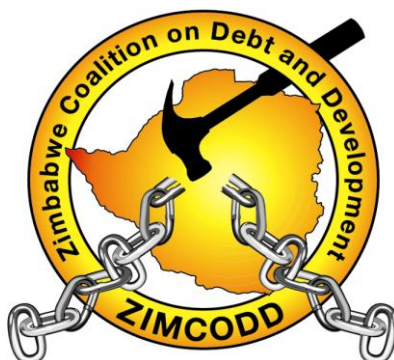


Zimbabwe Coalition on Debt and Development



Investing in people for social and economic justice

PRSP: Debt and Public Resources Management

1. Introduction

The Poverty Reduction Strategy (PRSP) framework was originally conceived as a condition of the Heavily Indebted Poor Country (HIPC) initiative in 1999. Countries seeking debt relief through the programme were required to prepare a PRSP to show how money freed up from debt servicing would be used to alleviate poverty. Since then, PRSPs have enlarged in scope and have become the centrepiece for policy dialogue and negotiations in all countries that receive financing from the World Bank's International Development Association (IDA). Countries that urgently require World Bank (WB) and International Monetary Fund (IMF) credits or debt relief can submit an Interim PRSP (IPRSP) for consideration by the Bank and Fund Boards on the condition that the former will prepare a full PRSP within a timeline agreeable to the Boards¹.

¹Chavez, J.J. and Guttal, S., (2003), Poverty Reduction Strategy Papers: A Poor Package for Poverty Reduction, Focus on the Global South.

This paper is a response to the Zimbabwe IPRSP draft document presented on the 23rd of June 2016 at the Harare International Conference Centre. It is part of the alternative IPRSP consultation process that is facilitated by Poverty Reduction Forum Trust (PRFT), Zimbabwe Coalition on Debt and Development (ZIMCodd) and LEDRIZ for the development of thematic position papers which will be used as the civil society input into the PRSP processes. The paper focuses on the debt question and the country's public resources management in general but linking them to the rest of the key thematic areas covered in the IPRSP draft document. ZIMCodd has over the years been working on debt and public resources management hence the paper is informed by the various tools that the coalition produced in that regards. ZIMCodd believes that Zimbabwe is endowed with enough natural resources for poverty reduction, and also for settling the country's legitimate debts without relying on external aid which is not sustainable and predictable. Despite being rich in natural resources, poverty has remained prevalent in Zimbabwe. The majority of the citizens continue to face social and economic injustices. Therefore the country has to deal with strengthening of resources governance to enhance transparency and accountability.

2. Theoretical Framing of PRSPs

The WB and IMF claim that the PRSPs signal a new approach to tackling the challenges of poverty alleviation and economic development among their low income clients. The PRSP has replaced the old tripartite Policy Framework Paper (PFP) drawn up between the IMF, WB and a country government for concessional loans². While the two financial institutions view their intervention as the answer to the question of poverty and growth in developing countries, this will not produce any different results from the previous IMF/WB sponsored projects like Economic Structural Adjustment Programmes (ESAP). In Zimbabwe for instance, ESAP left a lot of people without employment and privatised institutions in accessible to the poor among other social and economic effects. Thus little has changed in the substance, form and process of WB and IMF programmes. It can be argued that poverty is used as window dressing to peddle more or less the same structural adjustment programmes (SAPs) to low income countries that led them into a state of chronic economic crisis (Chavez

²Chavez, J.J. and Guttal, S., (2003), Poverty Reduction Strategy Papers: A Poor Package for Poverty Reduction, Focus on the Global South.

and Guttal2003). There are still some stringent conditionality in the WB/IMF programs related to poverty reduction.

Chavez and Guttal (2003) further argue that other donors have been pushed into funding the same programmes (PRSPs) yet “*countries like Kenya, Ghana, Ethiopia, Bolivia, the Russian Federation, Sri Lanka, Bangladesh and Indonesia were all forced to apply the WB/IMF development model at one time or another, and all have suffered from deep and shattering economic crises as a result of Bank-Fund policy prescriptions*”. The same policies continue to be supported even more fervently than before by donors, in a new package (PRSP).

