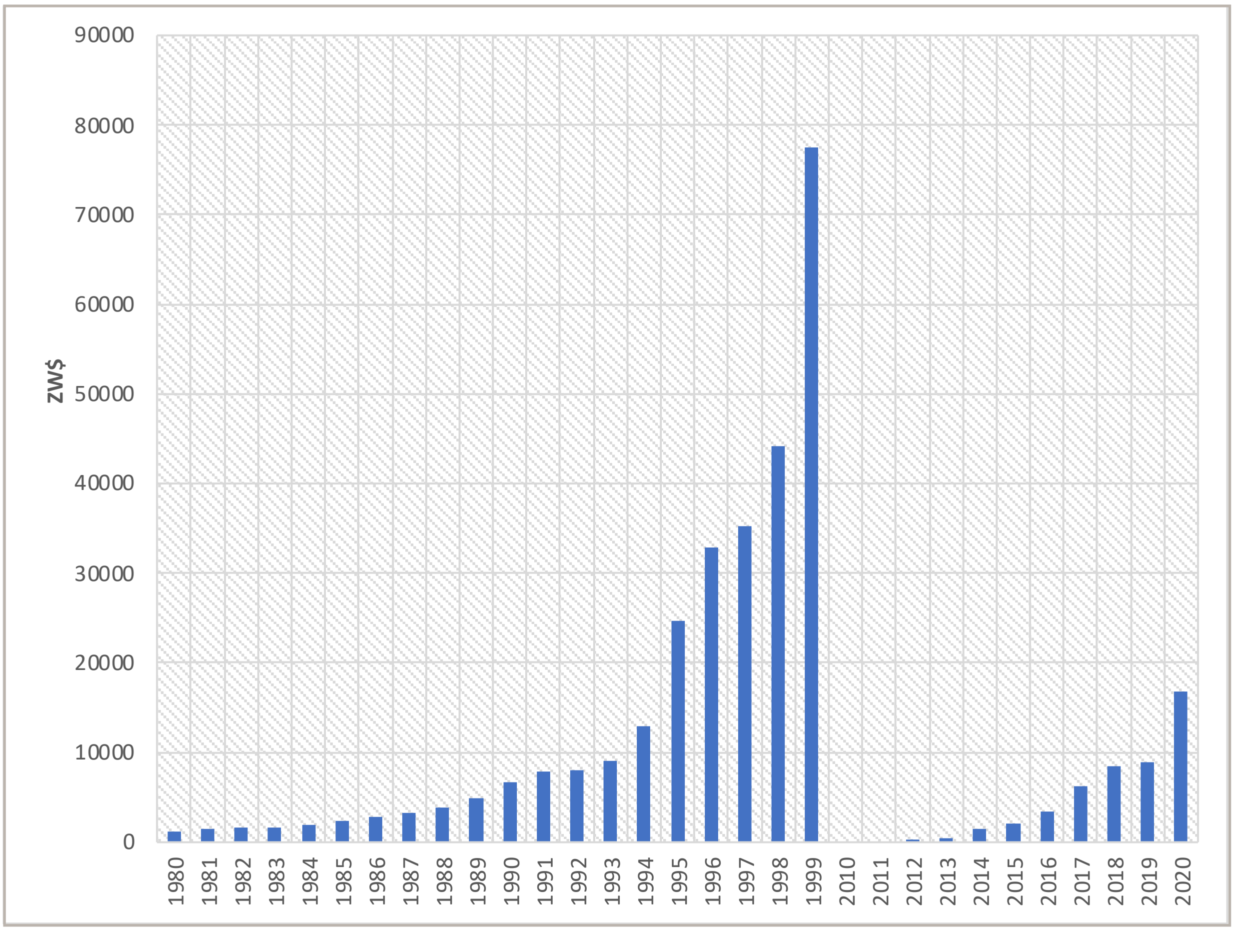
Table 9: Domestic Debt at end of 2019 - 2021 (ZWL$ Millions)

Category	December 2019	December 2020	September 2021
Treasury Bills	1,211	3,126	37,300
Treasury Bonds	7,672	11,085	5,400
Domestic Arrears	-	2,490	3,900
Total	8,884	16,702	46,600

***2019 Arrears were not reported as there was an ongoing consolidation exercise*
Source: MoFED 2020 Annual Public Debt Bulletin

Recapitalization of the RBZ and other public enterprises and the issuance of government paper to commercial banks through the Zimbabwe Asset Management Company (ZAMCO) to reduce the stock of non-performing loans held by the banking system also contributed to an increase in domestic debt [5].

Figure 3: Evolution of Domestic Debt 1980-2020



*Source: MoFED 2020 Annual Public Debt Bulletin. NB*2000-2009 figures excluded. Numbers too large due to hyperinflation, 2020 Figure excludes compensation to former farm owners*

5 Chigumira et al (2018).

Historically, with limited scope for external financing, public domestic debt ballooned to ZW$15.9 trillion as of October 2005 up from the ZW$1.7 trillion in December 2004. This was mainly because government resorted to Treasury Bills (TBs) and the Central Bank overdraft facility. The macroeconomic environment worsened between 2006 and 2008 characterised by chronic high inflation with inflation reaching the record high of 231 million % in 2008. Domestic debt grew to ZW$119.4 billion in 2006 and ZW$12.5 trillion in 2007 reflecting the impact of inflation on government operations and programmes. The Government did not release information with regard to domestic debt between 2009 and 2012, after which it published a domestic debt of US$276 million in 2012.

Since then, the public domestic debt had been growing at an exponential rate due to the government's then propensity to borrow domestically by issuing TBs and through the RBZ bank overdrafts. The RBZ Debt Assumption Act in 2015, resulted in the sharp rise in domestic debt from US$1.7 billion in 2014 to US$2.2 billion. The huge budget deficit continued driving domestic debt to unsustainable debt levels of US$4.0 billion in 2016, US$7.1 in 2017 and US$9.5 billion as of August 2018. Zimbabwe then in 2019 reintroduced the Zimbabwe dollar through Statutory Instrument (S.I.) 142 which prejudiced the local creditors since the real value of what was due to them was eroded by a factor of 8.9931[6]. This was after a direct conversion of the domestic debt of ZWL$9.6 billion to US$1.01 billion. As a result, the debt figure fell from US$8.398 million (37% of GDP) in 2018 to US$535 million (3% of GDP) in 2019.

The 2020 Annual Public Debt Bulletin attributes significant improvements that have been made in domestic debt management through the implementation of the following measures:

- Continuation of the Treasury Bill auction system;
- Zero recourse to Central Bank overdraft window;
- Non-issuance of Treasury Bills to ZAMCO; and
- No quasi-fiscal operations at the RBZ, hence no further monetisation of the budget deficit.

1.3.1 2020 Budget Financing

Given the limited access to external financing attributed to continued accumulation of external debt arrears, the Government has sought increasing recourse to the issuance of Treasury Bills (TBs) to finance the deficit. On 9 July 2021, the RBZ raised ZWL$1.1 billion through a TBs issuance[7]. In 2020, 50.3% of these Treasury Bills were raised through private placements, 12.3% through the auction and 43.5% were restructured TBs. A total of ZWL$485 million was raised through the auction system at an average interest rate of 15.9%, while ZWL$3.4 billion worth of Treasury Securities were restructured at an average interest rate of 7.6% and ZWL$4.0 billion was raised through Private Placements at an average interest rate of 19.9%. Of the ZW$7.9 billion raised through Treasury Bills issuances, ZW$4.0 billion was for health-related COVID-19 pandemic expenditures, while ZW$3.4 billion was for restructuring the existing debt, which was converted into Treasury Bills. Furthermore, ZW$327 million was issued to mobilise resources for grain importation and ZW$9.0 million was for cashflow management, including maturing Treasury Bills[8].

