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Republic of Zimbabwe
Debt Management Performance Assessment (DeMPA)

December 2015

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DEBT MANAGEMENT PERFORMANCE ASSESSMENT

(DeMPA)

ZIMBABWE

December 2015

The DeMPA is a methodology for assessing public debt management performance through a comprehensive set of indicators spanning the full range of government debt management functions. It is adapted from the Public Expenditure and Financial Accountability (PEFA) framework. The DeMPA tool presents the 14 debt performance indicators along with a scoring methodology. The DeMPA tool is complemented by a guide that provides supplemental information for the use of the indicators.

For additional information on the World Bank's Debt Management Technical Assistance Program, including more on the DeMPA Tool, please visit our website at: http://www.worldbank.org/debt

Abbreviations and Acronyms

AcG	The Office of the Accountant General
Afreximbank	African Export-Import Bank
AfDB	African Development Bank
AtG	The Office of the Attorney General
ATM	Average Time-to-Maturity
ATR	Average Time-to-Refixing
AuG	The Office of the Auditor-General
CDS	Central Depository System
DeM	Debt Management
DeMPA	Debt Management Performance Assessment
DMFAS	The Debt Management and Financial Analysis System
DSA	Debt Sustainability Analysis
EDDC	External and Domestic Debt Management Committee
ELECRC	External Loans and Exchange Control Review Committee
FCMD	Financial and Capital Markets Department
HIPC	Heavily Indebted Poor Countries Initiative
ICD	International Cooperation Department
IFI	International Financial Institutions
IT	Information Technology
MoFED	Ministry of Finance and Economic Development
MoICT	Ministry of Information Communication Technology
PAAC	Public Agreements Advisory Committee
PDMA	Public Debt Management Act
PDMO	Public Debt Management Office
PEFA	Public Expenditure and Financial Accountability
PFMA	Public Financial Management Act
PSIPD	Public Sector Investment Program Department
RBZ	Reserve Bank of Zimbabwe
RTGS	Real Time Gross Settlement
SMP	Staff-Monitored Program
SOE	State Owned Enterprise
T-bills	Treasury Bills
T-bonds	Treasury Bonds
TSA	Treasury Single Account
UNCTAD	United Nations Conference on Trade and Development
ZIMRA	Zimbabwe Revenue Authority
ZADMO	Zimbabwe Aid and Debt Management Office

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1 Executive Summary

At the request of the Government of Zimbabwe, a World Bank mission, comprised of Emre Balibek (Senior Debt Specialist, GMFDR, lead), Malvina A. Pollock and Michel Jean Vaugeois (Consultants) from the World Bank, and Stanislas Nkhata and Tiviniton Makuve (Program Officers) from The Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), visited Harare on December 03-11, 2015. The objective of the mission was to conduct a second debt management performance assessment (DeMPA), following the first assessment done in September 2011.

The mission met with government officials from the Ministry of Finance and Economic Development (MoFED), comprising the departments responsible for debt management (DeM), i.e. the Public Debt Management Office (PDMO), executing the middle and back office functions, and the Departments of International Cooperation, and Financial and Capital Markets, which function as the front offices for foreign and domestic debt. The team also met with other relevant government agencies, and a private bank to complete the assessment. A meeting was arranged with the development partners in the country to inform them of the government's request for a DeMPA and the key dimensions to be assessed during the exercise; and to gain insights from their experiences. The meeting schedule is given in Annex-1.

This mission falls mainly within the scope of the assistance provided by the World Bank and its partners to improve debt management capacity in developing countries. To this end, the DeMPA tool is based on a methodological approach that facilitates evaluation of performance using different indicators that bring together all debt management functions. These indicators cover the following areas of activity: (i) governance and strategy development; (ii) coordination with macroeconomic policies; (iii) borrowing and related financing activities; (iv) cash flow forecasting and cash balance management; and (v) debt recording and operational risk management. The DeMPA assesses the strengths and weaknesses of each country's debt management without making recommendations or assumptions as to the potential effects of reforms under way.

The mission provided an opportunity to assess the progress to establish comprehensive government debt management function since 2011, and to evaluate current performance against the revised DeMPA criteria as of July 1, 2015, relative to the methodology used for the previous evaluation. As a result, some scores are no longer fully comparable with earlier scores. To provide an understanding of the comparison and tracking of progress noted, Annex-2 to the report indicates the level of improvement or deterioration in the Government's debt management performance. In summary, the authorities have made progress in several areas and some dimensions that were not rated before have been rated in this assessment. Some significant improvements have been observed in the regulatory and operational framework. However, they did not lead to upgrades of the DeMPA scores due to pending issues with implementation. In particular, the debt management performance assessment revealed the following main highlights across the five core areas of evaluation:

Governance and Strategy

Zimbabwe has recently adopted a new debt management law, the Public Debt Management Act, which was approved on September 11, 2015. The law provides a comprehensive framework for debt management, comprising the purposes and objectives of borrowing, the mandate to issue debt and guarantees, clear requirements for developing a debt management strategy and reporting. The law also transforms the existing debt management office by defining its main functions. Since the act has been enacted very recently, implementation is pending in several areas, including the development of a debt strategy and the publication of a statistical bulletin. There is an annual external financial and compliance audit, though it has a two year lag, but the results are publicly available. The internal audit process is at an early stage of development, and expected to commence early next year.

Coordination with Macroeconomic Policies

There is no active monetary policy framework in the country due to the multi-currency regime. The Reserve Bank of Zimbabwe (RBZ) acts as a fiscal agent for the Government without a formalized agency agreement. There is a formal weekly coordination mechanism, i.e. the cash management committee, made up of representatives from the monetary authority and the government, that coordinates borrowing, budgetary processes and cash management, even though the planning horizon only covers the coming week and the month ahead. A debt sustainability analysis (DSA) was undertaken in 2013 and partially in 2015.

Borrowing and Related Activities

In the absence of financing opportunities from multilateral sources, the government has resumed external borrowing since 2010 in the form of bilateral loans, mostly on commercial terms. As the borrowing sources are very limited, no borrowing plan is prepared and an opportunistic borrowing policy is implemented. A comprehensive guideline has been prepared for borrowing procedures, but is yet to be applied. Domestic borrowing is not fully market-based, with a limited level of information disclosure.

Cash Flow Forecasting and Cash Balance Management

A Treasury single account has been established at the RBZ. However, projections for revenues and expenditures are not combined to generate a forecast of the cash balances of the Treasury Single Account (TSA).

Debt Recording and Operational Risk Management

The debt records are fairly complete, with some degree of discrepancy with some creditors, mainly with regard to penalty interest charged on interest arrears. At the debt management office, there is a sufficient number of qualified staff with job descriptions. A back office guide has been produced that include written procedures for the processing of debt service, debt recording and validation, and storage. The procedures for back-office functions are implemented. The debt database system has daily back-ups and weekly uploaded in an outside storage, with the exception of domestic debt guarantees. A business continuity plan has not been prepared.

The detailed findings in each of the areas of evaluations are presented in the following chapters. The report has also benefitted from the comments of the authorities (Annex-3). The mission would like to thank the counterparts at the MoFED and other entities and institutions with which meetings were held, for the quality of the exchanges and their availability during the mission; and convey a special thanks to Mr. John Mafararikwa, Head of the PDMO, and his team for their warm hospitality and excellent arrangements.

2 Background

2.1 Country Background

Macroeconomic Context

The macro-economic policies pursued in the late 1990s and 2000s led to a rapid decline in the Zimbabwean economy between 1998 and 2008, spurring large-scale emigration of skilled workers, the accumulation of payment arrears to most official and private external creditors and hyperinflation. The adoption of a multicurrency regime in early 2009, which effectively dollarized the economy, reestablished price stability and laid the foundation for a substantive economic recovery. Between 2010 and 2012, Zimbabwe's economy grew by more than 10 percent per annum as prices stabilized, bank credit expanded and renewed private sector confidence temporarily boosted investment. However, this boom was short-lived. Economic growth decelerated after 2013 as the initial stabilization effects of dollarization-led growth ran its course and global commodity prices weakened, revealing the underlying structural weaknesses in the economy. The rate of GDP growth slowed from 3.8 percent in 2014 to 1.5 percent in 2015 on account of a poor harvest, the deteriorating external environment and the depreciation of the South African rand vis-à-vis the US dollar, which weakened competitiveness against the country's main trading partner.

The external position is precarious, with protracted arrears to external creditors, depressed commodity prices, and an appreciating U.S. dollar. The level of international reserves is very low and the country is in debt distress. The debt service difficulties have also significantly downgraded the country's credit rating, constraining access to concessional financing and to international capital markets. The Bretton Woods institutions have suspended further lending to Zimbabwe as a result of failure to service arrears since 2000.

The economy is expected to rebound moderately in 2016 with GDP growth projected at 1.5 percent, but this is predicated on a return to normal agricultural conditions. Elsewhere, Zimbabwe faces pronounced vulnerabilities including a continuation of the decline in global commodity prices, fiscal challenges, adverse weather conditions and implementation of a program of macro-economic and structural reforms in a very difficult political environment.

Table 1 Macroeconomic Indicators

	2013	2014	2015	2016	2017
GDP growth (% change)	4.5	3.8	1.5	.1.5	2.7
Inflation (Private consumption deflator - % change)	1.6	-0.2	-2.2	-1.7	1.0
Fiscal balance (% of GDP)	-2.5	-1.8	-1.7	-1.6	-1.6
Current account balance (% of GDP)	-23.9	-18.4	-17.4	-15.8	-16.1

Source: Zimbabwe Economic Update, February 2015, World Bank

Despite the severe economic and financial challenges, the Zimbabwean authorities are making headway with implementation of key elements of the macroeconomic and structural reform program including: (a) reducing the primary fiscal deficit; (b) restoring confidence in the financial system; (c) improving the business climate; and (d) garnering support for an arrears clearance strategy. The unsustainable external debt burden poses the major impediment to macro-economic stability and access to the external resources needed to finance the country's development agenda.

Government Debt

According to figures provided by the Ministry of Finance and Economic Development, Zimbabwe's public and publicly guaranteed debt totaled USD 8.4 billion as at September 30, 2015, equivalent to 60 percent of GDP, with external and domestic public debt, as a share of total public debt, constituting 85 percent and 15 percent, respectively (Table 2). External debt totaled USD 7.1 billion, of which USD 5.6 billion (80 percent) constituted principal and interest arrears, including penalty interest. These figures are similar to those published by the IMF[1]. A small percentage portion of the arrears, mainly penalty interest, remain subject to reconciliation[2].

Table 2 Public Debt Stock - September 2015[3].

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

Source: 2016 Budget Statement, Ministry of Finance and Economic Development

Well over half of all external debt obligations (57 percent) are owed to bilateral creditors, principally those represented in the Paris Club. Obligations to multilateral creditors stood at USD 2.5 billion (35 percent of external public debt) of which 57 percent (USD 1.4 billion) is owed to the World Bank Group (IBRD and IDA), 26 percent (USD 0.6 billion) to the African Development Bank, 10 percent to the European Investment Bank, and 5 percent to the IMF. The World Bank (IBRD and IDA) is Zimbabwe's principal external creditor, followed by China and Germany (Chart 1).

