Sovereign Debt News Update No. 129: Zimbabwe's Arrears Clearance Program: Governance Issues Impede Economic Recovery and Reform

By:

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Zimbabwe remains ensnared in a profound sovereign debt crisis that hinders its economic recovery and sustainable development. The country's debt overhang continues to undermine fiscal stability, with the national debt surpassing US$20 billion. Despite pledges of commitment to debt clearance, Zimbabwe’s efforts are slow and encumbered by internal and external challenges, including controversial domestic reforms and complex international relations. This update delves into the ongoing struggles in Zimbabwe’s re-engagement efforts as it seeks to manage its debt crisis while navigating international financial obligations and domestic reforms.

As reported in the One Hundred and Twenty-Sixth Sovereign Debt News Update, Zimbabwe's debt profile has risen to more than USD$21 billion - making the debt unsustainable as the debt constitutes 96.7% of the national output (GDP), contrary to the 70% threshold provided for by section 11 of the Public Debt Management Act. Recognizing that Zimbabwe's sovereign debt crisis is directly linked to its inability to clear arrears to international creditors, the government has taken a unique approach to debt restructuring as it has centred re-engagement with its creditors in order to reorganize its debt and clear arrears in order to create fiscal space and address its immediate needs. Termed the "Arrears Clearance, Debt Relief and Restructuring Process (ACDRRP)", the government of Zimbabwe is expected to implement a number of domestic reforms before its creditors agree to clear its arrears and restructure its debt.

Debt Clearance Commitments and International Engagement for 2025

On the 25th of November 2024, the government of Zimbabwe held a High-Level Structured Dialogue Platform (SDP) with its stakeholders to international development partners and creditors to share progress registered during the last two years of the Structured Dialogue Platform process, as well as the roadmap for 2025. The updates shared included the reforms being implemented by the government under the three strategic pillars of the three-sector Working Groups namely Economic Growth and Stability Reforms, Governance Reforms and Land Tenure Reforms:

i. **Economic Growth and Stability Reforms** - As reported in the One Hundred and Tenth Sovereign Debt News Update, both the International Monetary Fund (IMF) and the World Bank advised the Reserve Bank of Zimbabwe to cease all quasi-fiscal operations and unbudgeted expenditures in February 2024. More precisely, the World bank had advised the RBZ to transfer US$3.6 billion of its total external liabilities to the Treasury as it had only transferred US$1.8 billion. According to the communique shared by Zimbabwe's Treasury, under the economic growth and stability reforms, all Reserve Bank of Zimbabwe (RBZ) foreign currency liabilities were transferred to the Zimbabwean Treasury, and these are now being serviced through the National Budget. Speaking at the forum, Zimbabwe's President Mnangangwa said his Government was negotiating a Staff Monitored Programme (SMP) with the IMF to anchor further economic reforms under the arrears clearance and debt resolution process. An IMF mission is expected in Zimbabwe towards the end of January 2025 for negotiating the SMP. The signing off on the SMP is expected by the end of the first quarter of 2025.

ii. **Governance Reforms** - According to the communique, Zimbabwe recorded improvements on seven sub-indicators, while declines were recorded in nine areas. Some of the highlighted wins include the passing of the Death Penalty Abolition Act and the decentralisation of the Zimbabwe Human Rights Commission (ZHRC) and Zimbabwe's High Court. The Private Voluntary Organisations (PVOs) Bill was also cited as a success as it is *expected to enhance transparency and accountability within civil society, while also augmenting Government's efforts to prevent the financing of terrorism and money laundering, through PVOs*.

iii. **Land Tenure Reforms** - Regarding Land Tenure Reforms (bankable 99-year lease), the Government, in October 2024, made a bold decision to give security of tenure to all the beneficiaries of the Land Reform Programme consistent with Section 292 of Zimbabwe's Constitution. As such, all land held by the beneficiaries of the Land Reform Programme under the 99-year leases, offer letters, and permits, will now be held under bankable, registrable and transferable tenure documents. Further, in line with the Global Compensation Deed (GCD) signed in 2020, the Government allocated US$35 million for the compensation of Former Farm Owners (FFOs) in the 2024 National Budget. According to the communique, 444 applications had been approved for payment under the GCD by November 2024. In addition, the Government allocated US$20 million to compensate farms affected by the Land Reform Programme that were protected by Bilateral Investment Protection and Promotion Agreements (BIPPAs), with 94 applications approved for payment by the time of release of the communique. On the11th of February 2025, it was announced that government had initiated compensation payments to the owners of the 94 farms.

