DEBT DIALOGUE TOOLS

ISSUED BY
THE ZIMBABWE PUBLIC DEBT MANAGEMENT OFFICE
MINISTRY OF FINANCE AND ECONOMIC DEVELOPMMENT

ABBREVIATIONS

AfDB African Development Bank
ADF African Development Fund
AG Accountant General
ATM Average Term to Maturity
ATR Average Term to Re-fixing
BADEA Arab Bank for Economic Development in Africa
BOP Balance of Payments
CPIA Country Policy and Institutional Assessment
CUB Committed Undisbursed Balance
DeMPA Debt Management Performance Assessment
DMFAS Debt Management and Financial Analysis System
DOD Disbursed Outstanding Debt
DSA Debt Sustainability Analysis
DSF Debt Sustainability Framework
EIB European Investment Bank
FDI Foreign Direct Investment
GoZ Government of Zimbabwe
IDBZ Infrastructure Development Bank of Zimbabwe
IMF International Monetary Fund
INA Interest Arrears
MDBs Multilateral Development Banks
MDRI Multilateral Debt Relief Initiative
MoFED Ministry of Finance and Economic Development
MTDS Medium Term Debt Strategy
NDF Nordic Development Fund
ODA Official Development Assistance
OFID OPEC Fund for International Development
PC Paris Club
PTA Preferential Trade Area
PPG Public and Publicly Guaranteed
PRA Principal Arrears
RBZ Reserve Bank of Zimbabwe
SDGs Sustainable Development Goals
SDR Special Drawing Rights
TSP Transitional Stabilisation Programme
UNCTAD United Nations Conference on Trade and Development
ZIMSTATS Zimbabwe National Statistics Agency
ZPDMO Zimbabwe Public Debt Management Office

CURRENCY ACRONYMS

CHF	Swiss Franc
CNY	Chinese Renminbi
EUR	Euro
GBP	Great British Pound
NOK	Norwegian Kroner
SEK	Swedish Kroner
INR	Indian Rupee
JPY	Japanese Yen
KWD	Kuwait Dinar
SDR	Special Drawing Rights
USD	United States Dollar

Objectives of Debt Management

As stated in the Public Debt Management Act, the objective is "to ensure that Government's financing needs and payment obligations are met at the lowest possible cost over the medium to long term, with a prudent level of risk, and to promote the development of the domestic debt market."

Specific debt management objectives:

- To maintain a comprehensive, updated and accurate public debt data base;
- To institute robust and sound institutional and legal framework for public debt management;
- To continuously re-engaging and expediting debt resolution with all creditors.

Public Debt Management Strategy

To focus on central government debt, both domestic and external, including guaranteed external and domestic debt. To clear external debt arrears and to develop the domestic debt market.

To successfully clear the country's external debt arrears and unlock new external financing for inclusive and sustained growth.

Strategy fundamentals:

- Accelerate implementation of the arrears' clearance strategy;
- Focus on concessional external financing;
- Limit non-concessional borrowing to economically viable projects;
Introduce Auction-Based System for domestic securities issuances;
- Inform Domestic Financing by an Annual Borrowing Plan and Issuance Calendar;
- Develop the Secondary Market to improve on liquidity and encourage investment in long-term bonds; and
- Ensure transparency and information sharing through regular public debt publications on the stock of public debt and its main features.

Legal And Institutional Framework For Debt Management

The Constitution of Zimbabwe Section 300 provides for Debt Management operations and authorises the promulgation of a dedicated Debt Management Act.

The Public Debt Management (PDM) Act of September 2015 provides for (a) the management of Public Debt in Zimbabwe, (b) establishes the Zimbabwe Public Debt Management Office (ZPDMO) as a statutory body, and (c) provides for the raising, administration, repayment of loans by the State, and guidelines in respect of certain loans.

Objectives of Public Debt Management Act

- To provide for the management of Public Debt in Zimbabwe;
- To establish the Zimbabwe Public Debt Management Office on a statutory basis and provide for its functions and administration;
- To provide for raising, administration and repayments of loans by the State and for issuing of guarantees; and
- To consolidate all public debt legislation into one strong legal framework.