Although Government had committed to move away from a system of private placements in favour of auction system to enhance transparency and ensure a defined yield gap, Treasury resorted to private placements due to the COVID-19 induced lockdowns. As part of curtailing the growth in domestic debt, parastatals and state enterprises are required to submit their borrowing requirements for incorporation into the Government Borrowing Plan for 2022.

Domestic financing remains short-term, as the Ministry of Finance and Economic Development continues to access funding mainly from the financial and capital markets.

1.3.2 Public Domestic Debt Maturity Profile

The domestic debt maturity profile reflects the short-term nature of the domestic debt securities/TBs, as investors of government securities have a preference for short term instruments to hedge against chronic high inflation. About ZWL$31.3 billion (81%) of outstanding domestic debt securities is maturing in 2022, with a corresponding interest bill of ZWL$5.1 billion.

The 2020 Annual Public Debt Bulletin revealed that ZWL$4.1 billion (25% of the total public domestic debt) and ZWL$4.6 billion (28% of the total public domestic debt), will mature in 2021 and 2022 respectively, while ZWL$700 million will mature in 2023. The concentration of the maturities in 2021 and 2022, is attributable to the preferences of investors for

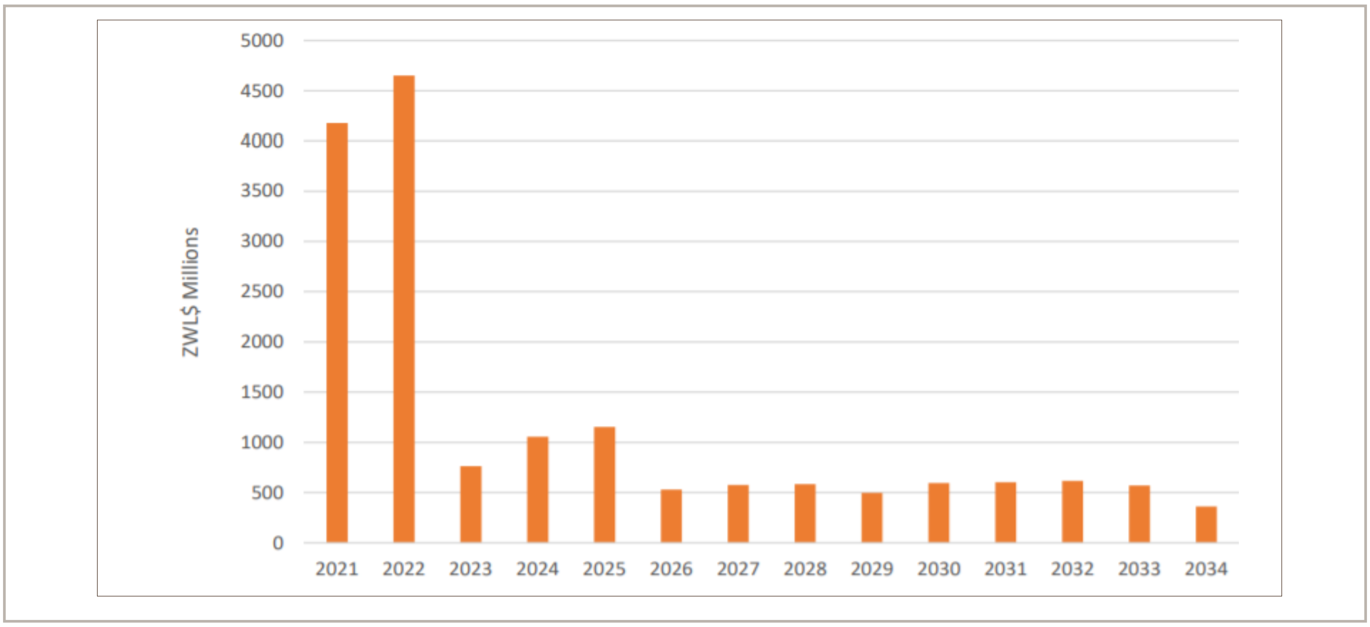
6 AFRODAD 2019 Annual Debt Management Report.

7 https://allafrica.com/stories/202107150236.html.

8 2020 Annual Public Debt Bulletin.

short-to-medium term instruments in government securities, as they desire to hedge against inflation, which in turn translates into Treasury's refinancing risk. Figure 5 shows the maturity profile from 2021 to 2034 for the stock of domestic debt amounting to ZWL$16.7 billion as at the end of December 2020.

Figure 4: Treasury Bills and Bonds Maturity Profile 2020-2034



Source: MoFED 2020 Annual Public Debt Bulletin 2.2.3

1.3.3 Guarantees Issued by Government to Domestic Borrowers

During the period January to September 2021, Government issued guarantees for domestic creditors amounting to ZWL$20.3 billion and US$1.4 billion as shown in Table 10 below, for the purposes of financing agricultural inputs, grain purchase, importation

Table 10: Guarantees issued from January to September 2021

Borrower	Amount - US$ millions	Amount - ZWL$ millions	Purpose	Date Approved	Expiry Date
Agribank and AMA	0	100	Finance horticulture and oil seed production for the 2020/21 agricultural season	8-Mar-21	31-Dec-21
AMA	0	20,000	Grain Purchase	8-Jun-21	8-Jun-22
RBZ-Africa Export Import bank	1,425	0	Facility Restructuring - Importation of strategic commodities	10-Mar-21	10-Mar-24
IDBZ	0	200	Financing the development of a low-density residential area	18-Aug-21	17-Aug-22
Luxaflor Roses	0.75	0	Working capital requirements	16-Mar-21	16-Mar-24
Mbano Manor Hotel	0	10	Working capital requirements	8-Mar-21	8-Sep-22
Total	1,425.75	20,320			

Source: Zimbabwe Public Debt Management Office In 2020, In 2020, the Government issued guarantees to support State-owned enterprises and the private sector worth ZWL$19.2 billion. Table 11 summarises the domestic guarantees issued in 2020.

Table 11: Domestic Guarantees Issued in 2020

Borrower	Purpose	Date Issued	Amount (ZWL$ Millions)	Expiry Date
Agribank and FBC Bank	Issuance of Agrobills to finance 2019/2020 Agriculture Season	14.04.2020	100	31.12.2020
Agribank and FBC Bank	Issuance of Agrobills to Finance 2020/2021 Tobacco Season	01.07.2020	200	31.12.2021
Silo Food Industries	Finance of short-term trading capital requirements of the issuer	09.10.2020	350	31.10.2021
IDBZ	To finance site servicing of Sumben Housing Project	30.10.2020	300	26.02.2021
CBZ	Financing of 2020 winter wheat cropping season	28.08.2020	1,500	12.03.2021
CBZ	Financing of the 2020/2021 maize and soya beans cropping season	21.12.2020	16,536	26.02.2021
Total			19,219	

Source: MoFED 2020 Annual Public Debt Bulletin

In 2020, Government approved domestic borrowing by the Zimbabwe Power Company (ZPC) from the domestic market for its working capital requirements amounting to ZW$50 million

1.4 Key Debt Sustainability Indicators

Zimbabwe's debt situation remains an impediment to both external sustainability and economic development. The country is in debt distress with large external payment arrears, against a context of limited fiscal space. Table 12 shows Zimbabwe's key debt sustainability indicators as at end December 2020. While the total PPG debt as a percentage of GDP has improved from 88% in 2019 to 72.6% in 2020, however the PPG external debt as a percentage of GDP has worsened from 47% in 2019 to 71.2% in 2020.

