 www.iiste.org

A Critical Review of the Implementation Challenges of the Zimbabwe Accelerated Arrears Clearance Debt and Development Strategy (ZAADDS)

Chipo Mbawu[1, 2]* Peter Nkala[1]
1.Institute of Development Studies, National University of Science and Technology, Bulawayo, Zimbabwe
2.Institute for Anthropological Research in Africa, Faculty of Social Sciences, Katholieke Universiteit Leuven (KU Leuven), Belgium

Abstract
Zimbabwe's huge debt burden continues being an albatross to economic development initiatives in the country presenting major challenges towards debt sustainability and clearance. Although great strides were achieved in coming with a debt resolution strategy; the Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy (ZAADDS) in 2010, lack of substantial results on the debt cleared is a major concern. This paper uses a mixed method approach to critically evaluate the implementation process of ZAADDS and related challenges since the launch of the strategy in 2010. Results indicate considerable efforts on creditor re-engagement processes alongside insignificant progress on re-engagement efforts with the international community regarding the removal of sanctions which is very critical for unlocking fresh capital injections. The study concludes that Zimbabwe's debt strategy lacked necessary implementation impetus and policy willingness for successful strategy execution. The country's public external debt is therefore likely to remain unsustainable for the foreseeable future given the "borrowing to repay" strategy likely to result in a vicious debt cycle. Launching an intensive international campaign and outreach programme to both Paris and non-Paris Club creditors at the highest level in order to gain support for Zimbabwe's case for arrears clearance and debt relief is not only necessary but critical as well.
Keywords: Debt strategy, Debt management, Public external debt ZAADDS, Zimbabwe

1. Introduction

Maintaining sustainable debt levels has remained a major challenge for many developing countries in Sub-Saharan Africa where huge development needs such as glaring infrastructure gaps, high poverty levels, and unacceptably low education and health standards. According to the World Bank (2016) an estimated 44% of the population in these countries live below US$1.90 per day. ZimSTATs (2012) estimates showed that 72% of the people in Zimbabwe were regarded as poor, with per-capita expenditure being below the Total Consumption Poverty Line (TCPL). The domestic resources endowments continue to underperform compared to the country's financial requirements. Furthermore, traditional and concessional sources of credit for the country are shrinking in the light of the global economic downturn. According to the African Forum and Network on Debt and Development (AFRODAD) (2015), in 1970 Official Development Assistance (ODA) was 3 times larger than net Foreign Direct Investments (FDI) to low- and middle-income countries but ODA shrunk to 14% of net FDI by 2012. Consequently, private finance borrowing has become a new financing method that has culminated in riskier debt profiles for most African countries. More-so, several options that contain harder terms such as new bilateral, domestic debt, commercial lenders and sovereign bonds are emerging (Ngalande, 2013). Maintaining sustainable public debt is therefore difficult for most countries opting for debt development financing, which ultimately constrains GDP growth and induces exchange rate shocks.

1.1. Public debt and the Zimbabwean case

Zimbabwe has not been spared this dilemma of public debt financing and since independence in 1980; her external debt has continued to escalate, thereby disabling the country from borrowing from tradition external sources in Europe and the West. The continuous failure to clear debt arrears with the International Monetary Fund (IMF) has negatively compounded the country's desires to borrow funds from the Bretton Woods institutions. The stagnation of the economy over the past few years which gave birth to hyper-inflation and low GDP growth has worsened Zimbabwe's debt accumulation and clearance burdens. The country has thus been penalised by creditors for failure to honour debts repayments. Total external debt service to multilateral institutions remains low, averaging US$589 million per annum from 2005-2013 (African Development Bank, 2016).Clearance of arrears remains top priority for the country as a turnaround strategy to address treasury's financial woes required to attract investment so desperately needed to correct the sustained depression in economic growth and development.

The Inclusive Cabinet in November 2010 approved and adopted a debt resolution strategy known as the

Zimbabwe Accelerated Arrears Clearance Debt and Development Strategy (ZAADDS)[1], following internal and external consultations that took place between 2009 and 2010. The objective of this strategy was to resolve the debt problem which had become an albatross to the country's economic recovery and development agenda. ZAADDS' key tenets included:

(i) The establishment and operationalisation of a debt management office in the Ministry of Finance;
(ii) Undertaking a validation and reconciliation exercise of Zimbabwe's public and publicly guaranteed external debt database with all creditors;
(iii) Negotiating with creditors and the development partners for arrears clearance, debt relief and new financing;
(iv) Re-engaging the international community on sanctions removal; and
(v) Leveraging Zimbabwe's natural resources in pursuit of debt relief (Government of Zimbabwe, 2012)

In support of the strategy, the Zimbabwean President vehemently stated that,

> *…..there is an urgent need for the economy to achieve external debt sustainability through a comprehensive debt relief and arrears clearance programme, which is strongly supported by my government and all the development partners and creditors* (GoZ, 2012:ix).

This paper draws several questions from this pronouncement, reflecting on (i) whether five years later this case still has some sense of urgency?; (ii) whether implementation approach to the ZAADDS was the source of the problem?; (iii) whether some unforeseen policy implementation challenges overshadowed efforts towards debt clearance efforts? This paper delves into the ZAADDS as a strategy for addressing the debt crisis in Zimbabwe guided by these unanswered questions.

According to the Zimbabwe Ministry of Finance and Economic Development (MoFED) (2015), total debt estimates were US$8.4 billion as at 30 September 2015. This amount was inclusive of domestic debts which stood at US$1.3 billion and external debts which amounted to US$7.1 billion as illustrated in Table 1.

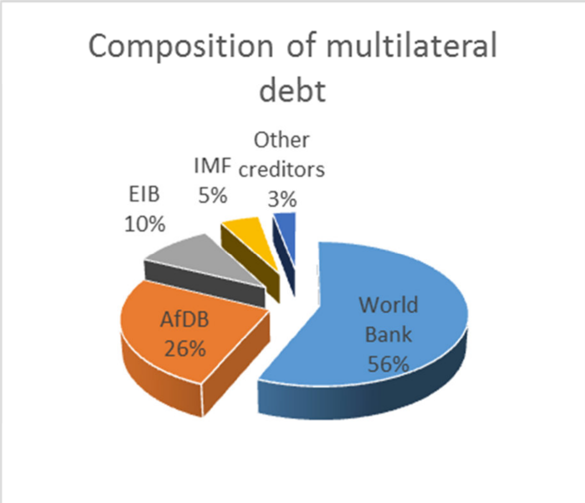
Table 1**:** Zimbabwe's debt levels, nature and composition in 2015

	Debt	Arrears	Total
Domestic Debt (Excl Guaranteed Debt)	**1 290**		**1 290**
External Debt	**1 444**	**5 634**	**7 078**
Bilateral Creditors	1 070	2 959	4 029
o/w: Paris Club	226	2 808	3 034
Non-Paris Club	844	151	995
Multilateral Creditors	374	2 088	2 462
RBZ-External	0	587	587
Total	**2 734**	**5 634**	**8 368**

Source: Zimbabwe Ministry of Finance and Economic Development (2015)

The estimated US$7.1 billion in external debts was inclusive of US$4 billion as bilateral loans and US$2.5 billion as multilateral loans. Seventy-five percent of the bilateral loans were owed to Paris Club members[2] as shown in Figure1. Zimbabwe owed 56% the total multilateral debt, or US$985 million to the World Bank, US$640 million to the African Development Bank (AfDB) and US$443 million was owed to the European Investment Bank (EIB), the IMF and other creditors (see Figure 1).

[1]ZAADDS is a policy framework for arrears clearance and debt management in Zimbabwe. It was designed to institute a track record of comprehensive policies to support the government's agenda for debt relief and arrears clearance.
[2]Paris Club Permanent members are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Israel, Italy, Japan, the Netherlands, Norway, the Russian Federation, Spain, Sweden, Switzerland, the United Kingdom and the United States of America.



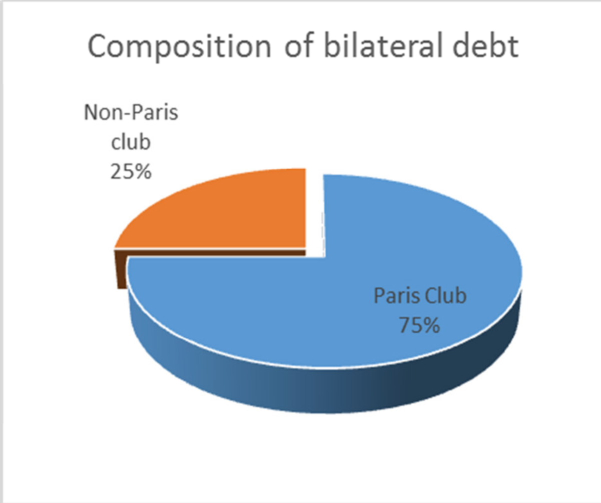


Figure 1: Composition of multilateral and bilateral debts. Source: The Government of Zimbabwe (GoZ) 2016 National Budget Statement

The current and most publicised effort by the government is the Lima Strategy, developed in October 2015 to follow up on the ZAADDS's envisaged creditor re-engagement process. The strategy proposed clearing external arrears to the international financial institutions (IFIs) through: a) use of special drawing rights (SDR) holdings to clear the arrears to IMF, b) bridge financing to repay arrears to the African Development Bank (AfDB), the African Development Fund (AFD), and IDA; and c) long-term loan from a bilateral creditor to repay the IBRD (GoZ, 2015). The Government in its 2016 Letter of Intent to the IMF believed that a successful implementation of the strategy would provide positive signals to investors and creditors, and help unlock external financial flows (IMF, 2016).

However, five years since ZAADDS' implementation, Zimbabwe is still saddled with an unsustainable external debt burden of US$7.1 billion. This state of affairs motivated this research to investigate the implementation of this strategy and establish challenges against the success towards achieving external debt sustainability in Zimbabwe. Drawing lessons from past researches on sovereign debt problems and resolution strategies vis-a-vis the current ZAADDS implementation challenges; policy gaps that need to be addressed for Zimbabwe are identified and recommendations to strengthen the debt resolution strategy are proffered.

