

Public Debt Management Regulations, 2019

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IT is hereby notified that the Minister of Finance and Economic Development has, in terms of section 38 of the Public Debt Management Act [Chapter 22:21], made the following regulations: —

*Title*

1. These regulations may be cited as the Public Debt Management Regulations, 2019.

*Interpretation*

2. In these regulations —

“External and Domestic Debt Committee” or “EDDC” means the Committee constituted in terms of section 7 of the Act;

“on-lending” means when an organisation lends money that they have borrowed from another organisation or person;

“Medium Term Debt Strategy report” means a report based on the strategy made in terms of section 9 of the Act;

“Minister” means the Minister responsible for Finance;

“Secretariat” means the Public Debt Management Office in its function as secretariat to the EDDC in terms of section 7 of the Act.

*Operations and procedures for the External and Domestic Debt Committee (EDDC)*

3. In performing the functions in terms of section 7 of the Act, the EDDC shall consider the following reports —

- (a) Medium Term Debt Strategy Report;
- (b) Debt Sustainability Analysis Report;
- (c) Annual Borrowing Plan;
- (d) Issuance Calendar;
- (e) Debt Portfolio and Risk Analysis Report;
- (f) Public Debt Statistical Bulletin;
- (g) Bi-annual Parliament Reports; and
- (h) any other report as maybe required.

*Technical EDDC working party*

4. (1) The EDDC shall be aided by a technical EDDC working party, which shall be chaired by the Public Debt Management Office.

(2) The mandate of the EDDC working party is to advise the EDDC on all issues related to debt management operations and undertake any other assignments as may be requested by the EDDC and the Minister.

(3) The functions of the EDDC working party shall be to—

- (a) review all borrowing, securities, guarantee and on-lending proposal and recommend to the EDDC; and
- (b) review negotiation strategy on all loans, securities, guarantees and on-lending requests; and
- (c) review the following reports before submission to EDDC—
  - (i) Medium Term Debt Strategy Report;
  - (ii) Debt Sustainability Analysis Report;
  - (iii) Annual Borrowing Plan;
  - (iv) Issuance Calendar;
  - (v) Debt Portfolio and Risk Analysis Report;
  - (vi) Public Debt Statistical Bulletin;
  - (vii) Bi-annual Public Debt Report to Parliament; and
  - (viii) any other reports or documents related to debt management.

(4) The members of the technical EDDC working party shall consist of members from the following departments and offices—

- (a) the Public Debt Management Office, who shall be the chair;
- (b) Accountant General's Office;
- (c) Financial and Capital Markets;
- (d) International Cooperation;
- (e) Fiscal Policy and Advisory Services;
- (f) budgets;

- (g) revenue;
- (h) Public Sector Investment Programmes;
- (i) Legal Services Department;
- (j) the Financial Markets Division; Exchange Control Division; and Economic Research Division of the Reserve Bank of Zimbabwe; and
- (k) the Civil, Legal Advice and Legislative Drafting Divisions of the Attorney General's Office.

(5) The members from the Public Debt Management Office shall perform the duties of the secretariat to the technical EDDC working party.

(6) The technical EDDC working party may invite any other person or persons, whose expertise may be required, to attend any meeting of the Working Party and to take part in the deliberations of the meeting.

(7) The working party shall meet at least monthly or as and when required.

(8) A Quorum shall comprise of two-thirds of the members of the working party.

(9) The Minister shall seek nominations from the departments listed in subsection (4) and *Gazette* the names of the officers who will consist the technical EDDC working party.

(10) Members appointed in terms of subsection (4) shall hold office for a renewable period of three years.

*Guidelines for raising loans, securities and issuing guarantees*

5. (1) Any line ministry or public entity that intends to benefit from borrowed resources in the form of a loan, security or guarantee shall be required to submit to Treasury, their annual borrowing plan for inclusion into the National Budget and Government's Annual Borrowing Plan before the initiation of the Budget formulation process in line with priorities in the National Development Plan and those provided for in section 12 of the Act.

(2) All borrowings for the following fiscal year, external or domestic, referred to in subsection (1), shall be submitted to the Public Sector Investment Programs and the Public Debt Management Office in July or mid-fiscal year for approval by the EDDC.

(3) Any proposal or project request for a loan, security or guarantee submitted by any public entity and local authority shall be submitted with approval by their respective line Ministers.