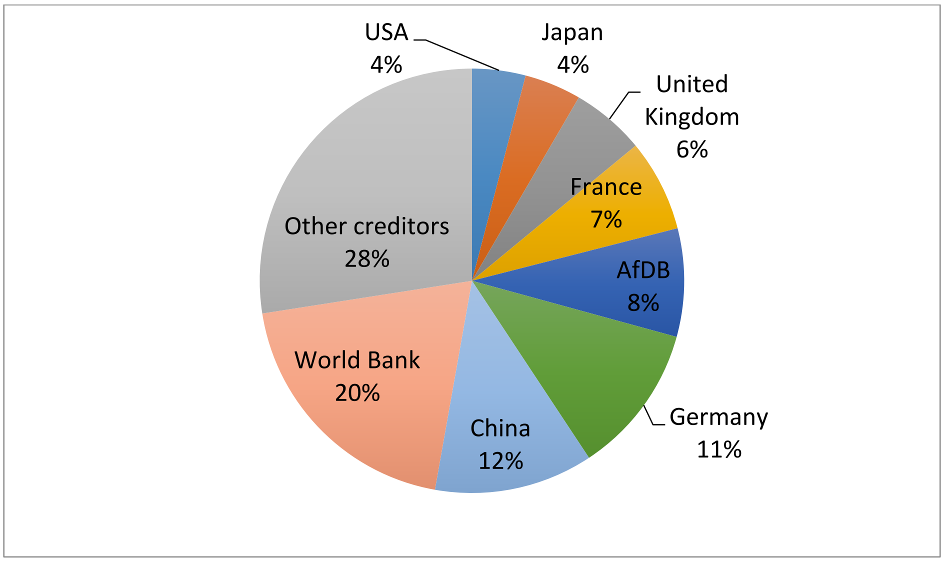
[1] Second Review of the Staff-Monitored Program (SMP), October 2015.

[2] A joint IMF and World Bank mission visited Harare, Zimbabwe in 2014 to conduct a loan-by-loan debt reconciliation exercise, reconciled the multilateral debt and more than 80 percent of bilateral and commercial external debt as of December 2013.

[3] Excluding domestic debt guarantees

Chart 1: Zimbabwe: Principal External Creditors at September 2015

Percent



Source: Ministry of Finance and Economic Development

Efforts to reengage and normalize relations with creditors and the international community have been intensified. Monthly payments of USD 150,000 to the IMF have been complemented by pari passu payments to the World Bank and the African Development Bank (AfDB) and a strategy for clearing arrears to the International Financial Institutions (IFIs) has been articulated. It envisions a simultaneous clearance of arrears with the IFIs, using: (a) a bridge loan to facilitate payment to the AfDB and the International Development Association (IDA); (b) SDR allocations to repay the Fund; and (c) a long-term loan from a bilateral lender to repay the International Bank for Reconstruction and Development (IBRD). Thereafter, the authorities plan to pursue traditional debt rescheduling under the umbrella of the Paris Club.

A large share of domestic public debt resulted from debt issuance by the government to address legacy obligations, including the recapitalization of the Reserve Bank of Zimbabwe (RBZ), financing of the Zimbabwe Asset Management Company (ZAMCO) and assumption of RBZ non-core debt. Under the RBZ Debt Assumption Act enacted on 7 August 2015, the Government assumed an estimated $690.5 million in domestic liabilities incurred by RBZ before 2008. The claims are subject to validation and then settled through issuance of long-term government securities[4]. The government also issues Treasury Bills in the domestic market on an ongoing basis, through private placements, for resource mobilization and budget financing purposes. The distribution of domestic debt to different instruments is not publicly available.

[4] At end September 2015 approximately 40 percent of the $690.5 million of debt assumed had been validated and settled through the issuance of long-term (5 year) Treasury bonds (T-bonds) (IMF, 2nd Review of the SMP).

2.2 Debt Management Performance Assessment

The Debt Management Performance Assessment (DeMPA) comprises a set of 14 debt performance indicators (DPIs), which encompass the complete spectrum of government debt management operations, as well as the overall environment in which these operations are conducted. While the DeMPA does not specify recommendations on reforms and/or capacity and institution building, the performance indicators do stipulate a minimum level that should be met. Consequently, if the assessment shows that the minimum requirements are not met, this clearly indicates an area requiring attention and priority for reform.

The DeMPA focuses on central government debt management activities and closely related functions, such as the issuance of loan guarantees, on-lending, cash flow forecasting, and cash balance management. Thus, the DeMPA does not assess the ability to manage the wider public debt portfolio, including implicit contingent liabilities (such as liabilities of the pension system) or the debt of State Owned Enterprises (SOEs), if these are not guaranteed by the central government. The central government is nonetheless responsible for managing its contingent liabilities and thus for ensuring supervision of public debt and guaranteed public sector debt (which is part of the debt sustainability analysis), which DeMPA evaluates under the following indicators: DPI-1 "Legal Framework," DPI-6 "Coordination with Fiscal Policy," and DPI-10 "Loan Guarantees, On-Lending, and Derivatives."

The DeMPA is largely modeled after the Public Expenditure and Financial Accountability (PEFA) Performance Indicators. While the latter cover broad aspects of public financing, the DeMPA focuses exclusively on central government debt management in a greater level of detail than do PEFA indicators. The points of convergence between these two tools lie in the areas of the recording of cash balances, debt management, and guarantees. There are strong links between PEFA indicators for audit and fiscal planning and DeMPA indicators for audit and coordination with macroeconomic policies.

The scoring methodology assesses each dimension and assigns a score of A, B, or C, based on a list of criteria. If the minimum requirements for a score of C are not met, the dimension is assigned a score of D. A score of C indicates that the minimum requirements considered necessary for effective debt management performance have been met. A score of D, however, indicates that the minimum requirements have not been met and that specific measures are necessary to correct the deficiencies and unsatisfactory performance noted.

The A score reflects sound practice for the dimension of the performance indicator, corresponding to the best practice level, while a B score is a mid-range score that falls between sound practices and the minimum requirements.

In some situations, a dimension is not scored because the activity in the dimension has not actually been carried out (for example, derivatives are not used), in which case the term N/A (not applicable) is assigned to the dimension. If lack of information or even insufficient information makes it difficult or even impossible to assess a dimension, the designation N/R (not rated) is assigned.

When the criteria for a score require that certain legislative provisions, regulations, or procedures be in place, the latter must not only have been approved or signed but must also have been implemented. If that is not the case, these provisions, regulations, or procedures are considered nonexistent, and cannot be taken into account in the debt management assessment and thus in the DeMPA scoring. The same principle also applies when the debt management strategy, even if it has been drafted, has not been followed or updated.

2.3 Summary of Performance Assessment

DPI	Title	Score 2011	Score 2015
Governance and the Debt Strategy			
DPI - 1	**Legal Framework**		
1	The existence, coverage, and content of the legal framework	C	D
DPI - 2	**Managerial Structure**		
1	The managerial structure for central government borrowings and debt-related transactions	C	C
2	The managerial structure for preparation and issuance of central government loan guarantees	C	C
DPI - 3	**Debt Management Strategy**		
1	The quality of the debt management strategy document	D	D
2	The decision-making process, updating, and publication of the debt management strategy	N/R	N/A
DPI - 4	**Debt Reporting and Evaluation**		
1	Publication of a statistical bulletin on debt, loan guarantees and debt-related operations	D	D
2	Reporting to the Parliament of Congress	D	D
DPI - 5	**Audit**		
1	Frequency of financial audits, compliance audits, and performance audits of the central government as well as publication of the external audit reports	D	D
2	Degree of commitment to address the outcomes from internal and external audits	N/R	C
Coordination with Macroeconomic Policy			
DPI - 6	**Coordination with Fiscal Policy**		
1	Support of fiscal policy makers through the provision of accurate and timely forecasts on total central government debt service under different scenarios	C	D
2	Availability of key macro variables, an analysis of debt sustainability, and the frequency with which it is undertaken	C	C
DPI - 7	**Coordination with Monetary Policy**		
1	Clarity of separation between monetary policy operations and debt management transactions	N/R	N/A
2	Coordination with the central bank through regular information sharing on current and future debt transactions and the central government's cash flows	D	B
3	Extent of the limit of direct access to financial resources from the central bank	C	C

Borrowing and Related Financing Activities			
DPI - 8	**Domestic Borrowing**		
1	The extent to which market-based mechanisms are used to issue debt; the preparation of an annual plan for the aggregate amount of borrowing in the domestic market, divided between the wholesale and retail markets; and the publication of a borrowing calendar for wholesale securities	N/R	D
2	The availability and quality of documented procedures for borrowing in the domestic market and interactions with market participants	N/R	D
DPI - 9	**External Borrowing**		
1	Documented assessment of the most beneficial or cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity) and a borrowing plan	D	D
2	Availability and quality of documented procedures for external borrowings	D	D
3	Availability and degree of involvement of legal advisers before signing of the loan contract	B	A
DPI - 10	**Loan Guarantees, On-lending and Debt-related Transactions**		
1	Availability and quality of documented policies and procedures for approval and issuance of central government loan guarantees	D	D
2	Availability and quality of documented policies and procedures for on-lending of borrowed funds	D	D
3	Availability of a DeM system with functionalities for handling derivatives and availability and quality of documented procedures for the use of derivatives	N/R	N/A
Cash Flow Forecasting and Cash Balance Management			
DPI - 11			
1	Effectiveness of forecasting the aggregate level of cash balances in government bank accounts	D	D
2	Decision of a proper cash balance (liquidity buffer) and effectiveness of managing this cash balance in government bank accounts (including the integration with any domestic debt borrowing program, if required)	D	D
DPI - 12	**Debt Administration and Data Security**		
1	Availability and quality of documented procedures for the processing of debt-related payments	D	C
2	Availability and quality of documented procedures for debt and transaction data recording and validation, as well as storage of agreements and debt administration records	D	D
3	Availability and quality of documented procedures for controlling access to the central government's debt data recording and management system and audit trail	D	D
4	Frequency and off-site, secure storage of debt recording and management system backups	C	D
DPI - 13			
1	Segregation of duties for some key functions, as well as the presence of an operational risk monitoring and compliance function	D	C
2	Staff capacity and human resource management	D	C
3	Presence of an operational risk management plan, including business-continuity and disaster-recovery arrangements	D	D
DPI -14	**Debt Records**		
1	Completeness and timeliness of central government records on its debt, loan guarantees, and debt-related transactions	D	B
2	Complete and up-to-date records of all holders of government securities in a secure registry system, if applicable	N/R	A

3 Performance Indicator Assessment

3.1 Governance and Debt Strategy

DPI-1 Legal Framework

Dimension	Score
1. Existence, coverage, and content of the legal framework	D

The Public Debt Management Act (PDMA) enacted in September 2015 supersedes prior legislation in regard to public debt and provides a comprehensive framework for public debt management.[5] It gives clear authority to the Minister of Finance to borrow on behalf of the state, to issue state securities and loan guarantees on external and domestic borrowing, subject to the relevant Parliamentary approvals, and within the borrowing limit, set as a ratio of public and publicly guaranteed debt outstanding to gross domestic product (GDP), of no more than 70 percent at the end of each fiscal year [Clause 11]. The borrowing purposes, defined in Clause 12, stipulate the Minister may borrow to finance (a) national priority infrastructure and productive sector projects with high economic and social impact; (b) Government budget deficits; (c) maintain a credit balance on the Treasury main account; (d) provide Government loans or credits to local authorities and public entities; (e) honor obligations arising under government guarantees; (f) refinance outstanding debt or repay a loan prior to its date of repayment; (g) protect, mitigate or eliminate effects of natural or environmental disasters or national emergencies; (h) replenish international reserves; and (i) support monetary policy objects.

The PDMA confirms the authority of the Public Debt Management Office (PDMO) and the External and Domestic Debt Management Committee (EDDC) and specifies their respective functions. These include the preparation of an annual borrowing plan and debt sustainability analysis and the formulation of a Medium Term Debt Management Strategy, based on the public debt management objectives, which the act defines in Clause 3 as: 'to ensure that the Government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long-term, with a prudent level or risk, and to promote development of the domestic debt market'. The EDDC is mandated to advise on all policy matters related to public debt management and to approve all external borrowing, domestic debt issuance and loan guarantees and is required to meet on a monthly basis. The law sets out the requirement for (a) an annual audit of the DMO that covers value for money, performance and information technology systems [Clause 37], semi- annual reporting to Parliament on the Government debt management activities, including a list of all outstanding borrowing and guarantees, and providing 'information on how the strategy was implemented over the course of the financial year' [Clause 36] and the regular publication of a statistical bulletin [Clause 5.k].