Table 12: Key Debt Indicators as at end of December 2020

Indicator	2019	2020
Total PPG External and Domestic Debt Stock/GDP (%)	88	72.6
Total PPG External Debt Stock/GDP (%)	47	71.2
Total PPG Domestic Debt Stock/GDP (%)	41	1.4
Multilateral Debt/Total PPG External Debt Stock (%)	27	25
International Reserves/Total PPG External Debt Stock (%)	0.9	1.6
Nominal GDP at market prices (Million ZWL$)	182,866.82	1,207,835.30
Exports (Million ZWL$)	58,568.34	430,467.02
International Reserves (Million ZWL$)	291.7	168
International Reserves (Month of Import Cover)	0.7	0.4
End Period Exchange Rate (Interbank, RBZ)	11.1	81.79

Source: MoFED 2020 Annual Public Debt Bulletin

A Joint World Bank-IMF Debt Sustainability Analysis carried out in February 2020 shows that Zimbabwe is classified as 'in debt distress', with unsustainable PPG external and total debt and large external arrears. The country's current debt-carrying capacity is classified as 'weak' according to the methodology employed in the revised DSF Framework (2017). As at end of 2018, the country had a Present Value (PV) of PPG external debt-to-GDP ratio of 36.2% and this ratio is projected to reach 48.8% by 2021; a PV of PPG external debt-to-exports ratio of 156.7% with this ratio projected to be 199.7% by 2021; a PPG debt service-to-exports ratio of 12.4% and projected to be 10.4% by 2021; and gross external financing need of US$3.2 billion in 2018 up from US$2.0 billion in 2017, this expected to be US$2.0 billion by 2021. The high external debt to export ratio is of great concern because of its negative effects on investment and savings. The high ratio points to debt servicing problems, because most of the cash required to service the external debt largely comes from export earnings. The high debt-to-exports ratio also points to the fact that Zimbabwe's debt is unsustainable and likely unrepayable. The total debt stock also continues to outstrip revenues.

In terms of public sector debt sustainability, the PV of public debt-to-GDP ratio was 43.7% in 2018 and is projected to reach 61.8% by 2021; the PV of public debt-to-revenue and grants ratio was 502.4 per in 2018 and is forecast to reach 579.7% in 2021; while the debt service-to-revenue and grants ratio was 62.5% in 2018 and is expected to reach 100.5% in 2021 (World Bank and IMF, 2020).

What is clear is that without sustainable growth or more concessional financing and debt relief, Zimbabwe has little chance of emerging from its debt problems even in the long term. These outturns, together with the existence of substantial arrears, support the notion that Zimbabwe is in external debt distress.

Overall, the country is susceptible to the following debt risks:

- Worsening debt risks – the country has no access to traditional concessional sources of financing; for further borrowing the country is turning to expensive loan options;
- Fiscal risks: the country faces fiscal sustainability stresses;
- Crowding out effect - budget deficit finances unproductive government expenditures like transport subsidies;
- Overborrowed domestic market which crowds out private borrowing;
- Weakened foreign currency reserves as foreign debts mostly repaid in foreign currency;
- Generational burdens - future generations will have to pay higher taxes in the future to pay for the unproductive debts incurred in the past;
- Loss of economic and social welfare: increased interest payments slow income growth. Government may resort to increasing taxes which may increase both the cost of business and the cost of living.

Key Factors

The PV of public debt-to-GDP ratio was

43.7%

in 2018

and is projected to reach

61.8%

by 2021

The PV of public debt-to-revenue and grants ratio was

502.4%

per in 2014
and is focasted to reach

579.7%

in 2021

the debt service-to-revenue and grants ratio was

62.5%

in 2018
and is expected to reach

100.5%

in 2021

02

Pandemic and Its Implications of Zimbabwe's Economy and Debt Distress Situation

The outbreak of the COVID-19 pandemic, first detected in China in late 2019 has led to huge socio-economic costs on the global economy. The country reported its first imported case of COVID-19 on 21 March 2020 with local transmission beginning on 24 March 2020. The Government sought to limit the spread of the virus and mitigate the negative health outcomes of the disease through various policy measures that have limited travel, imposed lockdowns and curfews, and closed businesses, schools, and borders. These interventions coupled with the financial and economic burden of COVID-19 associated morbidity and mortality have had profound implications on the economy[9]. The COVID-19 pandemic has affected the economy through a number of channels which include: supply chain disruptions; disruptions in trade which have affected the capacity of the country to import raw materials; decline in tourist arrivals; decline in commodity prices; decline in foreign direct investment inflows (FDI) and the diversion of government resources to fight the outbreak which will reduce funds available for key development priorities. The pandemic has negatively impacted on revenue collections whilst also increasing expenditure demands.

In 2020, Zimbabwe's economy is estimated to have contracted by 4.1%[10] mainly due to the COVID-19 pandemic. The pandemic came at a time when the country was already grappling with the effects of climate change induced shocks, characterised by droughts and Cyclone Idai. These shocks had significant negative effects on the country's already existing infrastructure gap, health systems and livelihoods. Estimates from the World Bank show that the number of extremely poor Zimbabweans reached 7.9 million – almost 49% of the population in 2020, up from 42% in 2019[11]. The economy is projected to rebound in 2021 to register an economic growth rate of 7.8% mainly on account of a very successful 2020/2021 agricultural season before slowing to 3.6% in 2022 [12].

Expenditure pressure in public health measures to save lives coupled with the slowdown in economic activities following the partial or full lockdowns and general economic slowdown, have exerted considerable pressure on government finances. The Government faces pressures related to the need to procure sufficient vaccines and other COVID-19 related expenditures. As a result, Government in 2020 and 2021 had to resort to domestic borrowing to finance these fiscal expenditures. As domestic resource mobilisation weakened due to reduced economic activity, debt repayment capacity was also eroded. The 2020 Annual Public Debt Bulletin highlighted that in 2020, due to the COVID-19 pandemic, Government faced challenges in making external debt service payments and hence no token payments were made to the three IFIs namely: the World Bank (WB) Group; African Development Bank (AfDB); and European Investment Bank (EIB). Consequently, total debt service payments for 2020 amounted to only US$20.39 million. The payments were made to creditors with active portfolios including the International Fund for Agricultural Development (IFAD) (US$2.2 million), OPEC Fund for International Development (OFID) (US$0.92 million), Arab Bank for Economic Development in Africa (BADEA) (US$0.17 million) and the China Eximbank (US$17.1 million).

Inflows of development partner support were also reduced as source countries were also affected by the COVID-19 pandemic. The 2021 Midterm Fiscal Policy Review Statement observed that planned implementation of programmes and projects was affected/delayed by the unprecedented impact of the COVID-19 pandemic. Government has committed to increasing the vaccination drive so as to achieve herd immunity by vaccinating at least 60% of the total population.

