

Talknice Saungweme¹
Nicholas M. Odhiambo

DEBT DYNAMICS IN ZIMBABWE: REFORMS, TRENDS AND CHALLENGES

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Abstract: *The decades of economic crisis and political uncertainties in Zimbabwe since independence in 1980 have culminated in exponential increases in the central government's indebtedness. This paper, therefore, seeks to examine the evolution of government debt, both domestic and foreign, in Zimbabwe from 1980 to 2015. At the centre of the discussions are the public-debt structural reforms and frameworks, debt trends and the associated debt-management challenges over the review period. The paper identified four distinctive phases of public-debt evolution in Zimbabwe between 1980 and 2015: (1) 1980 to 1989, in which government debt was still small, but increasing gradually; (2) 1990 to 1997, in which public sector indebtedness was increasing exponentially – mostly due to substantial economic structural adjustment reforms, maturity of previous debts and severe economic crises; (3) 1998 to 2008, in which economic recession and subsequent revenue constraints led to the massive accumulation of public debt arrears; and (4) 2009 to 2015, in which the country experienced an economic rebound leading to some paltry payments on foreign public debt arrears. Among the recommended government debt management principles in Zimbabwe is the need to devise market-friendly trade and investment policies that would enable the government to expand its revenue base, thus effectively reduce the state's reliance on debt financing and also avoid the future accumulation of any arrears.*

Keywords: *Government debt, domestic public debt, foreign public debt, Zimbabwe*

1. Introduction

Theoretical hypothesis on government debt and economic growth have produced ambiguous conclusions due to cross country heterogeneity and new economic and financial developments in the world.

According to the International Monetary Fund (IMF) (2013), for instance, high levels of public indebtedness depresses the growth prospects of economies, hence debt should be avoided were necessary or else it should be dealt with as soon as it emerges. Whereas numerous previous studies support a negative link between government debt and economic growth, recent empirical literature provides no basis for a causal link between these two variables (Panizza & Presbitero,

¹ Corresponding author: Talknice Saungweme
email: talknice2009@gmail.com

2013). To Panizza and Presbitero (2013), the absence of causal relationship between government debt and growth does not imply that public debt doesn't matter. Other empirical studies support the neutrality of public debt on economic growth as postulated by David Ricardo (Kaur & Kaur, 2015; Pradhan, 2015; Wagner, 1996). To Cecchetti, et al., (2011), however, government debt is neutral to growth for debt-to- gross domestic product (GDP) ratio of between 75% and 90%, before which it will be positive and after which the relationship turns negative.

Hence the debate of the linkage between public indebtedness and economic growth is incomplete and this paper seeks to extend the discussion to Southern African Development Community countries, using Zimbabwe as the case. Zimbabwe has got two aspects of interest which help in the analysis of public debt evolution over the years; (1) the country has not received debt relief from its creditors and (2) the country adopted the multicurrency system in 2009 and both domestic and foreign public debt started to be issued in foreign currency denominations (IMF, 2013; Government of the Republic of Zimbabwe "GoZ", 2009). Following the dollarisation initiative in 2009, in addition to globalisation and diversifications in public debt securities, it may be difficult to actually differentiate the holders of government debt in Zimbabwe and the net effect of the debt holders' composition on the country's growth process since 2009. Currently, Zimbabwe is one of the world's highly indebted countries with acute fiscal challenges caused by, among other things, contracting government revenue base and a prolonged hyperinflationary period that ended in January 2009 (World Bank, 2013; Besada, 2011).

By the turn of the new millennium, Zimbabwe was in serious public debt crisis, resulting in failure by the country to honour both its principal foreign public debts and protracted arrears (Leo & Moss, 2009). According to the International Monetary

Fund (2009), Zimbabwe was in 2001 the only country with protracted arrears to the Poverty Reduction and Growth Facility Trust Fund. Subsequently, the World Bank, the International Monetary Fund and the African Development Bank (AfDB) imposed a ban to Zimbabwe on new borrowings, a scenario which forced the government to change its foreign policy and began focusing on the Asian market for commodity markets, foreign direct investment and new loans (Stiftung, 2004). In October 2016, Zimbabwe's cumulative public and publicly guaranteed debt amounted to US\$11.2 billion, which represents 79 percent of gross domestic product (World Bank, 2016).

In view of this background, this paper intends to discuss on the public debt reforms, trends and challenges in Zimbabwe from 1980 to 2015; highlighting on the institutional restructurings, policy shifts, statutory debt frameworks, as well as public debt structure and trends. The rest of the paper is organised as follows: Section Two covers government debt reforms in Zimbabwe since 1980. This will be followed by an exploration of public debt structure and trends in Section Three. Thereafter, Section Four will discuss the challenges of public debt management in Zimbabwe, while Section Five concludes the paper.

