Sixty Eighth Sovereign Debt News Update: Zimbabwe's Arrears Clearance, Debt Relief, and Restructuring Strategy

By:

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Although Zimbabwe has been an International Monetary Fund Member, (IMF), in good standing since late 2016 when it cleared then outstanding arrears to the IMF, it cannot obtain financial support from the IMF due to its current 'official external arrears and unsustainable debt.' Thus although Zimbabwe has re-engaged with the IMF following its suspension from receiving IMF resources under the Poverty Reduction and Growth Facility between 2002 and 2016, to be eligible for IMF resources Zimbabwe has designed an international re-engagement strategy. This international re-engagement is critical for debt resolution and access to external financial support for Zimbabwe. This re-engagement is dubbed the Arrears Clearance, Debt Relief, and Restructuring Strategy. Led by former President of Mozambique, His Excellency President Joaquim Chissano, and African Development Bank President Dr. Akinwumi

Adesina, a high-level delegation visited Zimbabwe for the just ended Second Structured Dialogue Platform Meeting. This is a platform for dialogue between the Zimbabwean government, its creditors and development partners to discuss the country's debt resolution plan. The initiative has been applauded as a demonstration of commitment by the Zimbabwean government to re-engage and strengthen its relationships with its foreign creditors, and to access new lines of credit to enhance the pace of development.

The strategy critically hinges on the continued strengthening of cooperation with international financial institutions, (IFIs), implementation of comprehensive economic and governance reforms, negotiating for arrears clearance, debt relief and restructuring with the IFIs, Paris Club creditors and non-Paris Club creditors. The 2nd High-Level Structured Dialogue Platform Meeting follows an initial dialogue held in December 2022 with development partners.

According to the latest Treasury statistics, arrears remain a major challenge to the country's economy, constituting more than 77% of total external debt. Zimbabwe's current debt stock is officially reported to be around USD17.5 billion, with USD14 billion accounted as external debt as of September 2022. The accumulation of external debt payment arrears and penalties is estimated at USD6.3 billion, with arrears to multilateral development banks, including the African Development Bank, the World Bank, and the European Investment Bank. Due to its arrears, the Zimbabwean government's capacity to borrow has been negatively affected as the country has not received loans from lenders such as the International Monetary Fund (IMF) and World Bank for more than two decades. Addressing the meeting, Zimbabwean President Emmerson Mnangagwa highlighted the impact of the United States' Zimbabwe Democracy and Economic Recovery Act (ZIDERA) imposed sanctions to the debt situation, noting that "illegal sanctions have seen lines of credit being blocked from multilateral banks like the World Bank which has grossly weighed down progress."

Zimbabwe's creditors have conditioned Zimbabwe's debt resolution plan by calling for reforms as a pre-requisite. Through a three-part strategy, the Government of Zimbabwe is expected to address economic reforms, governance reforms, and respect for property rights including the payment of USD3.5 billion for white farmer compensation. Acting in the capacity of

facilitator between Zimbabwe and her creditors, President Chissano stressed the need to address Zimbabwe's prevailing reputation problem, citing the shared "perception that in some cases the government does not honour agreements and commitments made", warning that "investments will not come to Zimbabwe, if these conditions are not met".

The Arrears Clearance, Debt Relief and Restructuring (ACDRR) Strategy, however, is not the only country's debt arrears clearance initiative as it is preceded by the 2015 Lima Process, the 2012 Zimbabwe Accelerated Arrears Clearance Debt and Development Strategy (ZAADS), the 2010 Sustainable and Holistic Debt Strategy, and the 2001-2008 Domestic Debt Restructuring. All these strategies were to no avail.

Re-engagement with creditors for arrears clearance remains critical in unlocking new external financing in the post COVID-19 period and in the context of continued climate shocks. Access to credit from international financial institutions remains a top priority for Zimbabwe for the country to gain access to concessionary loans to finance the country's development. It, however, remains to be seen whether there is political will from the Zimbabwean government to meet the set conditions and move from dialogue to action through implementation. In his speech as the country's appointed debt champion, Dr. Akinwumi Adesina reiterated the significance of collective action to build the *much-needed trust, momentum, and implementation, and ensure that all the elements of the central-pin strategy are delivered*. Dr, Adesina stressed the importance of addressing issues of freedom of speech, human rights protection, which are inextricably linked to Zimbabwe's economic troubles.

A clear route is needed toward fully restructuring Zimbabwe's external debt, including the payment of arrears and a reform strategy that is consistent with long-term macroeconomic stability restoration, improving inclusive growth, reducing poverty, and bolstering economic and political governance especially in light of the upcoming 2023 elections. Dr. Adesina indicated that following a "high level" meeting with Zimbabwe's creditors, which is scheduled for the second week of May 2023, the exact amount to be written off would be discussed. The Zimbabwean government has also been applauded for extending an invitation to civil society working around the issues of debt and development in the country to attend and participate in the High-Level Meeting.

Speaking on the side-lines of the meeting, one debt analyst highlighted that the meeting should be marked as a significant process for the settling off of the country's debt as the longer the matter is delayed, the more arrears the nation builds up. A prominent civil society grouping, however, expressed explicit concerns, as well as recommendations around issues of odious debt burden, lack of transparency in debt accumulation, and the net effect of austerity on the poor.

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