As the country taps into domestic resources for borrowing to finance the COVID-19 national response and other fiscal pressures, it limits investment opportunities at a time when the country requires financial resources in line with its aspirations of becoming an empowered upper middle-income country by 2030. While tapping into the domestic debt market provides a sound alternative and does not expose the country to foreign exchange risk, it has the potential to crowd out private sector borrowing, thus hampering investment and output growth.

In May 2020, Government unveiled the ZWL$18 billion COVID-19 pandemic Recovery and Stimulus Package aimed at reviving the economy and providing relief to industries and small businesses impacted by the economic slowdown induced by the COVID-19 pandemic lockdown. As such, Treasury in 2020 issued guarantees amounting to US$15.2 million (equivalent of ZWL$ 1.3 billion) under the COVID-19 pandemic Recovery and Stimulus Package. Steel Makers

9 According to the COVID-19 update from the Ministry of Health and Child Care, as at 09 December 2021, Zimbabwe had 155 817 confirmed cases, including 129 136 recoveries and 4 723 deaths.

10 2020 MOFED Fiscal and Economic Performance report.

11 Zimbabwe Economic Update Overcoming Economic Challenges, natural Disasters, and the Pandemic: Social and Economic Impacts, June 2021, Issue 3, World Bank.

12 2021 Mid-Term Fiscal Policy Review.

Zimbabwe got a guarantee of US$11.2 million for its working capital requirements while Sub Sahara Tobacco got a guarantee of US$4 million for financing of export and contract order. Treasury's guarantees are covering up to 50% of the borrowings. The effect of such guarantees is an increase in the total PPG debt for the country.

The huge public debt burden compromised the ability of the Government to cope with the pandemic itself and the social and economic implications of the imposed national lockdown measures which disproportionately affected the poor and vulnerable groups. As such, the need for debt relief and COVID-19 response packages from IFIs cannot be overemphasised. Zimbabwe is however not eligible to borrow from the Multilateral Institutions due to unpaid arrears and interest to the World Bank, the European Bank, the African Development Bank and bilateral donors, especially the members of the Paris Club. The non-payment of debt arrears dating as far back as 2000 has inactivated the lending programme of the World Bank and the IMF to Zimbabwe. The continuous accumulation of arrears further undermines the capacity of the State to borrow even in such precarious situations.

The external debt arrears precluded Zimbabwe from benefitting from global debt relief initiatives such as the global Debt Service Suspension Initiative (DSSI). The DSSI took effect on May 1, 2020, and seeks to provide temporary suspension of debt-service payments owed to their official bilateral creditors to 73 eligible countries. The suspension period, originally set to end on December 31, 2020, has been extended through December 2021. The DSSI is therefore helping the eligible countries concentrate their resources on fighting the pandemic and safeguarding the lives and livelihoods of millions of the most vulnerable people. By end of September 2021, the initiative had provided more than $5 billion in relief to more than 40 eligible countries.[13]

Although the COVID-19 financing has largely been through domestic resources, development partners extended support and to a lesser extent loans. In 2020, Government signed a US$10 million concessionary loan agreement with BADEA for the procurement of Personal Protective Equipment (PPE) and laboratory equipment towards COVID 19. The loan has a 25-year maturity age and 2% interest rate. Development Partners

13 https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative

also pledged US$239 million to complement Government efforts in fighting the pandemic, of which US$118 million was disbursed in 2020[14]. This support was channelled towards strengthening of public health response, procurement of medical equipment and Personal Protective Equipment (PPE) as well as provision of test kits. Development Partner interventions assisted in the rehabilitation of Wilkins Hospital and boreholes across the country as well as capacity development of essential staff involved in the implementation of COVID-19 interventions. Zimbabwe also received a grant amounting to US$7 million issued by the Global Partnership for Education (GPE) to address the impact of COVID-19 on education, out of which US$1 million was disbursed in 2020.

The Ministry of Finance and Economic Development reported that in the first half of 2021 Development Partners contributed resources amounting to US$17 million against an annual projection of US$214 million in response to the COVID-19 pandemic[15]. The funds went towards procurement of medical equipment, Personal Protective Equipment (PPE), provision of test kits and hand washing facilities. Government also received a donation of 560,000 doses of vaccines from the Governments of China, India and Russia while the Government of Japan extended its support to the COVID-19 response by improving the COVID-19 vaccines cold chain – ensuring crucial vaccines can be adequately transported and stored.

On August 2, 2021, the Board of Governors of the International Monetary Fund (IMF) approved a general allocation of Special Drawing Rights (SDRs) equivalent to US$650 billion (about SDR 456 billion) to address the long-term global need for reserves, and help countries cope with the impact of the COVID-19 pandemic. This is the largest-ever allocation. To date, a total of SDR 660.7 billion (equivalent to about US$943 billion) have been allocated. SDRs are an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves.

Zimbabwe has already received its SDR allocation of SDR 677.4 million (US$958 million) from the IMF. This represents about 20% of the country's total exports and about 10% of the country's external public debt. This is a significant boost for the Zimbabwean economy which is recovering from the COVID-19 pandemic and is expected to rebound by 7.8% this year. This SDR allocation has increased Zimbabwe's depleted foreign currency reserves position by US$958 million and should provide temporary relief to the exchange rate. This is an important and positive development indeed especially given the fact that this is not a loan. There is need however to prioritise and allocate resources towards sectors that are productive and welfare enhancing. Importantly, the SDR allocation will enhance the fiscal space and reduce pressure on Government to borrow.

14 Economic and Fiscal Report for Year 2020 '2020 Annual Budget Review.'

15 Ministry of Finance and Economic Development 2021 Mid-Year Fiscal Policy Review Statement, paragraph 335

03

Uptake and Implementation of Recommendations To Improve Debt Management In Zimbabwe

The report is the third edition since 2019. ZIMCODD and AFRODAD have over the years proffered several recommendations on sustainable debt management and resolution in the country through the Annual Debt Management Report of 2019 and 2020. Table 9 assesses the implementation of AFRODAD and ZIMCODD recommendations proffered in the 2019 and 2020 debt management reports.

RECOMMENDATION	IMPLEMENTATION STATUS
There is a need for the government is to contain the budget deficit within the limits prescribed in the Transitional Stabilisation Programme (TSP).	• The perennial fiscal deficits have been addressed with the country achieving a fiscal surplus in 2020. Although this was achieved on the back of fiscal austerity. The country recorded a ZWL$20 billion (US$236 million) budget surplus in 2020, while the public wage bill was 41%. • The NDS 1's fiscal consolidation objectives strictly limit the fiscal targeted deficit to below 2% of GDP and within the SADC macroeconomic convergence threshold of below 3% of GDP.
There is a need for seriously considering debt restructuring since the resumption of debt service payments may significantly affect resources available for social spending.	• In 2020, 43.5% of the Treasury Bills (ZW$3.415) were restructured at an average interest rate of 7.6% while in 2019 domestic debt worth ZW$4.0 billion was restructured. No external debt was restructured. • NDS 1 in paragraph 252 envisages an external debt arrears clearance and debt relief strategy to restore sustainability in line with progress made with Government's engagement and reengagement with the international community
The government needs to take decisive policy action to raise economic growth (this will automatically reduce debt/GDP ratio) including through smart economic policies, structural reforms, making policies consistent and market-friendly, attracting foreign investment including through joint ventures, aggressive ease of doing business and reducing corruption	• Zimbabwe is expected to register a 7.8% economic growth in 2021 and 3.6% in 2022 on the back prevailing stable macroeconomic environment, strong performance in agriculture, higher international mineral commodity prices and increased domestication of value chains. The growth will help to reduce debt-to-GDP ratio. • It is however important to ensure that economic growth is pro-poor, inclusive and sustainable. This is especially critical given the high levels of poverty and inequality.
There is a need to ensure that government stays on course and avoid costly policy reversal that would result in debt explosion.	• Policy inconsistencies still remain a challenge, for example currency regime (SI 142 and SI 133 of 2019), exchange rate policy and land compensation.
There is a need to ensure limited fluctuations in the Zimbabwe dollar/ US exchange rate to guarantee public debt sustainability in the medium term.	• Zimbabwe adopted a Foreign Exchange Auction system which has brought some stability in the official exchange rate although parallel market rates have continued to soar resulting in a widening of the black-market premium which represents a major threat to macroeconomic stability and sustainability.
There is a need for high commitment within the institutions responsible for debt management (e.g., Ministry of Finance and Economic Development, Reserve Bank of Zimbabwe and the Zimbabwe Public	• Treasury is now reporting at least twice to Parliament on public debt. • No more recourse to Central Bank overdraft.