2. Government debt reforms in Zimbabwe

The highly unsustainable public debt of Zimbabwe, amounting to US\$11.2 billion by end of October 2016, has over the years been depressing economic growth through crowding out private sector investment, promoting massive capital flight and discouraging new foreign capital inflows (IMF, 2016a). The government's high record of foreign debt repayment defaults since 1999 is among the numerous reasons for the country's lower world credit rating, which ultimately increased the cost of foreign finance to both the government and the private sector (Sibanda & Dubihlela, 2013).

More so, the country's public debt overhang and high political and economic uncertainty between 1999 and 2009 led to the suspension or cancellation of several financial support and poverty alleviating programmes and projects by most traditional international creditors beginning 2002 (Zimbabwe Economic Policy Analysis and Research Unit "ZEPARU", 2010).

Conscious of the negative effects of its domestic and foreign debts on national development, the government of Zimbabwe began instigating a broad range of public debt reforms focusing on, among others, improvement in public finance management; modification and enactment of new revenue laws; establishment of new institutional arrangements that enhance effective foreign aid and debt synchronisation; reduction in social safety net; implementation of staff capacity building programmes to ensure sound public debt management practices; privatisation, restructuring and commercialisation of state enterprises; and enhancement of financial sector stability (Brett, 2005; Ministry of Finance and Economic Development "MOFED", 2014; Reserve Bank of Zimbabwe "RBZ", 2007). According to the Ministry of Finance and Economic Development, public debt reforms are required to solve the country's debt burden thus unlocking fresh financing for economic growth and welfare enhancement (MOFED, 2010; 2011). The debt reforms adopted by the government of Zimbabwe were partly guided by the need to accomplish the Southern Africa Development Community (SADC) public-debt-to-GDP target of less than 60% (African Network on Debt and Development "AFRODAD", 2014).

Following the adoption of the "Growth with Equity" policy in 1980, government recurrent expenditures increased exponential resulting in fiscal disequilibria, and hence the impetus to borrow, mostly from abroad (Besada, 2011). By 1990, the high wage bill, excessive subsidies on loss making parastatals, together with rising interest

payments on the government's domestic debt further aggravated budget deficits prompting the need for domestic public debt reforms so as to lessen the rising fiscal burden (RBZ, 2003). Accordingly, the government in the mid-1990s through the Parastatal Re-orientation Programme (PRP) started to privatise and commercialise most public enterprises (Besada, 2011; RBZ, 2007). Some of the parastatals that were privatised include the Dairibord Zimbabwe Limited (DZL), the Cotton Company of Zimbabwe (Cottco) and the Commercial Bank of Zimbabwe (CBZ Holdings), while the National Railways of Zimbabwe (NRZ), and Zimbabwe United Passenger Company (ZUPCO) were among the enterprises that were commercialised (RBZ, 2007). According to the central bank, the state enterprise restructuring exercise eased the government's domestic borrowing needs by partially containing rising budget deficits.

Also, in order to curtail unsustainable domestic indebtedness, the government in 1991 embarked on extensive revenue reforms through the newly adopted structural economic adjustment programmes. Although Zimbabwe used to undertake general tax reforms from as early as 1975, the major ones happened after 1991 following successive economic crises and declining international financial support (Jones, 2011). Sales tax reforms, for instance, began in 1985 with an increase in the general sales tax from 10% to 25% in the same fiscal year (Chidakwa, 1996). The government in 1994 amended the Sales Tax Act to allow for instalments in tax payments, and in 1997 it further revised the Act by adding provisions which dealt with bad debts (Finance Act 17 of 1997). When the Sales tax revenue could not match the expenditure needs of the country, in the face of de-industrialisation and inflationary environment, the government in 2004 introduced the value added tax (VAT) (RBZ, 2005). Other taxes that were modified and scaled up to boost government revenues were Pay as You Earn (PAYE) and income tax rates (Gono, 2008).

Of recent, in 2015, the government of Zimbabwe broadened its tax base by introducing two new taxes; (1) the five-percent turnover tax on tobacco and (2) the five-cent levy on every mobile network transaction (GoZ, 2015a).

With the drying up of international aid and loans, amid perpetual economic recession after the year 2000, the government embarked on a series of institutional reforms aimed at improving revenue collections. Thus in 2001, the Department of Taxes and the Department of Customs and Excise were merged to form the Zimbabwe Revenue Authority (ZIMRA) (GoZ, 2014a). The thrust of forming ZIMRA was to (1) enhance revenue collections, (2) facilitate trade and (3) improve efficiency in revenue administration; thus taming the domestic public borrowing needs of the country, in addition to boosting the country's ability to pay back international loans, principal and arrears (GoZ, 2014a).