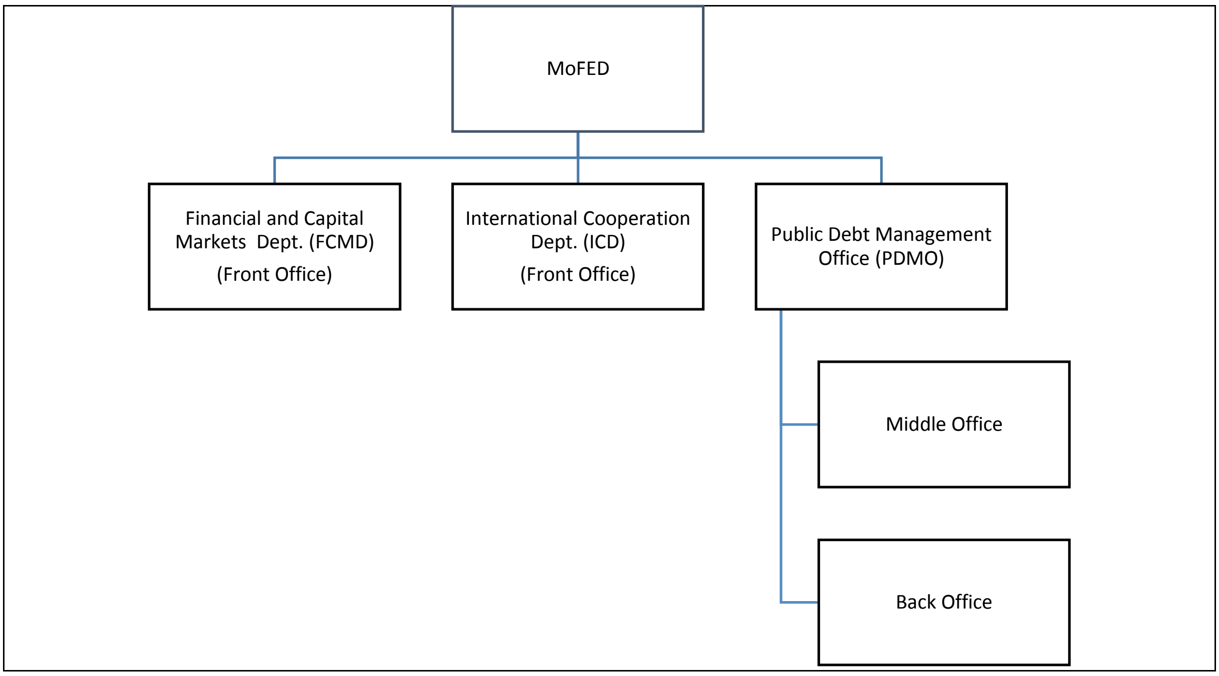
[5] Public Debt Management Act, No. 4 of 2015 [*Chapter 22:21*], to amend the Public Finance Management Act (PFMA), No. 11 of 2009 [*Chapter 22:19*] and the Sovereign Wealth Fund of Zimbabwe Act, No. 7 of 2014, [*Chapter 22:20*].

The new legal framework for debt management is comprehensive, comprising the purposes and objectives of borrowing, the mandate to issue debt and guarantees, clear requirements for developing a debt management strategy and reporting. With its content, the law signals a significant improvement as compared to the previous legislation. However, since the act has been enacted recently, implementation is pending in several areas, including the development of the strategy. As the new law does not include any provision of late application of new legal clauses, an immediate implementation requirement prevails. Therefore, due to the fact that not all the legal provisions are being implemented yet, this dimension is rated as D. The rating in 2011 was C based on the previous legal framework. While the new law is more comprehensive, the rating is downgraded because several facets of the new law are yet to be implemented[6].

DPI-2 Managerial Structure

Dimension	Score
1. Managerial structure for central government borrowings and debt-related transactions	C
2. Managerial structure for preparation and issuance of central government loan guarantees	C

Figure 1 Debt Management Office Organization at MoFED



[6] The mission was later informed that implementation is picking up in several areas, including the production of statistical bulletins and development of a debt management strategy (Annex-3)

Dimension 1. Managerial structure for central government borrowings and debt-related transactions

The Zimbabwe Aid and Debt Management Office (ZADMO) was established in 2010 as the principal debt management entity under the MoFED, within the overall framework of the Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy. The creation of ZADMO triggered a realignment of functions within the Ministry of Finance but the restructuring of the debt management function was only partially implemented. The PDMA of September 2015 confirmed the role and function of the debt management office, removed the mandate to manage or monitor grant aid, and formally named the office as the Public Debt Management Office (PDMO). It also reiterated the optimal structure to be establishment of a single debt management office. The authorities are now actively engaged in the formulation of a restructuring plan that will meet this objective and secure the necessary approval of the Public Service Commission. During what is effectively regarded as a transition period, debt management operations are managed by different entities within the MoFED. The PDMO is responsible for all back-office functions and has a comprehensive, current record of the public debt portfolio, both domestic and external including all loan guarantees. There are minor discrepancies with regard to external debt arrears that are the subject of ongoing reconciliation with creditors. These discrepancies relate to penalty interest and stem from lack of clarity on the part of some creditors as to how penalties are calculated and inadequacy of creditors own records. There are no arrears with regard to domestic public debt with the exception of those related to borrowing by RBZ which were formally assumed by the Ministry of Finance in 2015 and being settled as claims are verified. The PDMO has operationalized some important middle-office functions, including assessing credit risk and setting borrowing purpose and directives; e.g. the requirement that commercial loans raised externally to finance public sector projects must be for projects that are self-financing. Guidelines on external borrowing, applicable to both public and private sector borrowers, set out indicative terms and conditions, including minimum grace periods and optimal loan concessionality. The middle office is also charged with supporting the Minister of Finance in the preparation of a Medium Term Debt Management Strategy.

All front office functions, namely responsibility for negotiating and contracting new external borrowing, on-lending and loan guarantees, remain outside the mandate of the PDMO and rest with the International Cooperation Department (ICD) for external borrowing and all loan guarantees, domestic and external) and with the Financial and Capital Markets Department, in cooperation with the RBZ (mobilization of resources from domestic sources).

All public borrowing, domestic and external, including guarantees, is subject to approval by the EDDC for which the PDMO serves as a secretariat. This committee comprises the Minister of Finance, or his representative, the Governor of the Reserve Bank and the Attorney General and is required by the PDMA to convene at least once in each calendar month. Formal, written, minutes are produced and circulated immediately following each meeting.

Although several entities are involved in the debt management process coordination amongst them is good. The minimum requirements of the first dimension are met and a score of C is given. A higher rating is precluded by the absence of a debt management strategy to guide debt management policies. To achieve the highest score (A) would also require a single debt management entity to be responsible for all debt management policies and activities and to undertake all borrowing and debt-related transactions. The rating was the same in 2011 based on the same grounds.

Dimension 2. Managerial structure for preparation and issuance of central government loan guarantees

The authority to issue loan guarantees is vested in the Minister of Finance, as stipulated in the Public Debt Management Act of September 2015 [Clause 20]. Loan guarantees are initiated through the parent ministries of the borrowing entities who first seek approval for the project from the National Economic Planning Commission. After this is obtained, the parent ministry submits the guarantee request to MoFED for approval, prior to signature of the underlying loan agreements by the heads of the relevant borrowing entities. In MoFED, the ICD takes the lead role in managing loan guarantees, which are subject to the same approval processes as those applied for direct government borrowing. Analysis of the financial solvency and borrowing capacity of the beneficiary is conducted by the Accountant General Department and the PDMO (Middle Office) is responsible for analyzing the borrowing terms and conditions.

The requisite level of coordination between the entities involved in the process is assured by the formal procedures that are in place and the requirements of the External and Domestic Debt Management Committee (EDDC) which meets on a monthly basis. Thus, the government meets the minimum requirement for the second dimension, and a score of C is assigned. To achieve a higher score, a single entity must be responsible for the preparation and issuance of loan guarantees, and all decisions in respect of guarantees must be steered by a formalized guarantee framework. A comparable rating was given in 2011.

DPI 3 Debt Management Strategy

Dimension	Score
1. Quality of the debt management strategy document	D
2. Decision-making process, updating, and publication of the debt management strategy	N/A

Dimension 1. Quality of the Debt Management Strategy Document

There is no formal debt management strategy in place at present that conforms to the standard definition (see Box 1 for a general description of a debt management strategy). The authorities point to the Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy (ZAADS), approved in 2010 and commonly referred to as the debt management strategy. A key element of this strategy is re-engagement and regularization of relations with external creditors and the international community centered on a comprehensive arrears clearance program and traditional mechanisms of debt relief that would enable the government to mobilize new financing.

The External Loans and Exchange Control Review Committee[7] (ELECRC) has issued guidelines for external borrowing that apply to both public and private borrowers, which define the purpose for

[7] The External Loan Coordinating Committee (ELCC), which comprises the RBZ and MoFED and was established in 1990s, was renamed in 2014 as ELECRC, following the transfer of secretariat duties from Financial Markets

which borrowing may be undertaken and the indicative terms and conditions, including a minimum grace period, for borrowing. The authorities also underscore the commitment to borrow only on concessional terms, to make regular (token) payments to the IFIs and to prioritize debt service payments to external creditors that provide a net inflow of funds. These are, however, not the equivalent of a formal debt management strategy. The minimum requirements of the dimension are not met and, consequently, a score of D is accorded. The rating in 2011 was D for the same reason. The authorities aim to finalize their formal medium-term debt management strategy document by June 2016.

Dimension 2. The decision making process and publication of the DeM strategy

As there is no strategy in place, rating of the second dimension regarding the decision making process for the strategy is not applicable (N/A).

Box 1. Debt Management Strategy

In order to meet a country's long-term objectives, which should include contracting debt at the minimum risk and lowest cost, the country should prepare and publish a Debt Management Strategy (DMS). A strategy document should include the following:

- the historical context of the debt portfolio (e.g., its evolution over time);
- a detailed breakdown of the structure and composition of the existing portfolio;
- a description of the market risks being managed (currency, interest rate, and refinancing or rollover risks);
- a description of the future environment for debt management, including fiscal and debt projections; assumptions about interest and exchange rates; and, constraints related to portfolio choice, including those relating to market development priorities and the implementation of monetary policy;
- a description of the analysis undertaken to support the recommended debt management strategy, clarifying the assumptions used and the limitations of the analysis; and,
- a recommended strategy and its rationale.

The strategy should provide analysis of the major risk indicators. Risks that should be assessed include the following:

- total debt service under different scenarios, particularly sensitivity to interest and exchange rates;
- the maturity profile of the debt under different scenarios; and,
- strategic benchmarks, such as:
  - the currency composition of foreign and (if applicable) domestic currency debt; the maximum average maturity of the debt;
  - the maximum share of short-term to long-term debt;
  - the maximum share of floating-rate to fixed-rate debt; and,
  - the minimum average time to interest rate re-fixing.

For comprehensive information on formulation of a debt management strategy see Developing a Medium-Term Debt Management Strategy (MTDS)—Guidance Note for Country Authorities at https://www.imf.org/external/np/pp/eng/2009/030309A.pdf

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Division of RBZ to the Exchange Control Unit within the same institution, and the broadening of mandate to include exchange control issues

DPI-4 Debt Reporting and Evaluation

Dimension	Score
1. Publication of a statistical bulletin on debt, loan guarantees, and debt-related operations	D
2. Reporting to the Parliament or Congress	D

Dimension 1. Publication of a statistical bulletin on debt, loan guarantees, and debt-related operations

The Ministry of Finance has, to date, not produced a statistical bulletin on debt, although one is under preparation and scheduled to be launched in early 2016. Therefore, the minimum requirements of this dimension are not met and a score of D is accorded: unchanged from the 2011 DeMPA and for the same reason. The 2015 PDMA requires the annual publication of a statistical bulletin on debt and PDMO is well advanced in its preparations to launch this process and publish the first bulletin in early 2016.