Debt Management Office (ZPDMO)) to operate within the legal framework of debt management in Zimbabwe.	• Issuance of TBs only for the Budget and through market-based operations. • The stock of Public Debt has, however exceeded 70 per cent of GDP provided for in the Public Debt Management Act and 60 per cent recommended by SADC. • The government has reneged in implementing the Medium-Term Debt Management Strategy provided for in Section 12 of the Public Debt Management Act. • Loans contracted by Government have to be ratified by Parliament in line with Section 34 of the Constitution. • Treasury now publishes the terms and conditions of the executed loan agreement/guarantee in the Government Gazette, in line with Section 300 (3) of the Constitution and Section 18 (2) of the Public Debt Management Act.
There is need to strengthen the ZPDMO in the Ministry of Finance and Economic Development.	• The ZPDMO now uses the Debt Management and Financial Analysis System (DMFAS) programme to record Central Government loans, publicly guaranteed loans and debt securities (Treasury Bills and Bonds). • The effectiveness of the External and Domestic Debt Management Committee whose functions are to advise the Minister on public debt management policy and strategy, as provided for in Section 7(1) of the Public Debt Management Act is questionable as no reference is made to its recommendations in ZPDMO reports.
Conduct regular debt audits.	• Section 37 of the Public Debt Management Act provides for the annual audit of public debt by the Auditor General to ensure value for money. • The ZPDMO was last audited by the Auditor General's Office for the 2018 financial year and its findings were included in the 2018 Auditor's General's Report which was presented to Parliament in 2019. • The ZPDMO is also subjected to annual internal audits to improve on debt. The Office is also subjected to annual internal audits to improve on debt management processes and procedures. • CSOs and Parliament should take the lead in instituting a comprehensive citizens' audit that will expose the culpability of all the actors in loan and debt contraction and ascertain what constitutes illegitimate or odious debt.
Ensuring public access to sovereign debt statistics.	• Treasury now publishes the terms and conditions of the executed loan agreement/guarantee in the Government Gazette. External facilities worth US$1.3 were gazetted in 2020. • Treasury has been publishing annual public debt bulletins.

Engagement with all stakeholders to come up with one Zimbabwe statement on reengagement and arrears clearance.	• Government has not deliberately engaged all Stakeholders on debt issues apart from publishing Annual Debt Bulletins.
Engagement with creditors to get debt relief.	• Re-engagement efforts have not yet yielded positive results. As such, the government, through NDS 1 undertook to accelerate engagement and re-engagement process aimed at reintegrating Zimbabwe into a favourable global position.
Government must put in place a framework for managing contingent liabilities arising from guarantees, lending and PPPs.	• The government formulated and implemented an Integrated Risk Management Framework to manage the risks related to these contingent liabilities. The Framework provides the guidelines for prudent risk management, including risk analysis, measurement, credit risk scoring, risk sharing, and charging of fees which help in the identification and mitigation of contingent liabilities risks. • Public Entities are required to submit their borrowing requirements for incorporation into the Government Borrowing Plan for 2022 (paragraph 247, 2021 Midyear Fiscal Policy Statement).
Formulation of a debt management strategy to guide Government borrowing.	• The government formulated and implemented an Integrated Risk Management Framework to manage the risks related to these contingent liabilities. The Framework provides the guidelines for prudent risk management, including risk analysis, measurement, credit risk scoring, risk sharing, and charging of fees which help in the identification and mitigation of contingent liabilities risks. • Public Entities are required to submit their borrowing requirements for incorporation into the Government Borrowing Plan for 2022 (paragraph 247, 2021 Midyear Fiscal Policy Statement). • Zimbabwe continues to implement its Medium-Term Debt Strategy (2016-2021) which focuses on limiting foreign financing to concessional external financing; limiting non-concessional borrowing to finance economically viable projects; prioritising token payments to Multilateral Development Banks (MDBs) and payments to creditors with active portfolios among others. • The government in the NDS1 undertook to develop another Medium-Term Debt Strategy and the Debt Sustainability Analysis indicators. The debt strategy will focus on maximising access to concessional financing.

Zimbabwe should focus on feminisation of public debt by emphasizing on women-cantered analysis of the debt debacle (Debt must be given the face of a woman and other sectorial faces such as the youths, persons with disabilities and other vulnerable and marginalized groups in Zimbabwe).	• Engendering debts in Zimbabwe has not gone beyond mere conversations and workshop resolutions.
Government to craft transparent, and widely consultative debt resolution strategies.	• The government has come up with debt resolution strategies as contained in the NDS1 on paragraphs 251-256.
From a developmental and good governance perspective, Zimbabwe must decisively fight the twin challenges of corruption and debt which electrocute national development, stifle public finance management and threaten the rule of law.	• The government has undertaken, in the NDS1, to reduce corruption by ensuring speedy prosecution and resolution of all corruption cases. Corruption cases have however been dragged and most of the glaring corruption cases thrown away by the Courts due to poor investigations. • The country has undertaken to strengthen institutions of accountability (Auditor General, Zimbabwe Anti-Corruption Commission (ZACC), National Prosecuting Authority (NPA) and Judicial Service Commission (JSC)) while ensuring their independence. • Parliament has taken long to enact a whistle-blowers legislation which has not gone beyond the drafting stage¬.
The Zimbabwe Anti-Corruption Commission (ZACC) and various organisations it signed memoranda of understanding with should profile people who are linked to corruption.	• Several high-profile arrests had been made but convictions have been very low. As such, profiling of people linked to corruption has not been formally done beyond the media exposures. • Legislation for forfeiture of corruption proceeds exists but very few forfeitures were done due to low conviction rates. Most Several high-profile arrests had been made but convictions have been very low. As such, profiling of people linked to corruption has not been formally done beyond the media exposures. • Legislation for forfeiture of corruption proceeds exists but very few forfeitures were done due to low conviction rates. Most high-profile cases have not been concluded. ZACC is reported to be investigating 12 civil cases aimed at confiscating nearly US$6 million worth of assets bought with unexplained wealth.
Those accused of corruption should not be allowed to occupy public office until their cases are finalised and they are absolved of wrongdoing.	• Two Ministers were removed from Public Office as they were being investigated for Corruption. This was mainly due to public outcry.
Parliament's arms such as the Africa Parliamentary Network against Corruption (APNAC) Zimbabwe and its partners such as Transparency International Zimbabwe must emboss their oversight role in the management of the financial purse and also in demanding accountability from local governments	This is on-going.