To counter the domestic public debt trap, some of the government implemented reforms include debt restructuring and recapitalisation initiatives, as well as the introduction of new domestic public debt instruments (IMF, 2003). Chief among the debt restructuring exercise was the suppression of domestic interest rates by the central bank (AfDB, 2005). The interest rate policy was complemented by abrupt shifts in foreign exchange systems, in favour of a fixed exchange rate system, enactment of foreign exchange surrender requirement directive on exporters by the reserve bank (RBZ, 2003). The government's strategy to suppress interest rates helped to subdue national debt through reduced domestic interest payments on arrears and principal debt (Central Statistical Office "CSO", 2005). However, this policy destroyed the private sector impetus to invest and export thus worsening the economic crisis in the country (AfDB, 2014).

In 2004, following a rapid increase in domestic public borrowing, due to debt

recapitalisation, unbudgeted increases in civil service wages, surging domestic interest payments and increasing quasi-fiscal activities of the central bank, the government began to undertake some stringent expenditure reforms (Jones, 2011). Some of the reforms include the rationalisation of military and social safety net related expenditures (RBZ, 2005). According to Karenga and Mutihero (2009), between 2004 and 2009, a number of government welfare programmes were either suspended or restructured in order to increase fiscal space. For instance, following relentless government cash flow constraints, the government discontinued higher and tertiary student education grants in 1998, replacing them with student loans which were, however, gradually phased out by end of 2006 (Shizha & Kariwo, 2011). From 2015, the government has been contemplating on reducing its grant support to universities in order to ease the civil service wage bill (MOFED, 2014).

In the multicurrency era, domestic public debt reforms include the adoption of the cash budgeting system and introduction of new government securities in secondary market. According to the 2009 budget statement, the Government of National Unity (GNU) effected the cash budgeting system to circumvent further accrual of domestic debt. The cash budgeting system restricted government expenditures to available revenue instead of the cash flow profile associated with approved estimates. The cash budgeting system insulated monetary operations from fiscal operations and the domestic debt market was made inactive. However, in 2014, the government abandoned the cash budgeting system leading to the rejuvenation of excessive fiscal deficits, which aggravated domestic public borrowing and a slowdown in economic growth (IMF, 2015). As a control measure to the rising domestic public indebtedness, the Minister of Finance and Economic Development was instructed by the parliament to set out clearly in the fiscal

policy the volume of net treasury securities issuance to be conducted for fiscal policy purposes each year, and how the raised money would be used (ZEPARU, 2013). Also, in a move meant to end quasi-fiscal activities by the reserve bank, the GNU in 2009 appointed the Commercial Bank of Zimbabwe as the state's bank while modalities were being put in place to restore financial sanity at the apex bank (GoZ, 2009a; 2009b).

In 2014, the government for the first time started to trade infrastructure bonds (GoZ, 2014b). The introduction of the 5-year tenor infrastructure bonds at a fixed interest of 9.5 percent, has not only enhanced financial deepening in the economy but also contributed to a paradigm shift in the structure of government debt. Also, the introduction of long term debt instruments by the government was intended at minimising rollover risk and lessen borrowing expenses associated with short term debt (Infrastructure Development Bank of Zimbabwe "IDBZ", 2016). Until now, the government has raised US\$5 million, \$15 million and \$22 million in 2015, 2016 and 2017, respectively, through the trading of infrastructure bonds on the capital markets (IDBZ, 2015, 2016; GoZ, 2017). At present, the government debt securities are being traded on the Zimbabwe Stock Exchange in the same manner as other stocks.

To provide for the management of public debt in Zimbabwe on a statutory basis, mainly foreign public debt, the public debt reforms included public sector financial reforms and the institutionalisation and operationalisation of a Debt Management Office, which is currently housed in the Ministry of Finance and Economic Development. The responsibilities of the Debt Office are among others, to ensure public debt database validation and reconciliation with all creditors and to provide for the raising, management and servicing of loans by the state (GoZ, 2015b). The Public Management Act Amended (2015) further stipulates that the Debt Office

shall (1) formulate and publish a Medium Term Debt Management Strategy, (2) formulate and publish an annual borrowing plan, which includes a borrowing limit, and (3) undertake an annual debt sustainability analyses (MOFED, 2012).

In 2011, the GNU instituted several foreign policy shifts, intended at reducing the country's foreign public debt overhang, by re-engaging with creditors and the global community. The intention of the new re-engagement policy reform was to seek comprehensive debt relief initiatives, as well as opening up new lines of offshore financing. Accordingly, in 2011, the government started to make paltry debt payments to the Bretton Woods institutions and the African Development Bank, an initiative that was aimed at seeking debt rescheduling (RBZ, 2014). To spearhead the re-engagement process, the government formulated the Accelerated Re-engagement Economic Programme (ZAREP). More so, the formulation of ZAREP was meant to promote fiscal sustainability through proper expenditure management, monitoring and wage policy reviews (GoZ, 2015c: 14). The emergence of Staff Monitored Programme (SMP) between the Zimbabwean government and the International Monetary Fund in 2013 is an indication of the success of the re-engagement policy with its traditional creditors (IMF, 2015). The Staff Monitored Programme focuses on putting public finances on a sustainable course, enhancing public financial management, facilitating diamond revenue transparency, and restructuring the central bank (IMF, 2013).