The purpose of a full PRSP is for a country to indicate how it intends to promote inclusive growth and poverty reduction through improved policies and public spending (Zim IPRSP draft: 2016). It is said that the Zimbabwe’s IPRSP builds on the country’s development blueprint, the Zimbabwe Agenda for Sustainable Socio-Economic Transformation, (ZIMASSET) running from October 2013 to December 2018, the President’s 10-Point Plan of August, 2015, the Sustainable Development Goals (SDGs), 2016-2030 and Sector and Agency plans and strategies (Zim IPRSP draft: 2016). This therefore means that a review of the draft document should be made based on these national and global tools. The core principles of PRSPs as given by its supporters are as follows:

- To maintain the link between the member’s poverty reduction strategies and policies under the funding institution’s supported programs, with streamlined member’s poverty reduction strategies documentation.
- Preserve the national ownership of the member’s poverty reduction strategies process (A description of the participatory process that was used)
- Provide flexibility in the scope and coverage of the member’s poverty reduction strategies to reflect different country circumstances.
- Comprehensive poverty diagnostics
- Clearly presented and costed priorities for macroeconomic, structural, and social policies
- Appropriate targets, indicators, and systems for monitoring and evaluating progress

A PRSP sets out a country’s macroeconomic, structural, and social policies and programs to promote growth and reduce poverty, as well as associated external financing needs. Thus countries should prepare a PRSP every agreed period in a participatory process involving a

broad range of stakeholders³. However, in reality, the final product will be influenced by the funding partner's policies which in most cases do not resonate well with the social and economic needs of the grassroots. In the words of the WB, this enhanced framework for poverty reduction seeks to ensure a *“robust link between debt relief and poverty reduction by making HIPC debt relief an integral part of broader efforts to implement outcome-oriented poverty reduction strategies using all available resources”*. Previously, the IMF promoted SAPs without an explicit link to poverty-related objectives (Abugre, 2000).

3. Zim IPRSP: Ownership

Participation is one of the main buzzwords of the PRSP strategy. However, does participation only entail allowing people to speak about their poverty levels? This question arises because interpretation and translation of the grassroots' perspective of poverty and hardships remain a preserve of a few. In theory, as alluded to above, a PRSP is intended to be a document prepared by a country government under the supervision of WB/IMF teams that identifies the incidence and causes of poverty, who the poor are, and strategies for overcoming it, including policy and expenditure targets. It is supposed to be *“locally generated and owned,”* developed through *“wide participatory dialogue,”* and focused at both the micro and macro policy-making levels (Chavez and Guttal, 2003). Furthermore, the PRSP framework is expected to *“encourage the accountability of governments to their own people and domestic constituencies rather than to external funders,”* whereby, *“the poor become active participants not just passive recipients”* (Chavez and Guttal, 2003).

Experiences from Asia, Africa and Latin America indicate, however, that in reality, country governments have little control over the structure, content and policy prescriptions in their respective PRSPs, thus there is no fulfilment of WB/IMF claims of national ownership, public accountability and broad based participation. Despite the rhetoric of *“nationally driven”* development, the PRSP framework continues to conflict with local and national priorities of reducing poverty, fostering domestically meaningful economic development, promoting equality and equity, and encouraging popular participation in the design of national development policies (Chavez and Guttal, 2003).

³<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPRS/0,,contentMDK:22283891~menuPK:384209~pagePK:210058~piPK:210062~theSitePK:384201,00.html>

The Zimbabwe IPRSP document identifies the key stakeholders in this process as the Government, private sector (business and labour), civil society including non-governmental organizations (NGOs), Traditional leadership, Community Based Organizations (CBOs), and Faith Based Organizations (FBOs), development partners, academia, marginalized groups such as women and the youth, and vulnerable groups such as people living with disability (PLWD), the elderly, orphans, and vulnerable children, Parliament, among others (IPRSP draft: 2016:2). However, not enough was done to mobilise the civil society to effectively participate in the process yet its participation in poverty strategies is viewed as essential for their sustainability and effectiveness (Abugre,2000).

While the government celebrates the number of participants who took part in the process, from districts, province and national level which amounted to around 1727 people excluding those who participated at the validation workshop (IPRSP draft: 2016:3), it can still be argued that the number is not representative of the huge Zimbabwean population that is directly or indirectly affected by the process. Basically, the public was consulted by the process coordinators but this was just cosmetic. Key stakeholders particularly the civil society was not given enough time to consult their own membership and indeed the process was rushed. There was need for a more comprehensive consultation of all stakeholders which is from the grassroots to the national level. At least the document appreciates that a bottom up approach should be followed in the production of the full strategy paper (IPRSP draft: 2016:3).