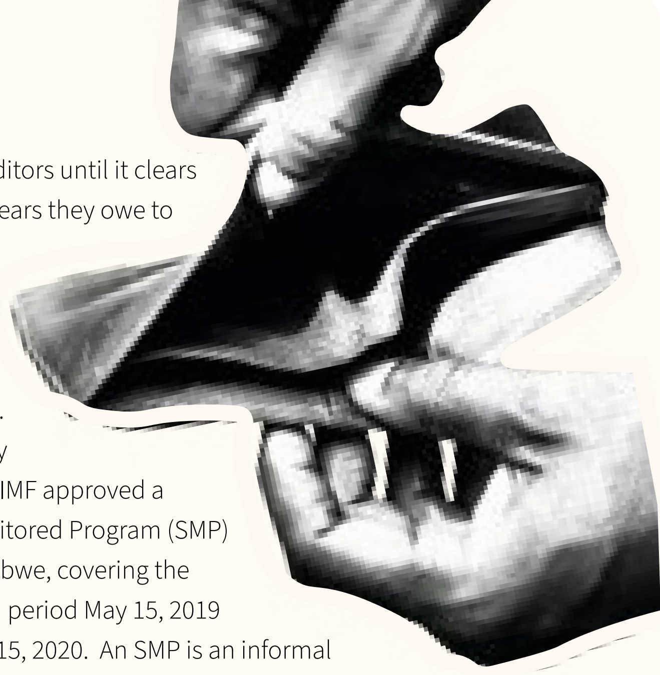
04

Debt Resolution Mechanisms and Options for Zimbabwe

Zimbabwe's constrained access to external capital due to the accumulation of external debt arrears, perceived high country risk and an unfavourable investment climate calls for accelerated engagement and re-engagement efforts with the international community to resolve the country's unsustainable external debt position. The NDS1 proposes a strategy that involves limiting recourse to Central Bank borrowing and encouraging listing of Bonds on the Securities Exchange Market. The strategy also involves mapping and agreeing on debt resolution with creditors through the clearance of external debt arrears and debt relief in order to open new lines of credit for the economy, which is critical to the achievement of Vision 2030.

Government has also committed in the NDS1, to craft and implement a second Medium-Term Debt Strategy as well as to continuously review and update the Debt Sustainability Analysis (DSA) indicators. The debt strategy will focus on maximising access to concessional financing and will ensure consistency between the capacity to service the debt and minimising costs with the objective of fiscal consolidation. A commitment to contract non-concessional borrowing for commercially viable projects with a high rate of return, such as infrastructure projects has also been made. Private sector driven financing options to ensure debt sustainability will also be considered as part of the debt strategy.

Historically, the Government has undertaken a number of initiatives in an attempt to address the debt problem. Over the period 2001 and 2008, Government pursued the Domestic Debt Restructuring policy. The policy, however, did not yield the expected results owing to an underperforming economy. In 2010, a Sustainable and Holistic Debt Strategy was developed, however no debt was paid in pursuance of this strategy. In 2012, Government formulated the Zimbabwe Accelerated Arrears Clearance Debt and Development Strategy which sought to leverage fresh financing from international institutions and mineral wealth to clear arrears. In 2015, Government pursued the Lima Strategy which was premised on a non-HIPC debt resolution strategy designed to clear debt arrears amounting to US$1.8 billion owed to the IMF, World Bank Group and the African Development Bank as the first step, after which the government would commence negotiations towards a resolution with the Paris Club. Success was recorded when Zimbabwe cleared its overdue obligation to the IMF in October 2016. Despite the settling of the IMF obligation, the country cannot contract new debt from the international financial institutions and other creditors until it clears all the arrears they owe to creditors (the Pari Pasu principle). On 15 May 2019, the IMF approved a Staff-Monitored Program (SMP) for Zimbabwe, covering the 10-month period May 15, 2019 to March 15, 2020. An SMP is an informal agreement between country authorities and IMF staff to monitor the implementation of the authorities' economic program. Under this initiative the Government has qualitative and quantitative measures which are supposed to be met as part of reforms to improve the ease of doing business. The SMP does not entail financial assistance or endorsement by the IMF Executive Board. At the end of the SMP period, the IMF reported that the Government's economic reform agenda was off track, owing to policy mis-steps and structural challenges. The Fund recommended a market-based foreign-exchange system, privatisation of loss-making parastatals, removal of subsidies, restoration of macroeconomic and financial sector stability and an end to the RBZ financing of the fiscal deficit.



Key Factors

Zimbabwe's constrained access to external capital due to the accumulation of external debt arrears, perceived high country risk and an unfavourable investment climate calls for accelerated engagement and re-engagement efforts with the international community to resolve the country's unsustainable external debt position.

Over the period 2001 and 2008, Government pursued the Domestic Debt Restructuring policy. The policy, however, did not yield the expected results owing to an underperforming economy.

The IMF staff conducted a virtual staff visit with the Zimbabwe authorities in June 2021 to discuss recent economic developments and the economic outlook. They issued a statement [16]to the effect that IMF is precluded from providing financial support to Zimbabwe due to an unsustainable debt and official external arrears. A Fund financial arrangement would require a clear path to comprehensive restructuring of Zimbabwe's external debt, including the clearance of arrears and obtaining financing assurances from official creditors; a reform plan that is consistent with macroeconomic stability, growth and poverty reduction; a reinforcement of the social safety net; and governance and transparency reforms.

The current Medium-Term Debt Strategy (2017-2021) which focuses on the following:

- Foreign financing limited to concessional external financing;
- Limit non-concessional borrowing to finance economically viable projects;
- Prioritise token payments to Multilateral Development Banks (MDBs) and payments to creditors with active portfolios; and
- Continue re-engaging MDBs and other creditors for a programme, given progress made so far in the stabilisation and other supply-side, governance and structural reforms under the Transitional Stabilisation Programme (TSP) and the National Development Strategy 1 (NDS1: 2021-2025).

16 https://www.imf.org/en/News/Articles/2021/06/16/pr21183-zimbabwe-imf-staff-concludes-virtual-staff-visit-to-zimbabwe

05

Options for Debt Relief and Arrears Clearance Table

Table 10 summarises some options for debt relief and arrears clearance.