In related institutional and revenue structural reforms, the government in 2015 managed to amalgamate all diamond companies into one, under the name Zimbabwe Consolidated Diamond Corporation (ZCDC) (Parliament of Zimbabwe, 2017: 12). The Zimbabwe Consolidated Diamond Corporation came as result of the IMF's recommendations to improve on diamond revenue transparency and accountability (IMF, 2015). However,

the progress on structural reforms, especially measures to increase diamond sector transparency, has been very slow.

To avoid worsening the foreign public debt situation of the country, especially from fresh loans from Asian countries, the government in 2010 enacted a new debt management law, the Public Debt Management Act in order to provide an all-inclusive framework for debt management, including the responsibility to issue debt and guarantees. Among the debt management principles stipulated in the Act are (1) priority borrowing for highly productive fixed capital investments; (2) enhanced openness and transparency in contracting and reporting of debt (3) introduction of foreign public debt annual sustainability analyses, and (4) sorting of parliament approval for any new foreign public debt (GoZ, 2015d). Additional foreign public debt reforms include setting out of a floor limit on both primary budget balance and stock of usable international reserves; as well as putting a maximum limit on the amount of new nonconcessional foreign debt contracted or guaranteed by the state with original maturity equal or exceeding one year (GoZ, 2015d).

From the discussion of public debt reforms above, two major conclusions can be drawn which help to curtail the country's public debt crisis and to promote sustainable government debt in Zimbabwe; (1) increased political determination to pay contracted debts on maturity and (2) solemn government commitment to adhere to the debt principles outlined in the Public Debt Management Act amendment of 2015.

3. Public debt trends in Zimbabwe

Zimbabwe's public indebtedness dates back to the pre-political independence period. According to Jones (2011), the country inherited from the Rhodesian administration approximately US\$700 million debt. However, the incapability of the country to

access new loans on concessionary basis, especially from the late 1990s, and the turn to domestic debt at higher interest rates explain the evolution of public debt overhang that characterise the country even today (Mupunga & Le Roux, 2015: 103). The narrow domestic debt markets in Zimbabwe make the proportion of domestic public debt to total public debt small, but nonetheless, remains a critical source of huge fiscal financial drain (IMF 2012: 2).

The hasty turn to domestic debt market occurred in 1998 due to a number of factors which include absence of cheap offshore finance, following the government's default on protracted foreign debt arrears (Rehbein, 2012). From 1980 to 2015, four episodes of domestic public debt development can be identified; (1) from 1980 to 1989, (2) from 1990 to 1999, (3) from 2000 to 2008, and (4) from 2009 to 2015. In the first episode, government domestic debt was low, averaging Z\$6.5 million annually (CSO, 2003). However, in the second episode, 1990 to 1997, an amalgamation of drought, new issuance of treasury bills and maturity of old debt, high domestic interest rates, unbudgeted war veteran gratuities, state participation in SADC diplomatic peace missions (like the state involvement in the Democratic Republic of Congo civil war) and the fast track land reform exercise further exacerbated the government's growing domestic debt crisis (Besada, 2011). According to the IMF, Zimbabwe's domestic debt distress was worsened by government's allocation of debt proceeds to recurrent expenditures rather than productive sectors (IMF, 2012: 2). In episode three, the hyperinflation had a reducing effect on the value of government domestic debt, reaching almost zero in 2010. However, the rebound of the economy in the multicurrency era, episode four, and the rise in unbudgeted government expenditures, especially those related to national elections, prompted the government to start contracting new domestic debt (GoZ, 2013). Figure 1 below

summarises the growth in government domestic debt from 1990 to 2015.

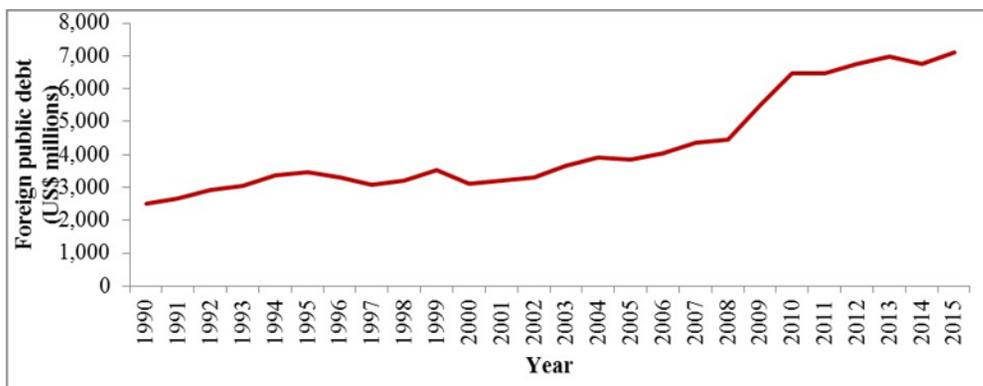


Source: IMF (2015)