(4) All borrowing requests in terms of this section, shall be accompanied with relevant documentation which shall include the following—

- (a) application for the borrowing;
- (b) feasibility study or viability report;
- (c) audited annual financial statements for at least three years;
- (d) projected cash flows impact arising from the project;
- (e) repayment plan;
- (f) own contribution where applicable;
- (g) project implementation schedule;
- (h) Board resolution;
- (i) approval by the relevant Minister;
- (j) such other information as may be required.

(5) Upon receipt of relevant documents, the Chairperson shall convene a technical EDDC working party meeting to analyse requests or proposals and make recommendations to the EDDC.

(6) Assessments to be made in terms of subsection (5) shall be done and concluded three months (in August or September of each year) prior to the announcement of the National Budget.

(7) The technical EDDC working party, shall before any recommendation for contracting a new loan is submitted to the EDDC, ensure that—

- (a) assessment is based on project priorities outlined in the country's economic development plan;

- (b) the final approved loans and guarantees do not exceed the annual borrowing ceiling for that fiscal year consistent with the Medium Term Debt Strategy and borrowing plan;
- (c) the overall increase in debt is in line with the total Debt Sustainability Analysis parameters and in accordance with the provisions of the Act.

(8) The Chairperson shall convene a meeting of the EDDC in order to discuss the proposals and recommendations as submitted by the technical EDDC working party and thereafter the EDDC shall recommend to the Minister.

*General principles for guarantees and on-lending*

6. (1) For any guarantee or on-lending that shall be issued in accordance with section 20 of the Act, the following conditions shall apply—

- (a) that the public entity for whose benefit such guarantee or on-lending is given, demonstrates to the satisfaction of the Minister, that the project is viable and it has provided proof of other resources to cover the loan in the event of default;
- (b) that in the case of default, the guaranteed or on-lending terms and conditions shall apply.

(2) The following risks shall not be covered by the guarantee—

- (i) imposition of restrictions by the government of a lender country or any government action, which may block or cause the delay of transfer of payment made by the borrower;
- (ii) war, revolution or civil disturbances in a lender country;
- (iii) exchange rate fluctuations;
- (iv) failure by the borrower to fulfil terms of a loan agreement due to a lender's inability to disburse funds on agreed terms;
- (v) causes inherent in the nature of goods e.g. perishables;

- (vi) loss or damage to goods, occasioned by events of *force majeure*, which can be covered by general insurers; and
- (vii) procurement and delivery of obsolete equipment.

(3) Notwithstanding these regulations relating to conditions for on-lending well as issuance of guarantees the Minister may, in exercising his or her powers under the Act, impose any other conditions or requirements that are of national interest.

*Assumption of the guarantee in case of default*

7. (1) Any event of default by the borrower shall be reported by the lender to the guarantor within 60 days from the date of establishment of the default.

(2) The guarantor shall honour the default claim after the Public Debt Management Office has assessed the circumstances of the default and is satisfied with the extent of due diligence exercised by the borrower.

(3) The beneficiaries of guarantees shall reimburse Government, all costs (principal, interest, penalties, expenses, fees) incurred by Government in case of default.

*Procedure for debt assumption*

8. (1) Before an assumption of debt is considered an assessment and due diligence on the circumstances of default must be conducted in conjunction with the responsible Ministry.

(2) The Minister responsible for the public entity shall get Cabinet approval for the debt assumption.

(3) The Minister responsible for the public entity shall submit a request to the Ministry of Finance for the debt assumption.

(4) The Ministry of Finance shall draft the principles of a Bill and submit to the Office of the Attorney-General for due process until enactment.

*Issuance of guarantees*

9. (1) In Issuing guarantees—

- (a) the EDDC shall recommend limits on guarantees (including portfolio limits, sector limits, entity specific limits based on risk assessment) to the Minister;
- (b) the National Assembly will approve limits on guarantees upon recommendations from the Minister;
- (c) the Public Debt Management Office will carry out cost-benefit analysis of issuing a guarantee or on-lending and advise on the preferred option;
- (d) beneficiaries shall provide the following—
  - (i) proposed term sheets;
  - (ii) audited annual financial statements for at least previous three years;
  - (iii) projected cash flows, including the impact of the guaranteed loan;
  - (iv) feasibility studies on projects to be funded with the loan;
  - (v) Board/council resolutions;
  - (vi) approval from the line ministry where applicable.

(2) During the life of the guarantee, the project shall be subjected to—

- (a) annual internal and external audits;
- (b) monitoring by independent consultants where applicable depending on the nature and magnitude of the project;
- (c) monitoring and evaluation done jointly by the line ministry and the Ministry of Finance.

