



*Investing in People for Social and Economic Justice*

## **Opinion Paper on Zimbabwe's RBZ Farm Mechanisation Scheme and its Contribution to the Public Debt Burden**

Over the last two decades, Zimbabwe has experienced several unprecedented socio-economic and political shocks and stresses. Consistent shortages of food, pharmaceuticals, fuel, run-away year-on-year inflation rate of 737.26% (June 2020), a 95% unemployment rate and poverty are some of the indicators of Zimbabwe's current macroeconomic crisis. With an estimated domestic debt burden of ZWL\$12.89 billion (Mid-term budget review: 2020), Zimbabwe's ballooning public debt has been the principal cause of the socio-economic woes that the country; down to household level; is battling with. To add on to the country's woes the government has over the years assumed various debts including those incurred when the Reserve Bank of Zimbabwe (RBZ) embarked on the Farm Mechanisation Scheme which arguably benefited the rich and political elites at the expense of the poor who have to pay as tax payers after the government assumed those loans. The discussions on Zimbabwe's economy are therefore intricately linked with the debt question which this paper seeks to explore.

### **Background to the Farm Mechanisation Scheme**

For a country that was known as the breadbasket of Southern Africa, food production in Zimbabwe has remained below subsistence levels since 2000. Agriculture has been at the heart of the Zimbabwean economy for centuries and remains a critical factor in ensuring food self-sufficiency. The Farm Mechanisation Scheme was championed by the then Governor of the Reserve Bank of Zimbabwe, Dr. Gideon Gono who oversaw the implementation of the program which targeted the newly-resettled farmers. The farmers got assistance in the form of farm implements provided on a rent-to-buy basis<sup>1</sup>. The US\$200million programme was however opaque and did not produce expected results as it benefitted the minority few. Dr. Alex Magaisa<sup>2</sup> notes that *"at that time, there were criticisms of the elitist and nepotistic nature of the scheme. However, the identity of the beneficiaries was not known. The RBZ refused to disclose this information so it remained a closely guarded secret. However, it soon emerged that beneficiaries had defaulted on their loans. They had taken delivery of the equipment and used it but they were not paying back the loans."* The recent revelations on the farm mechanisation scheme by such whistle-blowers uncovered hidden issue on how a significant number of the senior political

<sup>1</sup> [https://www.pindula.co.zw/Farm\\_Mechanisation\\_Scheme\\_2007](https://www.pindula.co.zw/Farm_Mechanisation_Scheme_2007)

<sup>2</sup> <https://www.bigsr.co.uk/single-post/2020/07/18/BSR-EXCLUSIVE-Beneficiaries-of-the-RBZ-Farm-Mechanisation-Scheme>

elites, and other politically connected people including Justice Ben Hlatshwayo, Justice Vernanda Ziyambi, Retired Commissioner Augustine Chihuri, the late Retired Air Chief Marshall Perrence Shiri, former ministers - Dr David Pairenyatwa, Dr Obadiah Moyo, General Constantino Chiwenga, Bright Matonga and Lazarus Dokora among others, benefitted by getting or giving themselves irrigation equipment, brand new tractors, combine harvesters and implements. As it became evident that the loans given for the scheme would not be repaid, Members of Parliament voted that they be written off, a position that this paper is interrogating. This case is illustrative of how grand political corruption has thrived in Zimbabwe and caused the ballooning of Zimbabwe's debt thereby depriving the ordinary citizens of Zimbabwe of basic social services such as health, water and education as the government continues to shrink its fiscal space and squeeze the tax payers to raise revenue for debt repayments.