Dimension 2. Reporting to parliament or congress

The Ministry of Finance submits an annual report on debt management activities to the Parliament within the context of the annual Budget statement. It is publicly available on the website of the Ministry of Finance. This report elaborates on new borrowing during the prior year and gives a loan-by-loan statement of external public and publicly guaranteed debt (issue amount and date, currency, creditor, outstanding amount at the end of the year, transactions during the year i.e. principal and interest paid and principal and interest payments accrued and in arrears; and a comparable statement on domestic public debt outstanding (disaggregated by category) and a detailed statement of scheduled debt service payments (principal and interest) in 2016. The public debt management objectives are also specified. The report however does not elaborate on the rationale for debt management operations and how these contributed to the achievement of budget and fiscal objectives.

The minimum requirements for this dimension are not met and it is rated D. This rating is same as the 2011 DeMPA. While the authorities now provide a more comprehensive statement of public debt obligations; for a C score, a thorough account of DeM operations during the period, together with the rationale for those operations, is required.

DPI-5 Audit

Dimension	Score
1. Frequency of financial audits, compliance audits, and performance audits of the central government as well as publication of the external audit reports	D
2. Degree of commitment to address the outcomes from internal and external audits	C

Dimension 1. Frequency of financial audits, compliance audits, and performance audits of the central government as well as publication of the external audit reports

Section 309 of the Zimbabwe constitution[8] and the Audit Office Act (Chapter 22:18) establish the Office of the Comptroller and Auditor-General as the Supreme Audit Institution in the country, responsible for examining the accounts, financial systems and financial management of all government departments, institutions and agencies. While the Office of the Auditor-General (AuG) is independent and subject only to the law in the discharge of its duties, the Auditor-General is a presidential appointee and the office is funded through the normal budget process. The scope of public debt audit is defined in Section 10 of the Audit Office Act (Chapter 22:18) and Section 37 of the PDMA (Chapter 22:21) of 2015 to include value for money, performance and information technology systems, and these should be conducted on an annual basis.

On completion of the audit process, the AuG prepares and submits a report on the outcome of the audit to the Minister not later than the 30th of June in each year. In terms of Section 35 subsection 12 of the PFMA (Chapter 22:19), the Minister of Finance is responsible for laying this report, together with other consolidated financial statements before parliament within seven days on which parliament sits next after the Minister has received such report. Where the Minister fails to lay the report before parliament within the period specified, Section 12 subsection 2 of the Audit Office Act (Chapter 22:18) empowers the AuG to transmit a copy of such report directly to parliament.

The Office of the Auditor-General has been undertaking both financial and compliance audit of public debt on a regular basis, though with a two-year lag. For instance, the 2012 public debt statement was audited in 2014 while the 2013 public debt statement was audited in 2015. Section 32 and 35 of the PFM Act requires submission of financial statements for auditing within three months after the end of each financial year. Those statements not submitted within this time frame are considered for auditing in the subsequent year, hence a 2 year lag. The scope of the audits included both public and publicly guaranteed debt. External audit reports are made public within six months of completion of the audit, through the AUG's website (www.auditgen.gov.zw) and the Minister of Finance's report to parliament.

While external audits are conducted annually with a two-year lag, internal audits have not been covering public debt. This issue has been raised as an external audit query in the Auditor-General's audit of the 2013 public debt statement, which indicated that the internal audit department's audit plans have not been including public debt. However, plans are underway for internal auditors to start auditing public debt, as reflected in the 2015 audit plan produced by the internal audit department within the Ministry of Finance[9]. On other hand, debt management functions undertaken by the RBZ such as issuance of domestic debt securities, recording and processing of payments are audited annually by both internal and external auditors. The audits cover the Central Securities Depository access controls.

[8] This refers to the new constitution that became effective in 2013.

[9] The authorities later informed the mission that internal audit activities commenced with an audit of the back-office function in February 2016.

This dimension is assigned a score of D to reflect non-compliance with legal requirements, particularly the PFM Act and the Audit Act. The same score was assigned in 2011, as no performance audits were conducted within the past five years to 2011. The progress in the auditing framework did not lead to an imrovement in the score because of the delays in the audits. For a higher score, both internal and external audits have to be carried out annually, for public debt statement of the preceding year.

Dimension 2. Degree of commitment to address the outcomes from internal and external audits

Section 37 subsection 3 of the Public Debt Management Act (Chapter 22:21) of 2015 states that the Debt Office shall ensure that any issues for action raised by an audit are timely addressed. While management responses were not provided with respect to the 2012 public debt statement, all audit queries relating to the 2013 public debt statement were responded to, with sufficient explanations and action plans to address the outcomes. There is also evidence that some of the audit recommendations relating to 2012 public debt statement have been addressed. For instance, the audit report for the 2012 public debt statement recommended the development of procedures manuals for the Debt Management and Financial Analysis System (DMFAS) and this was developed in 2014 and operationalized in 2015. Very few recommendations included in the audited 2012 public debt statement recurred in the audited 2013 public debt statement, which could mean that despite a lack of management responses for queries raised with regards to the 2012 public debt statement, most queries raised have been addressed.

On this basis, a score of C is assigned. However, a higher score could not be attained due to absence of time lines to address approved action plans. This dimension was not rated in 2011 since there were no performance audit reports.

3.2 Coordination with Macroeconomic Policies

DPI 6 - Coordination with Fiscal Policy

Dimension	Score
Dimension 1: Support of fiscal policy makers through the provision of accurate and timely forecasts on total central government debt service under different scenarios	D
Dimension 2: Availability of key macro variables, an analysis of debt sustainability, and the frequency with which it is undertaken	C

Dimension 1. Support for fiscal policy makers through the provision of accurate and timely forecasts on total central government debt service under different scenarios

Debt service projections, both for domestic and external debt, are provided to the Budget Department for purposes of budget preparation. Data provided include the total debt service due and projections for debt service expected to be paid during the budget year. While the government is currently accumulating arrears, it is making token payments to international financial institutions such as the IMF, World Bank and AfDB and partially pays amounts due to some selected creditors... Servicing of securitized domestic debt is up-to-date (no arrears on these instruments).

It has been noted that projections for domestic debt service payments are provided by the FCMD, while external debt projections are provided by the PDMO. Thus, although debt servicing is discretionary, the two offices present the required information to be used in the budget process. While officials could not provide forecasts on external debt service for the past three years, information gleaned from the **Blue Book** (Estimates of Expenditure) shows wide deviations of budget versus actual for the period 2012-2014. As a result, these cannot be considered reasonably reliable as deviations of budget from actual are not within 10%. While there is sufficient coordination, smooth and timely exchange of information amongst the departments within the Ministry of Finance for budget preparation, debt service forecasts, however do not include sensitivity and scenario analyses of exchange and interest rates. On this basis, a score of D is assigned. A score of C was assigned in 2011.

Dimension 2. Availability of key macro variables, an analysis of debt sustainability, and the frequency with which it is undertaken

The macroeconomic framework is elaborated on an annual basis under the coordination of the Fiscal Policy and Advisory Services Department of the Ministry of Finance. Other key institutions involved during this elaboration includes the RBZ, Ministry of Economic Planning and Zimbabwe National Statistical Agency. In addition, government undertook a full DSA in May 2013; and conducted a study to see the effects of a debt reduction strategy on debt sustainability in February 2015, with the assistance of MEFMI. The 2015 study had a component of a DSA, and assessed whether the country's public debt will be sustainable after arrears have been cleared. The analysis did not cover the existing case and was meant to provide guidance towards creditor re-engagements. On the basis of availability of key macroeconomic variables and the preparation of a full DSA in 2013, a score of C is assigned to this dimension, same as the previous assessment. A higher score could have been achieved if the government fulfills the plans to undertake or update the DSA annually[10].

DPI 7: Coordination with Monetary Policy

Dimension	Score
Dimension 1: Clarity of separation between monetary policy operations and DeM transactions	N/A
Dimension 2: Coordination with the central bank through regular information sharing on current and future debt transactions and the central government's cash flows	B
Dimension 3: Extent of the limit of direct access to financial resources from the central bank	C

Dimension 1. Clarity of separation between monetary policy operations and debt management transactions

The RBZ has not been using monetary policy instruments (money supply and interest rates) since February 2009 when the country adopted the multicurrency system. No securities are issued for

[10] The mission was later informed that a DSA study was undertaken in March 2016.

monetary policy purposes and the RBZ does not have key instruments to engage in autonomous monetary policy operations.

The local currency currently circulating in the economy relate to small denomination bond coins (1c, 5c, 10c, 25c and 50c) worth USD 10 million (less than 1 percent of total money supply) issued between December 2014 and March 2015 to address the problem of change and hence, price competitiveness. This was followed by the demonetisation of the local currency unit to provide the necessary confidence of the government's resolve to maintain the multiple currency system.

With regards to interest rates, the RBZ has largely relied on moral suasion. For instance, in early 2013, the RBZ and the Bankers Association of Zimbabwe signed a Memorandum of Understanding with a view to regulate fees for various services provided by financial institutions, including interest rates paid on time deposits. In July 2015, the RBZ published interest rate guidelines for domestic banking system to consider when pricing their credit facilities.

March 2014 saw the introduction of a USD 200 million Interbank Support Facility which has lender of last resort characteristics to deal with temporary liquidity requirements of banks. The facility is supported by the African Export-Import Bank (Afreximbank) under the Trade Debt Backed Securities (Aftrades) initiative. Under the facility, surplus banks place their funds with Afreximbank for on-lend to deficit banks. In return, the surplus banks are issued with an interest bearing instrument, the Afreximbank Aftrades. This facility is administered through the RBZ, including issuance of the Aftrades.

The RBZ also carries out debt management transactions on behalf of the government, particularly those relating to issuance of domestic debt securities such as treasury bills, and debt service payments on both external and domestic debt. Government raises funds in the domestic market through private placements, and deals are structured by the Financial and Capital Markets Department within the Ministry of Finance. It is only upon finalization of deals that instructions are send to the central bank to issue securities to respective investors.

On the basis that there is no active monetary policy, this dimension is rated Not Applicable. This dimension was not rated in 2011 in line with the existing methodology.

Dimension 2. Coordination with the central bank through regular information sharing on current and future debt transactions and the central government's cash flows

Information on central government cash-flow projections and future debt transactions is shared on a weekly basis between the Ministry of Finance and the RBZ through the cash management committee. The committee, which meets on a weekly basis to determine government's cash flows for the following week and up to a month, comprises members from the Reserve Bank of Zimbabwe, Zimbabwe Revenue Authority (ZIMRA) and units in charge of debt management within the Ministry of Finance. The central bank was of the view that these cash flow projections are essential for purposes of forecasting liquidity conditions of the domestic financial system.

On the basis that there is information sharing on a weekly basis, this dimension is assigned a score of B. In 2011, this dimension was scored a D on the basis that government was not sharing information on cash flow projections and future debt transactions with the RBZ.

Dimension 3. Extent of the limit of direct access to financial resources from the central bank

Section 11 subsection 1(a) of the Reserve Bank of Zimbabwe Act (Chapter 22:15) limits government's access to central bank funding window to 20 percent of the previous year's ordinary revenues of the state. Such a loan or advance is repayable within a period of twelve (12) months after the financial year in which it was made, or convertible at the end of the financial year in which it was made into negotiable bearer securities issued by government to RBZ. Since adoption of multicurrency system in February 2009, government has not accessed the overdraft window at the RBZ, due to limited capacity of the central bank support such a facility.

Hence, the score for this dimension is maintained at C to reflect that the law limits government's access to central bank funding, but allows the tenor of this borrowing to extend up to 12 months after the financial year in which the funds were accessed.