The draft IPRSP was not translated to local languages, thus excluding local input into the formulation process. The time allotted to the general public for reading and absorbing the content of draft documents was also limited, making it difficult for even those fluent in English and policy vocabulary to provide substantial comments. As a result, remarkably few people, both within and outside the government, actually read the IPRSP documents in its entirety (Chavez and Guttal,2003). Enough time should be allocated for the final strategy document to undergo thorough public scrutiny.

3.1.Domestic Resources Mobilisation for Poverty Reduction

It has already been argued that Zimbabwe has enough resources for its citizens in the form of minerals, land, water, timber among many yet the country has not been benefiting from the resources as they have been plundered and exploited by other players outside the borders of

Zimbabwe⁴. The IPRSP document acknowledges the importance of domestic resources mobilisation as the key to poverty reduction in Zimbabwe. Domestic resource mobilisation strategy is sustainable, predictable and allows Zimbabwe to exercise its sovereignty in its development agenda. Utilisation of the country's natural resources will be the panacea to Zimbabwe's social and economic crisis including poverty reduction. The same resources can be used to pay off all the legitimate debts that the country currently owes to the various creditors. However, due to lack of strong policy and legal framework, the country has been losing out through illicit financial outflows. ZIMCODD thus argues for policy and legal reforms that plug off this loss of potential revenue for Zimbabwe. PRSPs threaten to deliver little in benefits to Zimbabwe and other poor people by way of debt relief if they are not dependent on domestic resources.

3.4. Dealing with the Unsustainable External Debt

Over the years, ZIMCODD has been calling for an official public debt audit so as to come up with a true picture of the debt stock and to know who is owed and how much is owed. The coalition continues to call for the audit to ascertain how a debt of US\$ 8.368 billion⁵ was accrued and also to determine the social and economic impacts of the loans on the ordinary citizen. The process has to be public, transparent and all-inclusive. The legitimacy of the debts should also be determined by this process. To pave way for the audit and in the interest of social and economic justice, it is recommended for creditors to institute a moratorium on principal and interest payments. The IPRSP document acknowledges the importance of an audit exercise (probably bowing down to ZIMCODD pressure) but does not go beyond a mere audit of figures proposal. It is critical that the country appreciates the social and economic impact of the same debt on the people. Over the period of implementation of the PRSPs once adopted, the civil society should be able to monitor and evaluate the government's efforts in fulfilling this aspiration of the people.

Zimbabwe has taken a 'serious' step in addressing the debt issue by accepting some reengagement with creditors. For instance, in 2013 the IMF approved Zimbabwe's Staff Monitored Programme (SMP). ZIMCODD raised concern regarding some proposals made to reduce the civil service in fulfilment of the SMPs. Instead the coalition recommends for the

⁴Gumbo, T.,(2015), Why Domestic Resources Mobilisation (DRM) in Zimbabwe, in Position Paper on Key Mining Reforms in Zimbabwe, Publish What You Pay Zimbabwe.

⁵This is an official figure from the Zimbabwean Authorities but different stakeholders continue to give varying statistics which are even higher than this official figure. This confirms ZIMCODD's call for a public debt audit to establish a true figure that will inform appropriate debt management strategies.

government to deal with the ghost workers issue, reduce the number of executive posts and huge salaries of executives in the public service and cut on unnecessary government trips among other people-centred measures.

Over the years, there have also been discussions and debates around the options available for resolving the country's debt. These include the HIPC Initiative which entails a country being rated poor according to WB standards before qualifying. Moreover, the Multilateral Debt Relief Initiative (MDRI) which complements the HIPC entails cancellation of 100% debt owed to Western governments prior to 2003/2004. Zimbabwe does not officially qualify for this initiative as it not rated as a poor country and has been defaulting on most of its debts. Another option included traditional debt relief through the Paris Club.

The IPRSP document recommends that there be regular debt sustainability analysis, development of a sustainable medium term debt strategy and prioritisation of grants for and concessions financing projects from development partners. It further proposes restriction of non-concessionary borrowing to financing of key infrastructure projects like electricity generation, water supply and sanitation, rehabilitation of roads and dams. This is a welcome recommendation if it does not lead to further incurring of debts by the country. The civil society should be active in the proposal analysis of debt sustainability issues proposed in the document.