Figure 1. Trends of domestic public debt as a % of GDP in Zimbabwe (2000-2015)

Unlike domestic public debt which became so pronounced in the 1990s, foreign public debt of Zimbabwe manifested itself in the 1980s. A combination of excessive public spending, 1983 civil war and rising world interest rates drove the government into foreign debt financing (Richardson, 2004). The limited fiscal experienced between 1988 and 1992, prompted the government to seek new nonconcessionary loans, mainly from the International Financial Institutions (IFIs), to fund the newly adopted economic reforms (IMF, 2001). The suspension of the country from the Bretton Woods institutions in 2001 and the subsequent drying up of other forms of aid flows to the country, further crippled

the country’s capacity to pay its dues resulting in massive build-up of foreign public debt arrears (SADC, 2015). Entangled by the enacted ban to borrow from traditional creditors, Zimbabwe modified its foreign policy and began focusing on the Asian market for commodity markets, foreign direct investment and new loans. Through the Look East Policy, Zimbabwe amassed new foreign public nonconcessionary loans from the Chinese government and the Kuwait Fund, mostly to finance its quasi fiscal activities, until end of 2008 (AFRODAD, 2011). Figure 2 tracks the foreign public debt dynamics in Zimbabwe from 1990 to 2015.

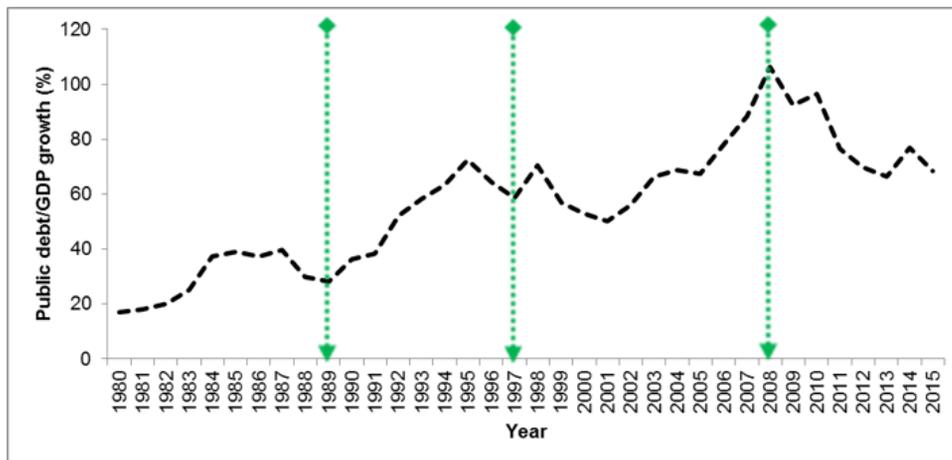


Source: MOFED (2014); RBZ (2016)

Figure 2. Foreign public debt dynamics in Zimbabwe (1990-2015)

In general, the continual contraction in government revenue base since the mid-1990s compounded into severe accumulation of both domestic public debt and foreign public debt (IMF, 2015). The proportion of public debt to GDP ratio in Zimbabwe from 1980 to 2015 averaged 59.2 percent, reaching a period high of 106.2 percent in December of 2008, and a record low of 17.1 percent in December of 1980 (IMF, 2012; 2015). The unsustainable public indebtedness that characterised the country over the review period made Zimbabwe to miss out on a number of possible project

funding opportunities from international creditors. These include the US\$400 million package from the Chinese government for the expansion of the Kariba South Power Station; the US\$15 billion per year Infrastructure Recovery Asset Platform from the World Bank Group; the US\$500 million Rapid Social Response Program; the US\$500 million Micro Finance Enhancement facility from the IMF; and the US\$10 billion Infrastructure Crisis Facility, among others (GoZ, 2013). Figure 3 traces the trends in public debt to real GDP ratio from 1980 to 2015.



Source: World Development Indicators (2012; 2015)

Figure 3. Public debt growth trends in Zimbabwe (1980-2015)

Figure 3 indicates four distinct periods of public debt evolution in Zimbabwe from 1980 to 2015. Phase I, 1980 to 1989, shows that in the 1980s, public debt was generally small, and that it started growing slowly between 1983 and 1987. The proportion of public debt-to-GDP in Phase I averaged 29.21 percent while average annual growth for real GDP for the same period was 4.68 percent (World Bank, 2012). During this period, domestic public debt accounted for over 54% of the total government debt (World Bank, 2012). According to Mumvuma, et al. (2013), the noticeable rise in public sector indebtedness beginning 1983 was a result of two major factors; (1)

increased government borrowing to fund food imports, also to fund massive public sector infrastructure development, like the construction of Hwange Power Station, and (2) a fall in real GDP following a stern drought in 1982. Political uncertainty during this decade prevented possible foreign direct investment and sound foreign developmental aid and grants inflows thus stalling the economic growth process of the country (IMF, 2012).

