Sovereign Debt News Update No. 139: The Mutapa Investment Fund Recapitalization and Its Implications on Zimbabwe's Debt Relief Prospects

By:

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Introduction

According to the November 2024 Zimbabwe Public Debt Management Report, public and publicly-guaranteed debt as at September 2024 rose to ZiG524.3 billion in nominal terms (US$21.1 billion) from ZiG287.2 billion (US$21 billion) as at the end of June 2024. The rapid increase in ZiG terms may be attributed to the devaluation of the local currency, given that 98.3 per cent of the total Public and Publicly Guaranteed debt is denominated in foreign currency, according to the Report. The Zimbabwean government has since taken a unique approach in engaging with international creditors in a bid to clear its external debt through the Arrears Clearance, Debt Relief and Restructuring Process (ACDRRP). This process is aimed at creating fiscal space and addressing its immediate needs. Since 2023, the government has been intensifying its request for a Staff-Monitored Program (SMP). As such an International Monetary Fund (IMF) staff team conducted a mission to Harare from January 30 to February 13, 2025 to discuss this and many other related issues. According to a press release by the IMF, the main objective of the SMP would be to anchor macroeconomic stability, building on policy recommendations from the 2024 Article IV consultation which was concluded on June 27, 2024.

As reported in the One Hundred and Twenty-Sixth Sovereign Debt News Update, the Zimbabwean government has been making intentional efforts towards improving its fiscal profile. The most recent effort includes the restructuring of its US-denominated treasury bonds. According to the Zimbabwe Public Debt Report released in November 2024,the government initiated a debt restructuring process for its outstanding US$-denominated Treasury bonds, with maturities spanning from the fourth quarter of 2024 through 2034. This restructuring was necessitated by a constrained fiscal environment and seeks to achieve sustainable debt service levels. Notable maturities include US$177 million which, reportedly, was due in the final quarter of 2024 and US$738 million throughout 2025, which were poised for restructuring. The exercise was considered critical for preserving fiscal sustainability and ensuring the government's capacity to meet its debt obligations while maintaining essential public services and promoting economic growth. All of these indicate significant efforts by the Zimbabwean government to manage its debt burden and restore fiscal stability.

Reflecting on the government’s efforts at managing sovereign debt, President of the African Development Bank, Mr. Akinwunmi Adesina, informed attendees at a High-level Structured Dialogue Platform meeting that the ongoing IMF Staff Sponsored Programme was ‘a significant milestone towards concretising the arrears clearance and debt resolution’. On November 25 2024, Reuters reported that government officials had hosted creditors and finance executives in a bid to discuss plans to clear its debt arrears and restructure about USD $12.7 billion in external debt in a bid to regain access into international financial markets for the first time in more than two decades. Indeed, the issue of its debt arrears are a focal point as it constitutes a major challenge to the country accessing international finance markets. However, a recent report which reveals that a recent development poses a great risk to the positives that have been attained thus far. This Update will discuss this new development in the form of the Mutapa Investment Fund (the Fund), and news of the recapitalization of the Fund. The update posits that this development may be regressive to recent attempts made by the Zimbabwean government at improving its status in the international financial markets.

What is the Mutapa Investment Fund and how is its Recapitalization Relevant to Zimbabwe’s Attempts at Debt Relief?

The Mutapa Investment Fund was introduced in September 2023 as the new name for the country’s 2014 sovereign wealth fund and has a portfolio of 30 state-owned enterprises through which it aims to preserve and grow wealth. As an example of its commitment to its Vision 2030, which aims to elevate the country to upper middle-income status by 2030, the Fund signed a USD $50 million joint preparation project facility with Afreximbank in December 2024, targeting development across key economic sectors. According to a report released by The Sentry in July 2024, the government made a decision to recapitalize the Mutapa Investment Fund. This decision led to a rise in total public debt by USD $3 billion. Following the recapitalization exercise, the Fund received USD $1.9 billion, while the Reserve Bank of Zimbabwe was allocated USD $900 million. The Newshawks reported that until around early 2024, the government owned 65% of Kuvimba– which has also been referred to as the “ jewel in the crown of the Fund”, while private investors held 35% of the shares. The report revealed that in April 2024, the Fund bought out the private investors for $1.6 billion using a Treasury Bill. However, there has not been a great deal of transparency and accountability regarding this deal and the private investors who were bought out. This is exacerbated by the fact that a USD$1.6 billion price tag for a 35% stake would value Kuvimba at $4.6 billion overall—a figure triple the $1.5 billion valuation given to Kuvimba by the government in 2022. According to the report by the Sentry, this would raise serious questions about whether the Fund has grossly overvalued the Kuvimba shares. As a result of the quasi-murkiness of the deal, there have been concerns expressed about its on the debt relief initiatives which the government seeks to embark on. Zimbabwe's financial stability is being severely strained by escalating debt levels, leading analysts to express concerns about the country's ability to secure debt relief. The Sentry reports that this recapitalization, which amounts to a debt increment equal to 5% of GDP, necessitates greater sacrifices from commercial creditors, from whom the government seeks to secure haircuts. Moreover, the lack of transparency regarding the deal risks jeopardizing creditor confidence in restructuring initiatives if accountability is not seen to be done. To echo the calls by the Zim for All Foundation, a political pressure group focused on advocacy for Zimbabweans, there must be full disclosure of '*the sovereign wealth fund's operations, governance structure, and strategic direction to ensure that it serves the interests of the people rather than perpetuating economic inequalities*'.

Conclusion

In essence, Zimbabwe's dual strategy of restructuring its existing US$-denominated Treasury bonds whilst recapitalizing the Mutapa Investment Fund presents a complex and potentially contradictory picture. While the debt restructuring aims to alleviate fiscal pressures and secure long-term sustainability, the substantial $3 billion injection into the Fund, particularly the $1.6 billion buyout of private Kuvimba shareholders, has triggered a surge in the national debt. Coupled with the lack of transparency surrounding the Fund's operations, this threatens to undermine the very debt relief initiatives the government seeks. The tension between these actions highlights the precarious balance Zimbabwe must maintain- addressing immediate financial constraints while navigating the critical need for international creditor confidence and domestic accountability. Ultimately, the success of Zimbabwe's fiscal management hinges on its ability to demonstrate both responsible debt management and transparent governance, which will be crucial in ensuring the country's long-term economic stability and its ability to secure much-needed debt relief.

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