1.2. Zimbabwe's debt challenges problem

Zimbabwe is saddled with a huge unsustainable public debt burden estimated at US$8.4 billion and 85% of this figure is public external debt (MoFED, 2015). The continued accumulation of external debt payment arrears is undermining the country's sovereign creditworthiness thereby affecting the country's relations with the international finance institutions such as the IMF and the World Bank. Consequently, the country is facing limited and highly priced lines of credit available, a phenomenon that negatively affects the country's economic recovery and development agenda. The country's policy and strategies on debt reduction has also been weak and inconsistent with a total lack of debt resolution strategies prior to 2010.[1]

Despite efforts by the government in designing and implementing the ZAADDS (2010) debt resolution strategy - to date this has not translated into external debt sustainability, thereby hampering development initiatives. The county's debts and arrears have inhibited efforts towards attracting the much needed foreign direct investment (FDI) required to revive and resuscitate the economy through growing local industries and the local economy through meaningful contributions to critical sectors such as agriculture, mining, manufacturing, education and health. The debt burden and quest to clear arrears is happening at a time when the country human development index of 0.509 is unacceptably low, 85% of the working population categorised as poor, and 3 million rural people are at risk of food insecurity (UNDP, 2015 and ZimVAC, 2016). ZAADDS' delay in delivering on aims towards debt sustainability is worrying. Deepening, the understanding of the ZAADDS implementation process and identifying further policy interventions necessary for the achievement of arrears clearance and debt sustainability and growth remain critical.

1.3. Research objectives

The three objectives pursued in this study are; (i) to evaluate progress in the implementation of Zimbabwe

[1] Zimbabwe's debt polices has never been clearly elaborated, but rather just highlighted in passing in the various economic policies the government has attempted to implement. These include a set of economic policies such as the 2001-2002 Millennium Economic Development Strategy, 2003 National Economic Recovery Program, 2010-2012 STERP 1 and 11, and the 2011-2015 Medium Term Plan.

Accelerated Arrears Clearance Debt and Development Strategy since 2010, (ii) to interrogate challenges related to the implementation of Zimbabwe Accelerated Arrears Clearance Debt and Development Strategy and, (iii) to suggest policy recommendations for Zimbabwe's arrears clearance and debt sustainability.

2. Understanding the public external debt concept

Public external debt relate to loans and borrowings made by a country outside its borders in order to meet developmental needs that cannot be financed from domestic financial resources. Zhou (2012) contends that every government has the potential to access credit facility from external lenders depending on their track record of debt clearance and credit worthiness. Citizens' contribution to the fiscus is used to finance such public debts of the debtor country. Buchanan (1987) reiterates that the wealth of individuals is not reduced if a government borrows money to finance its public expenditures through public programmes and services. External debt is also public when the government provides a guarantee of paying such external loans by parastatals, private banks or individuals. According to the World Bank (2016), Public and Publicly Guaranteed External Debt (PPGED) mainly entails public debtors obligations externally on a long term basis and inclusive of various factors such as the political subdivisions, national government and autonomous public bodies which are meant to guarantee debt repayments.

2.1. Implications of External Debt on Socio-Economic Development

Many countries in Less Developed Countries (LDCs) including Zimbabwe borrow loans with the intention of improving economic growth and simultaneously attracting Foreign Direct Investment (FDIs) for a meaningful contribution to sustainable development. Claessens (1990) argues that public external debts create opportunities and deficiencies between external debts on one side and investment and per capita on the other as explained by the 'Laffer Curve'.

The United Nations Conference on Trade and Development (UNCTAD, 2015) postulated that there is no problem with external debt as it is an important tool in boosting the local economy. The real problem is when external debts are misappropriated and not used for the growth of the economy through productive investment. Another inherent problem is the failure to pay a debt by a net debtor government (UNTCAD, 2015). Most developing countries fall into the trap of absconding to pay external debts due to the stagnation of their economies and low GDP growth. This has profound negative impact on the socio-economic development of debtor countries.

Chikova (2013) argues that debtor countries by forfeiting debt payments are engulfed in a precarious debt burden. According to Hyman (1990) debt burden decreases the well-being of citizens who are taxed to pay off the principal and interest on past debts. Buchanan (1983) contends that future generations will face the consequences of debts through paying compulsory taxes as debt burdens are transferred to future generations. The Zimbabwe Coalition on Debt and Development (ZimCODD, 2001) argues that a majority of the funds by most debtor countries will be used to pay off and clear bets and errors at the expense of human development resources. In the same vein, the African Forum and Network on Debt and Development (AFRODAD, 2015) avers that a debt burden accumulates arrears which hampers investment, business growth and industries subsequently impacting negatively on economic growth.

Servicing of debt places an enormous fiscal pressure on developing countries whose economies are already weak. According to Christian Aid (2007), 66 countries of the world's poorest governments spent approximately US$230 billion in debt repayments from 1996 to 2006. Such an astronomical amount is at the expense of developing sectors vital to the growth of the economy of these less developed countries (LDCs). These sector developments include building roads, clinics and schools infrastructure; improving education, agricultural, mining, and manufacturing and transport sectors very vital for enhanced economic growth.

Hard (1986) argues that African governments develop a dependency syndrome on the most developed countries which hampers chances of economic recovery and growth thereby increasing the poverty on the African continent. Frank (1967) also argued that the modernisation theory failed to explain the truth and the myth behind the underdevelopment of African countries by merely suggesting modernisation of economies while completely ignoring the ills of colonialism. The dependency theory thus advances an argument that the economic development of western countries hinged on the exploitation and siphoning of Africa's resources which subsequently created a dependency syndrome on the continent manifested through borrowing of funds to advance and accelerate GDP growth.

2.2. The debt overhang theory

Influenced by the desire to review Zimbabwe's debt strategy, this study borrows from the debt overhang theory whose various proponents include Krugman (1988) and Sachs, (2002). The term 'debt overhang' basically refers to a debt overhaul on a country which supersedes any earnings made in the economy due to the large deficit in arrears (Myers, 1977). In such a scenario, even new investment projects meant to generate income cannot fully develop the economy as earnings are diverted to servicing loans. In the mid-1980s this concept migrated from corporate finance to international finance due to debt crises that existed amongst many developing countries (Krugman, 1988; Sachs, 1989).

These arguments by Krugman (1988) and Sachs (1989) stress clearly that most governments in LDCs use taxes from households and firms as a mitigating factor in servicing debts. The debt overhang theory poses that these taxes will not be able to attract any new investments as new projects already run the risk of being intensively taxed away to address the debt burden. In essence this discourages foreign direct investment and fresh capital injection into the economy thereby ultimately impacting on sustainable economic growth negatively.

3. Study Area, Research Methodology and Data Collection

Zimbabwe is a landlocked country located in Southern Africa, which shares borders with Botswana, Mozambique, Namibia, South Africa and Zambia. Zimbabwe has an unsustainable debt which has continued to hamper otherwise well thought out development efforts. All the institutions and participants in this study were based in Harare, the capital, which is domicile to most headquarters of both government and private debt management organizations. For almost two decades, the country transcended from being a breadbasket of the region to a basket case, due to multiple economic challenges and in particular the current huge debt crisis. The map in Figure 2 shows the geographical location of the country and Harare the capital.

Figure 2: Map of Zimbabwe, adapted from United Nations (2004)

This paper used the mixed research design employing combined qualitative and quantitative research methodologies to get a deeper understanding of the phenomenon of debts in Zimbabwe and the impact on development. The mixed methods approach ensures complementarity between both methodologies' weaknesses and strengths. The qualitative aspect relied on in-depth interviews, semi-structured interviews and open-ended questionnaires to solicit for the views and opinions of interviewees. Meanwhile, quantitative approach employed questionnaires to measure the impact of ZAADDS on debt clearance and development in Zimbabwe. Findings were illustrated using pie charts, graphs and tables. In addition, secondary sources including government reports, books, journals, and International Monetary Fund (IMF) and other financial institutions' reports, newspaper articles and relevant internet sources were used to corroborate findings from primary sources. Forty-one respondents were purposively selected for this research, from various institutions working on government debt management institutions such as the Zimbabwe Aid and Debt Management Office (ZADMO), Zimbabwe Coalition on Debt and Development (ZimCODD), Parliament of Zimbabwe and African Forum and Network on Debt and Development (AFRODAD). Interviews were conducted with five key informants from the selected institutions and questionnaires were also distributed to various organisations.

4. Results and Discussion

Out of the 50 questionnaires distributed to organisations, the response rate was 82% which was sufficiently high to validate the findings of the study. Tight schedules of some potential respondents made it difficult to find time to attend to the questionnaires.

4.1. Knowledge and understanding of ZAADDS

First, respondents were asked on how well they understood Zimbabwe's debt strategy – ZAADDS. As shown in Figure 3, all respondents were aware of the debt ZAADDS strategy. Seventy-one percent stated that they understood very well the strategy while the remainder understood it fairly. The researcher had targeted institutions and civil society organisations conversant with debt management in Zimbabwe. Debt management is usually a preserve of a minority, mostly professionals and intellectuals without questionable understanding of debt management given their knowledge on debt management related concepts and issues, hence the careful and purposeful inclusion in the study.