3.3 Borrowing and Related Financing Activities

DPI-8 Domestic Borrowing

Dimension	Score
1. The extent to which market-based mechanisms are used to issue debt; the preparation of an annual plan for the aggregate amount of borrowing in the domestic market, divided between the wholesale and retail markets; and the publication of a borrowing calendar for wholesale securities	D
2. The availability and quality of documented procedures for borrowing in the domestic market and interactions with market participants	D

Dimension 1. The extent to which market-based mechanisms are used to issue debt; the preparation of an annual plan for the aggregate amount of borrowing in the domestic market, divided between the wholesale and retail markets; and the publication of a borrowing calendar for wholesale securities

While the main part of the domestic debt arises from debt issuance to address legacy obligations, the government also issues T-Bills to market participants for budget financing purposes. After a period of suspension in market-based domestic borrowing, T-Bills issuance resumed in 2012 in the form of private placements as opposed to the auction system that was in place before 2009. The T-Bills are issued by the FCMD of the MoFED through the RBZ who acts as the fiscal agent of the government.

T-Bills are issued in maturities of 90-180-270 and 365 days, and are denominated in USD, due the multiple currency regime. The FCMD prepares an annual borrowing plan based on budgetary information, also broken down into monthly brackets. As the plan is neither formally approved nor disclosed, it mainly serves as a working file for internal purposes.

There are on average four to five private placements in a month. When a T-Bill is decided to be issued, the FCMD engages with potential clients, mainly the banks; and negotiates on the term and conditions of the bill. The maturity of the T-Bills is decided based on the demand of the interested banks. The interest rate is negotiated within the cap determined by the Minister. This usually takes into account the rates in previous transactions. Once the negotiations are complete, the terms are finalized in a written agreement with the bank(s). Depending on demand, T-Bills can be issued to more than one bank. Currently, there are seven banks that participate in private placement transactions. At this stage the Accountant General (AcG) gives an instruction to the RBZ to finalize the transaction. The T-Bills are issued on a delivery-vs-payment basis.

While, the government can also resort to bank loans, with a maturity up to one year; the banks generally prefer to lend in the form of T-Bills. Although the bills can be traded off-the-shelf, there is very little secondary market activity and banks mainly use them as collateral in their financing transactions.

The FCMD is also responsible for issuing the securities to clear the legacy obligations of the government. In line with the RBZ Debt Assumption Act, approved in August 2015, the MoFED has started to assume the debt incurred by the RBZ on behalf of the government before 31 December 2008, going back to the 1970s. The amounts are subject to validation and reconciliation; and once this process is complete, the FCMD issues bullet bonds with semi-annual coupons and maturities between 2 and 5 years to the original creditors[11]. The validation and issuance of debt is on-going. Legacy domestic debt also includes debt issued to the government's suppliers (such as suppliers of seed fertilizers).

In 2014, the government issued 10 year bonds to the RBZ to recapitalize the bank. The recapitalization process is expected to continue in the future.

As the government does not raise funds domestically using solely market-based instruments and continues to issue securities, that are not based on market terms, to clear prior liabilities; this dimension is rated D. While an annual borrowing plan is said to be prepared, it is not disclosed. A borrowing calendar is not prepared. In 2011, this dimension was not rated since the issuance of domestic debt was in suspension.

Dimension 2. The availability of quality and quality of documented procedures for borrowing in the domestic market and interactions with market participants

The "Front Office Guide" that has recently been prepared and approved describes the procedures for domestic borrowing. The document stipulates that a prospectus indicating the specific terms of the securities on offer have to be issued to assist investors in making their bids/ quotes; and a public notice or advertisement containing detailed information such as the tenor, settlement date, the currency and total amount floated, the minimum amount acceptable per bid, the number of bids allowable per investor per tenor etc. is made available. The guide has been prepared with a view on the auction mechanism and contains the procedures for the debt office for running T-Bill and bond auctions.

The guide has not yet been put into practice, and awaits re-organization of the debt management unit. While it mainly considers auctions, currently the only mechanism for issuing T-Bills is private

[11] According to the Letter of Intent, submitted by the authorities to the IMF on September 30, 2015, around 43 percent of validated RZB debt has been assumed by the government by that date.

placement. There is no other existing procedure for executing a private placement. The terms and conditions of the T-Bills are not publicly available. This dimension was also not rated in 2011 as there was no domestic borrowing transaction.

The minimum requirements for this dimension are not met and it is rated as D. This assessment is lower than the 2011 DeMPA due to the change of methodology. Previously, providing the regulation upon request was sufficient to meet the minimum requirements whereas under the new methodology, such procedures should be made public.

DPI-9 External Borrowing

Dimension	Score
1. Documented assessment of the most beneficial or cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity) and a borrowing plan	D
2. Availability and quality of documented procedures for external borrowings	D
3. Availability and degree of involvement of legal advisers before signing of the loan contract	A

Dimension 1. Documented assessment of the most beneficial of cost-effective borrowing terms and conditions and a borrowing plan

In the absence of financing opportunities from multilateral sources, the government has resumed external borrowing since 2010 in the form of bilateral commercial loans. The counterparties include China, Brazil and India. Recently, a concessional loan was obtained from African Export-Import Bank. A commercial loan contract was also signed with a private bank, but no disbursements have yet been made.

As the borrowing sources are very limited, every available opportunity is aimed to be utilized. No annual borrowing plan is prepared. Even though the authorities are well aware of the terms and conditions of the available loans, no assessment on the most beneficial or cost-effective terms is conducted. The main area of assessment is the grant element in the loan. While this analysis is carried out, this does not guide the decisions as choices are limited. This dimension is rated D as the minimum requirements are not met. The rating remains the same as in the previous assessment on the same grounds.

Dimension 2. Availability and quality of documented procedures for external borrowings

The borrowing process is initiated by line ministries. The ministries develop project proposals in line with the priority areas stated in the Five-Year Development Plan and the “Zimbabwe Agenda for Sustainable Socio-Economic Transformation’’ (ZimAsset) document, i.e. the government’s program for long term development.

Project proposals are sent to the MoFED, through the Public Sector Investment Program Department (PSIPD) which analyzes the feasibility of the project. The ICD of the MoFED is responsible for identifying the creditors and executing the negotiations. A loan negotiation delegation team is set up with representatives from the ICD, the Ministry of Foreign Affairs, the line ministry concerned and the Office of the Attorney General (AtG), who is the legal advisor for the government. In general, the ICD is engaged in the financial negotiations, while the representative from the AtG is concerned with the legal issues. When the loan has been finally negotiated, the draft agreement is sent to the External Loans and Exchange Control Review Committee (ELECRC), which comprises the RBZ and MoFED. After the approval of ELECRC, who is responsible for streamlining and regulating capital flows in and out of the country, the agreement is reviewed at the Public Agreements Advisory Committee (PAAC), whose secretary is the Ministry of Foreign Affairs. The next step involves sending the draft contract to the Cabinet Committee on Legislation, before it is presented to the full Cabinet for Approval. MoFED then seeks authorization from the President, after approval of the Cabinet. After receiving the mandate, the Minister signs the loan contract and takes it to Parliament for ratification.

This process is broadly governed by the Cabinet Circular No: 8-2001 on "International Procedures Covering the Adoption of International Agreements, Conventions and Treaties", which is not specific to debt management but generic for all institutions engaging in international affairs. It mainly stipulates how international agreements are signed and ratified. It does not specify the details about the negotiation process, the financial analysis to be undertaken, the recording of the transaction once the loan is signed. The circular has not been updated to reflect the recent involvement of the ELECRC in the process.

The "Front Office Guide" recently prepared in line with the new Debt Management Act cover external debt and includes details on the identification of potential creditors, formation of the negotiating team, the authorization and approval process, the negotiation practices (covering pre, post and renegotiation stages), effecting of the loan. "The Back Office Guide" covers recording and reporting of debt. It stipulates that "all debt instruments that have been officially concluded, as for instance evidenced by signed and ratified loan agreements or duly amended or securities actually issued should be immediately registered or amended in the recording system".

While the "Front Office Guide" has been meticulously developed, reflecting on best practices; it has not been fully put into practice, parts of the procedures on compliance with middle office guidelines (including the borrowing currencies; interest rates, maturities and debt-service profiles), interaction with funding sources, creditor evaluation, reporting are yet to be implemented. The guide does not include the above described steps for signing of the loan, involving the committees and the cabinet.

This dimension is rated D as there is a discrepancy between the procedures and practice. The debt management organization is going through a transition stage, the objective of the authorities is to align the implementation with the legal and operational framework that has been developed. When this process is complete, this dimension can easily qualify for a higher score. The rating in 2011 was also D as the procedures were not detailed. The reasoning in 2015 differs from that of 2011 as procedures have been developed, but are yet to be implemented.

Dimension 3. Availability and degree of involvement of legal advisers before signing of the loan contract

The AtG is responsible for providing legal advice on all loan negotiations, and is involved during all the negotiation process, being a permanent member of the negotiation team. The legal department of the MoFED also participate in the loan negotiations.

As the legal advisers are involved from the first stage of the negotiation process, all the requirements for this dimension are met and is rated A. The scoring of this dimension was B in 2011 DeMPA, as the mission concluded that the legal advisors joined the process after the submission of the first draft of the loan agreement by the creditor.

DPI-10 Loan Guarantees, On-lending, and Derivatives

Dimension	Score
1. Availability and quality of documented policies and procedures for approval and issuance of central government loan guarantees	D
2. Availability and quality of documented policies and procedures for on-lending of borrowed funds	D
3. Availability of a DeM system with functionalities for handling derivatives and availability and quality of documented procedures for the use of derivatives	N/A

Dimension 1. Availability and quality of documented policies and procedures for approval and issuance of central government loan guarantees

The PDMA establishes policies and guidelines for the issuance of guarantees. Article 20 gives the authority to the Ministry of Finance to issue guarantees based on the advice of the EDDC, defines the purposes for issuing guarantee, and permits the issuance of both domestic and external guarantees. The Act also requires the PDMO to conduct due diligence audit on the capacity of the beneficiary to repay the loan (Article 4, Section 3) and the Ministry of Finance may apply a guarantee fee (Article 20, Section 4).

The Ministry of Finance can issue both domestic and external guarantees. All the guarantees still outstanding were issued prior to the enactment of the new law.

The procedure to follow is that the entity seeking a guarantee sends it to line ministry which then submits it to MoFED. Within the ministry, the ICD reviews the proposal and provide the recommendation. Before doing so, ICD gets support from the Aid Accounting, Funds and Parastatal section (AAFPS) in the AcG and PDMO. AAFPS is responsible for analyzing the creditworthiness of the beneficiary of the guarantee. Its recommendation is based on the analysis of the balance sheet and cash flow projections of the potential beneficiary. The Middle Office of PDMO reviews the terms of the loan to be guaranteed to ensure that it meets the borrowing policies and compliance on the guarantee ceiling. Once this process has been completed, the documentation (including the draft agreement) follows the same process as any external borrowing, such as sending through the various committees (ELECR, PAAC, and Cabinet Committee for Legislation) before submitting it to the Minister of Finance for signature. As per PFMA, the Minister of Finance must also seek consent from the President before issuing any loan guarantees. Once the guarantee has been signed, it is sent to the Back Office of PDMO to be recorded. No guarantee fees are currently charged. There is no documented procedures manual that describes this process. Draft regulations on the issuance of guarantees are being elaborated which would include a section on guarantee fees (0.5 percent for commercial and 0.17 percent for social sectors) as required under the new PDMA.

About 20 domestic debt guarantees are still outstanding. The last guarantee issued was in October 2015. No domestic debt guarantee has been called. The issuance of domestic debt followed the same process. The potential beneficiary sends the request to its line ministry who transmits it to MOFED, through the Financial and Capital Market Department, which provides the due diligence audit. The FCMD reviews the feasibility of the project, and the repayment capacity of the borrower through an analysis of the cash flow projections. Approval of the issuance of the external debt guarantees must follow the same process. The Minister of Finance is responsible for signing the agreement after consent from the President (as required under the PFMA)

Currently, the policy does not provide for the application of a guarantee fee as is the case for external loan guarantees. The process for issuing domestic guarantees is not detailed in a procedures manual. Although there exists working documents, they have not been approved as official guidelines within MoFED.