### **Contribution of the RBZ Farm Mechanisation Scheme to the Debt Burden**

The RBZ Debt Assumption Act was signed into law on 27 July 2015 with government taking liability of an estimated \$1,35billion debt incurred by the RBZ before 31 December 2008. The Minister of Finance and Economic Development on behalf of the State, assumed the responsibility for the discharge of outstanding obligation of the RBZ, as codified in section 4 of the RBZ Debt Assumption Act. Of concern was the level of unaccountability as the Central Bank and government refused to disclose the debtors who owed US\$1,35billion, a debt which unfortunately has been inherited by the ordinary taxpayer. This public secret has been exposed 13 years later by Dr Magaisa who revealed that the beneficiaries of the mechanisation scheme include the ruling elites, the big fish and politicians who accessed expensive farm equipment without paying a dime for them. Malaba (2018) had noted earlier on that a huge chunk of public debt in Zimbabwe is a result of high-level corruption and bad governance as illustrated by the offloading of elitist debts onto the shoulders of taxpayers whose contributions constitute over 95% of the government's revenue. For a population of over 14.8million<sup>3</sup>, Zimbabweans have inherited a debt of USD\$13.4 thousand/ per capita from the farm mechanization scheme alone. The assumption of the RBZ debt by the government saw a jump in the total public domestic debt from US\$1,124 million in 2013 to US\$1,960 million in 2015, (IMF, 2016).

### **Socioeconomic implications of the RBZ Farm Mechanisation Scandal**

The RBZ farm mechanisation scheme was a conduit for corruption further plunging Zimbabwe in a debt crisis. Burdened by debt, Zimbabwe is increasingly unable to guarantee the rights of its citizens. The implication of this is that allocations towards social protection sectors are short changed thereby affecting service delivery and ultimately social and economic rights as enshrined in Section 4 of the Constitution. In a country bedevilled by the regressive nature of its taxation systems where the poor contribute more in tax revenue than the rich, laws such as the RBZ Debt assumption Act are seen to exacerbate socioeconomic injustices and further widen the inequality gap by pushing for the accumulation of wealth by the elite at the expense of the poor. It is worrisome to note how citizens have paid a heavy price for farm

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<sup>3</sup> <https://www.worldometers.info/world-population/zimbabwe-population/>

mechanisation scheme and the overall unsustainable debt management as evidenced by the deplorable state of service delivery:

- Poorly resourced public hospitals which have turned into death traps. No drugs and health workers protesting for better conditions of service. People living with HIV/AIDS are failing to access the critical drugs they need to sustain life.
- In the wake of COVID-19, the health sector has remained underfunded with limited testing capacity, shortage of PPEs, under resourced quarantine centres, underpaid and unmotivated health professionals. Frontline workers and the majority of the citizens remain exposed to the risk of contracting the novel virus.
- The right to access basic healthcare and the right to life are under threat as the government fails to deliver constitutionally guaranteed rights.
- Incapacitated education sector, in the context of the COVID-19 imposed online learning and lack of capacity to continuously disinfect learning institutions to safeguard teaching staff and students.
- High unemployment rate at about 95% and the country's incapacitation to adequately support the informal sector in light of the COVID-19 imposed restrictions.
- Rising food insecurity with the government failing to adequately cushion the poor and vulnerable through cash relief grants.
- Water and sanitation remains a nightmare in most urban settings such as Harare, Bulawayo, Gweru and Mutare further compromising citizens' right to health.

### **Public Opinion on the Farm Mechanisation Scheme Scandal**

ZIMCODD conducted an opinion poll survey<sup>4</sup> to gather public perception on the RBZ farm mechanisation scheme scandal. The specific question was “after the breaking of the Farm Mechanisation Scheme scandal, should Political Elites that benefitted pay back the money? From the survey in which 2722 people participated, 97% of the respondents were of the opinion that the beneficiaries of the farm mechanisation scheme should pay back the money. The responses boarder around the centrality of accountability in the economic governance framework, the manner in which the government is accumulating domestic debt and use of the law to conceal malpractices at the highest level. Citizens interrogated how the government assumed a debt without consulting the taxpayers; questioned why citizens are being made to pay for what they did not benefit from especially when the beneficiaries are capable; were concerned about how the debt has exacerbated poverty and robbed citizens of constitutionally guaranteed rights to health and education; and demanded that those who owe should pay back to the government to improve its service delivery. Below are excerpts from the citizens' responses to the poll survey:

- *The law was broken to create a broken law. You cannot borrow 2day and coz u are an MP, 2moro u run 2 Parliament to craft a law that shields you from paying back!*
- *It is morally and fundamentally wrong to reward political elites and shove the debt to the taxpayer. They should pay back if we are to make progress as a nation.*
- *The Zim government is a delinquent creditor with no debt absorption capacity. Having failed to meet its debt obligations since early 2000. On what basis then would a senile governor and treasury base the debt assumption decision?*
- *They are not being productive, we have shortages of mealie meal; Poor people are paying tax, I mean we can't be poor and pay for elites loans; because the scheme didn't benefit the general populace;*

<sup>4</sup> <https://twitter.com/ZIMCODD1/status/1285514701695311881>

*Government cannot assume a debt without consulting the taxpayer that's corruption also after a period of 5 or more years without paying a cent government cannot be used as a looting strategy.*

- *They should pay back the money. That is pure looting however way they may try to explain/cover it up. It's evil for government to steal from poor citizens, especially when one considers the hardships of 2007&2008. Each looter should pay!!*
- *The government cannot absorb a debt that will be paid by citizens through taxes when the people who took the loan are able to pay, this makes the word accountability in governance meaningless.*
- *They should pay back to resuscitate our health care system as well improving the livelihoods of the general populace. That money could also be used to pay our domestic and international debts. IMF and other. Tax payers money was abused. It has to be paid back.*
- *Why should struggling tax payers pay for their luxuries it is only fair they pay back the money to be used to fund health education and social services and build infrastructure that will help with developing the nation. #PayBackTheMoney*
- *They should pay back the loans those are public funds .To begin with, The Rbz doesn't have its own money that is tax payers money and to think Gono stated that they weren't required to pay back is even more sickening. Giving out freebies????*

## **Key Concerns**

ZIMCODD is greatly concerned with the devastating macroeconomic effects emerging from the debt which the government took over through the RBZ Debt Assumption Act of 2015. ZIMCODD is equally concerned about the continued violation of the constitution on the oversight role of Parliament on setting limits of State Borrowings, Public Debt and State guarantees which includes both domestic and external debts. In March 2015, ZIMCODD and other CSOs<sup>5</sup> petitioned the Parliament of Zimbabwe expressing worry over assuming a debt without full disclosure on how this debt was accrued and whether the majority poor were not going to fund the luxuries of the privileged few. When the petition was presented, it sought to implore the National Assembly to:

- Reject the Reserve Bank (Debt Assumption) Bill;*
- Set-up a Public Debt Commission;*
- Recommend that the RBZ liquidate its non-core assets to pay off the portion of the debt that was incurred for the public good;*
- Recommend that individuals who benefited privately from the debt pay off the relevant portion of the debt; and*
- Enact a law that sets limits on borrowings by the state, the public debt and debts and obligations whose payment or repayment is guaranteed by the state as prescribed by Section 300 of the Constitution.*

ZIMCODD and its membership actively took part in the Public Hearings vehemently rejecting the RBZ debt assumption bill and made its submissions to the portfolio Committee on Finance and Economic Development. It became apparent that the majority were sceptical of the proposed bill however, this was totally disregarded. The committee on the other hand,

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<sup>5</sup> The African Forum and Network on Debt and Development (AFRODAD), the Zimbabwe Environmental Law Association (ZELA), the Zimbabwe Lawyers for Human Rights (ZLHR), the National Youth Development Trust (NYDT), and Combined Harare Residents Association (CHRA).

supported the Bill because of the effect it would have on the functions the Central Bank in carrying out its core business.

Over and above the concerns registered in 2015, ZIMCODD raises the following key concerns:

- ❖ It was ill-informed for the government to **take over the RBZ debt without demanding that the beneficiaries' payback the loans.**
- ❖ **Debt assumption without a comprehensive debt audit** perpetuates corruption and rent seeking behaviour while violating social and economic rights.
- ❖ The RBZ Debt Assumption Act translated to **an extra financial burden on tax payers' money which was then diverted from funding public services** such as education, healthcare, food, water and sanitation (guaranteed by the constitution in sections 75, 76 and 77) among other public sector investments.
- ❖ **A breach of the social contract between the state and its citizens** where legislators, in passing the RBZ Debt Assumption Bill, overlooked their oversight and representative role in favor of their own interests and not of the people. The whipping system in Parliament also ensures that MPs act as instructed by their political parties as opposed to what is objectively right. Against principles of good governance, the then Speaker of Parliament allowed MPs who benefitted from the farm mechanisation scheme to vote for the passage of the RBZ Debt Assumption Bill.
- ❖ The **lack of debt transparency and accountability** by the state is worrying with questions being raised as to whose interests the state represents when guaranteeing debts. The current Minister of Finance and Economic Development has not been complying with debt reporting obligations as he has failed to present, monthly, quarterly and annual reports on loans and guarantees to the National Assembly as required by Section 30 of the Public Debt Management Act<sup>6</sup>. Non-compliance with the law has glorified the misgovernance by the politicians, justified the opaque nature of debt management and how the poor are made to pay for what they do not owe.
- ❖ The assumption of debts such as the RBZ Debt, and the state restructuring of legacy obligations among other factors have contributed to the **ballooning domestic debt** which stood at ZWL\$12.89billion as at end May 2020(Mid-term Budget review, 2020)
- ❖ The Auditor General has raised concerns around debt management in Zimbabwe. However, it is regrettable to note **the inaction on the part of the government from both the Executive and the Parliament to implement the recommendations of the Auditor General.** Resultantly, citizens have lost public trust in the public accountability institutions amid the high macroeconomic challenges perpetuated by the huge debt burden.

## KEY DEMANDS

ZIMCODD submits the following *key demands* to the Government of Zimbabwe:

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<sup>6</sup> First report of the public accounts committee on compliance issues for the Ministry of Finance and Economic Development first session – Ninth Parliament. Presented to Parliament in July, 2019

- 1) **Redress the farm mechanization debt injustice.** A debt audit should be the forerunner in redressing the farm mechanisation debt injustice. Commission an inquiry and investigate the circumstances under which the RBZ debt was accrued, the terms, the costs, the suppliers, validate the use of the loan against intended purpose and whether the RBZ was prudent in its lending. This should also entail a comprehensive social audit which will profile the social effects of debt and how citizens have been shouldering this debt burden in Zimbabwe. The Act must be further interrogated using an inclusive process which capture citizen's voices and a decision to repeal the Act should be taken if proved that it did not serve public interest. The beneficiaries of the farm mechanisation scheme should be brought to book and pay back the loans.
- 2) **Exercise Prudent Public Finance Management.** Good corporate governance measures must be put in place to ensure the country does not find itself in the same debt fiasco. Clear deterrent penalties and timelines should be enforced on those that owe and whose debts are guaranteed by the government. In cases of defaulting, the government must ensure that the money has been recovered and invested in national development projects and citizens must benefit from the recovered public funds. Strengthen public accountability institutions including the Zimbabwe Anti-corruption Commission, the National Prosecuting Authority and the office of the Auditor General which are key in curbing embezzlement of public resources.
- 3) **Debt sustainability and debt transparency.** Prior to any borrowing, the Minister of Finance and Economic Development must **ensure that it is in the public interest to do so** as guaranteed by law and the same rules should apply when the state assumes a debt. The Ministry of Finance and Economic Development must guarantee full disclosure of all relevant information regards loan agreements, debt repayments, debt management, outcomes of the public debt audit and other related matters.
- 4) **Parliament to revisit the RBZ Debt Assumption Act of 2015.** ZIMCODD is calling upon the Parliament of Zimbabwe to revisit the RBZ Debt Assumption Act as part of its oversight role towards the realization of transparency and accountability in the sustainable management of debt in Zimbabwe.

## Conclusion

Democratic governance and macro-economic stability are anchored on effective and efficient public resource management systems. As such, implementation of socioeconomic programmes such as the farm mechanisation scheme should be grounded in the principles of national development for all, equity and equality as enshrined in section 298 of the supreme constitution of Zimbabwe. When such programmes are guided by sound, transparent and accountable PFM systems they will be more effective and equitable. The RBZ Debt Assumption Act of 2015 was retrogressive as it shifted the debt burden from the debtors themselves to ordinary citizens thereby continuously milking the financially hamstrung taxpayer. Rectifying this anomaly is hinged on the government's commitment and political will to decisively deal with this scheme which added to the accumulation of unsustainable debt.

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