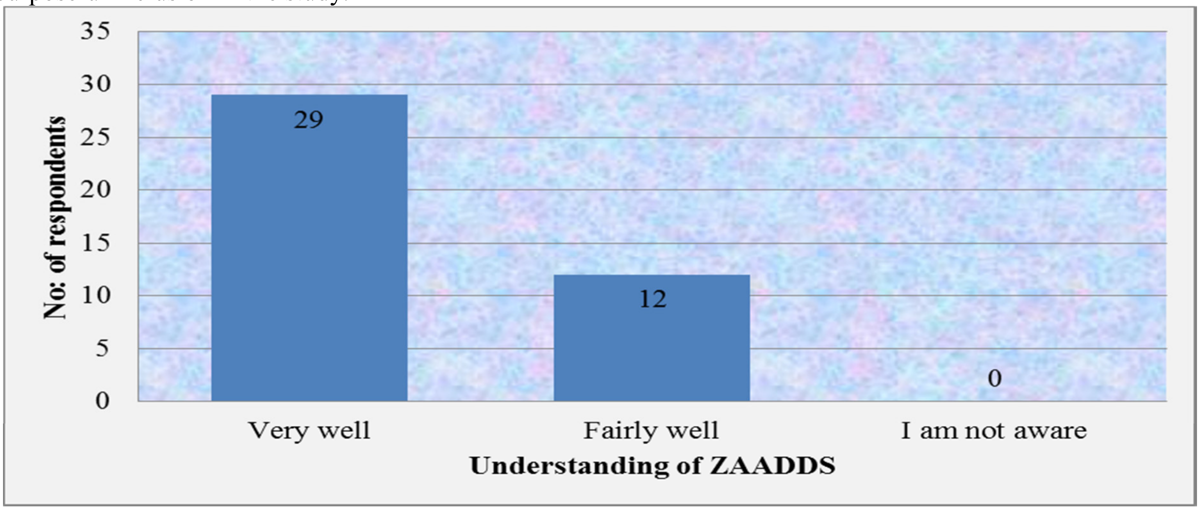


Figure 3: Respondents' understanding of ZAADDS; Source: Primary Data

4.2. Progress in the implementation of ZAADDS

Objective 1 of the study sought to evaluate progress in the implementation of ZAADDS and the researchers obtained secondary data through a wide range of document analysis process that was supported by interviews with 5 key informants in the ZADMO office, ZimCODD, Parliament of Zimbabwe and AFRODAD.

4.2.1 Establishment and operationalisation of a Debt Management Office

Observations and key informants interviews conducted, confirmed the existence of the debt management office officially known as the Zimbabwe Debt and Aid Management Office (ZADMO) housed within the Ministry of Finance and Economic Development (MoFED). The Government through the Ministry of Finance set up the office to specifically deal with issues relating to public debt management. ZADMO is mandated to establish good debt management practices impacting positively on economic development and poverty eradication programmes. The main functions of ZADMO include maintaining and timely disseminating comprehensive and reliable external debt database of all loans by Government and its agencies. It sets guidelines for managing Zimbabwe's financial risks and currency exposure with respect to all external loans, mobilises resources, and advises Government on the restructuring and refinancing of all debt obligations. ZADMO also ensures that Government subscribes to the principles of prudent debt management such as sustainable borrowing and effective utilisation of borrowed resources.

The Zimbabwe's debt management office has been functional since November 2010 and has a full complement of requisite debt management staff (GoZ, 2012). The front, middle and back office have a staff complement of 22 people. IMF (2014) was very impressed about this development which was believed could lead to improved debt management capacity in the country. IMF (2014), also noted that the unit has developed a database that would facilitate debt management and promote information sharing between all government entities.

A new public debt management (PDM) Act No.4/2015 was enacted in September 2015 to support the ZADMO office (IMF, 2016). The Act provides a comprehensive framework for debt management, comprising the purpose and objectives of borrowing, the mandate to issue debt and guarantees, and clear requirements for developing a debt management strategy and transparent reporting (IMF, 2016). IMF (2014) had also reported that the PDM would bolster the institutional role of the debt management office at MoFED. The key-informant interviews in the ZADMO office testified to the successful enactment of this law and also indicated that provisions of the PDM Act N0.4/2015 are being followed closely and successfully implemented.

The debt management office pledged to establish a 'unified, up-to date debt registry' aimed at providing complete data from a single record pertaining to both foreign and local debts (IMF, 2016). This is also in line with the PDM Act N0.4/2015. According to the IMF (2016) article IV Consultation Report, the debt management office authorities planned to produce a debt management strategy that was fully integrated with the medium term budgeting process. As stipulated in the Consultation Report, IMF technical assistance was already being provided to authorities of that office to operationalise their plans.

4.2.2 Reconciliation and validation of the external debt

The interviews conducted highlighted that Government through the MoFED committed to verify the actual amounts owed by "undertaking a validation and reconciliation exercise of the external debt database". Such an exercise formed the basis for engagement with creditors and the first phase was completed in 2011 (MoFED, 2012). Since then, subsequent annual debt validation exercises have followed to continuously reconcile debt statistics with creditors. The latest debt reconciliation exercise was done in 2015, estimated the Zimbabwe's total public and publicly guaranteed (PPG) external debt at about 49% of GDP (US$6.96 billion), of which 79% was in arrears as shown in Table 2 (IMF, 2016).

Table 2: 2015 External Debt Stock by Servicing Status (in million U.S. dollars)

	Remaining Principal Due	**Total Arrears**	**Principal Arrears**	**Total Debt**	**Percent of GDP**
Total	**4593**	**5466**	**3188**	**10770**	**76.0**
Public and Publicly Guaranteed Debt	1463	5510	3074	**6974**	**49.2**
Bilateral creditors	1104	2932	1327	**4036**	**28.5**
Paris Club	220	2854	1266	**3074**	**21.7**
Non-Paris Club	883	78	61	**961**	**6.8**
Multilateral institutions	359	1991	1161	**2351**	**16.6**
International Monetary Fund	0	109	87	**109**	**0.8**
African Development Bank	36	550	291	**586**	**4.1**
World Bank	293	1062	603	**1355**	**9.6**
European Investment Bank	26	198	132	**224**	**1.6**
Others	5	72	47	**77**	**0.5**
Short-term debt RBZ	0	587	587	**587**	**4.1**
Private Creditors	3797	0	0	**3797**	**26.8**

Source: WB, AfDB, Zimbabwean authorities, and IMF staff estimates in IMF (2016)

According to the data in Table 2, a major part of the PPG external debt, 42%, was owed to Paris Club creditors, followed by international financial institutions which were owed 28% of the total amount as highlighted in Figure 4.

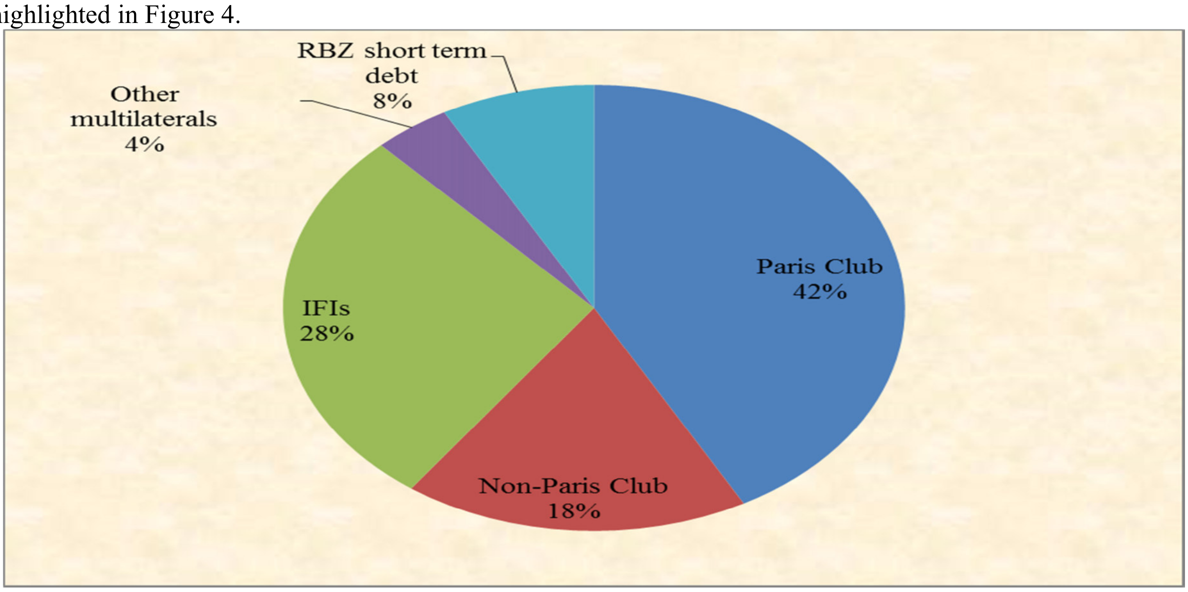


Figure 4: Structure of Public & Publicly Guaranteed Debt, 2015 (adapted from IMF, 2016)

On the contrary, findings show that the validation and reconciliation process appears limited to making sure everyone agrees with the debt figures. Various key informant interviews highlighted the need for an all-inclusive comprehensive debt audit and not just a mere reconciling of debt figures emphasising a thorough investigation of the circumstances under which the debt was accrued, terms thereof, status, costs, whether loans were used for intended purpose(s) and whether the objectives were met among other things. A comprehensive debt audit was also supported by ZimCODD (2015) expressing sentiments that audit could recommend changes to the country's loan contraction and debt management systems. Zimbabwe's 2012 budget statement stated that the debt overhang could be a result of fiscal indiscipline, thereby justifying calls for a debt audit. A debt audit exercise ensured that Zimbabwe would not in the future find itself in a similar debt overhang predicament.

It was also established that information on the reconciled and validated debt statistics was not being publicly availed, when this was done, usually it would be late. The IMF (2014) Article IV Consultation Report highlighted that the Government had pledged to publish a report on the stock of verified arrears and a strategy to clear validated arrears by December 2013. This was not met during the second staff monitored programme[1] review only to be realised in 2015. Also, Zimbabwe did not report national accounts or external sector statistics to the Standards and Testing Agency (STA) for dissemination in the International Financial Statistics and the Balance of Payments Statistics Yearbook (IMF, 2016). The latest annual data available for budgetary central government was from 2012, and no sub-annual data had been reported (Ibid).

