GLARING FINANCING GAP IN ZIMBABWE'S NATIONAL DEVELOPMENT STRATEGY 1

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Introduction

Zimbabwe's newly "minted" National Development Strategy 1 (NDS1) themed "Towards a Prosperous and Empowered Upper Middle-Income Society by 2030", sets an ambitious vision for the country's sustainable development path for the period 2021 to 2025. This new development agenda articulates the strategies, policies, and institutional reforms that seek to achieve socio-economic transformation aimed at propelling Zimbabwe to an upper-middle income status by 2030[1] . However, this analysis argues that the attainment of the targets of the NDS1 will be adversely affected by a glaring financing gap that has ostensibly become a permanent feature in the economic, social and development spheres in Zimbabwe.

A cursory perusal of the NDSI shows that the Government of Zimbabwe will require massive financial resources to underwrite the implementation of this new development plan. So far the Mnangagwa administration has placed its hope on loans, grants, public entities own resources and private sector finance such as public private partnerships (PPPs), foreign direct investment (FDI) and diaspora investments[2] . And yet, over the last two decades the Government has utterly failed to harness the same sources despite its stated policy on them. Moreover, the Government of Zimbabwe has perennially failed to substantially raise the fiscal revenue share of GDP, service it's ballooning public debt, and bridge the infrastructure financing deficits.

If the experiences of the past development blueprints including the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (2013-2018) and the recently expired Transitional Stabilisation Programme (2018-2020), are anything to go by, there is every reason to believe that the NDS1 is likely to suffer the same fate of financing deficit they faced unless there is a fundamental shift on resource mobilisation approaches by the Mnangagwa administration. Like its predecessors, the NDS1 has no accompanying development finance assessment (DFA) providing an overview of the current development finance flows that will support its implementation. In fact, the document is silent on the amount needed for the implementation of its priorities.

Out of the 332 pages of the NDS1 document, only one and half pages are dedicated to the financing component of the plan. This is a serious policy

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[1] See the National Development Strategy, 2021-2025, p.5
[2] Ibid. p.xvii

lacuna. This shows that only limited research has been undertaken to comprehensively and holistically analyse the factors that contribute to, and the constraints that limit, the mobilisation of non-debt creating development finance in Zimbabwe. Available evidence in literature has long revealed that mis-estimation of financing capabilities and financing needs can compromise the effective implementation of development plans. Sadly, this weakness is a visible bad birthmark on Zimbabwe's litany of development plans.

Against this backdrop, this analysis teases out the challenge of financing deficit that is embed in Zimbabwe's past and present development plans. The idea is to nudge Zimbabwe's financial authorities to urgently carry out a national development finance assessment to assess the quality and complementarity of different sources of financing, in terms of how individual flows align with national priorities and the coherence of policies across different flows which is clearly lacking in the NDS1 as currently structured. The analysis also seeks to encourage dialogue on the country's financing needs and to build momentum around reforms on domestic resource mobilisation and public finance management within the discursive context of the NDS1. The analysis concludes that the Mnangagwa government should focus on enhancing domestic resource mobilisation; building and strengthening the requisite institutional and policy space; ensure strict adherence to the rule of law; and eliminate rent seeking, political and elite capture in order to raise the requisite resources for its NDS1 as well as restore public confidence in Zimbabwe.