Key Provisions of the Public Debt Management Act

Borrowing Powers – Section 11

"the Minister [of Finance and Economic Development] shall have sole authority to borrow money on behalf of Government by concluding loan agreements, issuing Government Securities, or entering into supplier's credit agreements and to issue Government Guarantees, in Zimbabwe and in both local and foreign currencies".
"At least twice a year, the Minister shall furnish Parliament with a report on Government debt activities, loans, guarantees and lending."

Four Borrowing Parameters

1. Borrowing Purposes- Section 12

- to finance national priority infrastructure and productive sector projects with high economic and social impact provided debt shall only be incurred on projects that can generate sufficient revenues to repay the loan;
- to finance Government budget deficits;
- to maintain a credit balance on the Treasury main account at a level determined by the Minister;
- to provide such Government loans or credits to local authorities, public entities and any other entity referred to in the definition of "public debt" in section 2(1):

- to honour obligations arising under Government guarantees;
- to refinance outstanding debt or repay a loan prior to its date of repayment:
- to immediately protect, mitigate or eliminate effects caused by a natural or environmental disaster or any other national emergency;
- to replenish international reserves;
- to meet requests by the Reserve Bank to issue Government securities for the sole purpose of supporting monetary policy objectives; and
- to fulfil any other purpose as the National Assembly may by resolution approve.

2. Borrowing Limits - Section 11

- borrowing limits shall be fixed by the National Assembly for any given financial year upon recommendation from the Minister and External and Domestic Debt Committee; and
- the Limit set should ensure that: total outstanding public and publicly guaranteed debt ratio to GDP should not exceed 70% in any fiscal year.

3. Power to give Guarantees - Section 20

- the Minister of Finance is mandated to issue guarantees;
  guarantee limits set by National Assembly;
- prior to issuance of guarantees, the ZPDMO shall assess the capacity to repay by the beneficiary; and
- guarantee fee is charged which is set by the Minister of Finance.

4. Borrowing by State Owned Enterprises and Local Authorities - Section 22

- SOEs can borrow externally subject to approval by the Minister of Finance;
- Local Authorities can only borrow within Zimbabwe subject to being given a borrowing power certificate;
- borrowing limits are set by Minister of Finance in consultation with the Minister in charge of Local Government; and
- limits are based of the country's ability to repay.

Borrowing Procedures under the PDM Act and Public Finance Management Act.

Medium Term Debt Strategy (MTDS) and Annual Borrowing Plan

> Preparation and update of Medium Term Debt Strategy

> Preparation and update of Borrowing Plan & Auction Calendar

Cash Flow Forecasting

> Debt Service Forecast Preparation or Update (for new and existing debt)

Loan Contracting/Debt Seurity Issuance

> Loan Contracting/Issue of Treasury Bills (TB)

> Ratification Process

> Loan or TB recording

Mobilisation

(2) > Disbursement Advances

> Settlement of Tbs

Debt Service

(1)> Payment of Loans and TBs both principal and interest

Reporting

> Reporting to various stakeholders - Parliament, General Public, Multilateral Development Institutions

> Internal and External Reporting

Key: *(1) Ratification process and loans contracted are reported to Parliament. (2) After contraction, loans are disbursed.*

External and Domestic Debt Management Committee (EDDC)

Chaired by the Secretary for Finance and Economic Development. Reports to the Minister of Finance and its mandates are to:

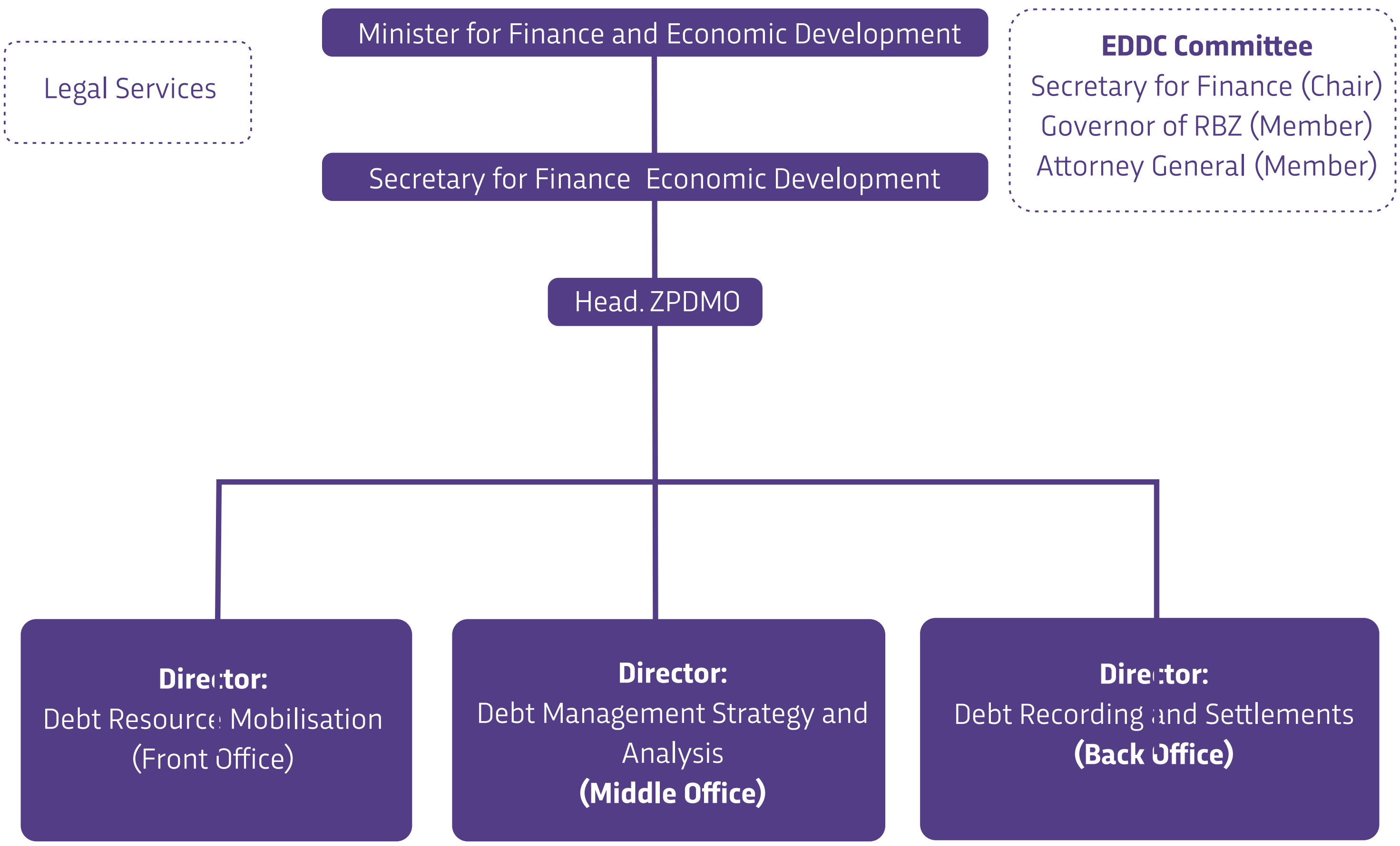
1. Make recommendations to the Minister on public debt management policy and strategy;
2. Make recommendations to the Minister concerning all external borrowings, domestic debt issuance and guarantees;
3. Advise the Minister on all policy matters relating to public debt management;
4. Perform any other functions assigned to it by the Minister in connection with the public debt
5. Consider the following reports terms of section 7 of the Act:
   a. Medium Term Debt Strategy;
   b. Debt Sustainability Analysis Report;
   c. Annual Borrowing Plan;
   d. Issuance Calendar;
   e. Debt Portfolio and Risk Analysis Report;
   f. Public Debt Statistical Bulletin;
   g. Bi-annual Parliament Reports; and
   h. Any other report as maybe required.

The EDDC is assisted by a technical committee, the EDDC Working Party, in the evaluation, assessment and analysis of borrowing requests.

Composition of the EDDC Working Party

Department	Justification
Zimbabwe Public Debt Management Office	Chair and Secretariat
Accountant General's Office	Evaluation and Analysis
Accountant General's Office	Debt Settlement
Financial and Capital Markets	Market Research
International Cooperation	Relations with external creditors, IFIs and Development Partners
Fiscal Affairs	Macro Framework
Expenditure Management	Expenditure and Priority Projects
Revenue	Revenue projections
Legal Services	Legal advice
Financial Markets, Exchange Control and Economic Research Divisions of the RBZ	Domestic debt issuance, Exchange rate and Economic research
Legal Advice, Legislative Drafting and Civil Divisions of the Attorney General's Office	Legal advice

Reporting Structure of the Zimbabwe Public Debt Management Office



Departments in the Zimbabwe Public Debt Management Office

Front, Middle, and Back Office Functions

A. Front Office Responsibilities

(a) External debt negotiations and monitoring projects financed from foreign loans.