4.2.3 Negotiating with creditors for arrears clearance, debt relief and new financing

Document analysis and expert interviews indicated that there has been some great progress in creditor re-engagement endeavours. Zimbabwe took the first step in engaging the international community through the IMF staff monitored programme which was successfully completed in December 2015. The programme focused on implementing a limited number of key reforms to show that the country has the capacity to implement the kind of reforms required for fund-supported programmes. An interviewee from Parliament highlighted that the staff monitored programme was arrived at following a great deal of persuasion by Government and that the programme proved to be a useful anchor amidst a difficult macroeconomic and political environment. The successful implementation of the staff monitored programme was considered critical as it served as a precondition for negotiating arrears clearance and debt relief (MoFED, 2014). The same findings were also reported by IMF in its Press release of 2 May 2016, where they highlighted that the authorities had met their commitments under the SMP, despite economic and financial difficulties.

Findings from various documents reviewed, including IMF (2016) and GoZ (2016) highlighted that during the staff monitored programme, Government constituted a debt arrears clearance committee (DACC), which was mandated to develop strategies to resolve the country's debt burden particularly with the IFIs. This was successfully done, and the roadmap to clear the US$1.8 billion IFI debts was unveiled. The Zimbabwe delegation, led by Finance Minister pitched this strategy on the side-lines of the IMF/World Bank annual meetings in Lima, Peru from 8 to 12 October 2015. In these meetings, Zimbabwe successfully engaged the three IFIs namely, AfDB, WB and IMF and outlined the country's strategy for clearing the US$1.8 billion outstanding arrears. The debt clearance strategy was accepted by the creditors who also promised to support Government in achieving the desired results. Zimbabwe's Minister of Finance even expressed happiness in this regard stating;

> *"I am pleased to report that there was strong endorsement among creditors to support Zimbabwe's strategy,"* (ENCA news, 2015)

One key informant however questioned the feasibility of some of the envisaged clearance strategy lamenting that the US$1.8 billion IFIs arrears clearance strategy was over ambitious as Government had already missed its own June 30 deadline for paying the arrears. Nonetheless, it was noted that negotiating takes a lot of time and effort. The government had unsuccessfully negotiated for a US$900 million bailout from Algeria to repay the IBRD which was a clear exhibition of efforts made towards meeting set objectives. The government has since negotiated for a loan from Afrieximbank, to repay arrears to the AfDB, the African Development Fund (ADF), and IDA. Another key informant quizzed the use of a bridge financing to repay arrears to the AfDB, the ADF and IDA as well as bridge loan to clear WB arrears, arguing that:

> *Zimbabwe's plan to use a bridge loan to pay WB debt is likely to deepen our country's debt crisis…the other plan to utilise the TSF's window to clear the entire AfDB's US$601 million arrears is also inconceivable considering its limited resource capacity*

This was a valid argument considering that some of the countries that benefited from the TSF's Pillar II facility such as Togo and Côte D'ivoire, were given relatively smaller amounts of US$14.57 million and US$366.34 million respectively (AfDB, 2015). Furthermore, the TSF's total resource envelope in 2014 amounted to US$556 million, of which less than US$325.28 million was committed to arrears clearance (AfDB, 2015). Bearing in mind the above, it may thus be unachievable for Zimbabwe to contemplate clearing the entire US$601 million arrears to the AfDB using the TSF's limited resource envelope. The likely feasible scenario will therefore entail the TSF absorbing only part of the US$601 million while the Government will have to rely on domestic resources for the remainder.

[1]SMP is an informal agreement between country authorities and Fund staff to monitor the implementation of the authorities' economic program. SMPs however, do not entail financial assistance or endorsement by the IMF Executive Board (IMF,2016).

The same reservations over the use of a bridge loan to clear WB arrears were shared by the researchers. A bridge loan is an interim financing facility for a Government, business or individual until permanent financing or the next stage of financing is obtained (AFRODAD, 2015). The bridge loan is generally used to pay back the existing loan, as well as other capitalization needs. AFRODAD (2015) also noted that bridge loans are typically more expensive than conventional financing, to compensate for the additional risk, such as the perceived country risk factors in the case of Zimbabwe. The interest rate on bridge loans is therefore higher to cater for other costs amortized over a shorter period, various fees as well as the opportunity cost of money, such as equity participation by the lender.

Furthermore, the use of a bridge loan facility to repay another loan does not extinguish the original debt, but merely postpones it temporarily, albeit at a higher cost. Loan contraction for loan repayments is problematic as it only exacerbates the debt cycle. Besides, both the proposed medium to long-term loan and the bridging loans seek to clear arrears and not the principal debt, in order to access new lines of credit. Therefore the implication is that, there will be a rise in principal debt which will in turn attract other interests thereby facilitating the continuation of the country's debt cycle. At the end, the citizens bear the brunt of the debt burden through increased taxes and lack of basic necessities as the government channels resources towards debt servicing.

The use of domestic resources to clear arrears amounting to US$239 million to the European Investment Bank is commendable but might not be achievable in the short-term. The revenue challenges that Treasury is facing makes it inconceivable to use domestic resources to have cleared arrears to the EIB by September 2016 as envisaged. The country's capacity to use domestic resources to clear US$239 million arrears to the EIB is likely to be hampered by the lack of fiscal space in the MoFED given the shrinking revenue base. The revenue outturn in 2015 amounted to US$3.5 billion, which is a 3% decline from the 2014 annual revenue collections of US$3.6 billion (ZimCODD, 2016). The revenue challenges compelled Treasury to postpone the payment of civil servants' 2015 bonuses amounting to US$180 million to between February and May 2016[1]. Furthermore, the Government's overdraft at the RBZ increased to US$490 million by end of February 2016, after ending the year 2015 at around US$305 million. The overdraft increased to US$661 million by end of May 2016 as cumulative revenues amounted to US$1.5 billion over this period, against anticipated cumulative expenditures of US$1.7 billion (Ministry of Finance, 2016).

A key informant from Parliament stipulated that there was notable progress in cooperation with IFI creditors on policies and payments. The interviewee confirmed secondary data sources that government continued making the agreed $150,000 monthly payments to the Poverty Reduction and Growth Trust (PRGT), the increased *paripassu* payments to the World Bank (US$900,000) and AfDB (US$500,000), and token payments to the European Investment Bank as also noted by IMF (2014, 2016). It was highlighted that the government had pledged to increase these payments once capacity to repay improved. In addition, Zimbabwe continued to benefit from targeted Fund technical assistance to address policy challenges, strengthen institutional capacity, and support on-going reform efforts. According to IMF (2016), the International Finance Corporation (IFC) in the World Bank was preparing proposals for possible investments in Zimbabwe that would be reviewed by the IFC management for possible implementation. IMF (2016) also reported that on April 20, 2016, the Board of Directors of the AfDB approved a US$25-million Trade Finance Line of Credit facility to the Central Africa Building Society (CABS) of Zimbabwe. This medium-term facility helped support the expansion of CABS' operations as a provider of trade finance to local firms as well as Small and Medium-sized enterprises within Zimbabwe's tradable sectors.

In his monetary policy statement released in January 2016, the Governor of the Reserve Bank of Zimbabwe, said after the clearance of the arrears to IFIs, the country would turn to bilateral creditors to negotiate and settle the country's obligations with the Paris Club (MoF, 2016). Through the key informant expert interviews conducted and the 2016 Letter of intent, the desire by government to maintain a sustainable debt burden after arrears clearance was revealed. Although other interviewees were sceptical about the achievability, it would prove instrumental in maintaining macroeconomic stability in a very volatile economic environment.

The key informant interview from DMO highlighted recent efforts by the Zimbabwe government to re-engage with the international creditors during the London Investment Conference of 5 July 2016. The meetings as pointed by the key informants were important towards unlocking new financing and reiterating to multilateral creditors, the country's plan to clear arrears.

4.2.4 Re-engagement with international community on sanctions removal

Information from key informants from the ZADMO office showed less interest in discussing re-engagement with the international community on removal of sanctions showing in some instances some enormous degree of ignorance in what actually constituted re-engagement with the international community. One such informant on

[1] For almost 5 years now, government has been involved in a cat and mouse game with civil servants unions over unpaid or post-poned bonus payments and it will not be surprising if this trend continues given cash flow challenges that the country is facing. Some Ministers responsible for the civil service have even attempted to cancel bonus payments altogether claiming that government is broke, only for the President to intervene and reverse such attempts and pronouncements.

this aspect said:-

> *.....Aaaah sanctions! Are they actually written in the ZAADDS Policy document? Maybe I've forgotten, it's been long since I read it. But I think the right office to ask will be the Office of the President. We don't deal with sanctions here. Our main target is to engage creditors on debt relief and arrears clearance*

There was a clear indication of lack of ownership of the debt strategy by the office that is supposed to be the custodian and implementing agency of the ZAADDS. Ideally, as discussed in literature, a debt management office should actually be at the forefront of overseeing every activity involving a debt workout. Several calls for the lifting of the "illegal sanctions" have been made by many politicians and government technocrats in Zimbabwe. For example, in the national Budget Statement of 2014, the Minister of Finance said;

> *"With respect to the illegal sanctions, I call upon the countries that imposed them to lift the sanctions unconditionally for the betterment of our economy"* (MoFED, 2014).

A review of the Government public documents has also not revealed any documented effort towards re-engagement with the international community on sanctions removal, leading to conclusions that this strategy has been a mere statement in the ZAADDS policy document, and maybe a political decoy used by politicians to keep the public on its toes regarding economically damaging illegal sanctions but without any deliberate and serious efforts towards a genuine re-engagement. The government also claims to have adopted the "Look East Policy' in a bid to vaccinate the economy against the imposed sanctions.

4.2.5 Leveraging natural resources in pursuit of debt relief

Asked on the progress with regards to leveraging natural resources on debt clearance, a key informant from ZADMO attested that this had not been met. Further interrogations with the respondent revealed that there was no clear plan on how the natural resources were to be leveraged, a finding that confirmed with the study's previous literature discussions on the ambiguity nature of this particular ZAADDS' tenet. The Policy document is not so clear and specific on how resources will be used to solve Zimbabwe's debt situation. It only instituted a few measures for the country's mining potential to be realised, which are:

i. Finalisation of the new Mining Legal Framework;
ii. Establishment of a Framework which incorporates Development Funds for the benefit of communities, especially in areas where mining activities are being undertaken; and
iii. Carrying out a Geological Mineral Survey to ascertain the quantum and potential value of mineral resources in the country.