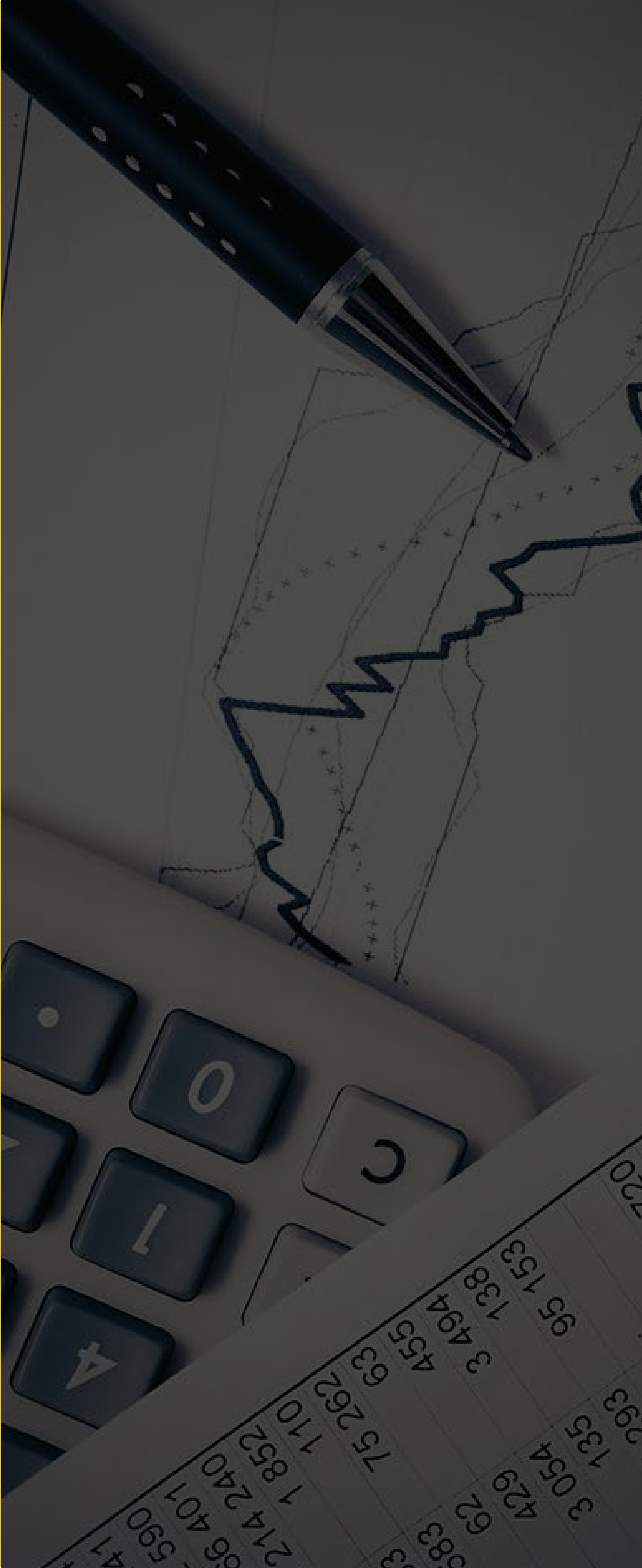
Contextualising the Analysis

There is little debate on the fact that Zimbabwe requires a significant boost to its development finance in order to meet the ambitious NDS1 goals and to achieve the long-term aim of reaching the upper middle-income status by 2030. As such, it will be argued here that the successful implementation of the NDS1 will hinge on the government's ability to mobilise sufficient, predictable, and timely financial resources. However, Zimbabwe is currently faced with chronic economic and financial woes that have become a permanent feature of the country's public finance management system. As previously mentioned, the country is characterised by infrastructure financing deficits, debt peonage, fiscal sustainability problems, and massive outbound illicit financial flows that have adversely affected the implementation of the previous development blueprints [3].

Furthermore, Zimbabwe has experienced the shrinking of international public finance including grants, concessional loans, official development assistance (ODA) and other official flows (OOFs) from the Euro-Western financiers, lenders, creditors, and investors largely because the country is a bad debtor. At the same time, Zimbabwe is reeling under the pressure of the punitive measures imposed on Harare due to the country's human rights and governance record. Consequently, Zimbabwe's access to external capital remains constrained due to the accumulation of external debt arrears, perceived high country risk and unfavourable investment climate [4]. To sustain itself, the country is currently relying on expensive commercial debt, resource-backed loans, and securitisation of export proceeds especially from China which has emerged as one of the key financier, lender and creditor of Zimbabwe in the last two decades. Not surprisingly, the Chinese lending has further worsened the country's debt sustainability indicators. More crucially, it has complicated Zimbabwe's negotiations with its Western creditors aimed to restore debt sustainability in this Southern African country[5].