ZIMCODD recommends that if there are any conditions on the cancellation of the debts, these should not infringe on social and economic development. In most cases conditions imposed in debt cancellation processes are market-based and they entail cutting on government expenditures on social services which result in increased poverty for the already poorly paid civil servants, increased unemployment, damage to provision of health and education, reduced quality of public services and social and civil unrests. ZIMCODD calls for people-centred policies in addressing the debt overhang⁶. Neoliberal reforms always ironically create poverty.

3.5. Public Resources Management

There is no transparency and accountability in the governance of the country's resources and this has contributed to social and economic challenges faced by the citizens. Illicit financial flows (IFFs) and externalisation of resources have dominated transactions in the economy

⁶ZIMCODD Position Paper (2016), Cash Crisis, Bond Notes and the Zimbabwe's Economy: The Real Problem

depriving the country of potential revenue for social and economic development. The case in point is the lost diamond money through IFFs. Increasing transparency and accountability in the diamond sector, as well as its contribution to fiscal resources is one of the key links to social and economic success of the country. The sector was managed poorly, lack of transparency and accountability led to a situation where it did not generate much revenue for the fiscus. President Mugabe confessed on the eve of his 92th birthday celebrations on a televised interview that the country has lost a cumulative amount of \$15 billion diamond money over the years⁷. One of the country's largest platinum mines, Zimplats, is caught up in Panama papers for allegedly using an offshore company Human Resources Consultancy to dodge payroll related taxes by paying its senior management in Panama, a tax haven⁸. A Reserve Bank of Zimbabwe (RBZ) report also claims that Zimbabwe lost \$3 billion through IFFs between 2009 and 2012. These huge amounts of money lost through IFFs should be a cause for concern as they are enough to settle the country's legitimate portion of unsustainable external debt hovering over 8 billion dollars⁹ and reduce the poverty levels in Zimbabwe. The IPRSP document proposes curbing illicit flows of money from the country, including auditing the \$15 billion diamond leakage during the implementation of the project. This is a welcome proposal.

While ZIMCODD welcomes the enactment of the Public Debt Management Act, more still needs to be done to limit the Minister of Finance's borrowing powers by strengthening the oversight role of the Parliament in the loan contraction and debt management processes. Zimbabwe needs transparent and accountable institutions and transparent investment agreements which can guarantee efficient utilization of resources and revenue. This will reduce both illicit and licit financial flows in Zimbabwe thereby allowing the country to deal with its debt question effectively. Furthermore, the establishment of the Zimbabwe Debt Management Office (ZADMO) is a welcome development. This office is expected to spearhead debt management processes that are people-centred. However, it should be an autonomous institution for effectiveness in the shape of the Zimbabwe Revenue Authority (ZIMRA). The civil society's advocacy efforts should continue to be focused around this issue. The IPRSP document proposes two targets for the country in this regards: *Improved public resources management and improved debt management and access to external financing*. These are good and attainable targets if the government is really serious about

⁷ZIMCODD Position Paper (2016), Cash Crisis, Bond Notes and the Zimbabwe's Economy: The Real Problem

⁸Ibid

⁹Ibid

poverty reduction. However, accessing external financing should always be the last resource after all domestic means would have been considered.

3.5.1. Tax Justice: The Case of Mining Sector

The IPRSP document did well in noting that, grassroots people are not benefitting from their mineral resources, and their traditional leaders are excluded when it comes to the exploitation of such resources. Where mining is being carried out, local communities remain largely excluded from the benefits, with Community Share Ownership Trusts (CSOTs) not receiving adequate support from the mining companies, and social corporate responsibility (SCR) being adhoc and insignificant. Indeed as alluded to by the document, there is need to make SCR mandatory. On the part of CSOTs, there is need for improved monitoring and evaluation of the programme. The Mines and Minerals Act which is the principal legislation in the sector need to be reformed thereby plugging off all the loopholes that allow the country to lose potential revenue through illicit means. IFFs in the mining sector are so topical given that the High Level Panel report on IFFs of 2014 indicated that Africa is losing roughly \$50 billion annually and the mining sector accounts for the greatest share through mispricing and misinvoicing.