(b) Executing transactions in the domestic securities market,

(c) Management of auctions in conjunction with the RBZ and other forms of domestic borrowing.

(d) Implementing borrowing strategies for closing the budget financing gap.

1. *Domestic Debt*

- Determine the amount and timing of treasury bonds and bills issues based on government financing needs, including issuance calendar;
- Evaluate funding options for government financing;

- Execute government borrowing programme;
- Collaborate with RBZ in conducting the securities auction;
- Leading domestic debt negotiation for domestic loans, guarantees and on lending agreements;
- Interacting with domestic markets players, especially accredited dealers and market makers in government bonds;
- Undertake, as required, debt restructuring;
- Design instruments based on investor appetite;
- Develop securities market regulations for the issuance and trading of Government securities;
- Organize distribution channels for Government securities;
- Build and deepen investor base for Government bonds at all levels of the economy; and
- Liaise with local and international institutions, including rating agencies.

2. External Debt

- Execute external borrowing program in line with Zimbabwe's debt strategy;
- Leading external debt negotiations for external loans, guarantees and on lending agreements;
- Implement, as appropriate, the Debt Management Strategy;
- Process loan guarantees within the public sector as per the guidelines;
- Evaluate funding alternatives from international sources;
- Engage in restructuring of existing debt (Multilateral, Paris Club and London Club);
- Monitor, track and report on performance of projects funded through external borrowing including those guaranteed by Government; and
- Monitor, track and report on government unsecuritised debt and contingent liabilities.

B. Middle Office Responsibilities

(a) Analysis of the total stock of both domestic and external public debt and debt flows in specific periods.

(b) Providing reports on the level of indebtedness to each creditor and domestic debt subscribers.

(c) Evaluating external debt composition by creditor, currency, maturity, and interest-rate.

(d) Producing debt reports and public debt management information based on measurable indicators that conform to established international standards of debt reporting which allow international comparison and measurement.

1. Debt Strategy and Analysis

- Promotee coordination between debt management and other public policies;
- Undertake debt portfolio review and debt sustainability analysis;
- Develop medium term debt strategies within the macroeconomic framework;
- Strengthen front office operations by setting operational benchmarks and defining performance boundaries/ measures;
- Recommend policies for approval by the External and Domestic Debt Management Committee (EDDC);
- Liaise with other agencies or departments on macro policy formulation, planning, public investment, cash management, budgeting, monetary policy and Balance of Payments;
- Perform regular analysis of debt portfolio within the macro framework, debt sustainability targets, cost risk framework, fiscal sustainability and scenario analysis using specialised tools;
- Determine funding gaps and project borrowing needs within the context of fiscal and monetary targets and sustainable debt levels;
- Analyse debt statistics, stocks and flows; and dissemination of reports;
- Analyse information on a loan-by-loan basis on various indicators such as currency composition, interest and maturity structure;
- Compute key statistics and economic indicators including key debt indicators and trends used by ZPDMO to track performance;

- Generate managerial debt reports;
- Prepare the Public Debt Statistics Bulletin and debt management reports; and
- Roll out distribution programs for dissemination of debt statistics and economic information generated by ZPDMO.

2. *Monitoring Compliance and Risk Management*

- Undertake sensitivity analysis to measure the volatility of debt service and establish targets on external-domestic debt mix, as well as desired amortisation profiles in line with Medium Terms Debt Strategy;
- Design and implement prudential cost-risk policy;
- Design and manage viable risk management framework;
- Work out and propose debt management targets such as currency composition of external debt and/or amortisation profiles;
- Monitor and Evaluate potential operational risks;
- Ensure compliance with established benchmarks and performance measures;
- Ensure compliance with the Constitution, PDM Act, and approved debt strategy;
- Monitor key economic indicators to guide assessment of debt sustainability.

C. Back Office Responsibilities

(a) Recording, settlement and management of all public and publicly guaranteed external debt and domestic securities.

(b) Recording guarantees and on lent loans and settlement of called up guarantees to include debt service payments, recording of on-lending, contingent liabilities, debt accounting and statistics, and debt financial statements.

In 2019, the Back Office had in its database 504 loans made up 410 bilateral loans, 94 multilateral loans, and 251 domestic securities.