(3) Beneficiaries of a debt shall provide relevant information on use of funds, disbursements, accounting, and degree of implementation of the project financed, and conduct regular consultations with Public Debt Management Office.

(4) Treasury shall charge fees on all guarantees based on the risk scale of each entity.

(5) Public Debt Management Office shall monitor the performance of guarantees, advising and ensuring that beneficiaries repay guaranteed loans.

(6) The beneficiaries of guarantees shall reimburse Government, all costs (principal, interest, penalties, expenses, fees) incurred by Government in case of default.

*On-lending*

10. (1) The Government will extend on-lending funding to promote projects that are of national priority.

(2) The EDDC shall recommend on-lending limits (including portfolio limits, sector limits, entity specific limits based on risk assessment) to the Minister.

(3) The National Assembly will approve limits on on-lending upon recommendations from the Minister.

(4) Public Debt Management Office shall perform a cost-benefit analysis of beneficiaries on on-lending in liaison with the Accountant-General.

(5) Where on-lending is to be provided beneficiaries shall provide following—

- (a) audited annual financial statements for at least previous three years;
- (b) projected cash flows, including the impact of the on-lent loan;
- (c) feasibility studies on projects to be funded with the loan;
- (d) Board or council resolutions;
- (e) approval from the line ministry where applicable.

(6) During the life of the on-lending, the project shall be subjected to annual internal and external audits, monitored by independent consultants, and monitoring and evaluation done jointly by the line ministry and the lender.

(7) On-Lending may be extended at adjusted terms and conditions (including an on-lending fee, adjusted term sheets from the original lender, e.t.c).

(8) Beneficiaries shall provide relevant information on use of funds, accounting, and degree of implementation of the project financed.



(9) The beneficiaries of on-lending shall reimburse Government, all costs (principal, interest, penalties, expenses, fees) incurred by Government in case of default.

*Borrowing power certificate*

11. (1) Before issuing borrowing powers to public entities that are to promote projects that are of national priority, beneficiaries shall provide—

- (a) proposed term sheet;
- (b) audited annual financial statements for at least previous three years;
- (c) projected cash flows, including the impact of the loan;
- (d) Board or council resolutions;
- (e) approval from the line ministry.

(2) The beneficiaries shall provide the relevant information on use of funds, accounting, and degree of implementation of the project financed.

(3) Signed loan agreements shall be submitted to the Public Debt Management Office within 10 days after concluding a loan agreement.

*Public Debt Management Office*

12. The Public Debt Management Office is the principal agent in charge of undertaking debt management activities in Zimbabwe. The Debt Management Office functions shall be undertaken by the Front, Middle and Back Office in liaison with other departments in the Ministry as well as the Attorney-General's Office, Auditor-General and the Reserve Bank of Zimbabwe and in coordination with line ministries, public entities and other stakeholders.

*Front Office*

13. (1) The Front Office shall be responsible for mobilisation of resources (both external and domestic), which include contracting loans, on-lending, issuing guarantees, treasury bills, bonds, other government securities and other operations related to debt contraction.

- (2) The specific functions shall be to—
- (a) prepare and publish an issuance calendar of Government securities in line with the annual borrowing plan;
  - (b) initiate and participate in all negotiations with creditors in the contraction of public and publicly guaranteed debt;
  - (c) process any documentation relating to domestic and external loans, guarantees, on-lending, borrowing power certificates and any commitment agreements for approval by the Minister;
  - (d) offer advice on government policy initiatives to foster the development of primary and secondary domestic debt markets;
  - (e) ensure that all conditions precedent for a loan effectiveness are met;
  - (f) participate in the debt re-negotiation, debt re-structuring of external loans;
  - (g) continuous monitoring and reporting of market conditions, including analysis of the potential investor base;
  - (h) managing investor relations;
  - (i) continuously reviewing projections of funding needs (in liason with the middle office or budgets or fiscal unit) and giving input on implications for a funding strategy.
  - (j) development of new debt instrument(s); and
  - (k) communicating with the issuing agent for government securities.

*Middle Office*

14.(1) The Middle Office shall be responsible for all the analytical, reporting and risk management functions of debt management that enable government to meet its financing needs and its debt service obligations, at the lowest possible cost, with a prudent degree of risk exposure, as well as development of the domestic debt market. It also monitors compliance of Public Debt Management Office and public entities' performance on the chosen strategy and risk and cost limits.