However, in line with the above measures, and in a bid to increase transparency and accountability in the mining sector, the government enacted a new Mines and Minerals Act of 2015 which came into effect in 2016 (GoZ, 2015). The Minister of Finance in the 2016 National Budget Statement, postulated amendments to the Mines and Minerals Act primarily aimed at providing mining titles for a specified period, and require holders of mining titles/rights to work their claims within a specified period, that way enforcing the "use-it or lose-it" principle[1]. This Act has now replaced the old Act of 1963 crafted during the colonial era, so as to cater for the existing changes in the mining sector, such as recognition of small scale miners believed to be making meaningful contributions to gold deliveries to Fidelity Printers, the state supported monopoly buyers of gold and other minerals in Zimbabwe.

Document analysis also revealed that there has been establishment of a Sovereign Wealth Fund (SWF) as proposed in the Zimbabwe Agenda for Sustainable Economic Transformation (ZimASSET) blueprint. The Fund is aimed at reserving income from mining proceeds for investments and supporting community development objectives for the benefit of the citizens and future generations. According to the 2015 Mid-Term Fiscal Policy Review, the SWF is now fully constituted with a Board chaired by the former Governor of the Reserve Bank. However, the Fund Manager was yet to be appointed. The Policy review also stated that the process of operationalising the Fund is being spearheaded by the Office of the President and Cabinet, in conjunction with Treasury and the Central Bank (MoFED, 2015).

There is no doubt that setting up a SWF is a noble idea, however, its operationalisation is questionable considering the current state of affairs. Zimbabwe is saddled with a huge public debt burden, has low international reserves and suffers from cash flow problems to the extent of failing to pay civil servants on time. The current economic status makes it impractical for the government to set aside money for the Fund. The establishment of a SWF seems elusive under such economic conditions.

The government also established a Mining Exploration Company in a move to embark on the geological mineral survey (IMF, 2016). In the 2016 National Budget Statement, the Minister of Finance, proposed to capacitate the Geological Survey Department which is housed in the Ministry of Mines and Mineral Development with the necessary equipment and technology to enable enhanced exploration activities (MoF,

[1] This followed realisation that there were a lot of speculators holding onto mining titles that were not being executed as evidenced by lack of serious mining activity in specific areas indicated on the documents for such titles.

2016). However, amid the budget deficits experienced in the country, this process will likely take more time. The 2014 National budget statement also reiterated the same viewpoint and stated that the need to raise the requisite resources to undertake the surveys will require a much a longer period (MoF, 2014). If successfully conducted, a geological survey will show the quality and quantity of mineral resources that the country is endowed with. This will assist in informed decision making by policy-makers on the exploitation of mineral resources, and if resources are going to be leveraged for debt clearance, such a move should be inevitable.

The diamond sector has also been consolidated in an effort to improve transparency and accountability for natural resources. The government, in its 2016 letter of intent to the IMF highlighted that it was now accounting for diamond mining from extraction to sales and transfers of proceeds and pledged to periodically publish audited financial statements of state owned mining entities (IMF, 2016). This move will ensure effective control by the government in the diamond mining sector as noted by ZimCODD (2016).

4.3 Challenges affecting the implementation of ZAADDS

Objective 2 of the study sought to investigate challenges affecting the implementation of ZAADDS. This was done through questionnaires to various institutions dealing with debt management, as well as key-informant interviews with personnel at the ZADMO office. Various documents were reviewed in a bid to investigate these challenges. The challenges are discussed below under each of the five key tenets of ZAADDS, already highlighted before.

4.3.1 Establishment and operationalisation of a Debt Management Office

Generally, there is an agreement that the DMO is marred by several challenges. Of the returned questionnaires, 90% cited that indeed challenges existed, particularly in the operationalisation of the office. Below are common challenges highlighted by the data collection and analysis processes:-

i. Autonomy

Findings, particularly from the civil society organisations, such as AFRODAD, ZimCODD and SEATINI indicated that the DMO has little or no autonomy. Respondents lamented that the office was not independent enough to carry out its duties. The office was described as having so much political interference which to them affects the quality of performance and actual operation. One key informant was of the opinion that the DMO should be a standalone entity just like the Zimbabwe Revenue Authority (ZimRA). In as much as separation might be necessary, it should however be noted that what matters is the degree of autonomy. The location of the DMO in the Ministry of Finance is logical as loan negotiations are often conducted by a team from the MoFED, Central Bank and the Debt office, as also confirmed by experts from the ZADMO office. The process of monitoring central government direct debt is tied to the budgetary process, both in budget preparation and in budget execution (Borresen and Pascal, 2002).

ii. Resources and capacity

Slightly over 50% of the respondents from both questionnaires and interviews cited resource and capacity constraints. This, as indicated by some, is a result of the national financial and liquidity challenges making the economy operate on a tight fiscal rope. Thirty-two percent of the respondents cited lack of personnel with adequate skills, little staff development as a result of inadequate capacity training as well as low remuneration as constraining factors towards the successful implementation of ZAADDS. Low remuneration however has implications of reducing staff morale resulting in staff inability to perform duties effectively.

iii. Political support

There was also an indication by respondents that the office lacked political support. One interviewee actually grieved on the poor response by persons of authority in the country and said:

> *"…the debt issue is being treated as purely a technical issue yet it's more political! It takes political will. When was the last time you heard the President talking about ZAADDS apart from the time when the strategy was launched?"*

An analysis of the findings reveal the need for a stepped up approach in managing the country's debt situation. This entails greater involvement of the country's top political leadership on all DMO's endeavours likely to make debt sustainable and arrears clearance possible without of course, executing too much political influence on the management of the debt office.

iv. Limited involvement of DMO on borrowing

Respondents also expressed concerns over some Government institutions they claimed are contracting and accumulating debt without approval from DMO. This is despite a clear legal framework on debt management contained in Constitution of Zimbabwe Amendment (No.20) Act, of 2013 section 298 to 300 and the PDM Act N0.4/2015 that emphasise on the need to consult the office prior to external loan contractions (GoZ, 2013 and 2015b). This has a negative effect on debt management as it can undermine debt sustainability. These same findings were also reported by IMF (2014: 2) in its article IV DSA were they stated that, "*decisions on new external borrowing continue to be taken with limited involvement of technical staff, with substantial risks of making sub-optimal choices with implications for medium-term sustainability."*

4.3.2 Reconciliation and validation of the external debt

It is widely known that debt reconciliation and validation exercise requires skilled personnel to deal with the usually complex debt portfolios in developing countries as confirmed by various literature sources. However, in contrary as indicated by 76% of respondents, the Zimbabwe debt office personnel lack such expertise. The currently adopted debt validation system uses a DMFAS software which is based on state of the art web technology to monitor debt obligations such as government, government-guaranteed and on-lending debts, as well as grants. This system is relatively new to staff and a bit complicated and as such requires staff to undergo intensive trainings. All respondents from ZADMO and MEFMI affirmed that both UNCTAD and MEFMI have been providing such technical assistance however respondents from ZADMO indicated that there was need for more of such trainings.

Another highlighted challenge was on the time creditors take to respond to enquiries on debt statistics. Interviewees from ZADMO stated that creditors responded at different times. This finding also tallies with those from IMF (2014) who reported that all official creditors were contacted, during the first reconciliation exercise in 2011, but only one creditor responded and agreed with the results. This negatively affected the debt management office public reporting and dissemination timeframe. This finding then explains why information on debt validation and reconciliation is often publicised late as lamented by most civil society organisation and also suggests why public debt data is not publicly disseminated timely and as may be frequently desired for public interest.

Deficiency in public debt data records was also cited as another factor hindering effective debt reconciliation and validation by 40% of DMO respondents. The situation was also said to have largely affected the first reconciliation exercise in 2011 and thereby resulted in many delays. However, whilst DMO argues about lack of public data, 64% of respondents mainly from Parliament, and civil society were of the view that lack of public debt information is as a result of the government’s secrecy agenda. They argued that some of the validated loans may never be in the public domain because they were secretly contracted for private individuals under the banner of various ministries. As guided by IMF (2003), the compilation of external debt statistics is undertaken for the ultimate purpose of making these data available to policymakers and other users. Prolonged delays are therefore not recommended as they complicate planning and increase uncertainties regarding policy direction. The findings however contradicts those noted by UNCTAD (2016), who rated Zimbabwe in the category of *'High standards with minor problems'* for debt data and reporting, implying that the country is on course in terms of reporting of debt statistics.

4.3.3 Negotiating with creditors for arrears clearance, debt relief and new financing

There were various challenges highlighted regarding the process of negotiating with creditors which according to respondents made the process difficult. These are grouped and explained below:

i. Weak negotiating position

From the findings, this appeared to be the greatest challenge facing the country as 80% of respondents from both key-informant interviews and questionnaires stated that the country had a weaker negotiating position with its creditors. This is normally the case with debtor countries as most negotiating powers are with the creditors who have mandate to agree or disagree on proposed payment plans. Mutasa (2003) and Uzmanoglu (2013) also had the same observations and highlighted that debtors had little bargaining power with their creditors.

One respondent explained the implication of this and argued that:

> *…creditors normally end up dictating roadmaps or conditions on debtor countries which have negative consequences on social and economic development just as the SAPS which had so much negative consequences on Zimbabwe and actually worsened our debt portfolios.”*

Another respondent from Parliament posited that Zimbabwe desperately needs help, and as such is not being proactive by allowing the external creditors to lead the negotiation process. This can be said to be true especially when observing the process of the IMF SMP that the country went through, and which was regarded as a gateway to unlocking the re-engaging process with creditors.