1. *Recording*

- Manage the Debt Management and Financial Analysis System (DMFAS)
- Record in DMFAS all details related to different categories of domestic and external debt borrowing;
- Ensure that all debt information is recorded;
- Maintain physical records of debt data and related information in physical and electronic files;
- Maintain reliable databases on government loans and guarantees provided to other public sector entities;
- Produce statistical information for all users;
- Register all public debt operations;
- Track and record contingent liabilities;
- Track, record and monitor sub-national debt, including on-lending; and
- Track, register and monitor contractors'/suppliers' debt credit.

2. *Settlements*

- Undertake reconciliation of all external debt with creditors;
- Verify and cross check accuracy of debt information and service payments;
- Process debt service payments for different types of borrowing;
- Process demand notes from multilateral, bilateral and commercial creditors, and domestic debt subscribers;
- Check creditor statements against ZPDMO's records and forecasts;
- Secure approval for verified claims and batch them for processing;
- Forecast future external and domestic debt service payments for the budget and external payments by RBZ;
- Make budgetary provision for external and domestic debt servicing; Secures mandate for debt service from the Accountant General's Office.

GLOSSARY OF TERMS

Amortization: Repayment of principal of a loan spread out over a period of time.
Amortization Schedule: Agreed repayment of principal and payment of interest on an ongoing basis.
Arrears: Total of due but unpaid scheduled debt service payments.
Assumed Debt: Reserve Bank of Zimbabwe legacy debt taken over by the Government of Zimbabwe through an Act of Parliament.

Bilateral: Between two countries and/or their organizations.
Bilateral Creditor: A government and its agencies (including Central Bank), autonomous public bodies or official export credit agencies.
Bilateral Debt: Loans extended by a bilateral creditor.
Borrower (debtor): The organization or the entity defined as such in the loan contract and responsible for servicing the debt.

Commercial Credit: In the context of the Paris Club, loans originally extended on terms that do not qualify as official development assistance (ODA) credits.
Commitment: An obligation to pay for a given amount under specified financial terms and conditions.
Commitment Charge (fee): For holding available the undisbursed balance of a loan commitment.
Commitment Date: When the commitment occurs.
Concessional Loans: Extended on terms substantially more generous than market loans; with lower interest rates, longer grace period, and longer maturity.
Contingent liability: Explicit contingent liabilities are obligations based on contracts, laws, or clear policy commitments. Implicit contingent liabilities are political or moral obligations and sometime arise from expectations that government would intervene in the event of a crisis or a disaster.
Credits. Have a zero or very low interest charge and repayments are stretched over 30 to 38 years, including a 5- to 10-year grace period.
Creditor: The organization or entity that provides money or resources and to whom payment is owed under the terms of a loan agreement.
Creditor Country: Where the creditor resides.
Currency of Repayment: The unit of account in which a loan is to be repaid.
Currency of Reporting: Unit of account in which amounts are reported to the compiling agency and/or to an international agency compiling debt statistics.

Debt Cancellation: The amount of debt forgiven by a creditor.
Debt Distress: An unsustainable debt position for a country accumulating arrears.
Debt Overhang: A debt burden that is so large that a country cannot unlock new funds to finance future projects.
Debt Relief: Any debt re-organisation that relieves the overall burden of debt.
Debt Rescheduling: A formal deferment of debt service payments and the application of new and extended maturities to the deferred amount.
Debt Service: Refers to payments in respect of both principal and interest.
Debt-Service to Export Ratio: The ratio of debt service (interest and principal payments due) during a year, expressed as a % of exports (typically of goods and services) for that year.
Disbursed Loans: The amount that has been disbursed from a loan but has not yet been repaid or forgiven.

Disbursed and Outstanding Debt (DOD): The amount that has been disbursed from a loan commitment but has not yet been repaid or forgiven.
Domestic Debt: Gross domestic debt is the outstanding contractual, and not contingent, liabilities that residents of a country owe to other residents of the country that require payment(s) of interest and/or principal by the debtor at some point(s) in the future.

External Debt: Gross external debt is the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of interest and/or principal by the debtor at some point(s) in the future and that are owed to non-residents by residents of an economy.

Face Value: The amount of principal to be repaid for a debt instrument
Fixed Interest Rate: A rate of interest that is defined in absolute terms at the time of the loan agreement.