- (2) The specific functions shall be—
- (a) debt strategy and policy making—
    - (i) develop the Annual Borrowing Plan that is consistent with the MTDS in liaison with the front office;
    - (ii) develop policies for management of other risks with fiscal implications;
    - (iii) participate and support development of the DSA;
    - (iv) formulate policies for debt management, on-lending, government guarantees, other contingent liabilities;
    - (v) prepare guidance debt-issuance;
    - (vi) analysis on the suitability of new products (instruments); and
    - (vii) conduct debt management research.
  - (b) portfolio risk monitoring and analysis—
    - (i) develop and monitor cost and risk indicators of the debt portfolio in liaison with the macro-fiscal units;
    - (ii) monitor, review and report performance against the MTDS targets and annual borrowing plan;
    - (iii) monitor and assess contingent liabilities and other government balance sheet exposures, and compare with policy and guidelines established for these potential liabilities;
    - (iv) participate in developing policy on liability management;
    - (v) provide the secretariat function for the EDDC;
    - (vi) recommend borrowing limits for public entities, taking into account their risk profile and borrowing plans;
    - (vii) undertake Risk Assessment through Debt Portfolio and Sensitivity Analyses;

- (viii) assessment, analysis and monitoring performance of guarantees and On-lending, including proposals in the determination of risk-based fees;
- (c) reporting—
  - (i) coordinate and clear all external communications;
  - (ii) publish the MTDS and ABP;
  - (iii) publish information on the external and domestic government debt position and debt servicing costs on a regular basis;
  - (iv) report on changes in outstanding guarantees;
  - (v) develop debt bulletins;
  - (vi) produce biannual reports to Parliament;
  - (vii) produce an annual review of activity and progress against objectives;
  - (viii) develop and manage relationships with Rating Agencies and coordinate with all Government line ministries and agencies;
  - (ix) develop and maintain an investor relations program, in coordination with the Front Office.
- (d) Control measures and managing operational risk—
  - (i) develop and maintain an operational risk management framework;
  - (ii) set limits and controls for domestic and external debt management operations;
  - (iii) ensure compliance of public debt management policies and limits;
  - (iv) maintain a register on operational risks.

*Back Office*

15. (1) The Back Office shall be responsible for maintaining a comprehensive debt database that is complete, accurate and consistent.

(2) The specific functions shall be—

- (a) debt recording and disbursement—
  - (i) recording of all loan agreements;
  - (ii) store copies of all loan agreements and other debt related documents;
  - (iii) recording of all called-up guarantees and on-lending;
  - (iv) recording and monitoring of loans, on-lending and guarantees;
  - (v) manage Service Level Agreement with the RBZ on debt related transactions;
  - (vi) keep timely, comprehensive and accurate records of outstanding public debt, guarantees and on-lending, in a computerised database;
  - (vii) validate and reconcile debt data as per the data validation calendar;
  - (viii) compile, verify and report on all public and publicly guaranteed debt;
  - (ix) prepare forecasts on public and publicly guaranteed disbursements;
  - (x) initiate and request for disbursements and on-lending, and follow-up disbursement applications and advices;
  
- (b) debt settlement—
  - (i) compile data on all debt servicing obligations of the Government, local authorities and public entities;
  - (ii) produce maturity profile of all existing debt for different stakeholders;
  - (iii) monitor repayments from called-up guarantees and on-lending, in liaison with Accountant-General;
  - (iv) validate and reconcile debt data as per the data validation and reconciliation calendar;
  - (v) prepare forecasts on public and publicly guaranteed debt servicing;

- (vi) Initiate debt servicing;
- (c) IT Services—
  - (i) maintain and administer a secure computerised debt management information system;
  - (ii) manage back-ups and disaster recovery;
  - (iii) manage interface and integration of debt management system with other information systems; and
  - (iv) maintenance of debt management ICT infrastructure.

*Monitoring and reporting of loans*

16. (1) Public Debt Management Office in liaison with other monitoring and evaluation units shall monitor and evaluate the implementation of debt funded projects.

(2) For the purpose of monitoring disbursements and utilisation of loans, as provided for in section 5(n) of the Act, the Project Managers of respective line ministries shall be required to submit monthly reports to the Public Debt Management Office, on the following—

- (a) actual and projected loan disbursement;
- (b) utilisation of loans, by item;
- (c) repayment status for loans and guarantees;
- (d) impact assessment and performance against targets, successes, challenges identified, and corrective measures taken.

