Eighty Third Sovereign Debt News Update: Sanctions-Talk comes up as USA refuses to fund Zimbabwe Arrears Clearance and Debt Restructuring Strategy

By:

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On Wednesday the 24th of May, the Zimbabwe delegation led by President Mnangagwa held a side event on the country's progress concerning its arrears clearance and debt restructuring strategy at the African Development Bank 2023 Annual Meetings. Zimbabwe is facing an external debt crisis which has made it difficult for the country to secure loans from international financial institutions such as the International Monetary Fund (IMF) due to arrears. Through the country's Arrears Clearance, Debt Relief, and Restructuring Strategy, the Zimbabwean government says it is committed to the implementation of key reforms critical to resolving the country's nearly $8.3 billion of debts and arrears.

The Annual Meetings of the African Development Bank (AfDB) Group were held from the 22nd to the 26th of May and hosted in Sharm el-Sheikh, Egypt. The side event, which was held in the form of a round-table discussion, was held to update development partners and creditors on the path taken by Zimbabwe to resolve its arrears and debt situation. The roundtable was attended by representatives of the United Nations (UN), the International Monetary Fund (IMF), the World Bank (WB), Switzerland, the United States of America (USA), the Southern African Development Community (SADC), and the Common Market for Eastern and Southern Africa (COMESA), among others.

It comes as no surprise that Zimbabwe was given such spotlight as Dr. Akinwumi Adesina, who is the African Development Bank President, was appointed as the official debt champion by President Emmerson Mnangagwa to lead the debt clearance roadmap in 2022. Since then, Zimbabwe is at its 4th Structured Dialogue Platform Meeting under the Arrears Clearance and Debt Resolution Process. In a government-led and owned process, a set of matrices have been developed outlining several reforms to be undertaken by the government, covering economic, governance, land tenure and compensation of former commercial farmers issues. These reforms, which have been a result of substantive discussions, offer a set of realistic and achievable commitments to be undertaken by the Government of Zimbabwe, drawn from the country's National Development Strategy 1 (NDS1), with specific thresholds and target indicators drawn from internationally recognized standards, to measure performance. Overall, Adesina highlighted that over the past 18 months, a lot of work has been put towards institutionalizing "a platform for regular, constructive, and open dialogue that is key for trust and confidence building among all stakeholders."

Speaking during the Roundtable meeting, the US Assistant Secretary of Treasury, Eric Meyer said they (USA) will not support Zimbabwe as long as the Zimbabwe Democracy and Economic Recovery Act (ZIDERA) is still in force. The US enacted ZIDERA in 2001 in response to Zimbabwe's "fast-track land reform" programme, thus placing the Zimbabwean government on a credit freeze through, specifically, Section 4C of the Act titled "Multilateral Financing Restriction". Meyer emphasized that "*the Act does bind us (US) in opposing lending (to Zimbabwe) from international financial institutions and until definitely certain criteria under ZIDERA are made*. These criteria are related to the rule of law, free and fair elections, pre-elections insisting on international standards, land reform and related civilian authority over the military and the police.” In closing, Meyer noted that it is “*imperative for the Zimbabwean government to demonstrate credible progress in implementing governance, economic and land reforms and not just reaching agreements with partners but not implementing those agreements*.”

In extending their support to the Zimbabwean government, different creditor nations and development partners in attendance expressed varied views concerning Zimbabwe’s progress. The Executive Director for Zimbabwe at the IMF, Mr Willie Nakunyada, said that the executive board meeting held on March 15 *welcomed the progress Harare has made to exit the grey list, and urged the Government to continue consolidating the gains made so far and ensure financial integrity*. Mr Nakunyada also highlighted that the IMF executive directors were keenly waiting the Staff Monitored Programme (SMP) request in line with the economic reforms.

The World Bank Director for Regional Integration for Sub-Sahara Africa, Ms Boutheina Guermazi, reasserted the bank’s commitment to support the government by *mobilizing resources through the multi-donor platform and other global funds to contribute towards building capacity*. The United Kingdom representative at the meeting, Mr Phil Stevens, said that the UK *welcomes the inclusive approach and highlighted the importance of keeping all players, civil society, political parties and private sector involved*. He however underscored that the UK supports the internationally monitored outcome indicators of the reform matrix and that it is the achievement of the indicators that will achieve arrears clearance rather than mere plans.

As Zimbabwe heads for elections later this year, the credibility of the election process continues to top discussions. The conduct of free, fair, credible, and violence-free elections is one of the 16 indicators regarded as crucial to the success of the Structured Dialogue Platform aimed at addressing Zimbabwe’s debt and arrears situation. The UK representative also highlighted that delivering free and fair elections was central to all efforts being made. The SADC Executive Secretary, Mr Elias Magosi, added that SADC plays a key role in delivering elections in the region and that a SADC Observer Mission would be deployed to Zimbabwe. To this end, President Mnangagwa assured delegates that his government had put in place measures to ensure a credible election would be delivered.

One of the world's big three rating agencies, Fitch Solutions, has predicted an election victory for President Mnangagwa, citing that the victory will come through the ruling party's use of money and the advantage of incumbency. According to the report, Fitch Solutions predicts "a rising likelihood of unrest in the run-up to and aftermath of the elections, prompting us to revise down the short-term political risk index score from 38,8 to 37,9, below the Sub-Saharan Africa average of 50,1." Overall, the rating agency holds that *reform momentum under another Mnangagwa presidency will remain weak and will constrain the country's medium-term macroeconomic outlook*. Against this background, and as the dialogue meetings are expected to continue after the elections, it remains to be seen how the elections will impact the arrears clearance and debt restructuring process.

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