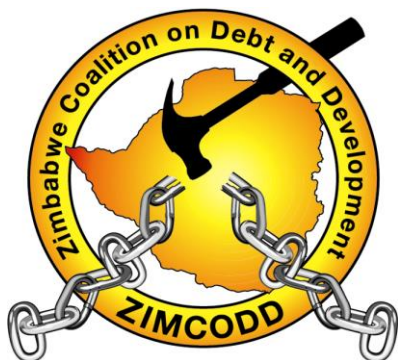


Zimbabwe Coalition on Debt and Development



Investing in people for social and economic justice

Position Paper on Debt Management and Zimbabwe's Re-engagement Process with International Finance Institutions

1. Introduction

As stakeholders gather in London on 05 July for the Africa Confidential hosted *Zimbabwe 2016 conference: Rebooting and Rebuilding*, Zimbabwe's public debt question has remained unresolved despite the government engaging with International Financial Institutions (IFIs) and presenting a debt strategy in Lima in 2015. The country has continued to default in paying its debts for the past decade and a half and the lending financial institutions had not been able to avail more loans to the country before settlement of arrears. The reengagement process that is currently going on between Zimbabwe and its creditors has received mixed feelings amongst various stakeholders. Others view it as a welcome development without reservations and as the only way to kick start the economy whilst for the Zimbabwe Coalition on Debt and Development (ZIMCODD), the call has been on the role of government to ensure the country does not plunge into further and irresponsible borrowing that will continue to be a burden to the ordinary citizens.

Rather, the reengagement process should be focused on assisting the country to improve its public resources management systems that will allow for full and beneficial utilisation of domestic resources for the social and economic benefits of the local people. As a social and economic justice coalition, the Zimbabwe Coalition on Debt and Development (ZIMCODD) remains skeptical of the strategy being tabled in the reengagement process which speaks to arrears clearance through the use of borrowed loans, mortgaging of natural resources and the conditions that come with the debts.

ZIMCODD is also concerned about some processes like the International Monetary Fund's (IMF) Staff Monitored Programmes (SMP) whose outcomes are already manifesting negative social and economic impacts on the ordinary Zimbabweans. ZIMCODD continues to call for a public debt audit to ascertain how a debt of US\$ 8.368 billion¹ was accrued and also to determine the social and economic impacts of the loans on the ordinary citizen. ZIMCODD's message is that any reengagement mechanism with the IFFs should not lead the violation of the citizens' social and economic rights as enshrined in the country's Constitution.

The country's public resources management systems needs improvements in order to plug off illicit financial flows that have led to the loss of over US\$15 billion diamond money according to President Robert Mugabe². A Reserve Bank of Zimbabwe (RBZ) report also claims that Zimbabwe lost \$3 billion through IFFs between 2009 and 2012³. Transparency and accountability in the management of the country's resources continues to be a major area of concern. These resources could have been used for social and economic development as well as paying off Zimbabwe's legitimate debts.

2. ZIMCODD's Position Regarding Debt Management

As the stakeholders are meeting in London, ZIMCODD would like to reiterate its position regarding the debt question in Zimbabwe as follows:

¹ This is an official figure from the Zimbabwean Authorities but different stakeholders continue to give varying statistics which are even higher than this official figure. This confirms ZIMCODD's call for a public debt audit to establish a true figure that will inform appropriate debt management strategies.

² ZBC, 28 February 2016

³ Choto. R., (2016), Zimplats denies knowledge of offshore accounts-
<https://panamapapers.investigativecenters.org/zimbabwe/>

➤ **Call for an Official Public Debt Audit**

Over the years, ZIMCODD has been calling for an official debt audit so as to come up with a true picture of the debt stock and to know who is owed and how much is owed. The process has to be public, transparent, all-inclusive and participatory. It will further determine the social and economic impact of the loans on the ordinary citizen and will inform any future loan contraction process. The legitimacy of the debts will also be determined by an audit. To pave way for the audit and in the interest of social and economic justice, it is recommended for creditors to institute a moratorium on principal and interest payments.

➤ **Public Resources Management**

While ZIMCODD welcomes the enactment of the Public Debt Management Act, more still needs to be done to limit the Minister of Finance's borrowing powers by strengthening the oversight role of the Parliament in the loan contraction processes. Zimbabwe needs transparent and accountable institutions and transparent investment agreements which can guarantee efficient utilization of resources and revenue. This will reduce both illicit and licit financial flows in Zimbabwe thereby allowing the country to deal with its debt question effectively. Furthermore, the establishment of the Zimbabwe Debt Management Office (ZADMO) is a welcome development. However, it should be an autonomous institution for effectiveness.