Table 10: Options for debt relief and arrears clearance

Option	Explanation	Evaluation
The Highly Indebted Poor Country (HIPC) Initiative	The HIPC initiative is a comprehensive approach to debt reduction for heavily indebted poor countries pursuing IMF and World Bank, supported adjustment and reform programs. It was launched in 1996 by the IMF and World Bank, to enable poor countries to pay back their loans without compromising economic growth and without building up arrears to unsustainable levels. Countries must meet certain criteria, commit to poverty reduction through policy changes and demonstrate a good track-record over time to be considered HIPC eligible. In order to qualify for HIPC, countries go through a two-step process: the decision point and the completion point (Chugumira at al, 2018). For the decision point, a country must meet the following criteria: i. Be eligible to borrow from the World Bank's International Development Agency (IDA-only), which provides interest-freeoans and grants to the world's poorest countries, and from the IMF's Poverty Reduction and Growth Facility (PRGF), which provides loans to low-income countries at subsidized rates, with a per capita income of less than US$1,095; ii. The country must face an unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms; iii. Clear any outstanding arrears, meaning the country must be up-to-date on all of its debt payments; iv. Establish a track record of reform and sound policies through the IMF, and IDA-supported programs; and v. Have developed a Poverty Reduction Strategy Paper (PRSP) through a broad-based participatory process. In order to receive full and irrevocable reduction in debt available under the HIPC Initiative, a country must: i. Establish a further track record of good performance under programs supported by loans from the IMF and the World Bank; ii. Implement satisfactorily key reforms agreed at the decision point; and iii. Adopt and implement its PRSP for at least one year. Although Zimbabwe has been in debt distress since the year 2000, it was declared ineligible for debt relief under the Highly Indebted Poor Country Initiative (HIPC) by the IMF and World Bank. The country failed to meet the indebtedness criterion of per-capita income of less than US$380 required for a country to be classified as poor. To be HIPC eligible, all the debt sustainability indicators should show that the country's debt is unsustainable.	The World Bank evaluation of the HIPC initiative in 2006 found that the Enhanced HIPC initiative cut debt ratios in half for 18 countries, but in eight of these countries, the ratios have come to once again exceed HIPC thresholds. The Bank contents that debt reduction alone is not a sufficient instrument to affect the multiple drivers of debt sustainability. Sustained improvements in export diversification, fiscal management, the terms of new financing, and public debt management are also needed, measures that fall outside the ambit of the HIPC initiative.

Debt rescheduling	• Results in stabilisation of external payment arrears and improvement of the country's creditworthiness. • To be eligible, a country should be failing to meet in full current and future foreign debt service obligations (accumulation of arrears), be in an IMF monitored programme, and must prove that it is unable to meet its external financial obligations, for example declaring a debt moratorium • These alter the original valuation or nature of a debt instrument e.g., converting a straight loan an equity investment or into an infrastructural investment. • Under this arrangement, a foreign organisation such as Debt Advisory International (DAI) will acquire a hard currency sovereign debt at a discount, and uses the local currency equivalent to purchase domestic assets or to invest in some developmental projects. In this way, the external debt is extinguished.	• Successful completion of the conversion programme will enhance the credit rating of Zimbabwe and enable it to attract new capital. • It will also reduce the country's external debt obligations and, consequently the debt service burden without necessarily having to use the country's scarce foreign exchange resources • Perceived country risk however makes it difficult for Zimbabwe to find a willing international organization that has the confidence to invest in the country.
Debt swaps/ Conversions	• These alter the original valuation or nature of a debt instrument e.g., converting a straight loan an equity investment or into an infrastructural investment. • Under this arrangement, a foreign organisation such as Debt Advisory International (DAI) will acquire a hard currency sovereign debt at a discount, and uses the local currency equivalent to purchase domestic assets or to invest in some developmental projects. In this way, the external debt is extinguished.	• Successful completion of the conversion programme will enhance the credit rating of Zimbabwe and enable it to attract new capital. • It will also reduce the country's external debt obligations and, consequently the debt service burden without necessarily having to use the country's scarce foreign exchange resources • Perceived country risk however makes it difficult for Zimbabwe to find a willing international organization that has the confidence to invest in the country.
Borrowing against Security of Domestic Assets	• This option involves external borrowing to retire debt, using identified public assets as collateral. • Valuation of these public assets, in foreign currency, indicates how much the country can borrow under this option.	• A country can retire its external debt without the outright sale of its domestic assets. It can also be used as a debt restructuring or debt conversion • A country completely loses control over the collateralized assets. The option does not necessarily address the root causes of external imbalances.

Debt refinancing	• Borrowing a new loan to repay or prepay an existing debt. • Can be voluntary, that is, at the borrower's initiative or involuntary through the Paris Club. • Mainly used to reduce the cost of borrowing, improve the maturity structure of the debt or alter its currency composition.	• The country can extinguish expensive short-term debt and borrow for longer periods, at favourable terms and conditions. • While debt refinancing offers temporary relief on foreign obligations, it merely postpones debt service, without permanently resolving the country's external debt problems. • Zimbabwe cannot access new loans to repay existing ones because of its poor creditworthiness.
Debt restructuring	• This involves shifting the composition of external debt from short-term to medium and long-term debt. • If granted, it temporarily relieves the country of the pressure of external payments obligations, without straining its relations with international creditors. • It gives the country time to restore macro-economic stability, thus creating the potential to meet its external obligations.	• It may temporarily reduce debt service requirements but may result in higher interest repayments. It also involves additional negotiation costs, for debt restructuring. • In Zimbabwe, the debt restructuring option requires the express consent of the country's external creditors. This may be difficult for Zimbabwe, since it has already accumulated huge external payment arrears.
Debt buybacks	• The country sells its debt, at a discount, with an undertaking to repurchase the debt at a future date. • The proceeds could then be used to prepay the debt. • The debtor country must, anticipate a positive turnaround in its external economic performance.	• Debt buybacks merely defer payment obligations, without permanently resolving the country's underlying external debt problems and the debt may be repurchased at higher premiums. • More suitable for countries that are not in arrears. • A country would need to improve its macroeconomic policies and enhance its creditworthiness to attract a buyer e.g., Czech Republic and Slovakia implemented debt buyback programmes at discounts of 80–90%.

Continue to default	• Government can ignore to repay its interest or principal due. • Studies have shown that sovereign default has increased in 2020 due to COVID-19 from 0.9% in 2019 to 4.2% in 2020. The previous high was 1.8% in both 2016 and 2017.[17]	• The main financial cost of default would be to continue to not be able to access new loans from lenders such as the IMF and World Bank, western governments and private lenders. • Sovereign default may result in a government facing higher interest rates and a lower credit rating among lenders, making it more difficult to borrow.

17 https://www.fitchratings.com/research/sovereigns/sovereign-defaults-hit-record-in-2020-more-are-possible-08-06-2021

06

Sustainable Debt Strategy for Zimbabwe

The country is currently in debt distress, with a significant proportion of its external debt stock being in arrears. The unsustainable stock of external debt has constrained access to concessional financing and to international markets, retarded economic growth, and hampered socio-economic development. The high public debt burden has been exacerbated by the structural weaknesses inherent in the Zimbabwean economy that have constrained the country's ability to generate high and sustainable growth that is necessary to mitigate and even forestall needless debts and their attendant problems.

Borrowing in and of itself is not bad. It becomes bad when it is unsustainable (government cannot service its debt or the debt is crowding out key development expenditures) or the loan is not used for development purposes. However higher levels of borrowing can also be a symptom of a wider and deeper systemic crisis reflecting political and economic instability especially if the debt was contracted to finance recurrent expenditure as is the case in Zimbabwe.

Arrears clearance is a prerequisite for full engagement and ability to borrow from the International Financial Institutions (IFIs). Zimbabwe is currently not considered poor enough to be eligible for the Heavily Indebted Poor Countries (HIPC) initiative. A sustainable arrears clearance strategy must be anchored on inclusive and sustainable growth, improvements in productivity and competitiveness, as well as structural transformation of the economy. Moreover, a stable political environment is very important. Reinhart et al (2012), demonstrate that faster real economic growth has significantly contributed to reducing public debt burdens in a number of advanced economies.

