One Hundred and Twenty-Sixth Sovereign Debt News Update: Zimbabwe Inches Towards Commitments Under its Arrears Clearance Program

By:

The African Sovereign Debt Justice Network

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Zimbabwe finds itself at a critical juncture as it confronts a staggering public debt. As at July 2024, Zimbabwe's debt profile has risen to more than USD$21 billion- making the debt unsustainable as the debt constitutes 96.7% of the national output (GDP), contrary to the 70% threshold provided for by section 11 of the Public Debt Management Act. In light of this financial burden, the government is making strategic moves to engage with international creditors. It is imperative to highlight that Zimbabwe, through its Arrears Clearance, Debt Relief and Restructuring Process (ACDRRP), has taken a unique approach to debt restructuring as it has centred re-engagement with its creditors in order to reorganize its debt and clear arrears in order to create fiscal space and address its immediate needs. Despite an increase in its debt profile, the government of Zimbabwe is seemingly making progress towards putting the Arrears Clearance, Debt Relief and Restructuring Process into motion.

Current Debt Situation

As of 2024, Zimbabwe's public debt has escalated alarmingly from ZWG287.2 billion (USD$17 billion) at the end of December 2023 to Z$129.3 trillion (over USD$21 billion). This sharp increase has raised concerns not only about the sustainability of the debt but also about the government's capacity to manage it responsibly. Furthermore, a notable discrepancy of USD$2.7 billion in reported debt figures has emerged, prompting calls for greater transparency in the government's financial reporting. Deputy Minister of Finance David Mnangagwa, son to the President of Zimbabwe Emmerson Mnangagwa, has acknowledged that these figures are undergoing a validation and reconciliation process, indicating potential issues with how funds were utilized and whether they were directed toward their intended purposes. It is clear that, among several factors, the government’s efforts to address the debt crisis are being hindered by the lack of clarity on the exact figures contracted and how the funds were used. The delays in the process of validation and the reconciliation, particularly for the debts that the government assumed from the Reserve Bank of Zimbabwe (RBZ) have been due to uncertainty as to what exactly these monies were used for, and if they were actually used for the purposes they were contracted for. These elements are central to the principles of transparency and accountability in debt management.

Token Payments

Speaking on the sidelines of the African Development Bank annual meetings in Nairobi, Kenya in June 2024, the Finance Minister Mthuli Ncube said the government intends to continue making quarterly token payments to international financial institutions as a show of commitment. Since the symbolic remittances began in 2021, Zimbabwe has cumulatively paid the World Bank USD$70 million, the AfDB USD$37.4 million and the EIB USD$5.6 million. Due to Zimbabwe’s diverse creditor composition, the government is also making quarterly token payments of $100,000 to each of the 16 Paris Club bilateral creditors, with cumulative token payments made to date standing at USD$12.7

million.

Advisory Engagement

The complexity of the ACDRRP has necessitated a nuanced approach to debt management, emphasizing the importance of advisory support and transparent negotiations to restore economic stability and foster confidence among stakeholders. As such, Zimbabwe's government has hired financial and legal advisers to help navigate potential talks with international creditors over the $21 billion it owes. Paris-based boutique firm GSA & Co. SAS, founded by a former Rothschild & Co. banker, and law firm Kepler Karst, which specializes in debt restructuring and insolvency, signed engagement letters to provide Zimbabwe with advice on debt management. The advisory firms were hired via the African Legal Support Facility, an organization hosted by the African Development Bank that provides "legal advice and technical assistance" to African governments in issues such as sovereign debt. Undoubtedly, this partnership underscores a commitment to professional financial guidance and enhances the government's ability to formulate a coherent strategy to address its debt crisis effectively.

Compensation of Farmers and Policy Shift on Property Rights

As noted in the Sixty Eighth Sovereign Debt News Update, Zimbabwe’s creditors 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, including respect for property rights including the payment of USD3.5 billion for white farmer compensation. On the 9th of October 2024, it was reported that Zimbabwe has initiated compensation to foreign and local farmers whose lands were forcibly taken during the controversial Fast Track Land Reform Program (FTLRP), totalling USD$$3.5 billion. According to reports, the government has raised USD$$1 billion locally and is seeking international loans to cover the remaining amount.