(3) The Public Debt Management Office in liaison with the line ministry and other relevant departments shall carry out spot or physical checks on all debt funded projects.

(4) The EDDC Working Party shall review and submit the consolidated report on disbursement and utilisation to the EDDC semi-annually.

*Reporting requirements on public debt*

17. (1) The Minister shall furnish the Parliament and other stakeholders, at least twice a year with a report on Government debt management activities, including guarantees and lending in accordance with section 36 of the Act.

(2) The Office shall prepare and produce, for the Minister, EDDC, the public and other stakeholders the following reports—

- (a) a statement of the amounts outstanding at the end of each year in respect of public debt;
- (b) a statement of the amount guaranteed (explicit contingent liabilities) and on-lending by the Government at the end of the financial year in respect of domestic and external debt;
- (c) statement of implicit contingent liabilities;
- (d) total public debt statements on quarterly, semi-annual and annual basis, which shall include inventory of all public sector liabilities, domestic and external debt and any contingent liabilities and on-lending including related assets on both flows and stocks;
- (e) assets associated with debts;
- (f) external and domestic arrears;
- (g) annual Public Debt Statement (PDS), First Schedule to the Blue Book;
- (h) annual Borrowing Plan. The report shall reflect the borrowing needs and ceiling for particular year, by instrument and source;
- (i) issuance calendar;
- (j) annual Debt Sustainability Analysis in liaison with Fiscal Advisory;
- (k) Medium Term Debt Strategy report and review, including monitoring and implementation progress;
- (l) annual Debt Portfolio Review;
- (m) loans contracted on quarterly, semi-annual and annual basis;

- (n) projected disbursements, debt service and commitments in respect of loans on quarterly, semi-annual and annual basis; and
- (o) any other reports as may be necessary.

*Interpretation*

18. (1) In this part—

“Sinking Fund” means a separate account made up of segregated contributions by the Government to accumulate funds for the redemption of public debt.

(2) The primary objective of the Fund is to eventually extinguish Government debt in a prudent and orderly manner, and it is also meant to inspire confidence and supporting the market for Government securities.

*Establishment and composition*

19. (1) For the purpose of the Act, the Minister shall cause the establishment of a Trust, which shall be charged with the general control of all Sinking Fund moneys.

(2) The Trust, subject to the Act, shall decide when and how the moneys shall be invested or used for the redemption of public debt.

(3) The Trust shall be a body corporate with perpetual succession and capable of suing and being sued in its name.

(4) The Minister, when constituting the Trust, shall ensure a balanced representation by persons with the following professional backgrounds—

- (a) a registered legal practitioner in terms of the Legal Practitioners Act [*Chapter 27:07*], and includes a sitting or retired judge;
- (b) an accountant registered in terms of Public Accountants and Auditors Act [*Chapter 27:12*];
- (c) an investment banker;
- (d) an economist or person with expertise in finance.



(5) The Minister shall be the chairperson of the Trust.

(6) In the case of illness or absence of a trustee, the Minister may appoint a qualified person to act during the illness or absence, as the case maybe, and the person so acting shall have all the powers necessary to perform the duties of a trustee.

(7) At any meeting of the Trust, four trustees will form a quorum.

(8) The meetings of the Trust will be held on quarterly or as necessary.

*Fund managers*

20. (1) The Trustees in consultation with the Minister shall delegate the management of the Fund to a fund manager:

Provided that the funds will be invested only in securities prescribed in the Act.

(2) The fund manager is responsible for safeguarding and investing the funds in the Sinking fund.

(3) The following institutions will be considered as fund managers—

- (a) Reserve Bank of Zimbabwe;
- (b) International Financial Institutions (PTA Bank, Afreximbank, World Bank, AFDB).

*Reporting requirements*

21. (1) The Fund Manager shall submit to the Trustee a monthly report on the status of the Fund.

(2) The report shall include—

- (a) the to-date balance of the fund; and
- (b) its composition; and
- (c) income earned for the period; and
- (d) a reasonable forecast for the various financial instruments into which fund has been placed; and

(e) the fund manager's recommendations or proposals regarding the fund.

(3) In its evaluation of the report, the Trustee ascertain the degree of risk that the sinking fund is exposed to and prescribe the appropriate corrective actions.

(4) The Trustee shall conduct an annual evaluation of the investment plan and performance of the Fund Manager and may introduce amendments to or revisions of the plan.