As there are no documented procedures on the issuance of external government guarantees, the minimum requirements are not met for the first dimension and is rated D. The rating is the same as the 2011 DeMPA for the same reason.

Dimension 2. Availability and quality of documented policies and procedures for approval and issuance of central government on-lending

On-lending has been seldom used, only one agreement has been signed. The negotiation of the external debt loan follows the same process and procedures as described in DPI-9. As part of this process, the AAFPS is also responsible for reviewing and conducting the analysis of the beneficiary of the on-lending. After the original loan has been signed, the section prepares the on-lending contract. Terms and conditions are negotiated on a case by case basis. The same terms as the original loans are applied, but they might also be altered such as shortening the repayment period or charging a higher interest rate. However, the methodology used for the analysis nor the rationale for approval is not included in any policy documents.

The approval process follow the same one as any other legal agreement. It is reviewed by the Attorney General Office before being submitted to the various committees. Once approved by Cabinet, subsidiary agreement is signed by the Minister of Finance. It is the respective line ministry that manages the on-lending contracts and ensures that debt service is collected. Currently, there is no documented procedures that describes the process, the methodology used to analyze the beneficiary's creditworthiness, and/or a policy on the terms.

As the procedures are not documented, the minimum requirements for the second dimension are not met and it is rated D. The rating is the same as the previous assessment.

Dimension 3. Availability of a DeM system with functionalities for handling derivatives and availability and quality of documented procedures for the use of derivatives

The Government has not entered into any derivative contracts. The third dimension is therefore not applicable (N/A) in the revised DeMPA. The previous version of DeMPA stipulates this dimension as not rated (N/R), in line with previous version of the scoring methodology.

3.4 Cash Flow Forecasting and Cash Balance Management

DPI-11: Cash Flow Forecasting and Cash Balance Management

Dimension	Score
1: Effectiveness of forecasting the aggregate level of cash balances in government bank accounts	D
2: Decision of a proper cash balance (liquidity buffer) and effectiveness of managing this cash balance in government bank accounts (including the integration with any domestic debt borrowing program, if required)	D

Dimension 1. Effectiveness of forecasting the aggregate level of cash balances in government bank accounts

The Office of the Accountant General (AcG) executes the cash management function for the government. The cash flows are planned in the weekly Cash Committee meetings chaired by the AG. The Zimbabwe Revenue Authority (ZIMRA), the budget department of the MoFED, the PDMO, the FCMD, and RBZ participate in the Cash Committee.

At the beginning of the year, ZIMRA who effectively collects more than 90 percent of the government revenues produces monthly projections for the whole year based on the budget. The Budget Department also produces monthly expenditures forecasts, reflecting the spending assumptions in the budget. However, as the budget is executed, the cash flow plans mainly concentrate on the next week, with a degree of consideration of the current month. In the weekly cash committee meetings, the revenue projections for the next week are discussed, and the available cash is allocated to spending agencies. The FCMD can be asked to issue T-Bills to meet the discrepancy in the cash-flows. Salary and pension payments have priority; other discretionary expenditure is subject to cash and financing available for the week of focus, reflecting a cash rationing practice.

The cash balances of the government are kept at the Exchequer Account held at the RBZ. The AcG obtains daily bank statements to monitor cash balances, but is not preparing any forecasts for the level of the Exchequer Account. Therefore, dimension 1 does not meet the minimum requirements, and a score of D is assigned. Rating did not change with respect to the 2011 assessment due a lack of improvement.

Dimension 2. Decision of a proper cash balance (liquidity buffer) and effectiveness of managing this cash balance in government bank accounts (including the integration with any domestic debt borrowing program, if required)

With a Ministerial Decree issued in 2014, the Exchequer Account, which was previously held at a commercial bank, was transferred to the RBZ. At the end of every day, revenues collected by ZIMRA are transferred to this account. The non-tax revenues collected by line ministries outside of Harare are first collected in accounts held at commercial banks, and are then transferred to the RBZ. The line ministries have individual accounts at the RBZ, and their cash allocations are transferred to these accounts by the AcG, based on the weekly cash plan.

Owing to the lack of forecasts, there is no explicit target for the level of the cash balances. The government tries to match inflows and outflows on a weekly basis, and transfers the entire amount that is available for spending without maintaining a certain level to serve as a buffer for unforeseen payments. In practice, there is a very low volume of cash that rests in the account. The Exchequer Account is not remunerated by the RBZ. While the T-Bills issuance is coordinated with cash management, the decision horizon is only one week and does not consider longer term projections.

The second dimension was also assigned a score of D since there is no cash balance management policy and i.e. no explicit target for the level of cash balances. The same rating was issued in 2011, as there was no de facto cash target, no domestic borrowing, and the idle balances kept at private banks accounts were not remunerated at market rates.

3.5 Debt Recording and Operational Risk Management

DPI-12: Debt Administration and Data Security

Dimension	Score
1. Availability and quality of documented procedures for the processing of debt-related payments and receivables	C
2. Availability and quality of documented procedures for debt and transaction data recording and validation, as well as storage of agreements and debt administration records	D
3. Availability and quality of documented procedures for controlling access to the central government's debt data recording and management system and audit trail	D
4. Frequency and off-site, secure storage of debt recording and management system backups	D

Dimension 1. Availability and quality of documented procedures for the processing of debt-related payments and receivables

Zimbabwe has currently a policy to honor its engagements if creditors provide positive net flows. In practice, these loans can also be partially paid. For the others, debt service payments is not made and the country is accumulating arrears. As an element of the strategy to re-engage with the international community token payments are being made to some international financial institutions (the IMF, World Bank, AfDB, and EIB).

The process of servicing debt starts when the Back Office of PDMO receives the payment notification from the creditors. After verifying it with the information contained in the DMFAS, the desk officer initiates the payments. The payment order is verified and signed by the Chief Economist and the Chief Accountant of the section before being transmitted to the Head of PDMO for signature. The payment order is then sent to the AcG (for authorizing the payment) and Budget Department (for verifying whether it is budgeted). After this step, the AcG sends it to the Cash Committee to determine whether there is sufficient liquidity. If the expenditures are approved, the payment order is sent to the Permanent Secretary for its signature and then to the RBZ to be externalized. Once the payment is made, RBZ notifies PDMO for recording of the payment. The whole process takes a maximum of five days. The same procedures applies for domestic debt.

A procedures manual entitled Procedures for Back Office in Public Debt Management Office dated June 2015 has been recently approved. Chapter 9 - Step 7 of the manual describes the process and Table 2 provides the different sequences, time lag for performing the task, the person or unit responsible for the tasks.

As there is readily available procedures manual on debt service payments, the minimum requirements for this dimension are met, and it is scored a C. In order to get a higher rating, the process should be done electronically as opposed to manual as it is currently done. This dimension was rated as D in 2011, as there were not up-to-date procedures. The rating shows an improvement from the previous assessment due to the elaboration and approval of the back office manual.

Dimension 2. Availability and quality of documented procedures for debt and transaction data recording and validation, as well as storage of agreements and debt administration records

The Back Office of PDMO is responsible for recording loan agreements and debt transactions (disbursements, debt service payments and arrears, in the DMFAS, a recording system developed by the United Nations Conference on Trade and Development (UNCTAD). Desk officers are responsible for entering the data in the system. All the operations are verified manually by the Chief Economist of the department. Furthermore, as part of the 2014 Heavily Indebted Poor Countries Initiative (HIPC) exercise the database was reconciled with creditors and in October 2015 as part of the Budget process.

All original loan agreements are maintained in a locked room with sprinklers to protect against fire and are kept in a fire proof cabinet. A log is kept to register staff member on when they retrieve and return the files. Copies of the loan and other documentation are kept in the same type of cabinet in a separate secured room in the central registry. The central registry is secure in that access to records is tightly controlled. Furthermore, all loan agreements and debt transactions are scanned and inputted in the DMFAS

Chapter 12 of the Procedures for Back Office of the PDMO details procedures for validating data for loans, debt reorganizations, and on-lending operations. It describes the frequency of the data validation and the organizations responsible for such validation. The requirement for segregation of responsibilities between data entry and verification is included in Chapter 9 in the various procedures debt recording (loan agreement or Step 3, 4 and 5, disbursements or Step 6, and debt service payments or Step 7). Step 2 of Chapter provides the procedure on logging and filing debt information.

There are documented procedures for debt data recording and validation as well as storage for loan agreements and administrative debt records. However, domestic debt guarantees being recorded in Excel by a different unit does not follow the same protocol. Therefore, the minimum requirements for the second dimension are not met and is rated D. The rating is the same as the previous assessment. However, the elaboration of the manual shows a big improvement.

Dimension 3. Availability and quality of documented procedures for controlling access to the central government's debt data recording and management system and audit trails

An Information Technology (IT specialist from the Ministry of Information Communication Technology (MoICT) has been seconded to PDMO to maintain the DMFAS. The IT specialist is the system administrator and is responsible for assigning access to the software. There are three levels of access to the system: a) administrator given to the IT specialist and the Head of PDMO, operation for desk officers responsible for entering data, and consulting for supervisors. The access is given based on the user profile and password protected. Passwords are changed every three months. Desk officers have only access to their respective functions and can only enter data in their respective areas. Supervisors can only consult the system but cannot edit the database. Deleting entries can only be done with special authorization from the IT administrator and the Head of PDMO. Each user is given a password which must be changed on a monthly basis. This process and procedures are described in the System Security Control Checks section in the Procedures for Back office in Public Debt Management Office.

While documented procedures have been elaborated for controlling access to the DMFAS database, which would meet the minimum requirements; the domestic debt guarantees, kept outside DMFAS are not subject to the same procedures. Therefore this dimension is rated as D, same as the 2011 assessment.

Dimension 4. Frequency and off-site, secure storage of debt recording and management system backups

The IT administrator is responsible for performing backup of the DMFAS server. This is done on a daily, weekly, and monthly basis. Backups are created on tapes and sent to MoCIT to be stored in a safe to protect them against fire, flood and theft on a weekly basis. Once a week (every Friday), the IT uploads those tapes in another server located in the district of Masasa, 7 kilometers away from the MoFED. The disaster recovery site is owned by RBZ and MOFED has obtained the permission to use it. Scanned documents are also backed-up, but on a quarterly basis. The DMFAS server is located on the fifth floor of the Ministry. The room is secured by an iron door with the IT administrator having the only key to open it and is protected against fire and flood.

RBZ uses this site for the same purpose. However, for critical functions, such as the Central Depository System (CDS) backups are done on daily basis through a direct link between RBZ and the data recovery site (the two servers function as a mirror image).

While the back-ups of the DMFAS would qualify for a higher rating, as the domestic debt guarantees, kept outside DMFAS are not subject to the same procedures, this dimension is rated as D[12]. The rating was same in 2011.

DPI-13 Segregation of Duties, Staff Capacity, and Business Continuity

Dimension	**Score**
1. Segregation of duties for some key functions, as well as the presence of a risk monitoring and compliance function	C
2. Staff capacity and human resource management	C
3. Presence of an operational risk management plan, including business-continuity and disaster-recovery arrangements	D

Dimension 1. Segregation of duties for some key functions, as well as the presence of a risk monitoring and compliance function

There is clear segregation of duties between front and back office. Front office activities are undertaken by the ICD for external debt and by the FCMD for domestic debt, whereas PDMO is responsible for back office activities. Within the back office, debt recording and settlement functions (initiating and monitoring debt service) have also been divided among staff. Desk officers are allocated certain countries for debt recording and different ones for initiating debt service payments. Currently, there is no staff within PDMO who is assigned the function of risk monitoring. Under the new PDMO, the function has been given to the middle office. Procedures for this function have already been included in the Back Office procedures.

As there is clear separation between staff in charge of recording data and settlement and between front and office functions, the minimum requirements for the first dimension are met and is scored C. A higher score would require that the function of risk monitoring be assigned to a staff. The assessment indicates an improvement from the 2011 DeMPA due to the separation of debt recording and settlement functions.