Phase II, in Figure 3 starts in 1990 to 1997. During this period, government debt rose extensively due to escalating budget deficits and high domestic interest rates, which subsequently led to the adoption of structural

economic adjustment programmes. In phase II there was a shift by the government towards foreign public debt owing to dwindling domestic revenues and rising domestic debt interest rates (World Bank, 2012). The partial improvement in economic performance of the country between 1995 and 1997, with growth rate reaching a period high of 10.4 percent in 1996, caused the fall in public debt-to-GDP ratio to fall in 1996 and 1997 as shown in Figure 3. The rising public debt-to-GDP ratio in Phase II may also reflect the country's incapacity to service its foreign financial dues.

Phase III is Zimbabwe's decade of economic recession, characterised by negative economic growth rates, reaching an all-time low of negative 15.4 percent in 2008 (SADC, 2015). The combined effect of contracting real GDP and accumulation of public debt arrears worsened the country's ability to honour its debts, hence the noticeable rising public debt-to-GDP ratio between 1998 and 2008. With high political and high investment risk in Zimbabwe, in addition to soaring domestic interest rates, the proportion of domestic public debt rose from 35.85 percent in 1995 to 64.7 percent by end of 2002 (World Bank, 2012). The accumulation of foreign public debt arrears accounted for the high concentration of foreign debt during this period (IMF, 2016b). Although the real value of domestic public debt was reduced to almost zero in 2008 due to hyperinflation, foreign currency contracted debt, mainly arrears, remained on the high, pushing the public debt-to-GDP ratio to 106.2 percent, the highest level in the country's history.

The rising public debt after 2003 was a result of some radical fiscal measures by the government to revive aggregate demand in the economy through expansionary fiscal and monetary policies (GoZ, 2013). The persistent build-up of government debt during this decade impacted negatively on gross fixed capital formation, international credit opportunities for both the public and private sectors, and also accelerated the pace

of capital flight (Mupunga and Le Roux, 2015). Consequentially, the cost of borrowing offshore by both the private sector and the public sector increased, while foreign direct investment and domestic savings were heavily constrained resulting in negative growth rates (SADC, 2015).

Phase IV of Figure 3 is associated with an abrupt fall in the public debt-to-GDP ratio from 2009 to 2012, an indication of economic rebound, following the dollarisation of the economy, and hence an improvement in the country's ability to pay its principal debts and arrears, not necessarily real public debt servicing. It is also during this period that the country commenced to make some petty payments to three of its traditional creditors; the IMF, the World Bank and the AfDB (RBZ, 2015). The last part of Phase IV portrays a twist upwards of the public debt-to-GDP ratio owing to a number of factors. Firstly is the economic stagnation and mild recession experienced in 2013 and 2014, respectively, and secondly the contraction of new nonconcessional loans from China Exim-bank and India Exim-bank, for the rehabilitation and expansion of the Kariba hydroelectric plant (IMF, 2014).

4. Challenges of managing government debt in Zimbabwe

Historically, Krugman (1979) stated that ineffective debt management and capital controls have not only contributed to severe financial instabilities but to stern depletion of foreign exchange reserves of many world countries. According to Reinhart and Rogoff (2009) there has been increased cases of domestic public debt default and restructuring due to lack of comprehensive public debt management frameworks. As a result, most developing and emerging economies have, since the early 1990s, been focusing on improving public debt management, both domestic and foreign, in a bid to deepen their domestic debt markets, reduce excessive borrowing costs and lessen

financial risk (IMF and World Bank, 2007). However, according to Balifio and Sundararajan (2008), although liquidity conditions and debt burdens have improved in many developing countries, government debt management frameworks have varied across countries due to a number of reasons, chief among them being the country's level of economic growth. Thus, similar to many developing countries, the problem of government debt management in Zimbabwe is attributable to poor fiscal and monetary policies which resulted in unsustainable levels of public debt or intermittent financial needs (IMF, 2013: 2). Among the stern causes of public debt crises of the 1990s and associated debt management challenges in Zimbabwe were weak government debt policies, undeveloped domestic debt markets, weak institutional and legal public debt frameworks, lack of proper public revenue transparency and accountability as well as weak government loan contraction processes (Blommestein & Santiso, 2007; AFRODAD, 2010). Central also to the accumulation of government debt over the years is the absence of clear statutes that govern guaranteed debt of (i) state-owned enterprises, (ii) other government agencies and (iii) privately owned companies (ZEPARU, 2010: 12). According to the African Network on Debt and Development (2010), despite having explicit legal requirements governing domestic and foreign debt contracting in Zimbabwe, the framework is not always adequately implemented. In consequence, the legal requirements for public debt transparency and disclosure in Zimbabwe are somehow limited.