3.6. Strengthening Governance and Institutional Capacity

The success of any social and economic policy intervention in Zimbabwe is based on the efficiency and effectiveness of the country's governance and institutional capacity. The document managed to pick that the root cause of the country's challenges are hinged on some institutional weaknesses that promote corruption at various levels. Indeed, the successive Auditor General's (AG) reports point to the fact that a lot of resources are misused and mismanaged in the parastatals and no punitive actions are taken by the government. This paper recommends implementation of all the AG's recommendations that strengthen public resources management systems in Zimbabwe. ZIMCODD further recommends that the Anti-Corruption Commission should indeed be depoliticised to allow it to be effective and efficient in its execution of duties.

4. Gender and PRSP Process

It is widely acknowledged that poverty reduction programs can succeed only if they take into consideration the existing social inequality between men and women. At present the concern

is therefore a twofold one: to ensure that women have access to resources and rights and to initiate measures aimed at overcoming structural discrimination. Gender biases limit the extent that women can effectively participate in policy reviews and processes such as the I-PRSP. Many women and women's groups are not aware of what PRSP is. As such a real participatory process requires adequate lead-time to prepare women's organisations, particularly at local level on what the whole PRSP process really entails, unfortunately this was not the case with this process.(McGee and Norton, (2000)).

The discussions around PRSP are usually technical and this case is no exception, hence they are difficult to transfer to local level. The incidental discrimination women experience in all power relations (from household, politics to public engagements with public institutions) required special capacity building and procedural measure for their voices to be included, and they are likely to express distinctive gendered experiences of marginalization or deprivation to be caused by the poverty reduction strategies.

Involvement of poor, politically underrepresented groups in the PRSP process is intended to ensure that the current poverty-reduction programs take account of their interests. Women's organizations are also participating in these processes. There is, however, for the most part no systematic inclusion of women's positions. One factor that constitutes an essential obstacle to the development of long-term strategies to reduce women's poverty is a lack of data broken down and analyzed in gender-specific terms. Poverty profiles and indicators are generally limited to the access rate of girls and women to basic education (Kiman and Kombo 2009)

5. Conclusion and Recommendation

ZIMCDD welcomes the reengagement plan between Zimbabwe and the IFFs to address the debt burden. However, caution should be given that Zimbabwe should be proactive and not to simply accept the terms and conditions that are detrimental to social and economic development of the ordinary people. No further loans should be incurred in the process. Meanwhile, there is need to fulfil the public debt audit in order to avoid previous experiences that led the country into debt crisis. Zimbabwe has got enough resources to cater for its people but how they are managed is the challenge. External aid is not predictable, sustainable, comes with conditions attached and most importantly leads to unsustainable

debts that affect social and economic development of the country¹⁰. An improvement in the public resources management systems is key for Zimbabwe to be able to maximise the benefits of the natural resources.

Women and men alike should contribute to shaping poverty reduction strategies and benefit equally from their successful implementation. These purposes call for targeted capacity building efforts among representatives from governmental ministries and parliaments. (Zunckerman 2002) It should be noted that women's networks and NGOs will also need to improve their analytic capacity for gender-sensitive planning and implementation of sectoral policies. The PRSP paper takes no consideration of the social impacts on women of conventional stabilization and privatization measures. Measures aimed at improving the economic situation of women are largely limited to the provision of microcredit there is need to link the gender issue with macroeconomics, promotion of democracy (participation), and the coherence of sectoral policies. Specific recommendations are :

- For all its social and economic needs including repayment of legitimate external debts, Zimbabwe should focus on domestic resources instead of continued foreign aid. There is an urgent need for a comprehensive and all inclusive participatory debt audit before any debt management mechanism is considered.
- Oversight role of Parliament, civil society and other key stakeholders to be strengthened to ensure adequate consultation of all key stakeholders before the full PRSP document is produced. Participation should not just be cosmetic. The Parliament should also be the key player in the whole debt management process.
- Related to the former, there should be guaranteed effective participation of the grassroots and civil society in the production of the full PRSP document and also the implementation of the IPRSP.
- Policy and Legislative reforms: local laws and policies should be reformed to plug off all forms of illicit financial flows in the mining and other sectors of the economy. The civil society should mobilise communities during the public hearings of the Mines and Minerals Amendment Bill in order to influence the outcome of the process.
- While this paper did little to discuss the importance of Value addition, the IPRSP document should be supported for prioritisation of the government as enshrined in the

¹⁰ZIMCDD, (2016), Position Paper on Debt Management in Zimbabwe, for the Zimbabwe 2016: Rebooting and Rebuilding Conference

country's economic blue print, the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (**ZimASSET**) particularly within the mining sector.

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