[12] The authorities have reportedly taken steps to move the back-ups of loan guarantees to the disaster recovery site in early 2016.

Dimension 2. Staff capacity and human resource management

There is sufficient qualified staff to fulfill the work requirements. PDMO has been allocated 21 staff members, including the Head of Department, of which two positions are vacant. Currently, there are 5 in the middle office and 10 in the back office. The FCMD has 10 staff members of which three are dedicated to domestic debt, but there are three vacancies. The ICD has 22 positions of which three are vacant. One of the weaknesses noted in the previous DeMPA was the lack of training in the use of the database software and insufficient analytical capacity. Over the past few years, PDMO staff have received training in the DMFAS system by UNCTAD, debt reduction analysis financed by AfDB, in DSA and medium term debt strategy from the World Bank, and continuous support from MEFMI. However, the mission was notified of a need for training in loan negotiation.

All staff from the MoFED have job descriptions that are reviewed every two years and personal training plans. However, due to the budget constraint, training programs cannot be implemented fully. Annual and quarterly performance reviews are conducted for each staff. Rules of conducts and conflict of interest guidelines have been elaborated and are applied. However, they are for all MoFED staff and no specific guidelines has been developed for debt managers. Rules of conducts were drafted in 2000 and 2001. For specific areas which need to be expanded, the Public Service Commission issues Circular Letters.

As there is sufficient and qualified staff with formal job descriptions, the minimum requirements for the second dimension are met and is rate C. In order to get a higher rating, the rule of conducts and conflict of interest guidelines should be reviewed at least every two years. The rating is an improvement from the previous one due to the capacity building program undertaken by PDMO.

Dimension 3. Presence of an operational risk management plan, including business continuity and disaster recovery arrangements

As there is no written business continuity plan nor a disaster recovery arrangements, the minimum requirement for this dimension are not met and is scored D.

DPI-14: Debt Records

Dimension	Score
1. Completeness and timeliness of central government records on its debt, loan guarantees, and debt-related transactions	B
2. Complete and up-to-date records of all holders of government securities in a secure registry system, if applicable	A

Dimension 1. Completeness and timeliness of central government debt records on its debt, guarantees, and debt-related functions

External loan agreements and debt transactions are recorded in the DMFAS, version 6, a software developed by UNCTAD. The database is complete and includes all loan agreements, external loan guarantees, and on lending agreements. It is updated by desk officers on the same day they receive the debt transaction information. On average, original loan agreement are recorded once they are published in the Official Gazette (which can take up 60 days) and activated once the first disbursement has taken place. Information on disbursements are received by PDMO within five days after the disbursements has taken place. Arrears (principal and interest) are also recorded in the DMFAS after verification with the creditor's notice.

In most cases, penalty interests are computed on an Excel spreadsheet due to technical constraint in the DMFAS. The database was reconciled in June 2014 by the World Bank and the IMF as part of the HIPC. The Bretton Woods institutions noted that some loans had not been recorded whereas they had been signed. Based on the recommendations made in the report, the situation has been corrected and all loans are registered in the DMFAS. As part of the budget exercise, PDMO is reconciling its database with its creditors as of September 30, 2015. Letters have been sent to all creditors, and the vast majority have responded (only three (Belgium, China, and South Africa) out of 27 creditors) have yet to answer). Ninety two percent of the amount outstanding have reconciled with the creditors that have responded. Principal and interest arrears have been reconciled. Most of the discrepancies that still need to be reconciled relate to penalty interest. In some cases, loan agreements include a penalty interest clause, but not the methodology to compute it.

Domestic debt (T-bills and bonds resulting from the securitization of RBZ arrears) are also recorded in DMFAS. T-bills are inputted in the debt recording software after the Back office of PDMO has received the issuance notice and verified with RBZ. Bonds are recorded on the same day they receive the agreement. However, domestic debt guarantees are recorded by the Financial and Capital Development Department on an Excel Spreadsheet. The database is updated as soon as the guarantee is signed. Hence, PDMO cannot produce a complete picture of the total domestic debt from the DMFAS.

As there are complete records within a two month lag on central government domestic, external, and guaranteed debt as well as all related debt transactions, the dimension is scored B. For a higher score, PDMO should have a complete database within one month. The rating is an improvement from the previous one due to the effort to reconcile PDMO database with its creditors.

Dimension 2. Complete and up-to-date records of all holders of government securities in a secure registry system, if applicable

The Reserve Bank of Zimbabwe through the National Payment System, manages the Central Depository System which is the registry for Government Securities. All securities are book-entry securities (such as no physical documents is issued). After MoFED has agreed on a private placement of its T-bills, the Money and Capital Markets Department within the Financial Markets unit of RBZ contacts the investor to verify that the amount corresponds to the amount included in the Issuance Notice from MoFED. The investor through its custodian pays the settlement amount to RBZ using Real Time Gross Settlement (RTGS). RTGS is linked to the registry system (CDS) The payment in RTGS automatically triggers a transfer of the corresponding amount of T-bills in the registry system to the custodian account. Thus, government securities settlement is made on a delivery versus payment basis. For T-bonds issued to securitize RBZ debt, they are directly registered in the CDS. Access to the registry is controlled through different password based on the functions (front office vs payments).

The registry system is subject to both internal and external audit. As part of RBZ external annual audit, financial and operational risks (security and access to the system) are reviewed by the external auditors. During that exercise, the registry is also reconciled with its bondholders. However, as anytime, custodians can have access to the registry to verify their accounts.

As government securities are dematerialized and kept in a central registry that contains up to date and secured records which is audited annually, and the settlement of government securities is done on DvP basis, all the requirements for this dimension are met and is rated A. In the 2011 DeMPA was not rated because no government securities were issued.

ANNEX 1 - Zimbabwe: DeMPA Monitoring Agenda

Harare, December 03–11, 2015

Thursday, December 03, 2015		
12:00-13:00	Meeting at WB Country Office Team Introduction/Mission Briefing	Mission team
14.00 -15.30	Meeting at the MoFED External Debt Management	MoEFD/PDMO
Friday, December 03, 2015		
09.30-11.00	Meeting at the MoFED Technical Introduction	Mr. Z.R. Churu, Principal Director MoFED Staff (*)
11.00-12.30	Meeting at the MoFED IT and Debt Recording	MoFED: PDMO
14.00-16.00	Meeting at the MoFED Domestic Debt Management	MoFED: FCMD
Monday, December 06, 2015		
08.00 -9.30	Meeting at MoFED Legal And Organizational Framework For Debt Management	MoFED: PDMO Legal Department / Internal Audit Dept.
11.00 – 13.00	Meeting at MoFED Budget Formulation and Execution Macro projections Cash Management	MoFED: National Budgets Dept. Fiscal Policy and Advisory Services PDMO Accountant General Internal Audit Dept. RBZ
14.30 – 15.30	Meeting at MoFED Internal Audit	MoFED: Internal Audit Dept. PDMO
15:30-16.30	Meeting at MoFED Meeting with the PDMO Head	Mr. J. Mafararikwa, Head of PDMO
Tuesday, December 8, 2015		
9.00-10.00	Meeting at Reserve Bank Courtesy meeting with Governor	Mr. J. Mangudya, Governor, RBZ RBZ Staff (**)
10.00- 12.30	Meeting at Reserve Bank Monetary Policy Issues T-bill issuance, payment and registry	Mr. W. B. Manhimanzi, Deputy Director Mr. W. Nakunyada, Deputy Director PDMO Staff
14.00 – 16.00	Meeting at MoFED External Borrowing Guarantees and On-lending	MoFED International Corporation Dept. Financial and Capital Markets Dept. PDMO Staff Internal Audit
Wednesday, December 9, 2015		
10.00 – 11.30	Meeting at Auditor General External Audit	Ms. N. Magadza, Deputy Auditor General Ms. V. Marjorie, Director of Audit MoFED: Legal Department Internal Audit
14:00-14:45	Meeting at MoFED Human Resources	MoFED: Human Resources Internal Audit

15.00 – 16:00	Meeting at Attorney General's Office Legal Advice on Foreign Loans	Mr. P. Machaya, Auditor General MoFED Legal Services Dept.
Thursday, December 10, 2015		
14.00 -14.30	Meeting at BancABC Meeting with Market Participants	Mr. A. Govera, Head of Treasury Mr. J. Wadi, Group Economist
9.00-12.00	Meeting at MoFED Final technical meeting – DeMPA scoring	Mr. J. Mafararikwa PDMO Staff
Friday, December 11, 2015		
90.00 – 10.00	Meeting at WB Country Office Donor Community and Development Partners meeting	Representatives of IMF, DFID, UNDP, Korea, Malaysia, Malawi, China, Japan, Botswana, France
10.00-11.00	Meeting at WB Country Office Meeting with Country Manager	Ms. C.A. Nuamah, Country Manager Mr. J. Herderschee, Country Economist
11.30 -12:30	Meeting at MoFED Closing meeting	MoFED Staff

(*)**List of participants from the MoFED:**

NAME	**DESIGNATION**
Mr Z.R Churu	Principal Director- National Budgets
Mrs V Zifudzi	Principal Director- Legal Services
Mr D Muchemwa	Accountant-General
Mr J Mafararikwa	Head PDMO
Mr F Ngorora	Director- Public Sector Investment Program Dept.
Mrs M Makuwaza	Director- International Cooperation
Mr S Jailos	Director – Administration and Human Resources
Ms M Mugweni	Director- PDMO
Mr I Mvere	Director, Finance
Mrs L Tirivanhu	Chief Accountant- PDMO
Mr V Mapeza	Chief Internal Auditor
Mr A Sibanda	Principal Accountant- Accountant General
Mr T Chikwenhere	Accountant- Accountant General
Mr B Goredema	Chief Economist-Budgets
Mrs V Paketh	Chief Economist-Financial and Capital Markets
Mr M Sangu	Principal Economist-Financial and Capital Markets
Mr Chari	Principal Accountant-Accountant General
Mr T Gumbo	Principal Economist-Revenue
Mr L Chuzu	Principal Economist-Fiscal Policy and Advisory Services
Mr B Raisi	Principal Economist-International Cooperation
Ms J Tito	Chief Economist- PDMO
Mrs R Daitai	Principal Economist- PDMO
Mrs A Kambambura	Senior Economist-PDMO
Mrs C Tawodzera	Senior Economist-PDMO
Ms H Guchu	Senior Economist-PDMO
Mr T Karise	Senior Economist-PDMO
Mr E Chihava	Senior Economist-PDMO
Mr I Munaki	Senior Economist-PDMO
Mr T Madzima	Database Administrator-PDMO
Mr T Mukurazhizha	Principal Economist – Revenue
Mr K Mudereri	Chief Economist – Office of the Permanent Secretary

(*)**List of participants from RBZ:**

NAME	DESIGNATION
Dr J Mangudya	Governor
Dr K Mlambo	Deputy Governor
Mr A Saburi	Director – Financial Markets
Mr S Nyarota	Director – Economic Research
Mrs Kadungure	Deputy Director – Exchange Control
Mr W Manhimanzi	Deputy Director – Money and Capital Markets
Mr W Nakunyada	Deputy Director – Economic Research
Mr J Mutepfa	Deputy Director – National Payments System
Mr T Furusa	Principal Analyst – Money and Capital Markets
Ms A Sigauke	Principal Dealer – Money and Capital Markets
Mr T Tarubona	Principal Economist – Economic Research
Ms M. Chiwaka	Principal Auditor – Internal Audit
Mr E Mandizha	Principal IT Officer - ICT

ANNEX 2–DeMPA Comparison (2011 and 2015)

DPI	Title	Score 2011	Score 2015	Comments
Governance and the Debt Strategy				
DPI - 1	**Legal Framework**			
1	The existence, coverage, and content of the legal framework	C	D	In 2011, a score of C was assignedbased on the previous legal lwa. The new law contains the requirements for a higher score. However, since implementation is pending in several areas, this dimension is rated as D.
DPI - 2	**Managerial Structure**			
1	The managerial structure for central government borrowings and debt-related transactions	C	C	A score of C was given in 2011 since the borrowings and debt-related transactions were undertaken by the debt management entities which regularly exchange information and closely coordinate, while there was no DeM strategy. In 2015, a C rating is assigned for the same reasons.
2	The managerial structure for preparation and issuance of central government loan guarantees	C	C	The score of C in 2011 reflected the fact that there was not a single DeM entity although the procedures in place ensured a minimum amount of coordination for the issuance of guarantees. In 2015, a score of C is assigned for the same reasons as before.
DPI - 3	**Debt Management Strategy**			
1	The quality of the debt management strategy document	D	D	In 2011, a score of D was assigned as the existing guidelines did not constitute a DeM strategy. In 2015, the rating is D due to the absence of a strategy that fulfills the criteria.
2	The decision-making process, updating, and publication of the debt management strategy	N/R	N/A	In 2011, this dimension was not rated since the content of the strategy document did not constitute a DeM strategy. In 2015, this dimension is rated as N/A in line with the new methodology.