Proper government debt management in Zimbabwe is in some way difficult due to the nonexistence of a semiautonomous authority responsible for the evaluation of the concessionality of government loans and assessment of both debt service and absorptive capacities of the country (ZEPARU, 2010). By not undertaking absorptive capacity assessments, it implies

that borrowed public funds can easily be diverted from desired national goals into unproductive activities or even personal uses. Also, although Zimbabwe has revised its public finance management laws, the absence of a proper institutional arrangement that facilitates and monitors the implementation and adherence to stipulated public debt guiding principles has contributed to unsustainable government debt levels, especially between 2000 and 2009 (AFRODAD, 2003). It is therefore imperative to state that some of the previously contracted government debts in Zimbabwe were taken without the full assessment of their future implication on the country. Consequentially, previous debt dynamics are directly affecting tax reforms, national savings and investment policies of the country today (Mumvuma, et al., 2013).

Foreign public debt accumulation has been unavoidable in many developing countries like Zimbabwe due to the lack of (1) an efficient money market, (ii) effective and efficient financial settlements arrangements, (iii) a legal framework that guides and ensures the safe transfer of securities and financial resources among agents (Balifio and Sundararajan, 2008: 14). Thus the effect of undeveloped debt markets in Zimbabwe has led to the over-reliance on foreign and domestic banks as the primary vehicles for financing (Blommestein & Santiso, 2007). With a small, short-term deposit base in Zimbabwe, it meant that banks found it difficult to hedge long-term lending in the economy, thus increasing economic vulnerabilities of the country (Blommestein & Santiso, 2007). According to the IMF, the absence of deepened financial markets in any given country, Zimbabwe included, provides several debt management and macroeconomic challenges which include (i) making the domestic economy susceptible to volatile capital flows, (ii) increasing reliance on foreign borrowing, and (iii) increasing the need for large precautionary reserve (IMF, 2016b).

Similar to other developing countries, Zimbabwe has made some positive strides in promoting efficient and systematic domestic and foreign public debt management by enacting several legal statutes. However, the country retained some exclusive borrowing powers to the office of the president and the minister of finance (AFRODAD, 2013). For instance, Section 52 of the Public Finance Management (PFM) Act, which focuses on borrowing powers, asserts that, “the president authorises the responsible finance minister to borrow for any purpose the president considers expedient with one limitation, being that borrowing within Zimbabwe can only be up to 30% of the revenues of the general revenues of the country in the preceding financial year” (ZIMCODD, 2010: 12). In other words, according to ZIMCODD, the Act reinstated the finance minister’s power to borrow and give loan guarantees, with the consent of the president only. This arrangement, according to AFRODAD (2013), makes the overall public debt management process very cumbersome since it is difficult to get timely information pertaining to the source and uses of the contracted debt by the state president. ZIMCODD’s view is that loans or guarantees should be determined by the country’s capacity to repay as measured by debt sustainability ratios (AFRODAD, 2013). Fortunately however, the government of Zimbabwe has in the Accelerated Arrears Clearance, Debt and Development Strategy acknowledged the weakness of granting some executive borrowing power to the president thus providing some prospects for improved debt management review in future (MOFED, 2012).

Domestic government debt management challenges in Zimbabwe have arisen from the absence of a general equilibrium debt analysis framework in the country, a condition which creates an opportunity for irresponsible borrowing by the government (World Bank, 2005). Other factors that have adversely impacted on domestic public debt

management in Zimbabwe include a lack of public finance transparency and accountability, absence of qualified personnel to conduct domestic debt structure and sustainability analysis as well as underdeveloped domestic debt markets for government securities (IMF, 2006). The range of funding sources to the government is often narrow, being limited mostly to treasury bills, thus limiting the government discretion in terms of the risk characteristics of new debt. The country also lacks skilled personnel, and advanced technological resources to enhance professional management of existing domestic debt stocks and new debt issuance (IMF, 2006). With regard to public finance transparency and accountability, the political leadership should enforce laws and regulations that ensure full accountability of state revenues. For instance, in the 2010 and 2011 Budget Statements, the Minister of Finance and Economic Development reported that the Chiadzwa diamond proceeds were not being deposited into the official national revenue account, the Consolidated Revenue Fund (Budget Statement, 2010; 2011). In another related government document, the 2011 Mid-Term Budget Review Statement, the Minister of Finance and Economic Development revealed that only US\$103, 9 million out of more than US\$360 million worth of diamond exports was paid to the national treasury. Resultantly, the absence of strict accountability mechanisms in government financial matters exacerbated corruption activities and misappropriation of public funds, which all had a cumulative impact of causing unnecessary government borrowings (AFRODAD, 2015).

Other challenges associated with domestic government debt management in Zimbabwe are caused by ineffective and irregular public financial audits within state institutions (IMF, 2012). Worse still, when these audits are conducted and there is clear evidence of public finance abuse, the culprit(s) tend not to be impeached as they will be protected politically, thus fuelling corruption in the

country (AFRODAD, 2013). With regard to guaranteed debt and grants from the central government to local authorities and other government arms, there is need to enact and enforce laws that compel these entities to account on all received funds so as to guide against abuse of state funds. According to ZEPARU (2010), in many instances, state funds are being misappropriated in parastatals through unproductive activities, forcing the government to continuously borrow in order to support these loss making state enterprises.