07

Proposed Possible Policy and Regulatory Measures for Sustainable Debt Management in Zimbabwe

The underlying debt crises in Zimbabwe and in most African economies emanate from weak loan contraction processes and public debt management systems. Realising this, in 2018 AFRODAD came up with a Borrowing Charter which contains Principles and Guidelines on sovereign financial borrowing. These guidelines, if followed, are meant to improve the current weak administrative, institutional and legal procedures for loan contraction and public debt management systems.

Objectives of the African Borrowing Charter include the following:

i. To enhance efficient and effective management and use of resources by African governments;
ii. To secure a paradigm shift in the international socioeconomic and political world order to a development process that addresses the needs and aspirations of the majority of the people in the world; and
iii. To facilitate dialogue between civil society and governments on issues related to Debt and development in Africa and elsewhere.

Zimbabwe is a culprit in irresponsible borrowing and ineffective use of loans, grants and donations. In 2021, the Auditor General, in a special audit report on the COVID-19 pandemic Financial Management and Utilisation of Public Resources in the Country's Provinces by Ministries, Departments and Agencies pointed to schematic abuse of funds, revealing how fake names, identity documents and mobile phone numbers were used in the grant looting scheme in which ZWL$890 million may have been stolen. The audit was funded by World Bank and it focused mainly on how COVID-19 relief funds were disbursed as well as the management of quarantine centres and isolation centres, among other issues.

The Charter contains the following principles and guidelines:

i. Adherence to prudent public borrowing and debt management practices;
ii. Existence of predictable rules and regulations;
iii. Coordinated and coherent structures and obligations;
iv. Existence of an autonomous Debt Management Office;
v. Public participation, inclusivity and information disclosure;
vi. Respect for human and people's ecological rights;
vii. Mutual respect and equal partnership with lenders.

In line with some of the Principles and Guidelines in the Charter, Zimbabwe has strengthened the Public Debt Management System through the enactment of the Public Debt Management Act in 2015 that culminated in the establishment of the Public Debt Management Office. Zimbabwe's debt management legal framework is very clear and is rated quite strongly by development partners such as the World Bank and MEFMI as one that meets minimum standards for debt management.[18] The major issue has been Thegovernment's failure to fully comply with the law. Parliament of Zimbabwe has on several occasions highlighted non-compliance of the Ministry of Finance and Economic Development and the RBZ to the Constitution with regards to the contraction, gazetting of loans contracted and guarantee issued as well as failure to present a report on loans raised and guarantees issued by the State and a comprehensive report on public debt.

The Government has enhanced debt transparency through the publication of the 2019 and 2020 Annual Public Debt Bulletins as well as the Statement of Public Debt tabled in parliament on the 25th of November 2021 by the Minister of Finance and Economic Development. The bulletins however exclude information on the cost and risk indicators of the current country's debt portfolio and lack an analysis of loan guarantees. To maintain this transparency, the government in NDS1 undertook to publish comprehensive reports on the performance of the public finances, including public debt reports detailing the stock of public debt and its main features in line with the Constitution and the Public Debt Management Act (Chapter 22:21). Moreover, in the 2020 Annual Public Debt bulletin, the Ministry of Finance and Economic Development has undertaken to strengthen Development Assistance coordination and to host the International Debt Resolution Forum. There is however no timeframe given for the hosting of the International Debt Resolution Forum.

Realising the importance of clearing external payment arrears, the Zimbabwean authorities have promised to take bold steps to re-engage with the international community, with the immediate objective of resolving arrears with the IMF, the World Bank Group and the AfDB.

18 file:///C:/Users/user/Dropbox/My%20PC%20(DESKTOP-E9ADQ6J)/Downloads/20200123-zwe-zim-sitting-on-debt-time-bomb-businesstimes%20(2).pdf

08

Recommendations on Strengthening the Policy and Regulatory Framework for Sustainable Debt Management in Zimbabwe

i. The Parliament of Zimbabwe must commit to undertake, in partnership with CSOs, a comprehensive citizens' audit of the Zimbabwean debt to expose the culpability of all the actors in loan and debt contraction and ascertain what constitutes illegitimate or odious debt. The audit will also ascertain extent of the debt, the loan contraction process, how it was used and/or misused, evaluating the terms of the specific loans and how the loans benefited Zimbabwe. These audits uncover opacity, failure and often criminality surrounding loans. The audit should cover the social, economic and human rights impacts of the loans and debt in Zimbabwe. ZIMCODD contends that Zimbabwe has been shouldering unjust debt since independence, having inherited US$700 million from the Rhodesia Government which was meant to propel racial supremacy but assumed, despite citizens refusal, the RBZ, ZISCO Steel and ZAMCO debts without due processes also escalate the public debt.

ii. The Ministry of Finance and Economic Development, after the Comprehensive debt audit, should craft and implement a Debt Management Framework which encompasses a multi-stakeholder approach in designing realistic and implementable strategies on how to address the current debt challenges while learning from experiences of other countries that faced similar situations.

iii. The government needs to ensure policy consistency as this is an important aspect to communicating its commitment to reforms and efforts to enhance economic stability and growth. In this regard, all policy pronouncements should be centralised in the Office of the President and Cabinet (OPC) while subsidiary legislation provided for under Section 134 of the Constitution should be coordinated by the Ministry of Justice, Legal and Parliamentary Affairs.

iv. All borrowing should be guided by a Medium-Term Debt Management Strategy (MTDMS) to avoid ad-hoc borrowing which worsens the country's debt sustainability. Treasury must monitor and manage its exposure to contingent liabilities, as they pose significant fiscal risks to the budget. In this regard, the Framework for Evaluating, Monitoring and Managing Guaranteed and on-lent Loans that is being developed must be shared with stakeholders and citizens.

v. Treasury should bring, along with the National Budget, a charter of Fiscal Responsibility as is the case in Uganda. This Charter serves as a commitment to fiscal discipline and adherence to fiscal rules to ensure that the primary balance remains within sustainable levels. The charter will also give assurance on the promises to build a track record of implementing comprehensive, sound macroeconomic policies and reforms as articulated in the NDS1.

vi. As rightfully observed in the NDS1, Zimbabwe needs to borrow on concessional terms in the medium to long term and only borrow on commercial terms for financing productive sectors which yield high returns.

vii. Independence of the institutions that advise the government like the central bank is critical to contain debt accrual. There is an urgent need to reform the legislative framework underpinning the RBZ so as to entrench accountability, transparency, and autonomy. Central bank autonomy implies that the RBZ can resist undue influence and pressure from politicians and other vested interests. It also implies more importantly restricting and limiting direct central bank credit to the government.

viii. Government should guarantee full disclosure of all relevant information regarding loan agreements, debt repayments, debt management, outcomes of public debt audits and other related matters. Transparency in the borrowing process should involve greater involvement of civil society and affected groups as well as Parliament. All project documents and evaluations should be made publicly available. CSOs together with the media should ensure that there is widespread dissemination of information on government debt, before, during and after the loan agreements. This will create and facilitate a dialogue on sustainable debt management.

ix. Given the impact of high debt service on education, health, and social services spending, there is a need to include the debt restructuring agenda in the ongoing re-engagement efforts since the resumption of debt service payments may significantly affect resources available for social spending. This is particularly critical given the devastating effects of the COVID-19 pandemic on the social and economic sectors of the country. Government should therefore vigorously pursue the international re-engagement process to restructure the external debt with multilateral institutions, the African Development Bank, and other bilateral lenders.

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