Given the paucity of development finance in Zimbabwe, it is concerning that prior to the crafting of the NDS1 there was no attempt by Government to review the financing needs of its predecessor, the Transitional Stabilisation Programme (TSP), 2018-2020. Contrary to the Ministry of Finance and Economic Development's positive evaluation report of the TSP, by most indicators, this programme has failed to stabilise the economy, to provide jobs, and to resolve

[3] Odero, Walter. (2018). 2018 African Economic Outlook: Zimbabwe. African Development Bank.
[4] Also see Moyo, Gorden., Nhliziyo, Mbongeni., & Fayayo, Roderick. (2020). The Entanglement of Zimbabwe in the US China Geoeconomic Frictions: Defining Winners and Losers. iBusiness, 12, 81-102. https://doi.org/10.4236/ib.2020.123006
[5] AFRODAD & ZIMCODD (2020). Annual Debt Management Report for Zimbabwe 2020



water, power, and liquidity crises among its other targets.

It is therefore the argument of this analysis that the Government of Zimbabwe should carry out a more comprehensive development finance assessment as well as develop an integrated long-term financing strategy that would support the implementation of the NDS1 without accumulating further unsustainable public debt.

The following sections present a brief analysis of the development finance options proposed by the NDS1.

Mobilising Domestic Capital

The NDS1 identifies domestic resource mobilisation as a key financing alternative for Vision 2030. Indeed, domestic resource mobilisation is potentially the biggest source of long term financing for sustainable development given the fact that the country is richly endowed with wildlife, timber, fisheries, and mineral resources among others. Moreover, domestic resource mobilisation is a more stable and predictable revenue source for long-term fiscal planning compared to other sources including foreign direct investment and official development assistance [6]. In fact, a well-orchestrated domestic resource mobilisation strategy has the potential to reduce Zimbabwe's dependence on external flows, which are often highly volatile, uncertain, and unpredictable. Theoretically, domestic resource mobilisation will allow the Government of Zimbabwe greater flexibility in designing and controlling its development agenda; enhancing national ownership over development processes; and strengthening the bonds of accountability between the government and its citizens, assuming there was a will to do that [7].

Nevertheless, the performance of domestic revenue mobilisation has been perennially disappointing in Zimbabwe. Clearly, domestic capital is limited by structural factors such as low per capita income, large informal sector, large peasant agriculture and very small manufacturing and modern services implying very low effective tax base, as well as massive illicit financial outflows. Although, Zimbabwe has potential to raise more domestic resources for the implementation of the NDS1, the failure to carry out a development finance assessment which provides clear approaches, quantities, and quality of enhanced domestic resources mobilisation is the weakness of this strategy. Over the years, the Government of Zimbabwe has always committed itself to scaling up domestic capital resources but year after year the country has not addressed the bottlenecks that hamper effective domestic resource mobilisation. Today, a risk still remains that perennial issues such as illicit financial flows, rent seeking, excessive tax incentives, narrow tax base, and lack of fiscal contract as well as lack of political will act as impediments thereby hampering the implementation of the NDS1.

One of the most pernicious challenges of enhancing domestic resource mobilisation from the extractive sectors of the economy in Zimbabwe is the excessive granting of tax incentives especially to Chinese companies and other multinational corporations. For example, Government has reviewed downwards the royalty on diamonds from 15 percent to 10 percent [8]. While the NDS1 states that tax incentives will be revisited during the life of the new development plan, it is argued here that there is little chance for the Mnangagwa administration which is heavily dependent on Beijing for investment, trade, and finance to renegotiate the skewed deals with China. A number of these deals were fraudulently agreed without the oversight role of the Parliament as demanded by the law. Again, some of the Chinese investments in Zimbabwe are in partnership with the members of military hierarchy, senior members of the ruling party Zimbabwe African National Union- Patriotic Front (ZANU PF) while some involve the politically exposed persons . These institutions and individuals exert a lot of influence in the country hence anything that interferes with their personal and institutional advantages will not be readily permitted. By simple extrapolation, this means that Zimbabwe is unlikely to raise enough revenues from the mining sector.