Of the available USD$$1 billion, Zimbabwe has announced plans to pay USD$$20 million to foreign and local farmers whose lands were seized during farm invasions in 2000 under former leader Robert Mugabe. The compensation, part of the 2024 budget, targets 4,000 white Zimbabwean farmers, with beneficiaries including foreign farmers from countries like Belgium and Germany, and 400 black Zimbabweans. This compensation, targeting both foreign and local farmers, is viewed as a critical step toward reconciliation and a move to restore Zimbabwe's international standing. By addressing these past injustices, the government hopes to rebuild trust with its creditors and pave the way for more favourable negotiations.

On the other hand, the Zimbabwean government has also announced a major policy shift allowing beneficiaries of the 2000 land reform programme to sell their properties. In implementing the new policy, priority will be accorded to veterans of the liberation struggle, the disabled, youths and women, among other marginalised demographic groups. It is imperative to note that according to sections 72 and 290 of the 2013 Constitution of Zimbabwe, all agricultural land is vested in the state and can only be occupied by a lease or other agreement with the State (section 291). Under the new policy, the government will now issue bankable, registrable, and transferable tenure certificates to these landowners. Put in simpler terms, these beneficiaries can now freely use the land as collateral in securing loans from banks, as well as sell it if they so desire. Effectively, this translates to the suspension of the issuance of new 99-year leases and agricultural land permits, as the government has issued an indefinite moratorium. While this has been applauded for its potential to enhance their security and unlock economic value through the respect of these property rights, the constitutionality of such policy has been questioned.

Overall Economic Outlook

Poor public finance and management continue to contribute to undermining the government's capacity to fund socio-economic rights. The nation's authorities devalued the currency by 43% on September 27, 2024. Since then, the Zimbabwe's Gold-Backed (ZiG, the country's sixth attempt at a functioning local currency over the past 15 years) has weakened by a further 6% against the dollar. In October 2024, the IMF cautioned that the ZiG cannot fix deeper issues within the economy. Interestingly, in May 2024, the IMF welcomed the ZiG as an important and positive step. Meanwhile, inflation is rising and the central bank hiked interest rates. As part of its strategy to address its debt crisis, Zimbabwe has been preparing for an anticipated mission from the International Monetary Fund (IMF), which was expected to visit in October 2024.

This mission is crucial as it seeks to establish a new Staff Monitored Program, which is a prerequisite for formal debt restructuring discussions with international creditors. In the meantime, an IMF technical assistance team has supported a World Bank report that has raised concerns about the stability of Zimbabwe's local banks. In July 2023, actuarial science data showed most banks failed to remain adequately capitalised and were on shaky ground, despite holding billions of depositor funds based on Basel III Standards. According to one source, the report highlights Zimbabwe's banking sector challenges, including liquidity risk and non-performing loans, and offers recommendations to strengthen risk-based supervision. The IMF therefore urges the Reserve Bank of Zimbabwe to treat the adoption of Basel III global liquidity standards in Zimbabwe as high priority.

Conclusion

In conclusion, Zimbabwe's ongoing efforts to manage its escalating public debt of over USD$21 billion reflect a crucial phase in its economic recovery strategy. Steps taken towards the implementation of the Arrears Clearance, Debt Relief, and Restructuring Process signals a commitment to transparent engagement with international creditors. However, the challenges of verifying debt figures, alongside the need for accountability and reform, all the while remaining within the confines of the Constitution and the law, remain significant hurdles. Ultimately, the success of Zimbabwe's debt restructuring will depend on its ability to maintain stakeholder confidence while fostering an environment conducive to economic stability and growth. Undoubtedly, the upholding of key principles of transparency, accountability, good governance and the rule of law remains pivotal in achieving the goals of this process.

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