Analysis:

As reported in the One Hundred and Twenty-Sixth Sovereign Debt News Update, Zimbabwe continues to inch towards commitments under its Arrears Clearance Program. However, more is to be done to show genuine commitment towards the satisfaction of the sub-indicators and matrices under each strategic pillar:

On the economic front, Zimbabwe’s banks are facing considerable stress as their exposure to sovereign debt risks continues to rise. Banks are struggling with non-performing loans (NPLs), which stood at 16% in 2023, and the high debt servicing costs being absorbed by the government. This financial pressure on banks and industries has led to further economic instability, exacerbating Zimbabwe’s debt crisis. The Bankers Association of Zimbabwe (BAZ) said it was time the country escalated its engagement with creditors as Bankers and other companies seeking offshore credit lines have been caught up in the crisis. According to the Reserve Bank of Zimbabwe, the nation’s total external debt servicing costs are estimated to reach US$3 billion annually. Meanwhile, the African Development Bank (AfDB) has committed to disbursing US$1,52 million towards Zimbabwe's arrears clearance. However, this disbursement is contingent upon the government’s implementation of fiscal reforms and improvements in debt management. Opposition politician and former Finance Minister, Tendai Biti, has warned of an impending “economic bloodbath” due to unsustainable debt levels, a weakening local currency, and fiscal mismanagement. Biti criticized the government’s reliance on excessive borrowing and unregulated quasi-fiscal activities by the Reserve Bank of Zimbabwe (RBZ), which he argues are exacerbating inflation and eroding public confidence in the economy. Without urgent interventions, including debt restructuring and sound monetary policies, Biti predicts severe economic distress that could push more Zimbabweans into poverty.

On the governance front, Zimbabwe’s controversial Private Voluntary Organisations (PVO) Bill has raised concerns among international creditors and human rights organizations. The bill, which seeks to regulate the operations of civil society organizations, has drawn criticism for its potential to curtail freedoms and stifle dissent. President Emmerson Mnangagwa, in defending the PVO Bill, stated that the legislation was “*necessary to ensure that organizations operate within the confines of the law*”. However, international bodies, including the United Nations Special Rapporteur on Human Rights, have added their disapproval of the PVO Bill. The European Union (EU) have also expressed concern that the bill could undermine Zimbabwe’s commitment to human rights and democratic principles, which are critical for international support and debt relief. Zimbabwe’s relations with Western creditors have been further complicated by concerns over human rights abuses, including reports by Amnesty International Zimbabwe of violence against opposition members and activists. Meanwhile, the Zimbabwean government has signalled its readiness to pursue constitutional amendments, including potential changes that could extend the presidential term limit. On the 14th of January 2025, Justice, Legal, and Parliamentary Affairs Minister Ziyambi Ziyambi confirmed the government’s openness to constitutional amendments, including extending the presidential term, stating, “*If the people say they want the term of the President extended, we will be guided by that.*” The ruling party, ZANU-PF, has expressed its support for such changes, arguing that the constitutional review should reflect the will of the people. Zimbabwean President Mnangagwa has, however, reiterated his commitment to stepping down at the end of his second term in 2028, making it clear that he would abide by the Constitution and facilitate a smooth leadership transition when the time comes. Altering presidential term limits could have a detrimental effect on governance reforms as extending executive power could undermine efforts to build stronger democratic institutions, deepen transparency, and promote accountability—core objectives of the SDP. Undoubtedly, these propositions threaten to delay or derail the country’s attempts to normalize relations with creditors in the re-engagement process.

On the land tenure and compensation of farmers, while Zimbabwe has made significant changes to its land policy, this land policy overhaul has not yet shown substantial results in improving the country’s credit rating. Zimbabwe’s sovereign credit rating remains deeply negative, making it difficult for the country to access favourable financing terms. This is despite a steady stream of international aid and the promise of reforms in the agricultural sector, which Minister Ncube believes is key to reversing the country’s fiscal fortunes. The policy shift has been welcomed by some investors but remains a work in progress at this point.

International Expectations

The pressure on Zimbabwe to demonstrate progress in clearing its debt arrears is intensifying, as international creditors demand clear and measurable steps towards debt sustainability. While Zimbabwe has committed to adopting a comprehensive debt restructuring framework, it is evident that international financial institutions remain cautious. As reported in the Eighty Third Sovereign Debt News Update, the United States of America (USA) had refused to fund the Arrears Clearance Process as the Zimbabwe Democracy and Economic Recovery Act (ZIDERA) was still in force. In the SDP forum of November 2024, the USA made a return to the platform. However, USA Ambassador to Zimbabwe, Pamela Tremont, said, “*Independent assessments of the Dialogue’s governance indicators demonstrate much work remains to be done, particularly on judicial independence, freedom of association and assembly, and civil society space. Similarly, there is only modest progress to note in the land reform or economic tracks*”. It is clear that Zimbabwe’s failure to meet these expectations could delay its access to vital financial support and hinder its recovery efforts.

Conclusion

Zimbabwe's sovereign debt crisis is an urgent and complex issue that requires coordinated international action and robust domestic reforms. The government’s commitment to clearing arrears, improving debt management, and implementing land policy reforms is clear, but the pace and consistency of these efforts across the three strategic pillars remain under scrutiny. Zimbabwe’s international relations are complicated by controversial domestic policies such as the PVO Bill, which threaten to undermine the country’s credibility among creditors and human rights organizations. The conversation around constitutional amendments hinder the momentum required for genuine governance reforms, threatening the overall success of the SDP. It is important to highlight that the path to debt sustainability requires not only fiscal discipline but also greater respect for the rule of law and good governance. Until these critical elements are addressed, Zimbabwe’s fiscal future remains uncertain, with mounting debt and a fragile economic outlook.

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