Grace Period: Period between the commitment date of the loan and the date of the first principal repayment.
Grant: Non-repayable funds or products disbursed or given by a government or international development banks.
Grant Element: The measure of concessionality of a loan, calculated as the difference between the face value of the loan and the sum of the discounted future debt service payments to be made by the borrower expressed as a % of the face value of the loan.
Guarantee of a loan: An undertaking by the government to pay part or all of the amount due on a debt instrument extended by a lender in the event of non-payment by the borrower.

Loan: An agreement in which a lender undertakes to make specified resources available to a borrower. The amount of funds disbursed is to be repaid (with or without interest and late fees) in accordance with the terms of a promissory note or repayment schedule.
Loan Agreement: The legal evidence and terms of a loan.
Loan Currency: The unit of account in which a loan was borrowed

Maturity Date: The date on which a debt obligation is extinguished. This includes grace period and repayment period.
Medium-Term Debt Management Strategy (MTDS): Adebt management plan implemented over the medium term in order to achieve a desired composition of the Government debt portfolio, which captures the Government's preferences with regard to the cost-risk trade off, taking into account budget balances and cashflows.
Multi-Currency: Adoption of a basket of currencies as legal tender.
Multilateral Creditors: Institutions such as the IMF and the World Bank, African Development Bank, European Investment Bank, and other development banks owned by a number of countries.
Multilateral Organizations: Formed between three or more nations to work on issues of common interest.

Nominal Value: The amount that at any moment in time the debtor owes to the creditor as defined in the loan instrument.
Non-Paris Club Creditors: Those not in the Paris Club (See Paris Club)

Official Development Assistance (ODA): Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25% (using a fixed 10% rate of discount).

Paris Club: An informal group of creditor governments that has met regularly in Paris since 1956 to reschedule bilateral debts; the French treasury provides the secretariat.
Pari Passu: A financing arrangement that gives multiple lenders equal claim to the assets used to secure a loan; equal treatment when making repayments
Penalty Interest Charges: The additional interest levied on obligations overdue beyond a specified time.
Present Value: The discounted sum of all future debt service at a given rate of interest.
Present Value of Debt-to Exports Ratio (PV/X): Present value (PV) of debt as a % of exports (usually of goods and services) (X).
Primary Surplus/Deficit: The difference between Revenues and Expenditures (less interest payments)
Private Creditors: Neither government nor public sector agencies. These include private bond-holders, private banks, other private financial institutions, manufacturers, exporters, and other suppliers of goods that have a financial claim.
Public Sector: Includes the general government, monetary authorities, and those entities in the banking and other sectors that are public corporations.

Repayment Period: Period during which the debt obligation is to be repaid.

Service Charges: All charges that must be paid as a cost for the loan, such as: interest, commitment fees, management fees.
Short-term Debt: Debt with a maturity of one year or less.
Supplier Credit: A loan extended by an exporter to finance the purchase of that exporter's goods or contractual services.

Treasury Bills: Negotiable securities issued by the Government – often-short term obligations issued with maturity of one year or less.

Undisbursed Balance: Funds committed by the creditor but not yet utilised by the borrower.

Reference for Glossary

1. *"External Debt Management: An Introduction", by Thomas M. Klein, World Bank Technical Paper No. 245*

2. *"External Debt Statistics: Guide for Compilers and Users, BIS, ComSec, Eurostat, IMF, OECD, Paris Club Secretariat, UNCTAD, World Bank, 2003".*

3. *"Debt and DMFAS Glossary, UNCTAD, 2008"*.

Debt Management and Financial Analysis System (DMFAS)

A database used by the Zimbabwe Public Debt Management Office (ZPDMO) for debt database maintenance and reporting. Developed by the United Nations Conference on Trade and Development (UNCTAD) in early 1980s. It is used in over 60 low-and-middle income countries for:

- Day-to-day operational needs of the debt manager;
- Statistical requirements of the debt office; and,
- Analytical needs of policymakers.

Development of the System has been underpinned by developments in domestic and international finance, dynamic user needs and advances in information technology.

Government of Zimbabwe acquired and started using DMFAS in the mid-1980s. After debt data validation by ZPDMO, assistance was given by the UNCTAD to migrate from version 5.3 to the latest version 6.0.

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For more information on debt, visit Ministry of Finance and Economic Development (Zimtreasury) website - www.zimtreasury.gov.zw.

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