DPI - 4	Reporting, publication, and evaluation of debt management operations			
1	Publication of a statistical bulletin on debt, loan guarantees and debt-related operations	D	D	A score of D was assigned in 2011 (previously DPI 15-3) since the publications containing debt status did not meet the criteria. In 2015, the rating is D as no bulletin that meets the criteria has been published to date.
2	Reporting to the Parliament or Congress	D	D	In 2011, this dimension scored D because there was no proper reporting and evaluation of central government debt. In 2015, the rating is still D. While the authorities now provide a comprehensive statement of public debt obligations, the report does not contain an thorough account of the DeM operations
DPI - 5	**Audit**			
1	Frequency of financial audits, compliance audits, and performance audits of the central government as well as publication of the external audit reports	D	D	In 2011, this dimension also scored D because of the lack of an external audit. In 2015, the rating is also D given, since external audits are carried out with a two year leg.
2	Degree of commitment to address the outcomes from internal and external audits	N/R	C	This dimension was not rated in 2011 since there were no audit reports. The rating in 2015 is based on the availability of the management response.
Coordination with Macroeconomic Policy				
DPI - 6	**Coordination with Fiscal Policy**			
1	Support of fiscal policy makers through the provision of accurate and timely forecasts on total central government debt service under different scenarios	C	D	In 2011 a score of C was assigned since the annual forecasts of total central government debt service, produced for budget preparation, did not include sensitivity. The rating is changed to D in 2015 since realizations deviate from forecasts.
2	Availability of key macro variables, an analysis of debt sustainability, and the frequency with which it is undertaken	C	C	The score of C in 2011 reflected the fact that the government undertook a DSA analysis in 2009. The score improves since a full DSA was undertaken in 2013.
DPI - 7	**Coordination with Monetary Policy**			
1	Clarity of separation between monetary policy operations and debt management transactions	N/R	N/A	This dimension was not rated in 2011 based on the lack of monetary policy operations, and the absence of the domestic debt issuance. Since the Central Bank does not conduct monetary operations, this dimension is not rated in line with the new methodology.

2	Coordination with the central bank through regular information sharing on current and future debt transactions and the central government's cash flows	D	B	In 2011, A S score was assigned since cash-flow projections were not shared with the Reserve Bank. In 2015, a rating of B is assigned, because there is weekly information sharing through the cash management committee.
3	Extent of the limit of direct access to financial resources from the central bank	C	C	A score of C was assigned as access to RBZ financing had limits on the amount and tenor. The score is maintained on the same grounds.
Borrowing and Related Financing Activities				
DPI - 8	**Domestic Borrowing**			
1	The extent to which market-based mechanisms are used to issue debt; the preparation of an annual plan for the aggregate amount of borrowing in the domestic market, divided between the wholesale and retail markets; and the publication of a borrowing calendar for wholesale securities	N/R	D	In 2011, this dimension was not rated as there was no domestic borrowing. In 2015, a score of D is assigned since the government does not raise funds domestically using solely market-based instruments, the annual borrowing plan is not disclosed, and no borrowing calendar is prepared.
2	The availability and quality of documented procedures for local-currency borrowing in the domestic market and interactions with market participants	N/R	D	In 2011, this dimension was not rated as there was no domestic borrowing. It is rated as D in 2015 as there is no existing procedure for executing the private placements, and the terms and conditions of the T-Bills are not publicly available.

DPI - 9	**External Borrowing**			
1	Documented assessment of the most beneficial or cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity) and a borrowing plan	D	D	The D score reflected the fact that there was no assessment of different available loans in terms of cost-effectiveness. In 2015, the rating is maintained on the same grounds.
2	Availability and quality of documented procedures for external borrowings	D	D	In 2011, a score of D was assigned since the procedures were not detailed enough and did not reflect the current legal framework. In 2015, the rating is D, since the recently approved procedures are not fully implemented.
3	Availability and degree of involvement of legal advisers before signing of the loan contract	B	A	This dimension was scored B since legal advisors were involved from the stage when the creditors submitted the first draft loan agreement. The rating is A in 2015, since the Attorney General's office and legal department of the MoFED participate in all stages.
DPI - 10	**Loan Guarantees, On-lending and Debt-related Transactions**			
1	Availability and quality of documented policies and procedures for approval and issuance of central government loan guarantees	D	D	In 2011, a D score was assigned since there were no documented procedures. The rating is still D because of a lack of documented procedures.
2	Availability and quality of documented policies and procedures for on-lending of borrowed funds	D	D	In 2011, a D score was assigned since there were no documented procedures. The rating is still D because of a lack of documented procedures.
3	Availability of a DeM system with functionalities for handling derivatives and availability and quality of documented procedures for the use of derivatives	N/R	N/A	This dimension was not rated since the government of Zimbabwe did not use derivatives. 2015 rating changed to N/A as per new methodology, since derivatives are not used.

Cash Flow Forecasting and Cash Balance Management				
DPI - 11				
1	Effectiveness of forecasting the aggregate level of cash balances in government bank accounts	D	D	In 2011, the minimum requirements of this dimension of cash management was not met, due to the lack of monthly forecasts of weekly cash balances. Rating did not change due a lack of improvement in forecasting cash balances.
2	Decision of a proper cash balance (liquidity buffer) and effectiveness of managing this cash balance in government bank accounts (including the integration with any domestic debt borrowing program, if required)	D	D	In 2011, the score of D reflected the absence of explicit cash balance target for and the lack of domestic debt issuance. The 2015 rating is again D since there is still no cash balance target.
DPI - 12	**Debt Administration and Data Security**			
1	Availability and quality of documented procedures for the processing of debt-related payments	D	C	In 2011, a score of D was assigned due to the lack of up-to-date procedures or manuals for the processing of debt service. The rating improves to C because of the elaboration and approval of the Back Office manual.
2	Availability and quality of documented procedures for debt and transaction data recording and validation, as well as storage of agreements and debt administration records	D	D	In 2011, the score of D reflected the absence of up-to-date manuals. Even though a Back Office manual has been elaborated and approved, the rating is still D since the recording of domestic guarantees do not follow the same procedures.
3	Availability and quality of documented procedures for controlling access to the central government's debt data recording and management system and audit trail	D	D	A score of D was assigned in 2011 because of the lack of procedures manual. The rating moves to D despite the elaboration and approval of the Back Office manual, as domestic debt guarantees are not subject to the same procedures
4	Frequency and off-site, secure storage of debt recording and management system backups	C	D	In 2011, the monthly back-ups of the DMFAS database on a tape led to score of C. While back-ups of the DMFAS has improved, since domestic debt guarantees are not subject to the same procedures, this dimension is rated as D

DPI - 13	**Segregation of Duties, Staff Capacity and Business Continuity**			
1	Segregation of duties for some key functions, as well as the presence of a risk monitoring and compliance function	D	C	The lack of risk monitoring and compliance functions, and the same person being responsible for data entry and initiating payments led to a score of D in 2011. The rating improves to C as there is clear separation between staff in charge of recording data and settlement and between front and office functions.
2	Staff capacity and human resource management	D	C	In 2011, a score of D was assigned due to the lack of code-of-conduct and conflict-of-interest guidelines specific to debt management operations, and to the insufficient number of trained staff. The rating is improves to C due to the capacity building program undertaken by PDMO.
3	Presence of an operational risk management plan, including business-continuity and disaster-recovery arrangements	D	D	This dimension was scored D because there was no written business continuity or disaster recovery plan in place. Based on the fact that a business continuity plan and a data recovery plan have not been developed, the score is the same in 2015.
DPI -14	**Debt and Debt Related Records**			
1	Completeness and timeliness of central government records on its debt, loan guarantees, and debt-related transactions	D	B	A score of D was assigned mainly due to incompleteness of central government debt. Rating improves to B as there are complete records within a two month lag on central government domestic, external, and guaranteed debt as well as all related debt transactions
2	Complete and up-to-date records of all holders of government securities in a secure registry system, if applicable	N/R	A	This dimension was not assessed in 2011 since there were no domestic securities outstanding and the registry system was not used. The current rating is A since all the requirements for this dimension are met.

ANNEX 3–Comments Provided by the MOFED of Zimbabwe

Reference B/75/250
Ministry of Finance and
Economic Development
Harare

4 April 2016

Ms. C Nuamah
World Bank Country Manager, Zimbabwe
Harare

(DRAFT) 2015 ZIMBABWE DEBT MANAGEMENT PERFORMANCE ASSESSMENT (DeMPA)

The above mentioned matter refers; report

1. I would like to thank your team for the draft report. We believe DeMPA is an important tool for promoting sound legal frameworks, systems and practices for debt management in member countries as well as in guiding and encouraging reform where gaps are identified.

2. In Zimbabwe, we have made steady progress across all aspects to achieve best practices in debt management. Our new legal framework is very comprehensive, is in line with international best practices and coordination is much stronger among all units dealing with debt operations.

3. Regarding implementation, we have continued current practices in conformity with our laws. We have continued to report to Parliament bi-annually, in the budget and mid-term budget review with detailed statistics on debt, debt service, borrowing intentions, as well as following all laid down procedures in debt management. We also share this information with the IMF and other institutions.

4. We have begun implementing the new legal framework, refining this practice into producing and publishing proper debt bulletins, borrowing plans, with more pointed descriptive analysis. We are creating capacity to develop and maintain an informative website where we will post all our information.

5. Traditionally, we carry out Debt Sustainability Analysis (DSA) annually in the first quarter. This years's DSA was done in March 2016. We have targeted developing a Medium-Term Debt Strategy (MTDS) by June 2016.

6. You will acknowledge that despite our best efforts, the quality and usefulness of these instruments, including a borrowing plan is limited by our country specific circumstances of arrears to creditors, tight budget and liquidity squeeze. We hope to overcome these through the ongoing re-engagement process, which has prospects for arrears clearance and overall debt resolution.

7. Against this background, it is critical that the DeMPA methodology takes into account a country making its best efforts despite the difficult circumstances.

8. The Ministry of Finance and Economic Development, is building capacity within its internal audit function to enable it to audit debt management systems. We are encouraged that capacity is strengthening and for the first time our back office was audited in February 2016, and efforts are underway to audit the middle and front offices of our debt management.

9. We are taking steps to post our back-ups electronically at the disaster recovery site. We now have full back-ups of all loan guarantees at the site and we have very elaborate procedures for approval of loan guarantees. We have developed detailed operational risk management plan and disaster recovery procedures. These and other documents will be cleared at the inaugural meeting of the External and Domestic Debt Management Committee which will be convened soon,

10. In conclusion, at the time of the 2015 Assessment mission, no aspects pertaining to our legal framework, implementation practices and systems had regressed or deteriorated from the previous assessment. Instead, we registered great improvement in all these aspects, comparatively. As such, and notwithstanding the change in your methodology, we are surprised by your downgrades from the previous assessment and we hope that you can revisit your current ratings to reflect the situation on the ground before finalizing the report.

/Signature/
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Acting Secretary for Finance and Economic Development