There was also an indication by one respondent who argued that the country’s efforts to clear arrears are being hampered by the continuous accumulation of non-concessional loans by the government. These findings tally with those reported by IMF (2016) who postulated that in 2015, and in line with the SMP, Zimbabwean authorities borrowed abroad for development projects on non-concessional terms with an average grant element of 26% and public and publicly guaranteed external debt rose by US$239 million. This is also an evidence of the weak negotiating skills of authorities in charge. It should be noted that acquiring debts at non-concessional terms actually exacerbates the current debt situation.

ii. Lack of political will

A small number (29%) of respondents, mainly from civil society also lamented lack of political will arguing that the country has a chance to repudiate some of its debts, as a result of illegitimate and odious debts. These authors also believe that this stance requires bold steps and concerted efforts from both the top government officials and civil society. Some of the inherited debts especially those accrued during the Smith regime are odious in nature and have a good reason to be repudiated. An analysis by Gwatiwa (2014) highlighted that US$700 million was debt inherited at independence as shown in Table 3 below. Although part of it was used for development commitments, some was also used for military purpose through the purchase of weapons and hiring external mercenary in a bid to suppress Black Zimbabweans. Although this has been highly debatable from literature, these authors also comprehend that these debts continue to hurt the country's economy.

Table 3: Zimbabwe's inherited debts

Rhodesian debt inherited by Zimbabwe in 1980 at Independence US$700,000,000.00

Government Debt	Private sector debt	Debt servicing annually	% on export earnings
US$98,000,000.00	US$594, 000,000.00	US$65,000,000.00	35%
US$5,000,000.00			

Source: Gwatiwa (2014)

These authors believe that, debt is a tool of transferring wealth or siphoning resources from countries and is also a hierarchical reinforcement of the world socio-economic and political order. On such grounds of illegitimate debts, it is actually prudent to have authorities call for debt cancellation, but as observed by respondents, it requires an intensive debt audit and political will which is however lacking.

iii. Lack of trust and confidence by creditors

Lack of trust and confidence by creditors was cited by 68% of respondents mainly from SEATINI, Parliament, ZimCODD and AFRODAD as another deterrent to unlocking fresh financing from creditors. This is largely attributable to the current unstable economic and political environment that has witnessed a rise in nationwide protests for instance the 'Shut Down Zimbabwe' protests of 6 July 2016 over economic collapse and a rise in political campaigns and movements such as 'Tajamuka' and '#ThisFlag'. It is a widely known fact that political and economic instability often scare away potential investors as proved by various scholars (Tures, 2003; Lim, 2001). The deteriorating economy has also resulted in large fiscal deficits which has made it a hurdle for the Government to pay civil servants in time let alone meet the creditors' repayment schedules. Moreso, the low creditworthiness associated with the country has also made creditors insist on all arrears to be settled prior to any possible consideration or negotiations. Coupled with the already mentioned multiple challenges other than the debt itself, efforts on engagement with creditors would require a stepped up approach by policy makers and a lot of persistence.

iv. Double standards by creditors

Findings also reported that most funding partners want the country to achieve other targets that are not related to debt clearance such as rule of law and regime change. One responded was sceptical over economic visits of IMF to Zimbabwe and said:

> *….the IMF visits to debtor nations are said to be for economic purposes, but my fear is that they have a hidden political agenda.*

A key interviewee from ZimCODD also elaborated on creditors' double standards and said:

> *IMF economics are sometimes difficult to understand and appreciate. During the recently concluded SMP, IMF painted a good picture of the country's progress, and that Zimbabwe was meeting its arrears clearance progress, but it was precisely at that time when the government was reporting the opposite, and was proposing to introduce bond notes due to cash flow challenges. This brings a lot of questions whether IMF is deliberating seeking wrong information, whether it is simply not reporting correct findings or is not just competent enough to conduct research which is reflective of the country's situation*

Jubilee Research in 2004 also reported similar findings on creditors' double standards and lamented on the unequal treatment of Iraq and Ethiopia over debt relief despite them meeting same conditions required for debt relief. They contended that the double standards applied by Western creditors to these two debtor nations revealed that debt relief is subject to arbitrary geo-political considerations (Brettonwoods Project, 2004).

These authors share the same sentiments which are justifiable considering the conduct of Western creditors with most debtor nations. Creditors have often tied conditionalities on debt relief, for instance, economy liberalisation, good governance and government spending cuts, before assisting debtor nations with debt relief. These measures have often taken their toll on the country's economy in the long run.

v. The pari-passu principle

Findings from the key informants' interviews indicated that, the *pari-passu* principle was affecting creditor negotiation efforts. In the simplest term, this principle requires creditors to be treated in the same manner especially when it comes to debtor insolvency. A case in point is the payment amounting to US$239 million discussed in Chapter 2, which was also requested to be prioritised after the EIB appealed to be accorded the same creditor status as the IMF, WB and the AfDB. As noted by Newfield (2016) the *pari-passu* clause is found in nearly every sovereign debt contract issued throughout the globe. In the private context, this clause is well understood to ensure fair distributions to all creditors in the event of bankruptcy and liquidation.

4.3.4 Re-engagement with international community on sanctions removal

Respondents were asked on the challenges hampering the re-engagement efforts on sanctions removal. Interestingly, 59% of the respondents either left the question blank or confessed they were not aware of any government efforts and challenges in lobbing for sanctions removal. The few 29% that answered this question cited that there was slow implementation of political reforms as requested by ZDERA and that the government was not putting much effort on this. One interviewee actually suggested that the reason why this tenet was included in the ZAADDS policy document was just for the purpose of letting people know that sanctions are damaging our economy not really for re-engagement purposes. Such a viewpoint suggests that this is more of government "lobby platform" and in the authors' view is an indication of a deficiency in political leadership failure to take action on public debt. One respondent actually bemoaned and said:

> *The agenda for sanctions removal is merely a populist view, a political quagmire! What caused the debt crises was to do with loan repayment failure or defaults and not sanctions. Sanctions were a response of bad governance by the country!*

A respondent from Parliament also highlighted the disputed 31 July 2013 harmonized elections as a case in point which according to the respondent actually worsened the relationship of the country with the international community. The respondent mentioned that there have been calls by the USA, United Kingdom, European Union and Australia for an independent probe into the alleged rigging of elections in Zimbabwe and stipulated that without sanctions removal, arrears clearance will be unachievable. These authors also noted through document analysis that most of the conditions put forward by ZDERA especially on governance and rule of law has not been met. Apparently, a letter dated 28 January, 2016, the Chairman for the USA Senate Committee on Foreign Affairs, Bob Corker, urged the USA's Treasury Department to ensure that no new funding will be extended to Zimbabwe until the USA's non-economic related conditions are met (United States Senate, 2016).

As noted by the respondent from Parliament and the authors' document review and analysis, the above letter from Bob Corker implies that even if the Government clears all the arrears to the IMF and the WBG, the USA can still use its excessive voting powers in the two Bretton Woods Institutions to deny any significant injection of fresh capital to Zimbabwe. Munyati (2016) also shares the same observations arguing that decisions at the World Bank and the IMF are made by a vote of the Board of Executive Directors, which represents member countries and a minimum majority of 85% is required for any major decision to prevail. Unfortunately, the weighted voting system of the IMF and the WBG is such that the USA holds almost 17% in each of the two institutions, thus effectively giving the USA the leeway to veto any decision that it considers contrary to its foreign policy position. Against this backdrop, these authors agree that it will be futile to clear the arrears without simultaneously lobbying for the total removal of sanctions and in particular ZDERA.

4.3.5 Leveraging resources for debt clearance

As noted earlier in this section regarding progress on the implementation of ZAADDS, there have currently been no resources leveraged for debt clearance. However, there were potential challenges observed by respondents if the country is to use its natural endowments for arrears clearance as discussed below:

i. The fragile economic situation

One respondent highlighted that Zimbabwe was suffering from an economic crisis and argued that the envisaged geological survey required substantial financial resources, which Zimbabwe can ill-afford presently. This observation holds true considering the current fiscal challenges and budget crisis the country is experiencing. As noted from the 2016 Budget Statement, the Finance Minister also admitted that the process of verifying and quantifying the country's mineral wealth required a considerable amount of human, financial and technical resources. ZimCODD (2016) also argues that given government's bankruptcy, there will be no resources to complete a full geological mineral survey to ascertain the quantities and values of the minerals.

ii. Agreeing on valuations

Three key informant interviewees and 48% of respondents from the questionnaire survey pointed out that agreeing on valuations with financiers often proved very difficult considering that the vast majority of Zimbabwe's resources were minerals. This finding commensurate with Mphambela's views who critiqued the resource-based model for debt clearance and argued that it was difficult because valuation of the mineral resources was complicated (Mphambela, 2012). A key informant from Parliament illustrated on the failed negotiations between China's Norinco and Zimbabwe Mining Development Corporation and specified that the parties could not agree on a US$3 billion offer for the Selous platinum reserves. The respondent indicated that Government believed that the reserves had a value of around US$24 billion to US$40 billion whilst the Chinese disagreed. The same respondent also cited another concerning Essar-Ziscosteel deal where valuation of iron ore reserves was found challenging. All these cases are a clear example of how valuing natural resources can be very problematic.

iii. Inconsistencies on natural resource policies

One respondent also noted that policy inconsistencies especially in relation to mineral resource extraction do also jeopardise the potential of leveraging resources for arrears clearance. This was found to be true, as more critically, finding takers for securities backed by natural resources is extremely challenging especially in an environment where property rights are flagrantly violated as noted by Mphambela (2012). One key informant also speculated that given the expropriation of mining assets conducted during the past few years by the government, potential clients would be justified to be sceptical in investing their financial resources in exchange of mineral claims as they are not so confident with government policies.

iv. Illicit financial flows

Two respondents from civil society also grieved that the country has so much natural resources, but their management is poor, as it is marred with a lot of corruption, lack of transparency and accountability. On top of this illicit financial flows are also bleeding the country. AFRODAD (2015) noted the same findings and posited that the government is not realising much revenue from natural resources due to illicit financial flows (IFFs), tax evasion, corruption and weak institutions. Just recently, Zimbabwe is estimated to have lost over US$15 billion due to IFFs as revealed by the President on his birthday interview. This amount was more than enough to clear all the debts and arrears the country owes and also meet its major developmental needs. The negative impacts of IFFs cannot be over emphasised for Zimbabwe which is already faced with limited budgetary resources, against high expenditure demands.