Even though foreign public debt management institutional framework is partially in place, the debt management challenges arise from functional gaps and fragmentation in debt consolidation and coordination. The foreign public debt management function is currently dispersed across three institutions, namely the president's office, the Ministry of Finance and Economic Development and the Reserve Bank of Zimbabwe's External Sector and Financial Markets Departments (GoZ, 2017). According to the Act, the Attorney General's Office role in foreign public debt management is presently limited to loan dispute resolutions. Because of this fragmented debt management arrangement, lines of action and debt accountability remain unclear. For instance, according to the Public Debt Management Act Number Four of 2015, the contraction of credit lines and loans in Zimbabwe should be done through the External Loans Coordination Committee (ELCC). However, in spite of this laid down procedure in loan contraction, there are incidences where credit lines are contracted on behalf of government outside the purview of the ELCC or involvement of the Reserve Bank of Zimbabwe, especially through the president's office (AFRODAD, 2012).

Administratively, the Ministry of Finance and Economic Development is responsible for public and publicly guaranteed (PPG) medium-to-long term foreign public debt and the central bank is responsible for the

capturing of domestic public debt (GoZ, 2015b). With the lack of advanced technological resources impairs the professional management of foreign debt stocks, especially in terms of new debt contraction, consolidation, recording and reporting of the nation's state of foreign indebtedness (IMF, 2015).

Economic factors, such as the underperformance of the Zimbabwean economy and low export revenues from commodity exports also explain the rise in demand for foreign government debt financing (ZimStat, 2015). With such economic destitutions, the government of Zimbabwe has over the period under review been compelled to contract new foreign debts at nonconcessional terms from emerging international creditors (AFRODAD, 2013). Consequentially, the quest to balance political demands and ensuring efficient foreign debt management has not been fully achieved in Zimbabwe, resulting in unsustainable levels of foreign government indebtedness. More so, like many other developing countries, Zimbabwe has no mechanisms within the country which reinforces the undertaking of project appraisals and evaluations to ensure that projects embarked on by the state are completed and that they are effectively managed to enhance the capacity of the government to pay the borrowed initial capital outlays.

Chief among the contributors to rising foreign government indebtedness is the overlooking of publicly guaranteed private sector foreign debt in making both government borrowing limits and debt sustainability analysis, to the extent that the government's overall debt position may not be fully apprehended. Presently, the country does not have legal statutes that direct the reporting and dissemination of the country's foreign public debts to the general citizens, fully detailing the structure and composition of the government debt (AFRODAD, 2010). The ideal situation would be to have mechanisms and channels that ensure that

information relating to government debt and contraction of new loans is made available at no or little cost to the citizens thereby increasing accountability and transparency of public funds.

From the challenges discussed above, this paper concludes that although good government debt management, domestic and foreign, is not an assurance against future debt challenges, it can, however, help to minimise Zimbabwe's financial susceptibilities to domestic and foreign ad hoc economic and financial shocks.

5. Conclusions

This paper has examined the government's debt structural reforms, trends and challenges in Zimbabwe from 1980 to 2015. The discussions in the paper were centred mostly on the legal and institutional debt frameworks and reforms, which contributed to the current public-debt trends and the debt-management challenges in the country. The paper identified four major phases of government debt development in Zimbabwe since 1980: 1980 to 1989; 1990 to 1997; 1998 to 2008; and 2009 to 2015. Basically,

in the first three periods up to 2008, government debt was rising exponentially due to financial indiscipline by fiscal and monetary authorities, in addition to both domestic and foreign economic hardships. By the end of 2008, although the domestic public-debt had been reduced to insignificant levels by the hyperinflationary environment, the accumulated arrears on foreign public debt kept the government debt exceptionally unsustainable. The economic rebound experienced in the country following the initiative by the GNU to dollarise the economy in February 2009, improved the country's ability to pay its foreign debt arrears, thereby leading to paltry payments on foreign public-debt arrears by the government. Despite the meagre foreign debt repayments, the country continues to suffer from public-debt distress. There is, therefore, a need to devise market-friendly economic and financial policies to stimulate investment and thus improve the fiscal position of the country. Consequentially, the broadening of the government revenue will prevent further increases in both domestic and foreign public debt, and also avoid any future accumulation of arrears.

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Talknice Saungweme

University of South Africa,
Department of Economics
P.O. Box 392, UNISA
0003, Pretoria
South Africa
talknice2009@gmail.com

Nicholas M. Odhiambo

University of South Africa,
Department of Economics
P.O. Box 392, UNISA
0003, Pretoria
South Africa
odhianm@unisa.ac.za