The NDS1 also makes reference to the private sector financing. In fact, the NDS1 evinces a private sector led growth and economic transformation . Indeed, development finance literature shows that domestic private sector finance is an essential part of domestic economic growth, job creation, and economic prosperity. However, in the last two decades, private sector investment has remained weak largely because of the political environment in Zimbabwe. Most companies have closed, some are under judiciary management and some are insolvent and the majority of those that are still operating are undercapitalised. The outbreak of COVID-19 pandemic has further worsened the capacity utilisation levels in most industries and companies [11]. At the same time, Zimbabwe's private sector is highly informalised, underfinanced, underbanked and or unbanked. Against this backdrop, it is doubtful that the domestic private sector would be able to mobilise the necessary resources because it is itself in need of a financial rescue package. The US$360 million offered by Government as a COVID-19 stimulus package is yet to make any significant difference in the private sector revitalisation effort [12].

It is concerning to note that the NDS1 pins its hope on State Enterprises and Parastatals financial contributions. This analysis argues that the State Enterprises and Parastatal route would not be a solution to the financing needs

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[6] Moyo, Gorden. (2020). Domestic Resource Mobilisation and the Quest for Sustainable Alternative to External Debt in Zimbabwe, ZIMCODD: Harare http://zimcodd.org/wp-content/uploads/2020/06/Domestic-Resource-Mobilisation-and-the-Quest-for-Sustainable-Alternative.pdf

[7] UNECA (1999) The Challenges of Financing Development in Africa: Theme Paper. **https://www.uneca.org/cfm1999/pages/challenges-financing-development-africa-theme-paper**

[8] Business Weelky (2 December, 2020). https://www.ebusinessweekly.co.zw/mining-sector-incentives-to-promote-new-investment/

for the NDS1. Already these public entities are poorly governed, heavily indebted, and underperforming, and perhaps more importantly, they are the main drainers of the fiscus [13]. These entities need to be restructured in various ways before they can make a significant contribution towards the financing of the NDS1.

On a different note, it should be noted that illicit financial outflows represent the biggest challenge for the NDS1. The scale of illicit financial outflows, while difficult to measure appears to be much larger than is generally reported in the press. Illicit financial flows range from simple private individuals transfer of funds to private accounts abroad, to highly complex schemes involving sometimes criminal networks that set up multi-layered and multi-jurisdictional structures to hide ownership. Illicit financial flows also involve practices such as money laundering, bribery, tax evasion, mispricing, trade misinvoicing, drug trafficking, illegal arms dealing, and smuggling of contraband. It is estimated that Zimbabwe lost over US$32 billion to illicit financial flows through proceeds of crimes involving tax evasion, smuggling, corruption, fraud, drug trafficking and money laundering over the last two decades[14].

Recently, Zimbabwe Miners Federation President Henrietta Rushwaya was caught smuggling gold. Thus, the biggest challenge with regards to illicit financial flows is that they involve political exposed persons, government officials, senior ruling party leaders, and the members of the military hierarchy. Sadly, the family of President Emmerson Mnangagwa is always implicated in most of the allegations of financial crime and corruption in Zimbabwe. Moreover, despite the rhetoric that the Mnangagwa-administration is committed to fighting corruption, evidence actually indicates that corruption has increased during the short period of this 'Second Republic'. It therefore the argument of this analysis that without addressing the problems of illicit financial flows, corruption and financial crime, the priorities of the NDS1 will not be realised.

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[9] Moyo, Gorden. (2020). *Chinese Development Finance to Africa and the Spectre of Debt Distress*, in Samuel Oloruntoba (edt) (2020). 1st Edition, The Palgrave Handbook of African Political Economy, Springer International Publishing, ISBN-10:3033389219

[10] NDS1, pp.xii

[11] Moyo, Gorden. (2020). *Obstacles and Opportunities for Financing the Fight against Covid-19 Pandemic in a Debt Trapped Zimbabwe*, iBusiness 12, Volume 2, Scientific Research Publishing. ISSN Online: 2150-4083 ISSN Print: 2150-4075 https://www.researchgate.net/publication/342356779_Obstacles_and_Opportunities_for_Financing_the_Fight_against_Covid-19_in_the_Debt_Trapped_Zimbabwe

[12] Ibid

[13] *Moyo, G. (2016) The Curse of Military Commercialism in State Enterprises and Parastatals in Zimbabwe. Journal of Southern African Studies*, 2016 Vol. 42, No. 2, 351–364. http://www.tandfonline.com/action/journalInformation?journalCode=cjss20