It should however be noted that the challenge of IFFs is not only a concern to Zimbabwe, but developing nations at large and is at the forefront of the international agenda. A key informant from AFRODAD brought to the light staggering figures, and indicated that between 1980 and 2009 Africa alone was estimated to have lost close to $1.4 trillion through illicit means which is almost equal to its current gross domestic product, and surpassing by far the amount it has received in aid over the same period and four times Africa's current external debt.

4.3.6 Clarity, Adequacy and Relevance of the strategy

The researchers also asked respondents if they thought the debt strategy was clear, adequate and relevant to the Zimbabwe's situation. This was aimed at finding possible gaps of the strategy which needed to be improved. Below are some of the responses obtained;

i. Clarity

As shown in Figure 5, 66% of the respondents believed that although the debt strategy was clear, it had a number of unclear sections. A follow up to this question solicited for reasons for this view and most highlighted that the strategy had ambiguities especially on leveraging resources for arrears clearance, and re-engagement for sanctions removal, which to them was how this was to be done was unclear. A strategy, as some respondents alluded should be a clear roadmap of actions to be taken, objectives to be achieved and the time frame to achieving it. These authors concurred that the ZAADDS document was indeed silent specifically on the estimated implementation timeframe. This contradicts Doran (1981) characteristics of Specific, Measurable, Attainable, Realistic, and Time bound (SMART) objectives.

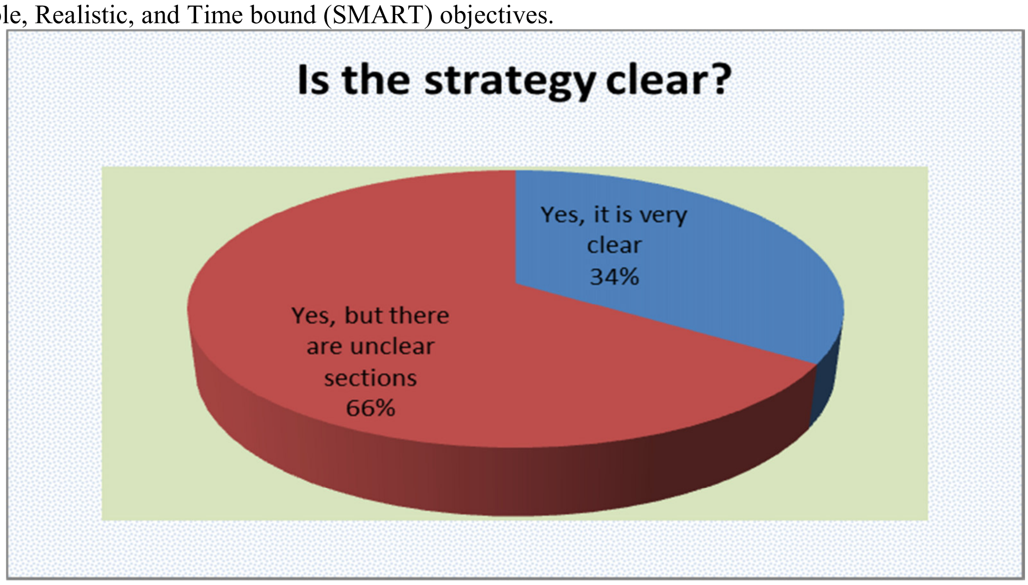


Figure 5: Respondent's views on clarity of the strategy; Source: Primary data

Some 34% of respondents mainly from ZADMO who agreed on ZAADDS being clear argued that though the result might be unacceptable, the strategy was clear in terms of stating what the government sought to achieve. Others said it was clear as there were targets in place particularly on the Lima strategy which showed where the money to clear IFIs debt would come from.

ii. Adequacy

Respondents were also asked on their opinion whether they thought the debt strategy was adequate, fairly adequate or inadequate in solving the country's debt situation and the results are shown in Figure 6.

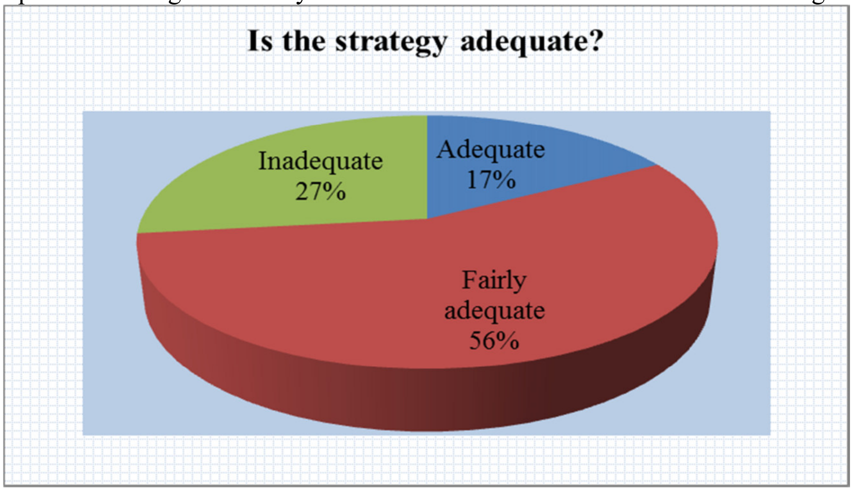


Figure 6: Respondent's views on the adequacy of the strategy; Source: Primary data

The above results show mixed feelings amongst the respondents with 56% of the respondents believing that debt strategy was fairly adequate, whilst 17% thought it was adequate and the remainder thought it was inadequate. It is also interesting to note that majority of respondents who either said the strategy was inadequate or fairly adequate had also responded that there were a number of unclear sections on the strategy as indicated and explained above. Asked about the limitations of ZAADDS in solving the intended debt problems of the country, 63% of respondents revealed that there was lack of political will to improve economic priorities, investment attractiveness and confidence boosting among potential investors. Some 59% also argued that borrowing in order to settle another debt did not make much sense. Another 27% further argued that even if the country clears the arrears, the chances of receiving new loans from creditors might also be slim due to other factors. Still, 24% argued that there was no guarantee that even if Zimbabwe was to clear its current arrears; the country was going to achieve debt sustainability thereafter, because of its huge appetite to borrow. All these findings suggests that ZAADDS is viewed as having some loopholes which if carefully re-strategised could result in a much stronger and acceptable debt strategy.

iii. *Relevance*

Respondents were also asked for their opinion regarding the relevance of the debt strategy to Zimbabwe's situation. As highlighted in Figure 7, 54% strongly agreed whilst only 2% disagreed. This is also an indication that majority of the respondents felt that the ambition to resolve the country's debt situation is worthwhile and points to the urgent and immediate needs of the country.

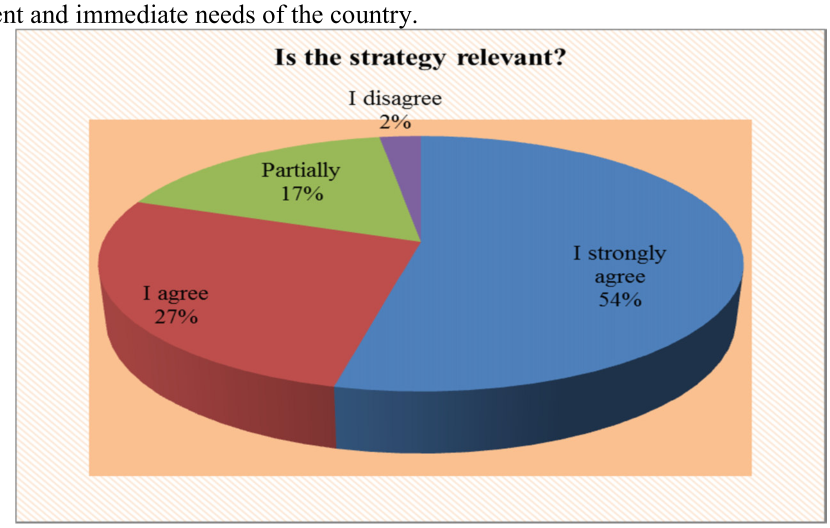


Figure 7: Respondents' view on the relevance of the debt strategy; Source: Primary data

5. Conclusions

Zimbabwe's debt strategy is weak in terms of implementation. Since the strategy's launch in November 2010, public debt was and has remained, and is likely to stay unsustainable for a longer time considering the multiple challenges faced. Considering the current budget deficits, the liquidity crunch rocking the country, desperation for funding and the continuous accumulation of non-concessional loans by the nation, there is every reason to believe that the current debt dilemma is only likely to be exacerbated.

The currently proposed arrears clearance plan to the International Financial Institutions (IFIs) is centred on 'borrowing to repay.' Although the argument that paying arrears will unlock new financing from the IFIs, this is not guaranteed given many factors that creditors consider before issuing loans. Placing the country in a vicious debt cycle through this borrowing to pay remains inevitable, since both the principal and arrears repayments will increase. We therefore conclude that the government proposed time frame for arrears repayment was unrealistic, considering that the 30 June 2016 deadline was missed.

The establishment of the debt management office was highly commendable as was the subsequent staffing of that office. That was in line with internationally recognised best practices in debt management encouraging a one stop shop for all public debt related issues. The enactment of the PDM Act No.4/2015 was also brilliant as it provided a clear framework on debt management, from borrowing, issuing public guarantees, developing debt management strategies and reporting expectations. However, the current lack of autonomy, political support, resources and limited involvement of the debt management office on loan contraction, left unchecked could result in ineffective and inefficient operating environment at the debt management office. Consequently, effective validation and reconciliation exercise would also likely be hampered.