➤ **Unconditional cancellation of the debts**

Zimbabwe has taken a 'serious' step in addressing the debt issue by accepting some reengagement arrangements with creditors. For instance, in 2013 the IMF approved Zimbabwe's Staff Monitored Programme (SMP). Over the years, there have been discussions and debates around the options available for resolving the country's debt. These include the Heavily Indebted Poor Countries (HIPC) Initiative which entails a country being rated poor according to World Bank standards before qualifying. Moreover, the Multilateral Debt Relief Initiative (MDRI) which complements the HIPC entails cancellation of 100% debt owed to Western governments prior to 2003/2004. Zimbabwe does not officially qualify for this initiative as it not rated as a poor country and has been defaulting on most of its debts. Another option included traditional debt relief through the Paris Club.

ZIMCODD recommends that if there are any conditions on the cancellation of the debts, these should not infringe on social and economic development. In most cases conditions imposed in debt cancellation processes are market-based and they entail cutting on government expenditures on social services which result in increased poverty for the already poorly paid civil servants, increased unemployment, damage to provision of health and education, reduced quality of public services and social and civil unrests. ZIMCODD calls for people-centred policies in addressing the debt overhang.

➤ **Transformation of Lending Policies for Responsible and Legitimate Lending and Borrowing**

On the part of lenders, ZIMCODD calls for responsible and legitimate lending by recommending the following principles:

- i) Fair negotiations between creditor and debtor and an end to unfair interest and penalty clauses.
- ii) The cessation of economic policy conditions on loans which insist on unpopular reforms that are market-based such as wholesale privatization which are harmful to people's livelihoods.
- iii) Risk sharing between both creditor and sovereign debtor, i.e. if a project funded by a loan fails, both creditor and debtor should bear losses. This is consistent with the principle of creditor co-responsibility for unsustainable debt.
- iv) Release funding for supporting people centred development programs that lead to value addition of e.g. cotton and other related products.

In addition, there is need for the creditors to give grants and concessional loans as primary financial assistance to Zimbabwe at the moment instead of loans tied with stringent conditions. Lenders should first determine whether the country has the absorptive capacity, the ability to pay and the social and economic impact of the loans before they give the money. There is also need to assist the country to utilise its domestic resources by supporting measures that plug illicit financial outflows through tax avoidance and evasion among other loopholes. There have to be social, environmental, and poverty reduction analysis before any loan is taken or given.

➤ **Focus on Domestic Resources Mobilisation**

Instead of relying on external funding which comes with conditions that violate people's social and economic rights and people centred development, ZIMCODD calls for the country to focus on domestic resources mobilisation. The conditionalities of foreign aid are detrimental to the development of Zimbabwe as they impose a heavy burden on the poor citizens. Zimbabwe is endowed with vast natural resources hence the need for the country to tap these resources for development to pay off its legitimate debts. Domestic resources mobilisation is predictable and is the most sustainable way of raising resources for development. There is also an urgent need to plug illicit out flows so that more revenue for development can be tapped. There is need to ensure transparency and accountability in the governance of the country's natural resources

3. Conclusion

ZIMCODD therefore calls for the Parliament of Zimbabwe to establish a Public Debt Commission to conduct an official debt audit before any debt relief mechanism can be considered. The commission should utilise the doctrine of odious debt, and recommend the repudiation of any previous loans which fall in this category. Any contracts and agreements that involve such debts and liabilities should therefore be paid by those who benefitted, amended or cancelled. This process will inform the country's future debt management programs. On their part the lenders should also be responsible in their lending for sustainable development.

About ZIMCODD

The Zimbabwe Coalition on Debt and Development (ZIMCODD), is a non-profit Social and Economic Justice coalition established in February 2000 to facilitate citizens' involvement in making public policy and practice pro people and sustainable. ZIMCODD views indebtedness, the unfair local and global trade regime and lack of democratic people-centered social economic and political governance as root causes of the socio-economic crises in Zimbabwe and the world at large. Drawing from community-based livelihood experiences of its membership, ZIMCODD implements programmes targeted at:

- Educating the citizen
- Facilitating policy dialogue among stakeholders
- Engaging and acting on socio-economic governance at local, regional and global levels.

Our vision

Sustainable socio-economic justice in Zimbabwe through a vibrant people based movement.

Mission

To take action in redressing the Debt burden, Social and Economic Injustices through formulation and promotion of alternative policies to the neo-liberal agenda

Objectives

- To raise the level of economic literacy among ZIMCODD members and citizens to include views and participation of grassroots and marginalised communities.
- To facilitate research, lobbying and advocacy in order to raise the level of economic literacy on issues of debt, trade and sustainable development.
- To formulate credible and sustainable economic and social policy alternatives.
- To develop a national coalition and facilitate the building of a vibrant movement for social and economic justice.

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