Mobilising External Finance

The Government of Zimbabwe has also flagged foreign direct investment (FDI), public-private-partnerships (PPPs), and diaspora remittances as key sources of financing for the NDS1. Although these sources can contribute to employment generation, technology diffusion, economic growth and sustainable development, their contribution has remained notably small over the last two decades. For instance, it is difficult for the country to attract FDI because of the perception that investing in Zimbabwe is a high risk activity. The risk is rooted in a number of inter-related factors, which have given the country a negative image including lack of rule of law, human rights abuses, violence, corruption and fear of policy reversals among others. Addressing these issues is critical in building investor confidence in Zimbabwe. The current clampdown on political opponents including journalists and civil society actors under the guise of fighting the COVID-19 pandemic does not aid the Government's cause of creating conducive business environment.

The most concerning financing proposal for the NDS1 is debt financing. Zimbabwe is currently suffocating under the weight of a huge public debt burden. By its own admission, the Government of Zimbabwe has admitted that public and publicly guaranteed external debt stands at 84 percent of GDP as at end December 2019, against the statutory requirement that public debt should not be more than 70 percent of GDP[15] . To be clear, borrowing is not inherently wrong. What is wrong is borrowing for consumptive purposes. Otherwise, borrowing for productive purposes is an accepted principle in development economics.

Unfortunately, the Mnangagwa administration has been borrowing for consumption as a result it is a bad debtor. In this plan, the Mnangagwa government intends to borrow more and yet it is currently failing to service its debt to a legion of its creditors. This will not only further erode the fiscal space but also consolidate the current vicious cycle of debt. And yet, there is no analysis in the NDS1 of how the government debt status will be affected by the proposed new borrowing. In the context of the already challenging debt situation in Zimbabwe, the Government will require a mix of innovative and prudent approaches that would alleviate the current situation and prevent it from recurring rather than more irresponsible borrowing.

[14] https://www.theindependent.co.zw/2020/08/07/illicit financialflows-zimlosesus32bn/

[15] Ibid. pp.15

Going Forward

Overall, this analysis suggests that it is not necessarily the shortage of funds that will be the constraining factor in achieving the goals and priorities of the NDS1, rather, it is the way finance is mobilised and used that will determine success in achieving the goals that the plan enshrines. As such, it is inconceivable that Zimbabwe will attain the objectives and priorities of the NDS1 without formally enhancing its domestic resource mobilisation. Against this backdrop, the key issues to be considered going forward include the curbing of illicit financial flows, building public confidence, political will, and citizen participation as well as carrying out a development finance assessment and the crafting of an integrated national financing framework for the NDS1. In this regard, it is suggested that Government should:

- Increase its engagement with civil societies, the private sector, state institutions and the public to create ownership and understanding of the resource mobilisation process.

- Demonstrate the political will to curb corruption, plug resource leakages and capital flight through establishing stronger legal frameworks that allow tracking, stopping and recovering of illicit financial resource flows.

- Increase accountability through publishing the stock of mineral resources and proceeds realised from minerals and demonstrate the productive use of tax proceeds. Such information must always be compiled, updated and disseminated to the public.

- Design realistic and implementable strategies on how to address the current debt challenges. This should include a national public debt audit, an adoption of a debt management policy, borrowing responsibly, and re-engaging not just with the international community but with the citizens as well.

- Carry out a development finance assessment that would contribute to improved linkages between planning and financial process; enable the effective use of finance to achieve ambitious development goals; and spurn discussion towards integrated financial framework.

Final Reflection

The central message of this analysis is that the fate of the NDS1 is placed on Government's willingness to effectively enhance domestic resource mobilisation and at the same time urgently carry out a development financing assessment for the NDS1 in order to have a holistic view of development finance and align it with the national objectives and policies to maximise outputs and outcomes.

This is perhaps the only way the Government can at least ensure the availability, affordability, acceptability, and quality of financing of the NDS1.

Lastly, the Mnangagwa administration is reminded that effective and sustainable mobilisation of development finance requires strong, flexible and adaptive political leadership that takes into account the views of the critical publics including civil society, political society, financial services sector, business community, intellectual community and religious community among others.

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