Ideally leveraging resources for debt clearance would not be a viable option, if the government has not yet ascertained the country's resource endowment value, which can only be done through a geological survey. Furthermore, resource leveraging will continue to be unachievable if corruption, inconsistent policies and illicit financial flows are left unattended. The debt strategy is fairly adequate and very relevant to Zimbabwe's situation in the quest to solve the debt situation. However, achieving long-run debt sustainability remains questionable if the country does not implement more debt management reform measures.

6. Recommendations

The research recommends the government to accord a high degree of autonomy to the debt management office for realisation of greater efficiency in public debt management. The office should officially audit the country's public debt to ascertain the legitimacy of such debts and publicise such information, including the amounts, source of the borrowed funds, and the purpose for the loans. The government should engage and get the support of international advocates and lobbyists to campaign for Zimbabwe's case for significant debt reduction and repudiation. Such support should be solicited from such organisations as the Jubilee Debt Campaign, Zimbabwe Coalition on Debt and Development, African Forum and Network on Debt and Development, and the European Network on Debt and Development who are already at the forefront of the global campaign on repudiation of illegitimate debts. Whilst government borrowing is imminent, the study recommends future borrowings to be on highly concessionary basis, done only when a genuine need arises and transparently. The Ministry of Industry and Commerce is encouraged to intensify efforts aimed at increasing foreign direct investment through capital inflows instead of loans.

Furthermore, Zimbabwe's political leadership should urgently launch an intensive international campaign and outreach programme to creditors at the highest level, to build support for Zimbabwe's case with regards to debt relief and arrears clearance. As part of Government's outreach efforts, the Ministry of Finance and Economic Development should engage ambassadors and representatives of Paris Club creditors based in Harare and solicit support towards solving the country's debt crisis with the Paris Club, the country's major creditors. Leveraging resources on debt clearance, before an evaluation of the natural resources endowment and lack of mechanisms to curtail illicit financial flows, is discouraged.

References

African Development Bank. (2014). *Annual report 2014*, African Development Bank.

African Development Bank. (2016). *Country brief update 2014 – 2016, Zimbabwe*; ORVP Department.

African Forum and Network on Debt and Development (AFRODAD). (2012). *A review of Debt Management in Africa*, AFRODAD, Harare.

African Forum and Network on Debt and Development (AFRODAD). (2015). *An Overview of Domestic Debt in SADC: A Synthesis of Trends, Structure and Development Impacts*, AFRODAD, Harare.

Borresen, P. and Pascal, C, E. (2002). *Role and Organization of a Debt Office*, United Nations, New York and Geneva. [Online] Available at http://unctad.org/en/Docs/gdsdmfas2_en.pdf. Accessed 5 May 2016.

Buchanan. J. M. (1987). *The Public Finance: An introductory Textbook.* , Illinois: Irwin Homewood.

Chikova, R. (2013). *The external debt management problem: The case of Zimbabwe* (2000-2012), Dissertation, University of Zimbabwe.

Christian Aid. (2007). *Enough is Enough: The Debt Repudiation Option*, Christian Aid

Claessens, S, (1990), The Debt Laffer Curve: Some Estimates, *World Development*, 18 (12): 1671–1677.

ENCA, (2015), *Zimbabwe Will Clear Debt by 2016*, News, Friday 9 October 2015-11:59am 2015,[Online] Available at https://www.enca.com/africa/zim-will-clear-debt-2016. Accessed 17 October 2015.

Government of Zimbabwe. (2012). *Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy*. Government of Zimbabwe. Ministry of Finance.

Government of Zimbabwe. (2013). *Constitution of Zimbabwe Amendment (No.20) Act*, Harare, Government Printers.

Government of Zimbabwe. (2015). *Mines and Minerals Development Act*, Harare Government of Zimbabwe.

Government of Zimbabwe. (2015). *Strategies for Clearing External Debt Arrears and the Supportive Economic Reform Agenda*, October 2015, Government Printers, Harare.

Government of Zimbabwe. 2015. *Public Debt Management Act No.4: 2015*, Harare, Government of Zimbabwe.

Gwatiwa, J. (2014). *Remove Unjust and Racial Economic Sanctions on Zimbabwe*, Harare: The Patriot.

Hardy, C. S. (1986). *"Africa's Debt burden and its consequences,"* The Courier, African Caribbean Pacific Dossier, No. 97, May – June.

Hyman, D. N. (1990). *Public Finance, A Contemporary Application of Theory to Policy*, Chicago: The Dryden Press.

IMF and World Bank, (2003), "*Guidelines for Public Debt Management: Accompanying Document and Selected Case Studies"*, IMF and World Bank, Washington, D.C.

IMF. (2014). *Staff Report for the Article IV 2014, Debt Sustainability Analysis*, May 29, 2014, International Monetary Fund and International Development Association.

IMF. (2016). *Debt Relief under the Heavily Indebted Poor Countries (HIPC) Initiative*, IMF, [Online] Available at http://www.imf.org/external/np/exr/facts/hipc.htm. Accessed 5 May 2016.

IMF. (2016). *Staff report for the 2016 Article IV Consultation and the Third Review of the Staff-Monitored Program*—Press Release; Staff report; and Statement by the Executive Director for Zimbabwe, IMF Country Report No. 16/109, IMF.

Krugman, P. (1988). Financing vs. Forgiving a Debt Overhang, NBER Working Paper No. 2486, *Journal of Development Economics*, 29: 253-268.

Lim, E. G., (2001), *Determinants of, and the Relation Between, Foreign Direct Investment and Growth: A Summary of the Recent Literature*, IMF.

Ministry of Finance and Economic Development. (2016). *Monetary Policy Statement*, Printflow, Harare

Ministry of Finance and Economic Development. (2015). *Mid-Term Fiscal Policy Review*, Printflow, Harare.

Ministry of Finance and Economic Development. (2016). *Zimbabwe National Budget Statement*, Presented 26 November 2015.

Ministry of Finance. (2012). *Zimbabwe Budget Statement*, 2012, Printflow, Harare.

Ministry of Finance. (2014). *Zimbabwe National Budget Statement*, Printflow, Harare.

Mphambela, C, (2012), *Govt's debt strategy could come unstuck*, The Independent, 29 March 2012.

Munyati C, (2016), Why US reengagement is critical to Zimbabwe's Debt Arrears Clearance Strategy, *Foreign Policy Journal*. [Online] Available at: http://www.foreignpolicyjournal.com/2016/03/04/why-us-reengagement-is-critical-to-zimbabwes-debt-arrears-clearance-strategy/. Accessed 9 March 2016.

Mutasa, C, (2003), *Rethinking strategies for resolving the Third World Debt crisis*, Harare: AFRODAD.

Myers, S. C. (1977). Determinants of Corporate Borrowing, *Journal of Financial Economics*, 1977, 5 (2).

Newfield, D, (2016), *PariPassu as a weapon and the Changes to Sovereign Debt Boilerplate after Argentina vv*. NML,University of Miami Law School, [Online] Available at: http://repository.law.miami.edu/cgi/viewcontent.cgi?article=1281&context=umblr. Accessed 29 March 2016.

Ngalande, E. (2013). *The Debt Sustainability after HIPC Initiative and the Global Crisis, Results and Prospects in Eastern and Southern Africa*, ninth UNCTAD Debt Management Conference, Geneva, 11 - 13 November 2013, UNCTAD.

Sachs, J. (1989). *Developing Country Debt and the World Economy*, National Bureau of Economic Research, University of Chicago Press.

Sachs, J. (2002). *Resolving the Debt Crisis of Low-Income Countries*, Harvard University.

Tures, J.A, (2003), The Impact of Instability and Institutions on US Foreign Direct Investment in Developing Areas, *Conflict, Security and Development* 3 (2): 163-183

UNCTAD, (2016), *DMFAS Programme Strategic Plan 2016-2019, Strengthening the Foundations for Effective Debt Management*, UNCTAD, Geneva, [Online] Available at http://unctad.org/divs/gds/dmfas/who/Documents/DMFAS_Strategic_Plan2016- 2019.pdf. Accessed 10 May 2016.

United States Senate, (2016), *Letter to Secretary Jacob Lew*. 28 January 2016, Author.

Uzmanoglu, C. (2013), *Credit Default Swaps and Debtor Creditor Relationships*; Dissertation, Louisiana St Kate University and Agricultural and Mechanical College.

World Bank. (2016). *World Bank Group Data Tables*, [Online] Available at http://data.worldbank.org/indicator/DT.DOD.DPPG.CD. Accessed 9 February 2016

Zhou, G. (2012). Fiscal Management in Zimbabwe. *International Journal of Economics and Business Modeling*, 3 (1), 152-161.
Zimbabwe Statistics.(2012). *Poverty, Income, Consumption, and Expenditure Survey (PICES), 2011/2012,* Harare: Government of Zimbabwe.
ZimVAC. (2016). *Zimbabwe Situation Report No:/4,* 10 February 2016, ZimVAC

Authors' information:

Chipo Mbawu holds a Master's Degree in Development Studies from the National University of Science and Technology, in Zimbabwe and a Bachelor of Science Honors Degree in Development Studies from Bindura University of Science Education. She is also currently pursuing an Advanced Master in Cultural Anthropology and Development Studies at KU Leuven in Belgium. Her research interests include development economics, public debt management, informal sectors, livelihoods, children and development as well as socio-economic development..

Peter Nkala is an Economist by training holds a PhD in Economic and Social Science from the University of Natural Resources and Life Sciences (BOKU), Vienna, Austria; a MSc in Economics and a BSc in Economics both from the University of Zimbabwe. He is currently the Dean of the Faculty of Commerce at the National University of Science and Technology (NUST) in Zimbabwe and former Director of the Institute of Development Studies at NUST. He has published a number of journal articles on economic development related research. Dr Nkala's research interests are in development economics, monetary economics, managerial economics, public finance, international trade and development, livelihoods and rural development.